Accelerating sustainable transformation

NN Group N.V.
Annual Review 2019

NN

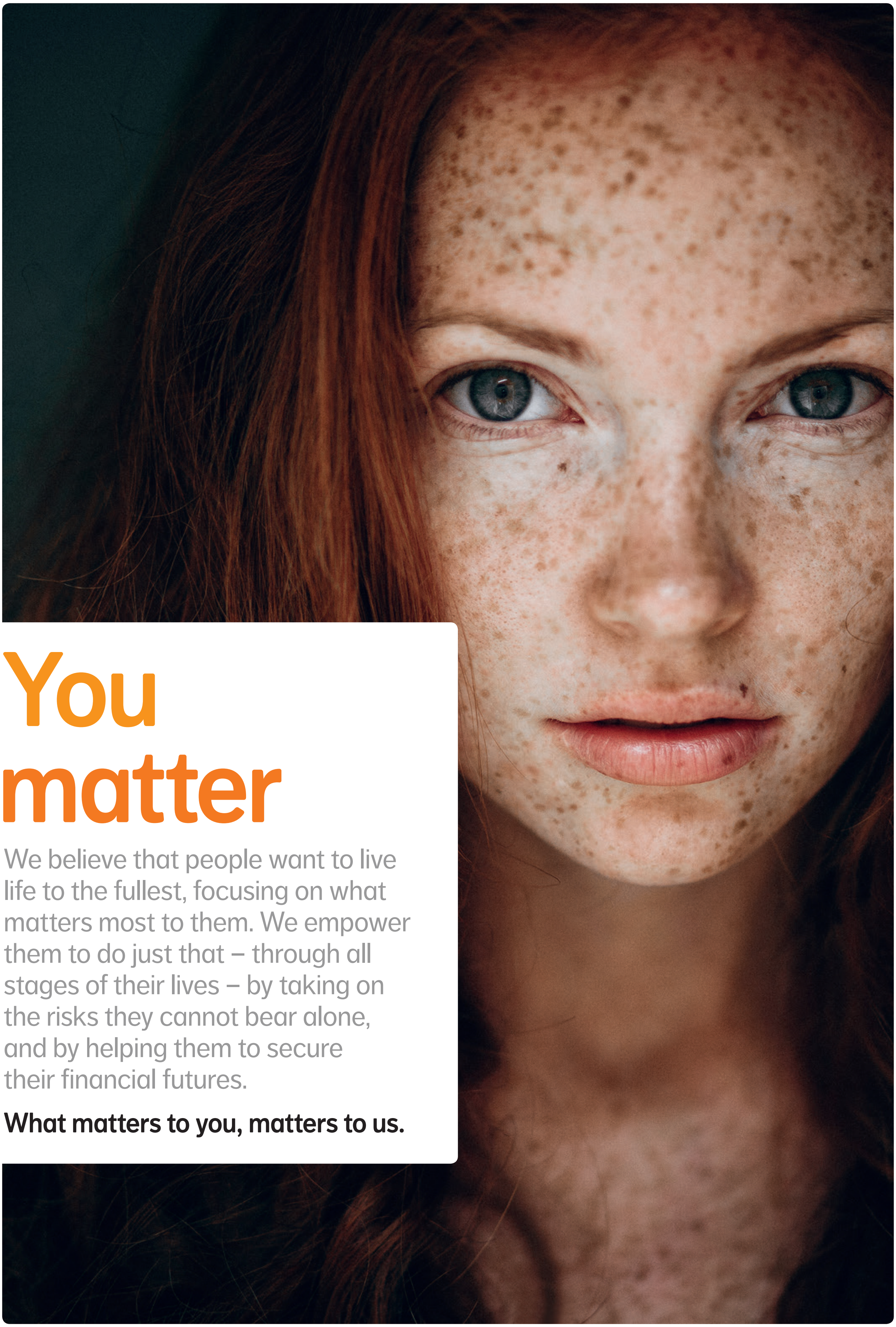
The 2019 Annual Report consists of the 2019 Annual Review and the 2019 Financial Report. It provides an integrated review of the performance of NN Group.

The Annual Report aligns relevant information about our governance, strategy, performance and future prospects in a way that reflects the economic, environmental and social contexts in which we operate. It is prepared in accordance with Dutch law and relevant reporting standards.

Together with this report, NN Group publishes a Solvency and Financial Condition Report, a Total Tax Contribution Report, and a Carbon Footprint Report. Next to that, NN Investment Partners launches a Responsible Investing Report. All these reports are published on NN Group's corporate website in the Investors/Annual Report section.

Read more on our approach to reporting on page 57 of the Annual Review.

Visit our website for further information
www.nn-group.com



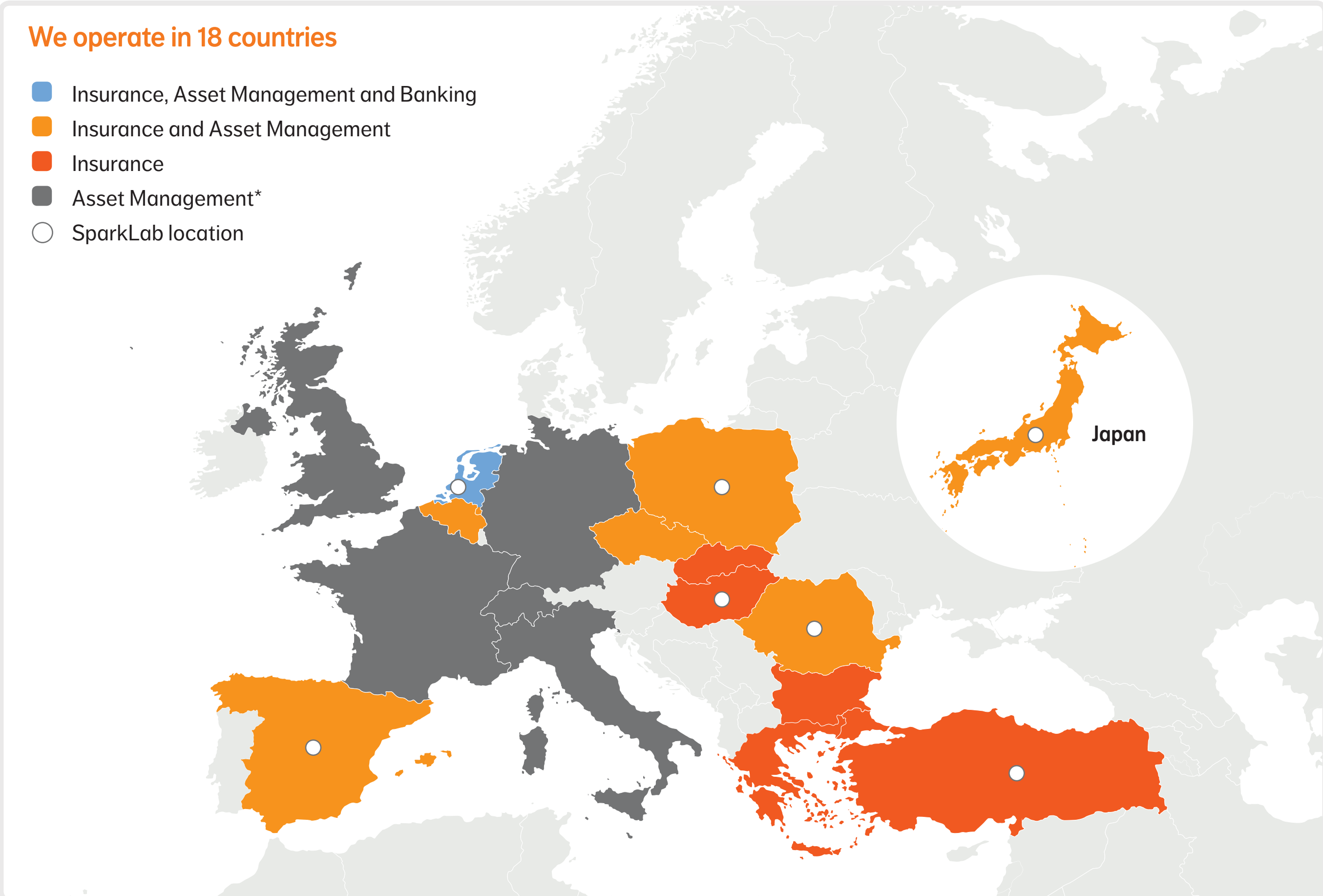
You matter

We believe that people want to live life to the fullest, focusing on what matters most to them. We empower them to do just that – through all stages of their lives – by taking on the risks they cannot bear alone, and by helping them to secure their financial futures.

What matters to you, matters to us.

Who we are

Founded in 1845, NN Group is a financial services company, active in several European countries and Japan. Over the past 175 years, we have been dedicated to meeting and exceeding our customers' expectations. Our purpose is to help people secure their financial futures. Through our products and services, we want to create value for our customers and other stakeholders.



* Outside Europe and Japan, NN Investment Partners has offices in Montevideo, New York and Singapore.

15,194
Employees

18m
Customers

1845
Year NN founded

Our values

Care

Clear

Commit

How we performed

Financial indicators

Operating result

EUR 1,794m
(2018: EUR 1,626m)

The 10% increase in full-year operating result mainly reflects improved underwriting results at Netherlands Non-life and higher results at Japan Life.

Free cash flow to the holding

EUR 1,187m
(2018: EUR 1,216m)

Free cash flow to the holding was EUR 1.2 billion in 2019, reflecting net remittances from subsidiaries of EUR 1.4 billion partly offset by holding company expenses, interest on loans and debt and other holding company cash flows.

Solvency II ratio

218%
(2018: 230%)

Solvency II ratio of 218% reflects capital flows to shareholders and market impacts, partly offset by operating capital generation.

Expense reduction

EUR 360m
(Target: EUR 400m by 2020)

Total expenses at the units in the scope of the integration of EUR 360 million compared with the 2016 administrative expense base, well on track to reaching the EUR 400 million target by end of 2020.

NN IP Assets under Management

EUR 276bn
(2018: EUR 246bn)

Total asset under Management of NN IP increased to EUR 276 billion from EUR 246 billion in 2018 mainly due to positive market performance.

Value of new business

EUR 358m
(2018: EUR 391m)

Down 8.3% on 2018, reflecting lower sales at Japan Life due to tax changes, partly compensated by improved business mix and higher life and pension sales at Insurance Europe.

Non-financial objectives

Net Promoter Score

+5 points
(2018: +1.5 points)

We aim to increase our NPS every year. In 2019, 9 of our 11 insurance business units maintained or improved their relational NPS compared with 2018. In 2 markets the relational NPS decreased, which has our full attention.

Assets under Management in sustainable and impact strategies

EUR 22.7bn
(2018: EUR 16.5bn)

We aim to increase our AuM in sustainable and impact strategies every year. In 2019, these assets represented 8% of total AuM, while at the same time showing an increase of 37% compared to 2018.

Employee engagement

7.4
(2018: 7.1)

We aim to increase our employee engagement every year. In 2019, engagement showed an increase of 0.3 points compared with 2018.

Women in senior management positions

36%
(2018: 33%)

We exceeded our target to have 30% women in senior management positions by 2020. Going forward, we will continue to strengthen our efforts in this area.

Young people reached through NN Future Matters programme

25,421
(2018: 38,536)

Since the start of our programme in 2014, we have reached 138,358 young people, exceeding our 2020 target to positively impact the futures of 100,000 young people. We aim to continue to grow this number.

Direct environmental footprint (CO_2 emissions per FTE)

-14%
(2018: -6%)

Our target is to reduce the CO_2 emissions of our direct operations by 3% per FTE per year. In 2019, our CO_2 emissions (scope 1 and 2) per FTE showed a decrease of 14%.

How we create and share value

We aim to create long-term value for our stakeholders. This simplified version of our business model shows how we use the resources ('capitals') in our organisation to create value as a result of our activities or outputs.

Our key inputs

Financial capital

- Gross premium income
  EUR 14.5bn
- Assets under Management
  EUR 276bn
- Eligible Own Funds
  EUR 17.8bn

Human and Intellectual capital

- 15,194 employees
- Values-driven culture
- Responsible business standards

Social and Relationship capital

- Customer relationships (around 18 million customers)
- Business partners and suppliers
- Other key stakeholders (i.e. regulators)

NN at a glance – How we create and share value continued

Our value creation model is based on the framework developed by the International Integrated Reporting Council (IIRC). It is built around 'capitals' – stocks of value that may be either increased or decreased through a company's business activities or outputs.

We have chosen the capitals most relevant to our business: Financial capital (pool of funds available to a company, including debt and equity finance); Human and Intellectual capital (employees' skills, competencies and experience; institutional, innovation and digitalisation knowledge; processes developed within the organisation); Social and Relationship capital (relationships with stakeholders, communities and other networks necessary to continue our business operations and maintain our long-term license to operate).

The value we created in 2019

Outputs divided by capital

Financial capital

- Pension benefits and claims paid to customers
  EUR 13.9bn
- Dividend paid
  EUR 665m
- Solvency II ratio
  218%

Human and Intellectual capital

- Salaries and benefits
  EUR 1.5bn
- Training and development
  EUR 19m
- Diversity (% women in senior management positions)
  36%
- Employee engagement
  7.4

Social and Relationship capital

- Customer satisfaction
  NPS +5 pts
- Total tax contribution
  EUR 2bn
- AuM in sustainable and impact investment strategies
  EUR 22.7bn
- Donations to charitable organisations
  EUR 3.2m
- Paid to suppliers
  EUR 1bn

Outcome for our stakeholders

Customers

To our customers we pay out pensions, interest on savings, insurance claims and/or investment returns. Through our products and services, we provide protection and help them secure their financial futures throughout different stages of life. We aim to have empowered and satisfied customers. Read more on pages 28-31.

Employees

To our employees we pay salaries and benefits. We offer an attractive, stimulating and diverse environment to work, and invest in their skills and personal development to help them reach their full potential. We aim to create an engaged workforce. Read more on pages 32-34.

Investors

We maintain a strong balance sheet and take a disciplined approach to capital management, aiming to provide attractive long-term returns for our investors. We aim to have loyal investors. Read more on pages 35-36.

Society at large

We use our resources, expertise and reach to help society achieve long-term prosperity. We invest in a responsible way, ensure fair tax practices, minimise our direct environmental footprint and support local communities. Read more on pages 37-41.

Contributing to the Sustainable Development Goals

Read more on pages 42-43.

Accelerating our transformation journey

> We aim to add value for our stakeholders, contribute actively to societal discussions, and introduce solutions beneficial to the people we serve.
>
> **David Knibbe**
> Chief Executive Officer

NN performed strongly in 2019. CEO David Knibbe talks about the main achievements of the Group, and our progress on transformation.

How do you assess NN Group's performance in 2019?

NN Group is doing well. In 2019, we delivered a solid financial performance, with all businesses reporting decent results. Our customer engagement improved during the year, with the Net Promoter Score increasing 5 points from -1 in 2018 to +4. It demonstrates that we are making progress on our goal to reach out to our customers at the right time in a personal way, with products, content and services that are relevant to them. The profitability of the Dutch Non-life business has improved. The market share of our defined contribution business has increased. We reported 21% growth in the value of new business at Insurance Europe. The origination of new mortgages by NN Bank hit an all-time high. And we successfully completed the integration of Delta Lloyd. However, for the longer term, and given the challenges as well as the opportunities our industry is facing, we need to further refine our strategy and put more focus on the capabilities we want to build. And that is exactly what we are currently doing.

In today's world, we are facing persistently low interest rates, economic and political uncertainty, pressure on margins, and the implications of climate change. Regulatory developments, such as the changes in tax rules in Japan, require us to adapt to find suitable solutions for our customers. On top of this, since the beginning of 2020, the coronavirus (COVID-19) has been unfortunately affecting people around the world, and it also seems to have an impact on financial markets, global trade, manufacturing and travel.

On the other hand, all sorts of revolutionary technologies are being developed, such as artificial intelligence (AI), connected homes and the platform economy. All these developments affect financial services companies. They require us to increase our speed, to adjust our business models, and to deal with new and different kinds of competition. They also offer us the possibility to improve customer experience and optimise processes. Our actuarial expertise, combined with the information now available to us, will help us create opportunities for data-driven decision-making.

Given all these factors, do you feel you are making enough progress in transforming the company?

We need to speed up and take additional steps. Throughout 2019, we continued on our transformation journey, by optimising our business model as well as creating new capabilities. Increasing scale and optimisation are important prerequisites of sustainable and profitable growth. For example through the acquisitions of Delta Lloyd and VIVAT Non-life in our home market. And internationally, by acquiring the Aegon life and pension businesses in the Czech Republic and Slovakia. Next to that, we are creating and expanding innovation capabilities, for example with AI and through new strategic partnerships. The acquisition of Human Capital Services (HCS) in the Netherlands, for instance, has reinforced our position with regard to sustainable employability, and supports our broader aim to progressively shift from insurance products to service solutions. I believe it is vital to maintain focus and consider investment choices.

NN at a glance – CEO viewpoint continued

In April 2020, NN celebrates its 175th anniversary. What is the recipe for a thriving, sustainable business for so many years?

Alongside knowing when to make necessary changes and being prepared to do so, it is essential to maintain strong relationships with all your stakeholders at all times.
Ever since we were founded, we have always been focused on serving our customers, as our primary and most important stakeholders, and on continuously adapting to their changing needs. For instance, with our protection and pension products we aim to make a positive contribution to their lives. By doing so, with many talented and engaged colleagues, we have become the strong international financial services company we are today. Other important stakeholders groups are our employees, regulators, our shareholders and society at large. Part of refining our strategy involves making clear what it is they can expect from us going forward.

> **Ever since we were founded, we have always been focused on serving our customers, as our primary and most important stakeholders, and on continuously adapting to their changing needs.**

In what way did the company contribute to society?

We have an important responsibility to be clear on what people can expect from us, and what our added value is to society. We want to be open to different perspectives, and since my start, I have had the opportunity to meet with many of our stakeholders. The insights our customers, employees, shareholders, regulators and other parties in society share with us are of key importance, and I would like to thank them all for their support for our company.

Our products aim to have a clear added value for the societies in which we work and live, and we contribute actively to societal discussions, and introduce solutions beneficial to the people we serve. In 2019, we continued to invest in being a trusted corporate citizen, one that does business with the future in mind, and supported by our values: care, clear, commit. As part of our efforts to support the Paris Agreement on climate change, we implemented a coal policy. By placing investment restrictions on thermal coal mining companies and intensifying our dialogue with power generation companies, we aim to accelerate the transition to a low-carbon economy.
To strengthen our engagement efforts with palm oil companies, NN Investment Partners joined forces with other asset managers in the Netherlands and became a member of the Roundtable on Sustainable Palm Oil.
We are delighted these efforts resulted in our inclusion in the Dow Jones Sustainability Indices for the third year in a row, and in receiving the highest score in the Dutch VBDO Tax Transparency Benchmark 2019.

You became CEO of NN Group in October 2019. What are your observations in this new role?

The enormous dedication of our employees to make the company a little better every day impresses me a lot. I want to thank all NN colleagues for their contribution to the strong performance of our company, and for making NN a great place to work.
Also, I am grateful for all the heart-warming messages of support that I received after my appointment; people seem to regard it as a confirmation of opportunities that NN provides. I am honoured to have taken over from Lard Friese as from October 2019. On behalf of the Management Board, I would like to express my gratitude to Lard for his strong commitment and dedication to the company for more than ten years.
I am looking forward to, together with my colleagues, bringing NN Group to the next level of our transformation.

Our operating environment

The world around us

The world around us influences the financial services sector, our business and our stakeholders in various ways. Whether it is economic and political developments, changing regulations, or the increased use of digital technologies, all have an effect on how we interact and do business. These factors tend to change at a very fast pace, producing challenges for our business model and affecting the way we create long-term value for our stakeholders.

Economic and political factors

After a period of strong growth, the global economy is stabilising at somewhat lower levels. EU projections foresee annual real GDP increasing by a little over 1% up to and including 2022. Private consumption is steady, but trade and manufacturing are lagging. Tense trade relations, for example between the US and China, and Brexit on 31 January 2020, have kept markets unpredictable and volatile. Growth remains reasonably healthy in Central and Eastern Europe.

Interest rates have continued to drop and there are now negative interest rates in many countries. As a result, various new financial risks are emerging. For NN and our customers, this has implications, and we are looking into possible solutions, such as an accelerated shift to defined contribution pension products in the Netherlands, and a shift towards protection products in the market in general.

Changing regulations

An extensive package of regulation for the financial services industry has been put in place in recent years, which brings long-term financial stability and security to the sector and for society as a whole. These new regulations increasingly require greater capacity within financial institutions, for example around compliance.

For the European insurance industry, arguably the most important regulatory framework is Solvency II. It is being reviewed in 2020, including elements such as long-term guarantee measures, macro prudential issues, and reporting and disclosure. For NN, it is important that stability within the framework, including long-term guarantee measures, is maintained.

New rules and regulations have also been introduced in the area of sustainability, which are supported by NN. For example, the EU Action Plan on Sustainable Finance (including an EU Taxonomy), which is aimed at creating a greener and more sustainable economy. Greater transparency is at the heart of both the EU Directive on Non-Financial Disclosures and the recommendations of the Task Force on Climate-related Financial Disclosures.

Customer experience, new technologies and innovation

Technology is evolving rapidly and having a huge impact on society and the way companies do business. Consumers demand access to products and services anywhere, anytime. Transparency about products is key, as anyone can find products, compare different providers and purchase all with just a few clicks of the mouse.

Artificial intelligence, more extensive use of big data and the Internet of Things are just a few examples of technologies that are enabling companies to act faster, and deliver products and services that meet customer needs more precisely. At the same time, we are conscious that these opportunities require us to carefully assess the impact on our customers, for example, around data privacy and cybersecurity.

New consumer protection requirements are being introduced. And with new ethical dilemmas arising around how organisations use personal data, society expects that companies have policies and processes in place that protect people's privacy, something we take very seriously.

These developments also require different types of skills from employees, such as IT and data analytics, and new ways of working. We are doing our utmost to find the right people in these times of tight labour markets.

Transition towards a sustainable economy

Society is expecting more and more of companies, including those active in the financial services industry. Not only are citizens and businesses looking for products and services that suit their specific needs, they also expect companies to act responsibly.

Like the government, business has a role to play in the transition to a sustainable economy. Integrating environmental, social and governance (ESG) considerations into the way companies do business is becoming increasingly mainstream, and the financial industry is playing its part here. By integrating ESG factors into the investment and underwriting processes; by using its influence to support the transition to a sustainable economy by engaging with the companies in which it invests; and by offering clients sustainable finance solutions. In this context, there are a number of initiatives that NN has endorsed, such as the International Corporate Social Responsibility covenant for the Dutch insurance sector and the Commitment of the Financial sector to the Dutch Climate Agreement, both of which aim to encourage collaborative action to achieve more progress together.

Determining material topics

NN conducts a regular review of its operating environment to identify our material issues – that is, those issues that have the most impact on our business and/or stakeholders, and where we can potentially create the most value.

We use the results of this assessment as input for strategy development and risk management activities, and to bring more focus to our annual reporting.

Methodologically, a long list of around 100 topics was compiled, based on an analysis of internal and external sources. From this list, a shortlist of 13 topics was created using the following criteria: the impact of the topic on NN Group and/or on our different stakeholders; and the 'likelihood' and 'location' of the impact. The latter involves the key markets where NN is active. These criteria were applied with a timeframe in mind of the coming 12 months.

Compared with the 2018 assessment, the shortlist shows more emerging topics where we can potentially create the most value for our stakeholders, rather than business-as-usual activities such as risk management and compliance. This is mainly due to the shift in our approach from 'importance' to 'impact' of the topics on us and/or our stakeholders.

Through an online survey, stakeholders (including customers, employees, investors, regulators, business partners and societal organisations) were asked to rank the topics on the shortlist in order of their impact on them (y-axis). NN Group's senior management (the Management Board and their direct reports) were asked to rank the topics in order of their impact on NN Group (x-axis).

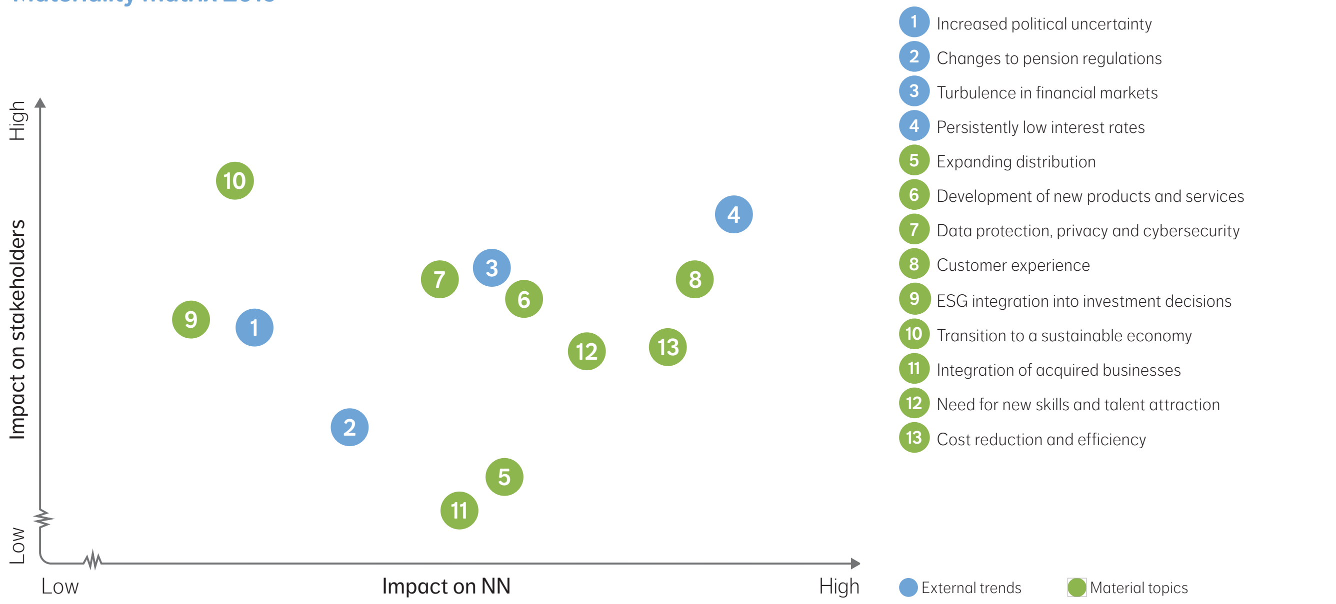
The results presented in the matrix below show that our most material topics (upper right part of the matrix) are persistently low interest rates, customer experience, cost reduction and efficiency, development of new products and services, and the need for new skills and talent attraction.

The relatively lower score of the impact of the transition to a sustainable economy, may largely be explained by the 12-month timeframe of this materiality assessment, as the impact of the transition may have a longer horizon.

Nevertheless, we believe that all 13 shortlisted topics are material to us, because they have an impact either on NN Group and/or our stakeholders. This impact can relate to risks and/or creating opportunities. Therefore, we continuously assess our operating environment and strive to address our material topics in our strategy and business activities.

The results of the assessment were presented to the Management Board for discussion and approval. The Supervisory Board approved the materiality matrix as part of the Annual Review approval process.

Materiality matrix 2019



Managing our risks

Strong risk management is an essential link between our strategy, our capital plan and the successful execution of our business plan, while taking external developments into account. This helps us define and achieve our financial and non-financial objectives.

Material topics

1 Increased political uncertainty
2 Changes to pension regulation
5 Expanding distribution
6 Development of new products and services
8 Customer experience
9 ESG integration into investment decisions
10 Transition to a sustainable economy
12 Need for new skills and talent attraction

3 Turbulence in financial markets
4 Persistently low interest rates

7 Data protection, privacy and cybersecurity
11 Integration of acquired business
13 Cost reduction and efficiency

→

Key risks

Strategic challenges
Longer-term business model
Geopolitical and governmental instability
Regulatory environment
Talent management
Good corporate citizenship

Strong balance sheet
Asset and Liability Management (ALM) and investments
Longevity

Sound business performance
Client and product suitability
Operational and IT effectiveness
Cyber and cloud risk

Strategic priorities

Disciplined capital allocation
Innovate our business and industry
Agile and cost-efficient operating model
Value-added products and services

On an annual basis, we use a variety of inputs (including external trends and material topics) to identify the risks to our strategy. For each set of risks, we define how much risk we are willing to take, as described in Risk Appetite Statements covering three main areas: Strategic challenges, Strong balance sheet and Sound business performance.

Strategic challenges:

We manage our businesses on a risk-return basis, so that we can meet strategic objectives while taking into account the interests of our stakeholders. Key risks identified:

Risk description	Risk mitigation
Longer-term business model: risk of not timely adapting our business model to the changing world around us	We anticipate the economic, technological, ecological and demographic developments that affect the strategic context in which we operate by managing in-force business while growing profitable new business. This also means anticipating on emerging risks, such as the impact of climate change. For our in-force business, we focus on managing our businesses efficiently, exploiting new technologies or economies of scale (for example, through the expected acquisition of VIVAT Non-life in the Netherlands). For new business, we focus on creating a much closer relationship with customers, by making use of new technologies and partnerships led by our Chief Transformation Officer. The product portfolio has also been significantly expanded through fee-based and protection products in the Insurance Europe units, and further development of NN Bank. Read more in section Our performance, pages 15-26, and in chapters Adding value for customers, pages 28-31, and Our response to the Task Force on Climate-related Financial Disclosures, pages 52-55.

Our operating environment – Managing our risks continued

Risk description	Risk mitigation
Geopolitical and governmental instability: risk of disintegration of existing economic and political systems and structures, driven by shifting power balances or nationalism, leading to protectionist behaviour, reduced economic prospects or geopolitical instability.	We manage these risks by closely following developments in international markets, and by managing our asset exposures using a system of concentration limits on sovereign and country exposures, which are subject to regular review and monitoring.
Regulatory environment: risk of regulatory changes that negatively impact our business, products, regulatory solvency position and/or performance.	One of the major upcoming regulatory changes is the Solvency II 2020 review. This covers important items in the Solvency II framework, mainly focusing on long-term guarantee measures. At NN, we closely follow the development of future regulation, regularly assessing its potential impact on our solvency position. We actively manage our relationships with regulators and supervisors to ensure NN can make an effective contribution to legislative processes and that our concerns are consistently raised in relevant forums.
Talent management: risk of being unable to attract, retain or pay world-class talent due to competition within and outside our industry, thus increasing the risk of being unable to manage our business effectively.	To attract and retain talent, NN proactively invests in personal and professional development throughout our people's careers. To offer them learning opportunities, help them build valuable networks and allow them to explore career paths, we offer long- and short-term internal assignments, and job rotation schemes. We have also introduced agile working methods to give individuals and teams more responsibility. We monitor employee engagement through an annual survey and we perform benchmarks to ensure we offer suitable compensation packages. Read more in chapter Supporting our people in times of change, pages 32-34.
Good corporate citizenship: risk that NN Group does not adequately balance stakeholder interests, or deviates from society's evolving norms and values, in areas such as responsible investments, environmental protection, equality, inclusion, taxes and remuneration.	Society's norms and values are evolving, and are not always codified in formal legislation. Responding inadequately to increased stakeholder expectations around doing business responsibly can lead to reputational damage, consumers buying fewer products and/or investors being unwilling to invest in our company. We integrate environmental, social and governance (ESG) criteria into our decision-making by formulating clear policies and monitoring adherence. Examples include our Responsible Investment Framework policy, Remuneration Framework and Tax Risk Management policy. Read more in chapters Creating a positive impact on society, pages 37-41, and Our response to the Task Force on Climate-related Financial Disclosures, pages 52-55.

Strong balance sheet:

This facilitates sound financial business performance — we want to avoid having to raise equity capital after a moderate stress event or being a forced-seller of assets when markets are distressed. Key risks identified:

Risk description	Risk mitigation
ALM and investments: risk of reduced available capital due to financial market turmoil or missed investment opportunities.	Market risks are managed through a well-diversified portfolio, under a number of relevant policies within clearly defined and monitored limits and tolerances, and with the option to reduce downside risk through hedging programmes. In addition, our strategic asset allocation aims to optimise capital generation within the boundaries of adequate diversification, acceptable risk levels and cash flow matching mismatch limits (as justified, based on regular ALM studies). In recent years, given the illiquid nature of NN's insurance liabilities, we have been rebalancing our asset portfolio. Partly replacing low-yielding liquid sovereign bonds with less-liquid assets, such as residential mortgages.

Our operating environment – Managing our risks continued

Risk description	Risk mitigation
Longevity risk: risk of higher technical provisions or required capital if life expectancy increases quicker than anticipated.	NN Group's pension and guarantee products are exposed to longevity risk, especially in the Netherlands. We expect that exposure to continue increasing for a relatively short period, then steadily decrease over time. We can achieve longer-term relief by a further move from defined benefit (DB) to defined contribution (DC) products, and repricing and renewing old DB products into new DC products. In the short term reduction can be achieved through risk transfer. To accelerate the reduction of longevity exposure, and create more flexibility in accepting new longevity risk, NN continues to work on putting reinsurance in place. Read more in the Financial Report, pages 128-159 (Note 49).

Sound business performance:

To achieve sound operational performance, we conduct business applying the NN values and treating customers fairly; we aim to avoid human or process errors in our operations, and limit the impact of any such errors when they do occur. Key risks identified:

Risk description	Risk mitigation
Client and product suitability: risk of products failing to appropriately cover clients' interests over the full product lifetime.	Product suitability is essential to our relationship with customers and creating longer-term value for stakeholders. NN's Product Policy covers product risk-related requirements, including specific requirements on customer suitability. Our NN Code of Conduct makes clear to each employee what we expect of them in terms of behaviour, and we expect our external business partners to meet the same requirements. Throughout the company, a product approval and review process (PARP) and product risk committees are in place to oversee product design, client suitability, sound underwriting and claims management, and adequate pricing of all existing and new products. Read more in chapter Adding value for customers, pages 28-31.
Operational and IT effectiveness: risk of material failures in processes or IT systems leading to higher expenses, operational losses, disruption of operations and/or reputational damage.	NN wants to become a more agile organisation, able to move faster and encourage entrepreneurship. At the same time, risks must be managed well, and shown to be. We therefore use a risk control framework, which ensures that risks are understood and managed through effective controls, and that robust processes are in place that show effectiveness of controls, and compliance with policies, standards and governance.
Cyber and cloud risk: risk of cybersecurity attacks, leading to misuse of information, discontinuity of operations, and/or financial or reputation loss.	Technical developments are reshaping our business model and impacting our operations. Increasing data volumes, mobilising data access, and making IT more agile and flexible have helped drive the adoption of cloud services. In addition, providing a customer experience that is digital, personalised and relevant, means our IT operations are increasingly connected to the outside world, and end users and endpoints (e.g. laptops, mobiles and tablets) are therefore more vulnerable to external threats. The Chief Information Officer function ensures business continuity management, cyber-risk management and business information security via standardised, internationally accepted frameworks, norms and technical guidelines as the basis for managing IT, cyber and cloud risk within NN Group. Our Information & Infrastructure Security function leads all efforts within the Group to enhance our information security, collaborating with business unit security officers to provide 24/7 protection against cyberthreats. Education and awareness raising are part of our security strategy at every organisational level.

Our performance

NN Group's strategic priorities

NN wants to contribute to a stable, inclusive and sustainable economy and society. We do business with the future in mind, supported by our values: care, clear, commit.

Our ambition is to be a company that truly matters in the lives of our stakeholders. Therefore, we aim to:
- Offer value-added products and services to our customers
- As an employer, attract and retain talent by offering an interesting work environment
- Offer attractive long-term returns for our investors
- Invest our own assets and those entrusted to us in a responsible way
- Use our resources, expertise and reach to help society achieve long-term prosperity

Several of these stakeholder commitments, and the strategic priorities below, are reflected in the financial and non-financial performance objectives set for our Executive Board. Read more in the Remuneration report included in the Financial Report, pages 32-37.

Medium-term strategic priorities

Four medium-term strategic priorities underpin our strategy and drive our business plans. The first concerns disciplined capital allocation. Through disciplined capital management and a focus on generating capital, we ensure our cash capital position and Solvency II ratio remain strong. NN Group aims to further reduce capital volatility to increase predictability of cash flows and dividends, by investing the assets in order to match liability cash flows, and using hedging and reinsurance to the extent that it can be managed at a reasonable cost. NN has a track record of returning excess capital to shareholders. As announced on 13 February 2020, NN intends to pay a progressive ordinary dividend per share and execute a recurring annual share buyback of at least EUR 250 million. Additional excess capital is to be returned to shareholders unless it can be used for value-creating opportunities.

Second, we focus on innovating our business. We seek innovative ways to meet our customers' needs and keep up with changing market dynamics. We identify new customer segments and develop a customer experience that is as personalised and relevant as possible. Within NN, our Strategic Transformation Office aims to explore new value propositions and build internal innovation capabilities. In 2019, we launched our NN Innovation Method, a framework that provides simple tools and methods inspired by Design Thinking and the Lean Start-up Methodology. Innovation starts with the right mindset, and through this framework we can help colleagues work in a more innovative way.

Third, we strive for an agile and cost-efficient operating model, which is important to ensure long-term growth. This involves simplifying our processes to deliver better value for money; stimulating a cost-conscious culture; exploring different ways of working, like agile, in order to deepen our understanding of the customer journey; sharpening our customer intelligence skills; and developing an omnichannel approach. Business units are at different stages of our agile journey. Across our businesses, operational manual activities are increasingly being automated with robotic process automation.

Fourth, we aim to offer value-added products and services. We also develop solutions for very specific segments. For example, by tailoring a product to particular customer life stages or circumstances. Our asset manager offers a range of sustainable and impact investing strategies to its clients. Furthermore, we incorporate environmental, social and governance (ESG) factors in the investment process. We believe that this optimises the risk/return profile of the investment portfolios, helps to reflect NN's values and aligns our business with the broader objectives and expectations of society.

Financial medium-term targets

The strategic priorities of NN Group translate into the following medium-term financial targets:

1. Achieving EUR 400 million in cost reductions by 2020. This applies to those business units that fall within the scope of the integration following the acquisition of Delta Lloyd in 2017.

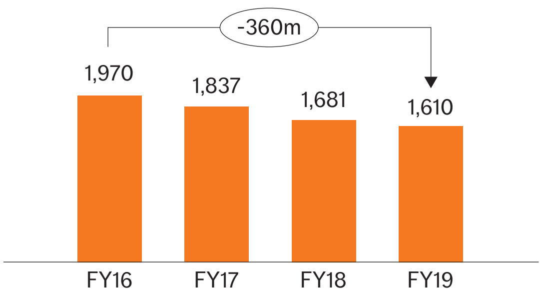
2. Achieving an annual growth rate of operating result before tax of 5-7% on average in the medium term (based on the 2017 operating result).

3. Over time, generating free cash available to shareholders in a range around the net operating result (based on the net operating result, adjusted to reflect the deduction of the accrued coupon on undated subordinated notes classified in equity; and assuming normal markets, no material regulatory changes and no material special items other than restructuring charges).

Progress on Group medium-term financial targets

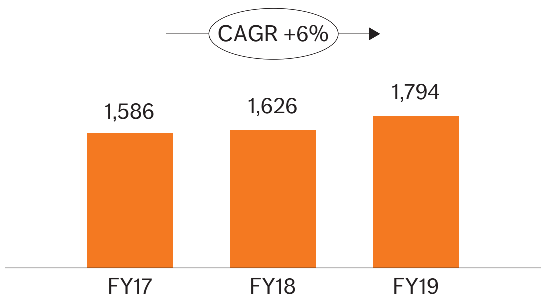
EUR ~400m cost reduction[1] by 2020 compared with 2016 full-year expense base

(in EUR million)



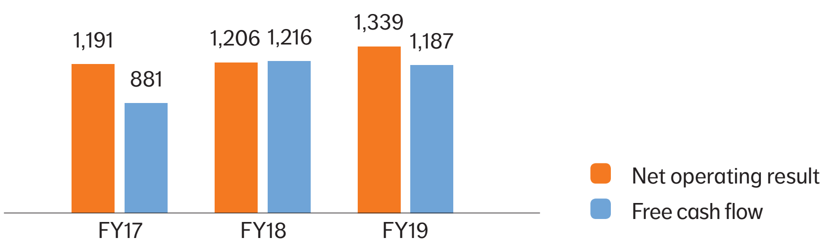
Annual earnings growth of 5-7% on average in the medium term[2]

(in EUR million)



Over time, generate free cash available to shareholders in a range around the net operating result[3]

(in EUR million)



1 In total for the following units: Netherlands Life, Netherlands Non-life, Belgium, Asset Management, Banking and Corporate/Holding entities, excluding acquisitions as from 2019. Representing part of total administrative expenses as disclosed on page 2 of the Financial Report.
2 Annual growth rate of operating result before tax on average in the medium term; based on 2017 operating result.
3 Net operating result, adjusted to reflect the deduction of the accrued coupon on undated subordinated notes classified in equity; assuming normal markets, no material regulatory changes and no material special items other than restructuring charges.

NN Group's financial performance

NN Group's financial performance was strong in 2019, with a full-year operating result of EUR 1,794 million, up 10.3% from 2018, with most segments contributing. The measures we are taking to improve the profitability of the Dutch Non-life business are bearing fruit, demonstrated by the full-year combined ratio of 95.4% compared with 99.4% in 2018. We have made additional efficiency gains by further reducing the cost base of the units in the scope of the integration of Delta Lloyd into NN. Total cost savings achieved up and including 2019 amount to EUR 360 million, compared with the full-year 2016 administrative expense base of EUR 1,970 million.

Diversified portfolio of our businesses

NN Group operating result before tax[1]

1 Percentages based on total operating result (EUR 1,794m) excluding the segment Other (EUR -144m) for 2019.

NN Group has a diversified portfolio of businesses. The mature insurance businesses in the home markets have strong cash and capital generating capacity which allows for the possibility to invest in growth areas in other business lines. Details on the performance of the different business units are given in the chapters that follow, where Netherlands comprises Netherlands Life, Netherlands Non-life and Banking, and International Insurance consists of Insurance Europe and Japan Life.

Focus going forward

Looking ahead, and in the context of our overall strategic approach, we will be focusing on a number of priorities.

First, we want to deliver on completing the integration of Delta Lloyd and prepare for the integration of the VIVAT Non-life business in the Netherlands. We will do this by following the clear roadmap that aims at delivering financial and non-financial benefits within the expected timelines. We also expect that strengthened competitive positions will bring us a sustainable cash flow.

Second, we want to further improve our performance by striving for enhanced profitability of our business units and by capturing growth opportunities in a disciplined manner.

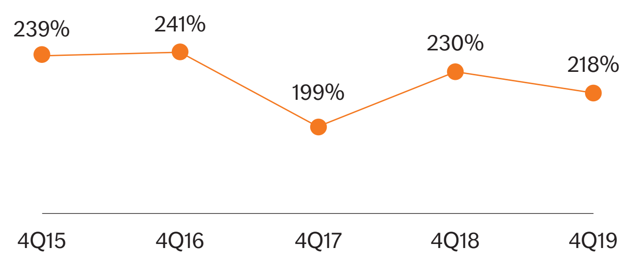
The third priority is to accelerate the transformation of our business model. This should result in optimising customer experiences and using technology to make the company more agile and efficient.

Our final priority is to continue allocating capital rationally. By generating cash flow in all business segments and upstreaming cash to the holding, we will be able to return excess capital to our shareholders, unless it can be used for value-creating opportunities. We announced an update of our dividend policy on 13 February 2020. Going forward, NN Group intends to pay a progressive ordinary dividend per share and intends to execute a recurring annual share buyback of at least EUR 250 million.

We have always prioritised a strong balance sheet

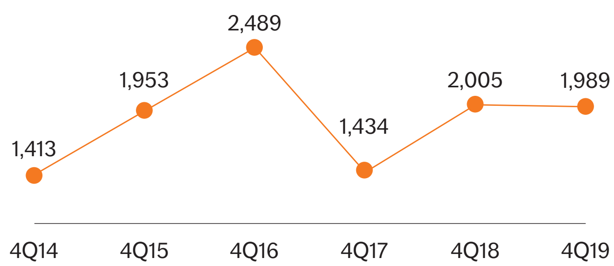
NN Group aims to have a strong balance sheet. This is essential in order to be able to meet our responsibilities towards customers and policyholders. A strong solvency ratio reflects, together with sound risk management, the ability to fulfil financial obligations vis-à-vis our stakeholders.

Solvency II ratio



- Solid Solvency II ratio
- Operating units well capitalised at or above commercial levels

Cash capital position
(in EUR million)

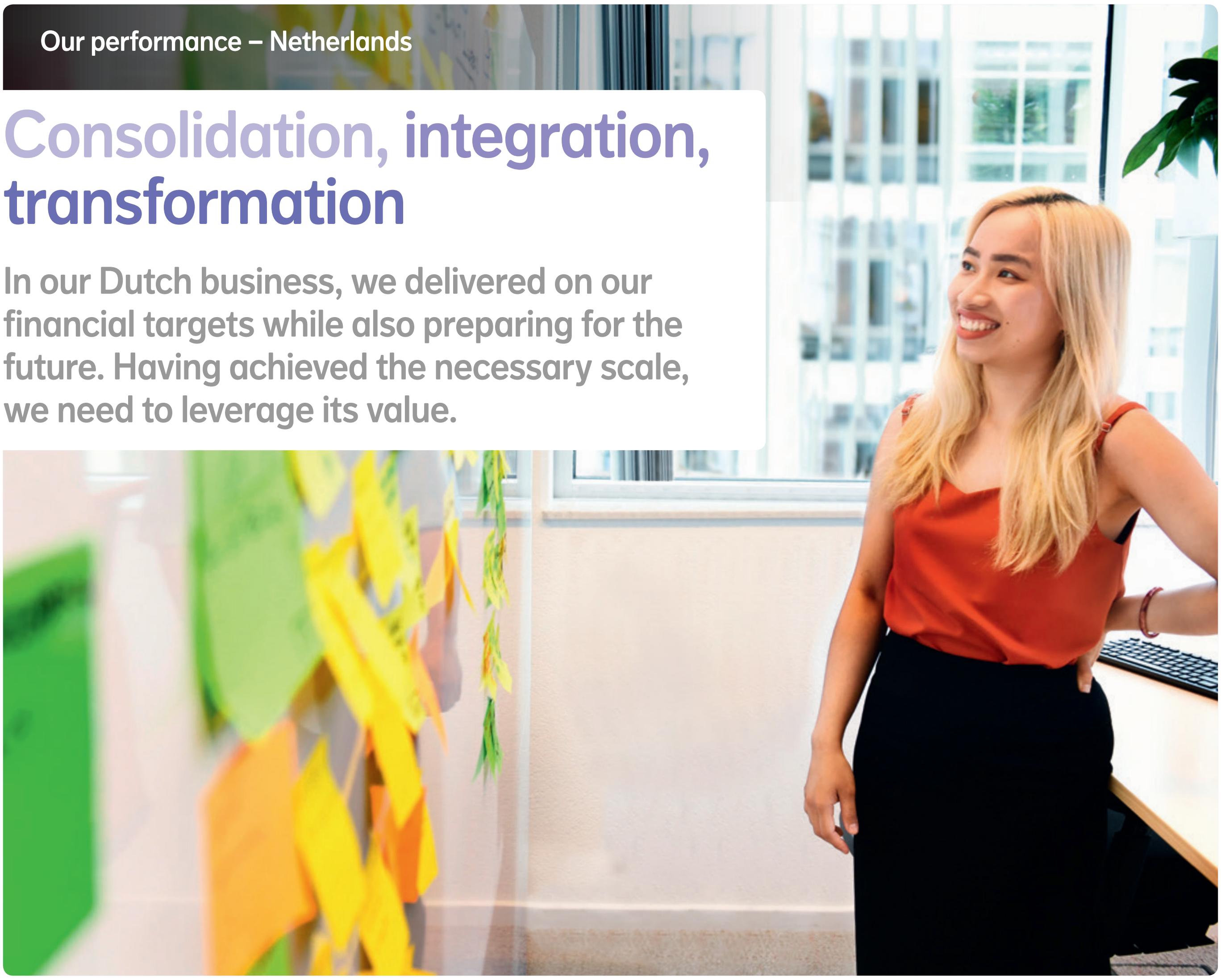


- Healthy cash capital, with target range of EUR 0.5-1.5bn
- Consistent and diversified capital flows from all segments

Our performance – Netherlands

Consolidation, integration, transformation

In our Dutch business, we delivered on our financial targets while also preparing for the future. Having achieved the necessary scale, we need to leverage its value.



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We took decisive actions to consolidate our Dutch market position and we are working hard to further integrate and transform the business.

Tjeerd Bosklopper
CEO Netherlands ad interim and Chief Transformation Officer

Tjeerd, what made you most proud in 2019?

If you consider the amount of change currently underway in technology, society and the political landscape, I doubt there's ever been a time when so much has been coming at the industry as today. Speed of execution and pace of change have increased massively. Companies with new business models, like Alibaba and Ping An, have built completely new conglomerates within five years. As a traditional insurer, we need to be continuously transforming and preparing for the future.

Aside from innovation, building capabilities and entering into strategic partnerships, NN is responding to the new paradigm by optimising and expanding current platforms. In 2019, we carried out acquisitions and subsequent integrations without any negative impact on overall customer or broker satisfaction, or employee engagement scores. I think that's something we can be very proud of. And in June 2019, we also announced that we intend to acquire VIVAT Non-life.

Financially, 2019 was a good year with solid results. We structurally improved our performance, achieving a combined ratio for the Non-life business of below our target of 97%. We've also delivered on our cost-savings targets: both the Life and Non-life companies achieved 20% cost reductions compared with the 2016 baseline.

Where do you see room for improvement?

We made a good start with the company's transformation: NN Group has developed its innovation hypothesis; we built new capabilities; and we are exploring the potential of ecosystems and interconnected platforms around themes such as Vitality & Health, Carefree Retirement, Mobility, Cybersecurity and Home. However, transformation is a complex process and, given our considerable ambitions for the future, this is an area where we will need to step up the pace even more.

Our performance – Netherlands continued

On the customer side, too, I would like to have seen a bit more progress. On average, customer Net Promoter Scores (NPS) and Global Brand Health Monitor (GBHM) scores were maintained, which is positive given the large integration programmes that have taken place. In some areas, the scores could rise if we can further improve the customer experience. Our customers want to be able to interact with us instantly in the ways that they prefer. Speed is a distinct competitive advantage here, with customers expecting social rewards and instant gratification. Things that technology can facilitate and reinforce.

How would you describe the operational environment and challenges in 2019?

The circumstances for all Dutch segments remained challenging. For the Life business, this has mainly been due to the continuing low interest rates, which can lead to reinvestments of maturing assets at lower rates. The non-life market is characterised by fierce competition. While in the banking segment, margins are under pressure due to competition in the mortgage market.

Financial performance (in EUR million)

	2019	2018
Netherlands Life		
Operating result	922	972
Solvency II ratio	213%	255%
New sales (APE)	480	262
Value of new business (VNB)	9	9
Netherlands Non-life		
Operating result	203	94
Combined ratio	95.4%	99.4%
– of which claims	67.4%	70.6%
– of which expenses	27.9%	28.8%
Banking		
Operating result	152	130
Core Tier 1 ratio	15.8%	16.3%
Net operating RoE	15.0%	12.9%

What were the highlights of Life?

On the pension side, we saw good commercial progress and rising customer satisfaction this year. The shift to capital-light defined contribution propositions continues to accelerate in the current low-interest environment. We see intensified competition and unbundled Premium Pension Institution (PPI) vehicles increasing cost transparency, and we therefore monitor market developments closely so we can continue to offer competitive pricing. A value proposition's investment performance (in terms of design, performance and cost) will be increasingly important.

In June, employer, employee and government representatives reached a Pension Agreement that will impact the entire pension industry. Within NN, we formed a task force to analyse and determine the agreement's implications for the coming years. We expect most impact from the industry-wide changes to be on the premium system and from the possibility of a pension date lump sum. The government envisages the new legal framework will be in place by 2022, but initial measures could already have an impact in 2020.

Within the small individual life market that remains, we have migrated nearly two million policies to our target platforms; few companies in the world have ever migrated so many policies.

How is Non-life showing progress?

In Non-life, we have taken structural measures to make the company healthier, both on the expense and claims side, with favourable results. In terms of completing the Delta Lloyd integration programme, we delivered a large part of the expense savings and completed the legal mergers by 1 January 2019. The next phase is the migration of policies to the target platforms, followed by decommissioning of the legacy IT platforms.

We kept our focus on moving from product solutions to service solutions. With the acquisition of Human Capital Services (HCS) we strengthened our position regarding the socially relevant topic of sustainable employability. HCS will continue to provide its services on case management and burn-out prevention. This acquisition is invigorated by the strategic partnership with the data analytics expertise of Otherside at Work.

The shift from monthly premiums to pay-per-use is an important trend. This year we continued testing and scaling Bundelz, developed in our innovation lab, SparkLab. It is the first Dutch pre-paid car insurance, and allows customers to buy a 1,000 km car insurance bundle rather than pay monthly premiums.

And what were the main developments at Bank?

Bank had a strong year, originating a record EUR 7.9 billion in mortgages. To improve our competitive position and meet our customers' needs, we have enhanced our digital and product features and strengthened our cooperation with intermediaries. In July, we introduced a new risk-based pricing system for mortgages that automatically lowers the rates charged to customers during the fixed-rate period if the loan is eligible for a lower-risk premium as a result of repayments. If real estate increases in value, customers can request a lower interest rate, if applicable to their situation. In addition, NN Bank's savings and bank annuity portfolios increased despite strong margin focus.

And we can look back on a successful Savings and Investments migration following the acquisition of Delta Lloyd Bank. As part of which, our Banking app and portal became fully available to former Delta Lloyd customers in 4Q 2019.

6.7m

Customers in the Netherlands

Our performance – Netherlands continued

Market positions

Life:

Top 1 position in group pensions, 40% market share, and 23% market share in individual life

Non-life:

Top 1 position in Disability & Accidents, 29% market share and Top 2 position in Property & Casualty, 20% market share

Bank:

Originated a record amount of EUR 7.9 billion in mortgages in 2019

Optimising the business

- We optimised our digital customer service in various ways, including adding new features to our app and improving security through multi-factor authentication. Using data and analytics, we can now offer personalised content on nn.nl, and did so for 1 million of the 14 million visits in 2019. In July, we launched our renewed NN app, which provides a better user experience as it is faster and more stable.

- We made progress towards our goal to achieve further synergies and organisational efficiencies by decommissioning over 500 redundant legacy IT systems. Several migrations were successfully finalised, including the Voogd & Voogd Open Book Migration at Non-life; migrations within Savings & Investments, Mortgages and Consumer Lending at Bank; and the BeFrank migration to the cloud at Life.

- We continued with our agile transition programme launched in 2018. Teams are organised by product and, wherever possible, autonomously, making it easier for them to create the optimum customer journey.

Innovating the business

- Smart Move brings together an ecosystem of partners to make moving hassle-free. A personalised digital checklist detailing all the actions needed before, during and after the move. The customer has the option to outsource multiple tasks and book them directly.

- Perfect Day: a cybersecurity service for SMEs that provides insights into cyber-risks and vulnerabilities. The services include specific solutions to prevent cyber incidents and manage cyber-risks. If they want, the SME can also take out cybersecurity insurance (also offered by NN).

- Friend: this social platform connects people aged 50+ through social activities, helping them lead an active social life during (pre-)retirement

- Crunchr: a B2B service that gives HR professionals insights into HR data to help them make data-driven decisions and better manage workforce processes

- Hello Mobility: a service that helps car fleet owners develop a safer, cleaner and more efficient fleet through data-driven personalised advice and coaching

Products and services

- Life: group and individual life/pension products, pension administration & support for pension funds
- Non-life: motor, fire, liability, transport, individual disability, group income, accident, health insurance
- Bank: mortgages, consumer lending, savings, investments, mortgage origination & servicing for NN Group companies

Our main brands

- Nationale-Nederlanden, OHRA, Movir, AZL, BeFrank, ABN AMRO Verzekeringen

Our performance – International Insurance

Meeting customers' protection needs

In our international insurance businesses, we focus on bridging the protection gap to help our customers.

"

Our dedicated and passionate teams in the countries played a crucial role in our performance and in meeting customers' needs.

Fabian Rupprecht
CEO International Insurance

Fabian, what were the highlights of 2019 for International Insurance?

International Insurance made a strong contribution to NN Group's performance in terms of financial results, as we reached an operating result of EUR 0.5 billion – an important milestone. And we made progress across our business segments. To highlight a few areas: we contributed to the public pension debate in Romania and Poland; we strengthened our partnerships; we increased our protection business through new products; and we sharpened our customer focus.

How did you contribute to the pension reforms debate?

In Romania, we engaged with the insurance association and government on the capital requirements for the Pillar 2 pension system, which led to a viable solution.

In Poland, the pension legislation changed, requiring companies with over 250 employees to choose their pension provider. We engaged in constructive dialogue with all relevant parties to better understand companies' needs. Following the first wave of this reform, Nationale-Nederlanden Poland and NN Investment Partners Poland have a combined market share of 24% in Assets under Management and serve 726 firms making NN the biggest private manager of this reform.

How have you managed to improve distribution partnerships?

Through our partnerships, we aim to optimise our business and accelerate our capital generation. We have a strong distribution network with 28 partner banks in ten European countries, and 60 bancassurance relations in Japan.

We have an ongoing cooperation with ING Bank in five European countries, through which we support them in their fee income growth by leveraging our portfolio of leading products, such as our award-winning lifelong income product in Belgium. We are also looking to develop new digital products with ING Bank, for example micro-insurance, products that cover specific customer needs by offering features such as on demand insurance covers.

Our performance – International Insurance continued

In each market, we try to leverage our own channels to develop mutually beneficial partnerships. For example, our reciprocal distribution partnership with ING Bank in Spain allows our 2,000 tied agents to distribute mortgages for the bank.

We have also taken steps to partner up with new banks, for instance EFG Postbank in Bulgaria to distribute our pension products.

Can you give some examples of new protection products?

In Romania, we launched a series of products with add-on coverages (modular riders) which customers can choose from, depending on their needs. The products complete our protection portfolio by offering financial protection for critical illness, and work incapacity due to permanent disability or accident recovery.

In Turkey, we started offering complementary health insurance that covers the surcharges for medical services from private medical institutions that are contracted by the state social security system. This product is available to Turkish citizens who do not have private health insurance.

Our protection share (measured by value of new business) grew by 8% in Europe and by 12% in Japan compared with 2018.

What initiatives have you launched to increase customer focus?

We initiated 'scaled agile' in several markets; we launched our 'Oxygen' cloud-based insurance product platform and set our NN Data Science Hub in motion, all aimed at helping us to respond faster to customer needs and tailor our value propositions.

In all our markets we are using agile ways of working. In Hungary and Spain, in particular, we introduced 'scaled agile' as a disruptive operating model with some results already visible. In Hungary, we automised the risk assessment process, shortening it, in some cases, from 13 days to a few minutes. In Spain, the employee benefits team, which processes group life insurance contracts, saw a 30% reduction in pending tasks compared to before the introduction of agile.

We launched our first product on the Oxygen platform, a home insurance for Spanish citizens. Through Oxygen, we will be able to provide digital insurance solutions to various distributors.

Our NN Data Science Hub delivered various commercial use cases. For example, we are working on 'next best offer' models to identify which product best suits a customer. The engine orchestrates multiple propensities for cross-sell and retention propositions for each customer. It has been developed in Romania and Turkey, with Hungary and Spain to follow. In addition, we are piloting the use of chatbot for tied agents – aimed at answering their frequent questions and freeing up their time so they can focus on customers.

Can you describe the operating environment and challenges in 2019?

Even though our international businesses are highly varied, this year they have all faced low interest rates, political and economic uncertainty and, in some markets, regulatory changes.

The low interest rates pose a challenge for us in guaranteed savings products. To adapt to this challenge, we are looking to adjust our portfolio through innovative offerings. In Greece, for example, we introduced a growing guarantee product, 'Smart Move', that lets customers build up a long-term investment through regular payments.

The changing regulations in some markets present both challenges and opportunities. In Poland, a move is anticipated from Open Pension Funds in the Pillar 2 pensions to Individual Pensions Accounts in Pillar 3. This will give Polish people freedom to leverage their assets, and change how these funds are taxed. We are studying these developments and engaging with all relevant parties.

In Japan, the tax rules have changed, impacting our business. We believe all stakeholders – independent advisors, agents, banks and customers – need time to adjust to the new, more complex tax rules. According to SME owners' feedback the new rules continue to be attractive, but require more advice. We therefore focus on educating independent advisors on how to advise SME customers and find the most suitable solution for them. We are confident that this will help our customers and our business in Japan in the long term.

From an operational perspective, we need to further intensify our transformation efforts by extending our digital service models and developing relevant capabilities. We are investing in Customer Relationship Management and lead management capabilities while developing a customer engagement framework to maximise output from our business initiatives. At the end of the year, we announced the appointment of a Chief Digital Officer to drive transformation and coordinate our efforts in becoming a more data-driven, customer-centric company.

Despite our challenges, we had a solid year. Our dedicated and passionate teams in the countries played a crucial role in our performance and in meeting customers' needs.

What strategic direction have you set for the future?

We believe the need for protection products across Europe and Japan will further increase, and that customers will continue to need personal advice, and more personalised products and services.

For our part, we will increase the pace of our digital transformation in order to stay close to our customers. And continue to leverage our distribution by improving the way we work with existing partners and potentially collaborate with new partners.

Financial performance (in EUR million, in historic exchange rates)

	2019	2018
Insurance Europe		
Operating result	283	271
New sales (APE)	674	627
Value of new business (VNB)	204	168
Japan Life		
Operating result	218	167
New sales (APE)	587	751
Value of new business (VNB)	146	214

Highlights

Top 3

Player in Central and Eastern Europe, focused on life and voluntary pensions

13m

Customers in ten countries in Europe

NPS +4

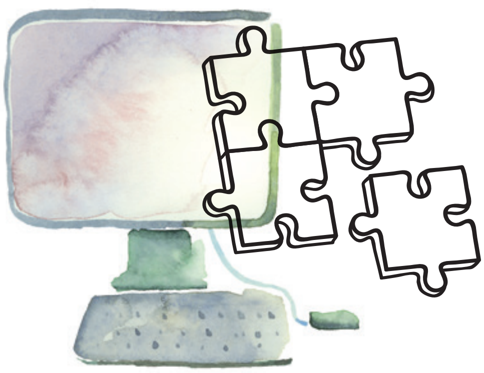
Increase of combined NPS for International Insurance (excluding Japan) to +34 points

Optimising the business

- Following the acquisition of Aegon's life insurance and pension businesses in Slovakia, we launched a new risk life insurance product combining the best from the NN and Aegon offering
- Our Slovak and Czech business units were disentangled. We now have a local organisation in Bratislava, allowing for better focus on the customer.
- In Belgium, we made further progress in our integration with Delta Lloyd Life – most retail life protection contracts were migrated into our Solife back-office platform

Innovating the business

- In Greece, Czech Republic, Romania, Hungary, Spain and Japan we train our agents to better serve our customers through gamification: agents answer questions, issue applications and compete with each other, resulting in increased value of new business (VNB) and productivity
- In the Czech Republic, our brokers, tied agents and banking partners use the Stela digital sales platform, enabling a paperless business origination process, faster processing times and fewer interventions
- NN Life Japan launched a responsive design-based, mobile-friendly portal for new customers who buy NN products through insurance agencies and use digital application processes. Following the pilot, NN plans to launch the portal to existing COLI customers.



Products and services

- Life insurance (all countries)
- Property & casualty (Belgium, Spain, Poland)
- Corporate-owned life insurance (Japan)
- Pensions (Bulgaria, Czech Republic, Slovakia, Poland, Romania, Turkey)
- Health insurance (Greece, Romania, Turkey)
- Employee benefits (Spain)

Our performance – Asset Management

Distinctive, responsible and client-focused

Our Asset Manager has further sharpened its product offering and customer experience. Through sustainable solutions, we create value for our clients and wider society.

> **We continue to invest in our distinctive capabilities, while bringing value to clients and growing our business in new ways.**
>
> **Satish Bapat**
> CEO NN Investment Partners (NN IP)

Satish, looking back on 2019, what are your highlights?

I am proud of the progress we made in 2019. We sharpened our product offering so we can continue to bring clients the products and solutions with the most value, we improved customer experience, and we became more efficient.

Can you elaborate on the progress around NN IP's core business (investments)?

NN IP focuses on distinctive investment capabilities, being specialised fixed income, alternative credit, multi-asset and specialised equity strategies. Alongside fundamental research, the backbone of an active asset manager's process, we have investigated other sources of investment return (or as we say, alpha) for clients.

Responsible investing is a key investment belief of NN IP. We are convinced we can have a positive impact on society while achieving sustainable and strong risk-adjusted returns for our clients.

We integrate environmental, social and governmental (ESG) factors into the investment process of roughly two-thirds of our assets under management. We believe responsible investing is about actively engaging with companies to stimulate their sustainable transition, and that ESG integration leads to better risk-adjusted performance.

We are also exploring the use of artificial intelligence techniques and big data to enhance fundamental research. For example, by testing the use of Natural Language Processing techniques in our European equity strategies. To maximise the value of our data usage, we have recruited people with the right skills from within and outside our industry, and added data scientists to our investment teams.

Finally, we believe investors are not completely rational, but subject to cognitive biases. Through behavioural analysis, we aim to identify the biases affecting both the market and our own decision-making, using the insights to sharpen our investment processes and make better decisions.

Our performance – Asset Management continued

Financial performance (in EUR million)

	2019	2018
Operating result	161	155
Assets under Management (AuM in EUR billion)	276	246
• Of which third-party	89	81
Net inflows (in EUR billion)	2	-6
Cost/income ratio (administrative expenses/operating income)	63.8%	65.9%
Fees/average AuM (bps)	17	19

To support these capabilities and our investment professionals, we have established a central innovation and responsible investing platform. This simple yet powerful tool allows us to share and store information in one place, facilitating continuous learning.

What progress has been made on client experience?

We continuously talk to our clients about their current and future needs. We have used their feedback to improve our digital channels. For example, our website and client portal are now more intuitive and, within our client portal, institutional clients can now create customised views with real-time portfolio information.

We also tap into the strengths of partners to create value for clients. For example, NN IP designs client propositions and solutions that package various components or building blocks. Some we create ourselves, others we source from expert partners. An example is the sustainable enhanced equity range we recently launched with Irish Life Investment Management (ILIM).

Can you say more about your partnerships?

Partnerships are key to us and span geographies. From Voya in the US, ING and ILIM in Europe and Nomura, Rakuten and China AMC in Asia. Our partnership with ING in Poland for example enables us to reach more clients; with China AMC we collaborate in multiple ways: from shaping our joint product offering to identifying how best to leverage each other's presence and know-how.

Our recently acquired majority stake in Venn Hypotheken in the Netherlands gives us increased access to Dutch mortgage origination, meeting clients' need for increased yield potential in a low interest rate environment.

What have you done to increase efficiency?

We allocate resources to core activities: investing clients' money, delivering risk-adjusted returns and ensuring good client experience. Non-core activities can, if needed, be sourced from partners. For example, we further leverage on our strong investment platform and outsource and decommission other tools and systems that can be migrated or are not essential.

We have further simplified our organisation and made our expense base more variable (i.e. expenses move with volume or AuM). We integrated our Luxembourg management company into our Dutch licensed entity, as European 'passporting' of the Luxembourg fund range allows us to run its operations from the Netherlands.

What is the biggest challenge experienced by asset managers?

People are living longer and therefore need to put more aside for retirement, healthcare, et cetera. At the same time, responsibilities are shifting to individuals. We believe this challenging environment gives rise to an increasing need for asset management and advice.

However, the biggest challenge is the persistent low interest rate environment. This creates pressure on active managers' performance to continuously deliver value (net of fees), thus increasing fee pressure, and demand for passives, absolute-return strategies and higher-yielding alternatives.

What is NN IP's strategic focus for the mid to long term?

We will continue to invest in our core investment capabilities. In addition, we are committed to integrating ESG criteria where relevant throughout the investment process. To us, ESG and responsible investing are not just buzzwords. They are at the heart of our investment strategy and beliefs.

Besides strengthening our investment capabilities, we will also explore new ways to bring our products to both existing and new clients.

Finally, asset management is a scalable business, as we saw with the integration of Delta Lloyd Asset Management (DLAM) at almost no additional cost. Scale remains important, and while continuing to make the right choices organically, we will also look to supplement organic growth with partnerships and bolt-on acquisitions. Though, as with any business decision we make, these will need to meet strict financial and non-financial criteria, and support our strategic direction.

Highlights

EUR 276bn
Assets under Management

A+
Score by Principles for Responsible Investment

68%
Percentage of assets ESG-integrated

Products and services

- Specialised fixed income, alternative credit, specialised equity, automated investing strategies, multi-asset and fixed income solutions
- ESG factors form an integral part of the investment process
- Creating alpha by combining human creativity with machine rigour

Optimising the business

- Simplifying the organisation, aligning roles and responsibilities across locations, and harmonising processes and procedures. For example, by consolidating the Luxembourg management company with the Dutch licensed entity.
- Optimally leveraging our scalable operating systems, including our global investment platform Aladdin, while decommissioning other systems. For example, decommissioning MSCI RiskMetrics by migrating it to Aladdin.
- Outsourcing non-differentiated commoditised activities, including Dutch fund accounting and formal accounting for institutional clients

Innovating the business

- Strengthening our investment capabilities. Examples include implementing recommendations from the 2018 outside-in assessment and broadening our loan investment offering by taking a majority stake in Venn Hypotheken.
- Building Papyrus, an in-house central innovation, responsible investing and research platform that connects strategies and users across all departments
- Improving the services we offer clients. For example, through the integrated, secure and personal client experience offered by our client portal and by launching new funds such as our short-duration green bond fund. This fund contributes to the UN's SDGs and, with a duration of two years, is uniquely positioned in the market.
- Strengthening our distribution capabilities through local presence and by both leveraging existing partnerships and building new ones. Supporting our third-party asset growth strategy, in 2019 we opened an office in Montevideo, Uruguay, announced our partnership with ILIM and formalised our partnership with ING Bank Slaski S.A. in Poland.

Creating and sharing value

Adding value for customers

We keep a close eye on what is happening around us, and utilise the challenges and opportunities any developments offer to continually improve the customer experience.

Creating value for our customers

Our customers want products that help them in realising their financial goals. From buying a home, saving or investing for their retirement, or buying a new car, to protecting their valued assets or the loss of income as the result of an illness.

This is why the demand for transparent, simple products from the financial services industry continues to grow. Customers want value for money beyond that offered by traditional products and services. This means a single-channel customer experience is no longer sufficient to foster loyalty or long-term customer relationships. To ensure new or modified products and services are transparent and serve customers' interests, they must therefore first undergo a careful product approval and review process (PARP).

Integral to PARP are our Customer Golden Rules:

- Offer fair value to customers
- Explain the risks, returns and costs of our products and services
- Regularly assess products, services and distribution practices
- Only work with professional and licensed distributors

Further improving the customer experience

A widespread challenge facing insurers is how to reach out to customers and prospects at the right time in a personal way, and understand their needs so that we provide relevant products, content and services. For example, by providing fast and flawless claim support.

It is currently difficult for financial services companies to differentiate themselves through their product offering, so reputation and customer experience are crucial to achieving a competitive edge. To further improve the NN customer experience, we aim to be a customer-focused, data-driven company that contributes to a sustainable society while creating value for money in a personalised, relevant way.

Objectives & 2020 targets and our performance

- Be seen as a 'You matter' company: a people-oriented service provider in the long-term financial planning industry
  - Customer recognition of NN as a 'You matter' company rose in two of our ten International Insurance markets[1]
- Improve relational Net Promoter Scores (NPS-r)
  - NPS-r maintained or improved in nine of 11 insurance markets[1]
- Increase number of products and services that help our customers address societal challenges
  - Increased awareness of customer need for value-added products and services

1 Reliability interval of 4% on brand awareness and 5 points on NPS.

CO_2-neutral pension plan

BeFrank launched a sustainable pension scheme option in the Netherlands where companies can make their invested pension capital completely CO_2 neutral via a tree-planting scheme. BeFrank's clients can compensate the CO_2 footprint of their invested pension funds via reforestation projects.

BeFrank works together with Land Life Company, a Dutch company specialised in reforestation of degraded land. Reforestation not only combats climate change, it also ensures the retention of groundwater and rainwater, restores biodiversity, and improves air quality and soil conditions.

The CO_2 footprint of a client is calculated based on data provided by investment funds. Using this information, Land Life Company generates a model to estimate how many trees should be planted to compensate for the footprint.

Creating and sharing value – Customers continued

Educating and empowering customers

We empower customers to improve financial decision-making, and educate them on the importance of starting early with financial planning. For example, by raising their awareness of the changing pension landscape, and that living longer will probably require changes to their working lives and savings behaviour. Such as through the introduction by NN Life of the Human Capital Planner (HCP), an online data-driven service that has been widely adopted by employers and advisors to help them develop sustainable pension policies for employees based on our pension data insights.

An activation campaign by BeFrank won the 2019 Pensioenwegwijzer (Pension Signpost) award for helping people make smart retirement choices.

We also promote the importance of a healthy lifestyle for both physical and mental well-being. In Hungary, for example, we targeted runners. Through an effective combination of running events like NN Ultrabalaton, our Runaddict app and online campaigns, we were able to advise new customers never previously in contact with NN. In Belgium, we introduced a happiness platform that provides smart tools and tips & tricks to help people increase their sense of happiness.

Our focus is not only on pensions and healthcare. For example, in Spain we aim to be the financial coach of families, and we launched a modular savings value proposition: Contigo Futuro (The future with you). It enables customers to be disciplined about saving and makes it easier to achieve key life goals, such as a good education for their children, starting their own business and carefree retirement. Contigo Futuro also promotes socially and environmentally sustainable investments.

Omnichannel and ecosystems

We want to establish an omnichannel approach so we can better engage with our customers, business partners and the wider insurance ecosystem to deliver personalised, relevant, value-adding products. For example, in the Netherlands, call centre agents can switch seamlessly between different contact channels while helping callers, and are therefore able to more quickly help our customers.

As the boundaries of the insurance ecosystem continue to expand to include non-traditional partners such as retailers, car manufacturers and smart home devices, insurers will more than ever need to define their role in the value chain.

Nevertheless, despite the increasing commoditisation of insurance (in part due to the proliferation of price comparison websites), for many customers price is not the sole criterion when choosing products. Driven by the preferences of millennials, today's insurance is increasingly focused on premium service, reward and even, where appropriate, a fun experience.

Leveraging new technologies

Wherever possible, we use new technologies to improve our products and services, and thereby the customer experience.

In the Netherlands, we will employ artificial intelligence and advanced data analytics to classify, process and automatically route some 60% of all emails.

NN Life and NN Bank are participating in several blockchain initiatives to make the pension and mortgage processes more customer-friendly and efficient. For NN Life and other pension providers it means 60% more efficient processes regarding pensions. The pilots are joint initiatives of several banks, insurers and NGOs in the Netherlands.

NN Bank has begun a transition to a modernised IT architecture based on open source development frameworks, continuous integration and delivery, cloud, and automated testing. This will improve the performance, availability and flexibility of our IT, positively impacting the customer experience.

NN Investment Partners (NN IP) uses technology, such as cloud and robotic process automation, to further improve efficiency and personalised service to customers.

Unit-linked products in the Netherlands

In the Netherlands, unit-linked products have received negative public attention since the end of 2006. We have taken this criticism to heart, as our aim is to support our customers as best we can. The Dutch insurance subsidiaries of NN Group reached out to all individual customers who purchased unit-linked products in the past ('activeren').

The formal process for reaching out to customers initiated by the AFM for the sector was completed by the Dutch insurance subsidiaries of NN Group on 31 December 2017. In 2019 the AFM confirmed that the Dutch insurance subsidiaries of NN Group have fulfilled their obligations towards customers pertaining to customer reach out. The Dutch insurance subsidiaries of NN Group continue to periodically reach out to groups of selected customers to encourage them to carefully assess their unit-linked products in order to enable them to address their personal situation and offer customers the option to switch to another product or make changes to their policy free of charge. Customers are also entitled to free advice.

As at 31 December 2019, the portfolios of Dutch insurance subsidiaries of NN Group comprised approximately 410,000 active policies. In a limited number of cases (less than 1,250), Dutch insurance subsidiaries of NN Group have settled disputes with individual customers. These are tailormade solutions. A limited number of individual customers and several consumer protection organisations have initiated legal proceedings against Dutch insurance subsidiaries of NN Group. Read more on pages 118-120 of the Financial Report (Note 42).

Creating and sharing value – Customers continued

Dealing conscientiously with data
As digitalisation moves forward rapidly, the importance of securing the (personal) data of our customers also increases. We are conscious that we need to be responsible and handle their (personal) data with care and thereby safeguard their privacy. We do so by complying with data protection legislative requirements of which the most important is the EU General Data Protection Regulation (GDPR).

Furthermore, our NN statement of Living our Values, which is completely consistent with the GDPR, states that we use our knowledge responsibly, keep confidential what is entrusted to us, and communicate proactively and honestly.

The use of (big) data for analysing client propositions offers opportunities to strengthen interactions with customers and create more intuitive partnerships, as well as to create better, tailor-made product solutions. For example, we use data to assess whether customers with a mortgage product are likely to fail to comply with future payment obligations; this enables us to offer support in avoiding (serious or deteriorating) debt situations for such customers. Support that we can offer includes, for example, providing a budget coach, a job coach or offering a period without interest payments.

In everything that we do with data, we always comply with relevant legislation and handling data with care is a top priority for us. We are developing our own ethics framework for the application of data science and artificial intelligence, setting even stricter requirements in line with our NN values. We are very aware that we need to strike a proper balance between individual choices, privacy and solidarity.

Besides the focus on the data that we manage and protect, we also provide our customers with services regarding data and cyber security. The consequences of cyber insecurity can be wide-ranging for individuals and companies.

Financial economic crime
NN cautiously guards against money laundering, funding of terrorism, tax evasion and other forms of financial economic crime (FEC), as these can harm confidence in NN as a financial service provider. Digitalisation and dependency on digital systems has significantly increased the potential impact of FEC. NN actively takes preventative measures and we do not tolerate any deviation from relevant FEC laws and regulations.

Supporting specific groups in society
We are very aware that people can face financial and social challenges in life, which is why we try to anticipate needs and circumstances.

In Poland, we launched a campaign about fatherhood, focusing on security and insurance tailored to these changing family circumstances.

In Spain, we introduced Contigo Familia as an insurance protection solution for families. Customers can choose the protection mix that suits their lifestyle and life stage, and access health services via an app that lets them chat real-time 24/7 with specialists.

Financial inclusion
Through our membership of the Dutch Association of Insurers, NN is involved with the Foundation for Sustainable Micro-pensions in Developing Countries (SDMO). SDMO has helped to develop a defined contribution scheme in India, with administration and investment management arranged by a local life insurance provider. Since its foundation in 2011, SDMO has contributed to the pension arrangements of over 40,000 people in India.

Supporting all runners

NN Group aims to connect with people on topics that matter to them, such as family, work, art, music and sports. Sponsorships are an important part of our marketing activities, and an opportunity to increase the number of contact moments with our audience.

NN has been active in the sport of running since 2015; a natural fit with our role as insurer as running contributes to the health and well-being of many. In Europe, there are approximately 50 million active runners. Through our sponsorship activities we can support all types of runners, from beginners to professional athletes.

We organise activations to contribute to the experience of running, such as the Running Supporter. Through a recorded video message from a loved one, runners are encouraged through the final kilometres of a marathon.

With Smart Medal, we have innovated the traditional medal received after completing a race. Runners scan their medal with the Smart Medal app to gain access to their personal Running Story: a flashback to the event with pictures and statistics that is shareable on social media.

We believe running is a team sport and since 2017 we have been the title sponsor of the NN Running team, the first professional running team in the world. The team brings together young talents and world-class marathoners like Eliud Kipchoge to train alongside each other.

Creating and sharing value – Customers continued

How customers view our products and services

Customer feedback tells us about their preferences and views, helping us modify our services to meet their needs. We believe the best insights are achieved not through the quantity but quality of our research, and we therefore focus on what we see as key metrics.

Methods

We conduct four types of research:
- Traditional online interviews: short, structured questionnaires sent out to the general public
- In-depth interviews: one-on-one open-question interviews with a select number of customers
- Anonymised customer data: analysed by specialist data analysts to identify behavioural customer trends
- Neuroscience marketing research: testing, for example, marketing campaigns by observing the facial expressions of a small target group of customers

Net Promoter Score

To measure how customers value our products and services, we use the internationally recognised Net Promoter Score (NPS) system. In 2019, the weighted aggregated NPS for NN was +4 compared to -1 in 2018, this implies a small improvement of five points[1] across the entire Group.

Four of our insurance businesses had a better relationship NPS (NPS-r) than the market average. Within International Insurance, there were some significant changes, with a huge NPS-r increase in Hungary and Romania achieving an all-time record score.

We measure NPS-r to estimate the strength of our relationship with customers and to get a high-level understanding of customer satisfaction levels for our products and services over the long term. Though we monitor scores closely, we are also cautious not to infer too much from an NPS-r score increase or decrease over just one year.

We also measure the transactional NPS at a local level for specific events to measure how a recent interaction affects customer satisfaction. Such insights help us improve the customer journey.

Net Promoter Score[2]

	NN 4Q19	NN 4Q18	Change 4Q19-4Q18	Market average 4Q19	Difference NN-MA
Belgium	-1	-4	+3	0	-1
Bulgaria	20	29	-9	16	4
Czech	9	17	-8	18	-9
Greece	30	30	+0	22	8
Hungary	51	24	+27	44	7
Netherlands	-13	-22	+9	-9	-4
Poland	36	37	-1	27	9
Romania	66	58	+8	64	2
Slovakia	4	7	-3	11	-7
Spain	34	25	+9	31	3
Turkey	64	59	+5	56	8

NN Group measures NPS-r scores in all its markets for banking, life insurance and pensions business lines. NPS-r and customer satisfaction measurements for asset management are carried out amongst institutional clients once a year.

1 Weight of the three pillars that make up the NN Group Net Promoter Score are:
   a International Insurance (11 markets): 26%
   b NN Investment Partners: 13%
   c NN Netherlands (Nationale-Nederlanden): 61%
2 Japan changed research methodology from online interviewing into pen and paper approach and is not included in this table.

Global Brand Health Monitor

Brand awareness can influence consumers' perceived risk assessment and their confidence in the purchase decision, due to familiarity with the brand and its characteristics. To track how our brand is perceived externally, and get insights into brand performance and development, we use the NN Global Brand Health Monitor (GBHM). At least twice a year, we measure key brand indicators, such as brand awareness and brand preference. Our brand awareness increased significantly (>4%) in the Netherlands, Poland, Slovakia and Spain, and either increased or remained stable in all other countries.

Brand awareness (in %)

BU	Result Q42019	Result Q42018	Change
Belgium	14	13	1
Bulgaria	32	32	0
Czech Republic	47	46	1
Greece*	68	66	2
Hungary*	61	58	3
Japan*	32	35	-3
Netherlands	79	72	7
Poland*	78	71	7
Romania	75	73	2
Slovakia	58	47	11
Spain	46	41	5
Turkey	31	31	0

* Life business only.

Supporting our people in times of change

We aim to be an employer of choice by creating a 'You matter' culture. We want to provide our colleagues a stimulating, diverse work environment, and give them the opportunities they need to develop their skills and fulfil their potential. Our human resources strategy focuses on the moments that matter in the careers of our employees, before, during and after employment at NN.

Attracting and retaining talent

Our employees are vital for us in ensuring the success of our business. The current economic environment creates challenges for NN Group to attract and retain talent, as we compete with players both within and outside our industry. To maintain our performance now and in the future, we must continue to attract professionals with the right mindset and relevant (digital) skills.

Our commitment to playing a positive role in society is key to attracting young talents. They value companies that place an emphasis on sustainability and have a social mission, as they care about the societal impact of their work and of their employer's products and services.

To retain talent, NN Group proactively invests in the personal and professional development of our people throughout their careers, including through providing competitive compensation.

Our digital transformation

The digitalisation of society impacts how we do business and interact with customers, and our digital transformation provides opportunities for employees in the fields of artificial intelligence and big data. Although the financial sector is behind the technology sector in using data, our long history and extensive data holdings make us an interesting employer in the field of data analytics.

Throughout NN we are implementing working in a more agile way, giving more responsibility to teams and individual employees. Within the field of innovation, we work with small groups that encourage innovation, offer more freedom, and work on impactful projects. In 2019, we introduced the NN Innovation Method, through which we can empower employees across our businesses to work in a more innovative way.

Objectives & 2020 targets and our performance

- Stimulate our talents and strengthen our talent pipeline
  - EUR 19 million spent on training and development
- At least 30% women in senior management positions
  - 36% women in senior management positions – up three percentage points
- Continue to strengthen employee engagement
  - Employee engagement up from 7.1 to 7.4

Attracting freelance workers

In 2019, NN hosted four NN Experience Events. These are designed to allow freelancers working in IT, marketing and risk to experience NN as an employer, build good relationships and accelerate the hiring of these key professionals. The fourth session, held in June for risk professionals, was the first broadcast online to attract an international audience.

In December, Nationale-Nederlanden, signed a new work code designed to prevent unacceptable differences in the Dutch labour market between fixed and flex contracts. The code should contribute to a more fair and balanced labour market in the future. The code covers equal treatment of permanent staff and freelance employees, providing access to disability and pension provisions, and personal development instruments.

Creating and sharing value – Employees continued

Investing in development

In a continuously transforming world, everyone needs to learn and adapt constantly. We want to support our employees to enable lifelong learning. To help them build valuable networks, we offer long- and short-term internal assignments, within other departments or business units. Job rotation schemes provide additional opportunities to explore new career paths.

We also support our leaders, as our strategic priorities require that management embraces new ways of working, becomes more aware of their impact as leaders, and drives results without resorting to traditional top-down leadership. In 2019, we amended our leadership profile to determine the desired profile for our leaders. The changes reflect that our leaders should drive change, engage in constructive conversations, give and seek feedback, and lead with a close eye on what customers and society expect from us.

Reskilling opportunities

In 2019, NN Group invested EUR 19 million in training and development (2018: EUR 21.5 million), through which we aim to support the sustainable employability and mobility of our employees. This figure decreased due to a number of factors, such as a higher spend in 2018 due to redundancies following the Delta Lloyd integration and a adjusted policy for (executive) education in 2019.

Where possible, NN participates in initiatives to broaden the opportunities available to employees. For example, we held information sessions for employees on two projects:

- The Dutch government's initiative to offer Dutch-speaking employees the opportunity to retrain as teachers
- The Make IT Work programme, run in collaboration with the Hogeschool of Amsterdam, which helps employees retrain as software engineers

In light of strong competition in financial markets and the ongoing Delta Lloyd integration, redundancies are sometimes unavoidable. We aim to take our responsibility when it comes to being a good employer. For example, the new social plan in the Netherlands, introduced as part of the collective labour agreement, focuses on helping people from work to work, with guidance on finding a new job and supporting internal mobility.

Competitive compensation

To ensure suitable and competitive compensation packages, we conduct an annual pay review on senior leadership positions, comparing remuneration with internal and external benchmarks. For a number of (senior) functions that could have a material impact on the risk profile of NN Group, we ensure their objectives are aligned with NN's risk profile. Specifically, the objectives must not incentivise or stimulate unacceptable (risk-taking) behaviour. For other staff, specific labour arrangements are in place, dependent on country practices.

In 2019, we reached a new collective labour agreement (CLA) for our employees in the Netherlands. The new CLA was an important milestone in the integration of Delta Lloyd, as it harmonised employment conditions. At the same time, it provided the opportunity to introduce important new elements, such as more parental leave and a diversity day. The new CLA also established a consistent remuneration framework that was applied to the group-wide job family framework.

As part of the CLA, we introduced frequent performance dialogues to encourage open and frank conversations between employees and managers. These performance dialogues focus less on the past and more on future priorities and development. Annual performance reviews are measured against employee objectives, and also take into account behavioural components. We plan to implement the new performance review approach in all business units over the next two years.

Diversity and inclusion

All employees should feel respected and valued for who they are, regardless of gender, age or background. NN measures its diversity in areas such as age and gender, and we are developing an NN group-wide diversity policy that will also include diversity of thinking. In the beginning of 2020, employees in the Netherlands launched the first NN LGBT+ network, in order to help further promote diversity at NN.

7.4

Employee engagement score, up from 7.1

650

NN colleagues participated in the Fit by Nationale-Nederlanden pilot

36%

Percentage of senior management that are women

Creating and sharing value – Employees continued

Although we have a higher number of women in senior positions than ever before, we are not yet where we want to be. Our targets of at least 50% female candidates when recruiting for management roles and 30% women in senior leadership positions will help us achieve leadership teams that reflect the gender diversity of the group being managed. In 2019, 36% of senior management were women, up three percentage points on 2018 and exceeding our overall target.

Equal pay continues to be a recurring topic on the agenda of the Management Board and Supervisory Board, with developments in this area regularly monitored. The global pay review process for senior leaders also includes checks to monitor if equal pay principles are adhered to.

Employee representation

Our works councils facilitate employee consultation in many NN countries in Europe. In the Netherlands, all works councils held elections in October, with those elected taking up their roles in January 2020.

An overview of the Central Works Council members and European Works Council members of NN Group can be found on page 38 of the Financial Report.

Transformation HR function

We want our HR processes to be more centralised around the employee perspective. We have therefore begun an HR transformation programme. Multidisciplinary teams are working to shape a new employee journey that is focused on the moments that matter in an employee's career at NN, supporting them in their personal and professional growth.

Employee engagement

Engagement of employees is monitored and evaluated through the annual global employee engagement survey. Insights from the survey help us to better understand our priorities and strengths, to improve our service to our customers, and to create an engaging work environment. Given our efforts in this area, we are satisfied with the results of the 2019 survey. 85% of employees participated in the survey and our overall engagement score increased to 7.4 (2018: 7.1). Particularly in the areas of performance alignment and meaningful work the scores were high. Further improvement is needed around efficient processes, better explaining our strategy to our employees, and better connecting how our employees relate to our mission.

Top Employer

Being considered an attractive employer strengthens our position in a competitive labour market. To do this, we need to have the culture, practices and processes in place to provide the best opportunities for our employees. We are encouraged by being named as a Top Employer in all our markets outside the Netherlands in 2019 by the Top Employer Institute. NN Life Japan was recognised for the first time for its working conditions and corporate culture, while some countries were named as Top Employer for the third consecutive year. The Top Employers Institute recognises leading employers around the world as those that provide excellent employee conditions, nurture and develop talent at all levels of the organisation, and strive to continuously optimise employment practices.

Vitality

We support healthy lifestyles, as they lead to improved well-being and reduced absenteeism. That vitality is an important topic for our colleagues is shown in our annual global engagement survey. We will continue to implement initiatives in this area in all our countries.

In the Netherlands, for example, we offer workshops on vitality and provide fitness facilities in The Hague and Arnhem; NN Bank and NN Life piloted a programme on team energy and team collaboration. The Fit by Nationale-Nederlanden pilot ended in 2019. Close to 650 employees participated in over 30 types of challenges, and the concept received a high score.

In 2020, the programme will be replaced with a new vitality platform at our main office locations in the Netherlands.

In Spain, the wellness programme includes a Running and Nordic Walking club, an in-office physiotherapist and a yearly health check. In 2019, additional actions included nutrition sessions, in-office dental checks, a campaign for flu vaccinations and corporate travel safety. Nationale-Nederlanden Spain also created a so-called psychosocial risk committee that monitors actions that were initiated after a survey and interviews with employees in 2018.

Creating value for investors

We aim to be transparent by providing investors with high-quality, clear, accurate and timely information to enable them to make informed investment decisions.

The authorised share capital of NN Group N.V. consists of ordinary shares and preference shares. Currently, only ordinary shares are issued, while a call option to acquire preference shares has been granted to the NN Group Continuity Foundation (Stichting Continuïteit NN Group). Read more on page 28 of the Financial Report.

Major shareholders

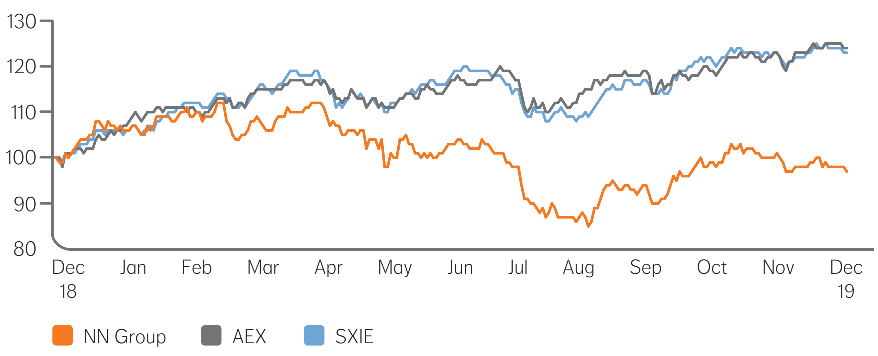
According to the AFM register as at 9 March 2020, the following shareholders have an interest of 3% or more in NN Group on the notification date: Blackrock, Inc. 4.80% (21 February 2020), P.E. Singer 3.04% (17 February 2020), Norges Bank 3.03% (12 April 2019), APG Asset Management N.V. 3.00% (2 August 2017), RRJ Capital II Ltd. 9.60% (23 May 2017).

Our guidance

- For 2019, we aimed to pay an ordinary dividend in line with our medium-term financial performance and envisage a sustainable ordinary dividend per share and a pay-out ratio of 40-50% of the net operating result
  - NN Group has proposed a total dividend for 2019 of EUR 2.16 per ordinary share, which is equivalent to a dividend pay-out ratio of 50% of NN Group's 2019 full-year net operating result
- We intend to maintain financial leverage and fixed-cost cover ratio consistent with a Single 'A' financial strength rating
  - Latest financial strength ratings awarded by Fitch ('A+') and Standard & Poor's ('A') in line with guidance

Listing

NN Group ordinary shares are listed and traded on Euronext Amsterdam under the symbol NN.



Authorised and issued capital

in EUR million	Year-end 2019	Year-end 2018	Year-end 2017
Ordinary shares			
– authorised	84	84	84
– issued	41	41	41
Preference shares			
– authorised	84	84	84
– issued	0	0	0

Number of shares in issue and shares outstanding in the market

	Year-end 2019	Year-end 2018	Year-end 2017
Authorised share capital	700,000,000	700,000,000	700,000,000
Issued share capital	343,556,121	341,059,071	340,750,342
Own ordinary shares held by NN Group	21.485.285	6,554,128	6,609,781
Outstanding ordinary shares	322,070,836	334,504,943	334,140,561

Creating and sharing value – Investors continued

Dividend policy

For the financial year 2019, NN Group aimed to pay an ordinary dividend in line with its medium-term financial performance and envisages an ordinary dividend pay-out ratio of 40-50% of the net operating result. NN Group intends to pay interim dividends calculated at approximately 40% of the prior year's full-year dividend. Barring unforeseen circumstances, NN Group intends to declare an interim dividend with the disclosure of the first half-year results and to propose a final dividend at the annual general meeting (AGM) of shareholders. When proposing a dividend, NN Group takes into account, amongst other things, the capital position, the leverage and liquidity position, regulatory requirements and strategic considerations, as well as any expected developments in these areas.

Dividends are paid either in cash after deduction of withholding tax if applicable, or in ordinary shares from the share premium reserve, as elected by the shareholder. We intend to neutralise the dilutive effect of the stock dividend through repurchase of ordinary shares. NN Group is committed to distributing excess capital in the form that is most appropriate and efficient for shareholders at that specific time, such as special dividends or share buybacks.

At the AGM on 28 May 2020, a final dividend for 2019 will be proposed of EUR 1.40 per ordinary share. Together with the 2019 interim dividend of EUR 0.76 per ordinary share paid in September 2019, NN Group's total dividend for 2019 will be EUR 2.16 per ordinary share, which is equivalent to a dividend pay-out ratio of 50% of NN Group's full-year 2019 net operating result.

NN Group announced an update of its dividend policy on 13 February 2020. Going forward, NN Group intends to pay a progressive ordinary dividend per share and intends to execute a recurring annual share buyback of at least EUR 250 million. Additional excess capital is to be returned to shareholders unless it can be used for value creating opportunities.

Disciplined capital allocation

Through disciplined capital management and a focus on generating capital, we ensure our cash capital position and Solvency II ratio remain strong. Excess capital will be returned to shareholders unless it can be used for value-creating opportunities, for example the expected acquisition of VIVAT Non-life, which further strengthens our Non-life platform in the Netherlands.

Read more: https://www.nn-group.com/Investors/Share-information-1/Dividend-policy-and-dividend-history.htm

Share buyback and share capital

On 14 February 2019, NN Group announced an open market share buyback programme for an amount of up to EUR 500 million over 12 months, commencing 1 March 2019. This share buyback programme was completed on 28 February 2020.

On 29 March 2019, 5,850,000 NN Group treasury shares that had been repurchased under the share buy-back programme completed in December 2018 were cancelled.

On 25 June 2019, NN Group issued 4,807,859 ordinary shares as stock dividend for payment of the 2018 final dividend, representing an aggregate value of EUR 169 million. For payment of the 2019 interim dividend, 3,539,191 ordinary shares were issued as stock dividend on 11 September 2019, reflecting an aggregate value of EUR 106 million.

To neutralise the dilutive effect of the stock dividend, NN Group repurchased ordinary shares for EUR 275 million in 2019, related to the 2018 final and 2019 interim dividends.

On 13 February 2020, NN Group announced a new share buyback programme of EUR 250 million, commencing on 2 March 2020 and to be completed within 12 months.

NN Group reports on the progress of the share buyback programmes on its corporate website (https://www.nn-group.com/Investors.htm) on a weekly basis.

NN Group has decided to cancel 23,289,558 treasury shares representing shares repurchased as part of the share buyback programmes. This cancellation is subject to a two-month creditor opposition period which will end on 11 May 2020. Assuming no opposition is made the cancellation of shares will take effect on 12 May 2020.

Credit ratings

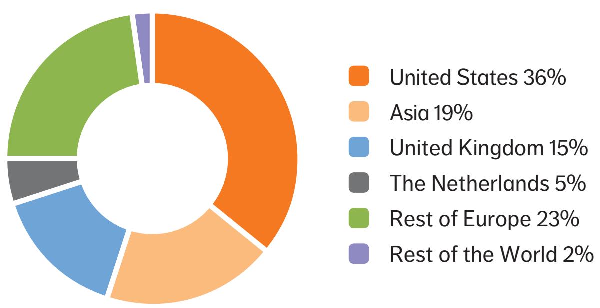
On 18 September 2019, Standard & Poor's published a report confirming NN Group's 'A' financial strength rating and a 'BBB+' credit rating with a stable outlook. On 10 March 2020, Fitch confirmed NN Group's 'A+' financial strength rating and 'A' credit rating, and upgraded the outlook from stable to positive .

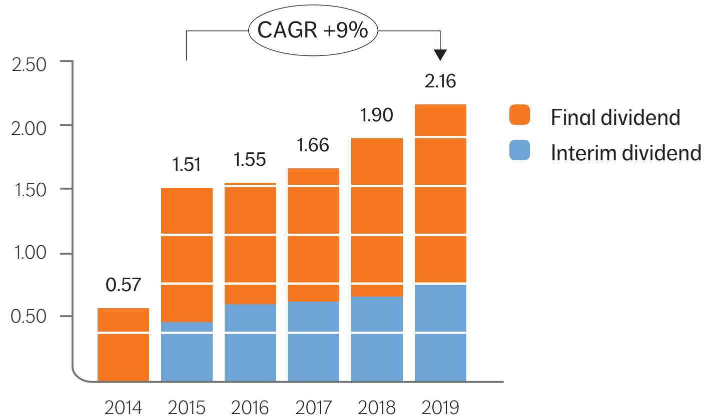
ESG ratings

In the area of sustainability, we are rated by specialised research agencies and included in indices such as the Dow Jones Sustainability Indices. Read more on page 60. We proactively inform the market about our sustainability approach and performance by publishing and regularly updating an environmental, social and governance (ESG) presentation on our website and during one-on-one investor meetings.

Shareholder by country/region

IHS Markit shareholder analysis at 31 December 2019 (%)





Creating a positive impact on society

We want to create a positive impact on society, by investing our assets responsibly, being a fair taxpayer, managing our direct environmental footprint, and through our activities in the communities where we operate.

Objectives & 2020 targets and our performance

- Further develop our Responsible Investment Framework policy
  - Development and publication of a Statement on Coal
- Continue to increase our Assets under Management (AuM) in sustainable and impact strategies
  - Increase (+37%) in our AuM in sustainable and impact strategies to EUR 22.7 billion
- Reduce direct CO_2 emissions (tonnes) by 3% per FTE per year
  - CO_2 emissions per FTE decreased by 14%
- Reach out to at least 100,000 young people through NN Future Matters programme; help 11,625 households out of poverty and debt
  - 25,421 young people reached through NN Future Matters in 2019 and 138,358 to date. We have exceeded our 2020 target and strive for a growing number of impacted youth going forward

Responsible investment

NN Group's Responsible Investment (RI) Framework policy sets out our vision and approach in this area: we integrate environmental, social and governance (ESG) factors into our investment process and active ownership practices. We prefer inclusion backed by engagement to exclusion, but we also uphold restrictions; and our asset manager offers clients a range of ESG-integrated, sustainable and impact investment strategies.

Supporting ESG integration

Our RI Framework policy includes norms-based criteria reflecting our investment beliefs and values, relevant laws, and internationally recognised norms and standards. These criteria guide the investment process across NN Group and NN Investment Partners (NN IP).

In 2019, NN Group further developed its RI Framework policy by adopting a Statement on Coal, including a phase-out strategy for our proprietary assets. This means that NN will reduce its investments in thermal coal mining and coal power to close to zero (defined as between 0 and 5%) by 2030. For the assets that we manage on behalf of our clients, NN IP developed an engagement programme focused on utilities that derive an important part of their installed power generation capacity from coal, as well as globally diversified mining companies that have a large absolute thermal coal production volume. Through dialogue, we seek to encourage companies to develop transition plans consistent with the goals of the Paris Agreement, including timelines and commitments to the reduction of thermal coal mining and/or coal use for power. Furthermore, investment restrictions are applied to companies that derive more than 30% of their revenues from thermal coal mining (extraction). These companies are placed on NN's restricted list, which applies to all investments. We believe this restriction will contribute to de-risking our portfolios in terms of our carbon footprint, which is in line with our responsible investment ambition, and contribute to the overall energy transition. To create consistency throughout our business, we will implement an insurance underwriting policy that is aligned with the approach for investments. We feel the various elements of this policy statement reinforce each other.

NN IP has strengthened its approach by including a stringent definition of ESG integration that sharpens our focus. For each individual investment analysis, the integration of ESG factors needs to be demonstrated and documented in a consistent way. At year-end 2019, ESG criteria were consistently integrated for roughly two-thirds (68%) of NN IP's AuM, amounting to EUR 189 billion. This includes those assets managed under the sustainable and impact strategies. NN IP is committed to further increasing the number of assets where we integrate ESG factors into the investment process where relevant.

We apply an engagement-led divestment approach. This means restriction is proposed only when we feel engagement cannot change a company's conduct or involvement in specific activities. Responsibility for assessing whether an issuer fails to meet our norms-based criteria lies with the ESG Committee of NN IP, who are advised by the NN IP Controversy & Engagement Council. In 2019, this council met seven times and discussed 120 individual cases.

Creating and sharing value – Society and communities continued

2,752
Number of shareholder meetings at which we voted

662
Dialogues with issuers on ESG factors

Dialogues on ESG issues
(%)

Additional policies that NN IP revised or published in 2019 were an Engagement policy, a Client Voting policy and a Viewpoint policy on (potentially) less sustainable areas. The latter is important to demonstrate our adherence to the Belgian quality standard for sustainable and impact funds.

To support our business in implementing our RI Framework policy, the NN IP Responsible Investment team was doubled from 4 to 9 FTE.

Influencing companies to take responsibility

Voting is one of the most powerful tools of active ownership, and we therefore vote at shareholder meetings (AGMs) on behalf of our own and our clients' assets. To ensure proper governance, we have separate voting committees in place for the different asset types, and publish our voting record on a dedicated website. Some of the voting is outsourced to a proxy service provider, which votes by following our customised proxy voting guidelines.

We monitor these outsourced activities and always make voting decisions internally on a case-by-case basis for our own assets, companies on our engagement list and NN IP sustainable funds.

During 2019, NN IP voted at 2,752 AGMs on 31,775 agenda items. Voting activities were focused on three main issues: board elections, sustainability shareholder resolutions and the alignment of executive remuneration with company strategy.

For example, in the case of board elections, we generally support resolutions regarding the (re)appointment of candidates put forward by the company. However, we rejected several board-related items due to a lack of independent board members, poor diversity or when there was no proactive and comprehensive board oversight of environmental and social risks.

Engagement on coal policy & practices

In developing our Statement on Coal, we engaged amongst others with Greenpeace. The outcome was well received by our stakeholders. In particular the scope, the timelines and the fact that we made a public statement was appreciated. At the same time, NN is still being criticised for the fact that we cannot enforce the policy on the assets that are managed via client mandates or by NN OFE (our open pension fund in Poland) which is a separate legal entity and has to abide by Polish regulations. In the meantime, we continue our efforts to support the transition towards a low-carbon economy and monitor societal developments to ensure our statement reflects expectations. NN IP engages with both local investee companies and local NGOs, and collaborated with the Warsaw Stock Exchange amongst others in promoting the incorporation of responsible investment parameters in a newly launched Polish index fund.

Creating and sharing value – Society and communities continued

In addition, NN IP supported a large number of shareholder resolutions linked to environmental (96%) and social (80%) topics. In general, we support resolutions if they address material social and environmental issues that can have a material impact on the company and/or its stakeholders. We voted on issues such as climate change, supply chain management and human rights. An example being our support for all resolutions at the AGM of ExxonMobile to send a clear signal to the company that climate change is important to investors.

We believe in the importance of an ongoing dialogue with companies and issuers in whom we invest. Through engagement, we aim to raise their awareness of ESG issues and encourage them to improve their ESG policies and practices. Because of the active investment strategies of NN IP, our equity and fixed income analysts and portfolio managers are in frequent dialogue with investee companies. Our ESG specialists also enter into dialogue with corporate and sovereign issuers, and whenever ESG issues are a topic of discussion during company meetings, we log them in a dedicated database.

In addition to our own engagement efforts, we use the services of Sustainalytics Stewardship Services. They carry out engagements with companies on our behalf, primarily focused on compliance with internationally recognised conventions and guidelines on ESG issues.

The chart on the previous page shows that in total we had 662 ESG dialogues with issuers in 2019. For more examples of how we engage with companies and sectors, please refer to NN IP's Responsible Investing Report 2019 on our website.

Making a positive impact through our investments

NN IP offers a wide range of sustainable and impact investing strategies to meet customers' growing demand for products that both have a positive impact on society and the environment, and generate solid financial returns. Total AuM in our sustainable and impact investing products grew by 37% to EUR 22.7 billion at year-end 2019.

During 2019, NN IP expanded its sustainable and impact offering with an enhanced index sustainable equity fund focused on emerging markets. We also launched an ESG index fund investing in Polish blue-chip stocks that is listed on the Warsaw Stock Exchange WIG-ESG index.

NN IP expanded its green bond funds range with the launch of a new short-duration green bond fund, which contributes to the UN Sustainable Development Goals. The total green bond strategy (funds and mandates) has seen rapid growth and reached EUR 1.8 billion at year-end 2019. NN IP measures and reports on the contributions to society, such as avoided CO_2 emissions.

For NN Group's own assets, too, we look for investments that have a positive impact on society while still meeting our investment criteria. For instance, we invest in green bonds, and finance infrastructure debt projects in the area of renewable energy and resource efficiency (specifically: solar and windfarms, district heating projects, and water and wastewater treatment facilities). In total, these investments amounted to EUR 821 million at year-end 2019.

We also continue to make our own private real estate portfolio more sustainable. We use the Global Real Estate Sustainability Benchmark (GRESB) as the primary measure of our progress. In 2019, the GRESB score for NN's portfolio of funds, joint ventures and directly-owned buildings rose for the fifth year running to 85 out of 100, well above the 77 of the European private real estate benchmark.

Please also note our Analysis of the carbon footprint of proprietary assets, published on the same date as this review. It contains information on the measurement of the carbon footprint of 80% of our total asset portfolio including residential mortgages. It also provides an overview of NN Group's efforts to address climate change risks in our investment process and how we aim to contribute to a low-carbon economy through our investment activities.

EUR 22.7bn

AuM in sustainable and impact strategies

Engaging with the textile sector on living wage

NN IP is an active member of the Platform Living Wage Financials (PLWF), an alliance of 13 financial institutions that encourages and monitors investee companies to address the non-payment of a living wage in global supply chains. As an investor coalition with over EUR 2.6 trillion of AuM and advice, we use our influence and leverage to engage with our investee companies in the garment and footwear, agricultural and food, and the food retail sector. In October 2019, the initiative won the PRI Active Ownership Project of the Year Award. The scale and ambition of the objectives of the project, and what the project delivers for investors and for the environment and society as a whole, were taken into consideration. Among other considerations were the degree of innovation and the success of the collaboration. For more information, refer to the NN IP Responsible Investing Report 2019.

Creating and sharing value – Society and communities continued

Responsible tax strategy

We believe that a responsible approach to tax is an essential part of good citizenship. We manage our tax position in line with our business operations, and our position reflects our corporate strategy and takes into account relevant international guidelines, such as the OECD Guidelines for Multinational Enterprises. Being a responsible taxpayer also means that our tax planning takes long-term considerations into account and carefully weighs all stakeholder interests. We have a set of tax principles to which we adhere and communicate publicly on our website through our Tax Strategy and Principles and the NN Group Tax Charter.

Besides taxes that NN Group pays as a taxpayer, which represent a cost for our company, we are also responsible for collecting taxes on behalf of our clients, employees, and service providers, and passing them on to tax authorities. To give more insight into our tax contribution, we published our first Total Tax Contribution (TTC) Report over the year 2018 in May 2019.

We are pleased that this effort was recognised by external stakeholders, with NN the top-scoring company in the annual Tax Transparency Benchmark published by the Dutch Association of Investors for Sustainable Development (VBDO). This benchmark provides a comparative study of Dutch, stock listed companies' fiscal transparency.

Also for book-year 2019, we published a TTC Report. This report is separately published on our corporate website. Where our previous report only recognised the Netherlands as a separate country, this year's report provides insight on the taxes being borne and collected on a country-by-country basis. In addition, we explain new developments such as the signing of an Advance Pricing Agreement with the Dutch tax authorities regarding the arm's length pricing of the intragroup services towards its International business units.

Financial tax disclosures

The financial disclosures on corporate income taxes paid by NN Group can be found in the 2019 Financial Report. The same information is included in the 2019 TTC Report, but this report provides more detailed explanations to help understand the disclosures. In addition, the TTC Report provides information on the other taxes collected and paid by NN Group as outcome of its operations.

NN Group's Total Tax Contribution in 2019 amounted to EUR 2,040 million, and consisted of the corporate income taxes paid by NN Group and the total of the other taxes collected and paid by NN Group as outcome of its operations (including Value Added Tax, Insurance Premium Tax, payroll taxes, and withholding tax on dividends paid by NN Group). Of this total tax contribution, we paid 85.4% to the tax authorities in the Netherlands, and 14.6% to local tax authorities on behalf of our international businesses.

Sustainable sourcing

With an annual spend of around EUR 1 billion, our procurement activities support our business strategy. A substantial part of this investment goes towards professional services, IT, real estate and facility management, where we implement sustainable and circular solutions. Our relationship with suppliers is based on our NN values, and we aim to work together in a mutually beneficial way. We have a supplier qualification process and governance in place for managing social, environmental and financial aspects of the procurement process.

Managing our direct environmental footprint

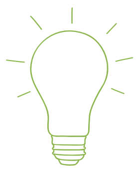
We manage our environmental performance through efficient use of natural resources, and identifying and implementing green alternatives. We have been carbon neutral since 2007 by purchasing voluntary carbon credits to compensate our CO_2 emissions. Our target is to reduce our CO_2 emissions from direct operations by 3% per FTE per year. In 2019, our CO_2 emissions decreased by 14% per FTE per year.

As a financial service provider, our direct environmental footprint consists mainly of emissions from office activities and business travel. In 2019, we formulated our #YourSustainableWorkspace ambition to contribute to a sustainable and healthy environment within our office activities. The ambition focuses on six workstreams: emissions, waste, plastic, food, circularity and being an inclusive employer. As part of the workstream 'plastic', we created the NN Plastic Pledge, an NN-wide commitment to a more sustainable and circular working environment. NN Group also became a partner of the social enterprise Plastic Whale, working with them on decreasing our plastic footprint and creating awareness around plastic soup.

In the area of mobility, too, we aim to decrease our environmental footprint. We introduced a lower threshold for emissions for our lease fleet in the Netherlands, and organised a mobility workshop to give further shape to our ambitions around mobility and sustainability.

EUR 2bn

Total tax contribution



-14%

CO_2 emissions per FTE

Community investment

NN Group's overarching community investment programme is NN Future Matters. This programme aims to help improve people's financial circumstances, with a particular focus on 10- to 25-year-olds and underserved groups. In 2019, we supported 25,421 young people, while 87% of our total EUR 3.2 million charitable donations went to NN Future Matters-related target areas.

NN Future Matters targets three interrelated areas: financial empowerment, economic opportunities and financial distress. All three areas align with both our purpose as a company and the knowledge and expertise we have in-house. More importantly, this focus has had a demonstrable, positive impact on communities. We involve both international and local partners so that the programme is globally consistent while remaining relevant to local needs and issues.

Promoting financial empowerment

Sound financial knowledge helps people achieve a more secure financial future. Our initiatives focus on the young, as responsible financial behaviour is often best developed at an early age. During the 2019 Money Week in the Netherlands, NN colleagues gave 274 lectures in primary schools to more than 6,696 children on money and financial risk.

In Bulgaria, with local partners we developed a personal finance textbook, reaching over 600 students and lecturers across five universities. Together with the Financial Literacy Foundation, we launched a financial education website to share useful financial information with the wider public. A national tour of the play 'Money Carousel' to four regional cities was also organised, using theatre to educate children about financial well-being.

Creating economic opportunities

Helping young people develop useful skills increases their labour market opportunities. In collaboration with Dutch not-for-profit organisation JINC, NN colleagues provide job training to young people who may lack specific role models or supportive networks.

In Greece, the digital career orientation programme My Career was launched to help young people make an informed career study choice that suits their personality and links opportunities in the employers' market with their personal interests. Making the tool available online ensures that young people in both urban and rural areas are reached.

In Poland, we supported the first edition of University of Success, a programme supporting 18-year-old girls leaving orphanages and wanting to have a career in the IT and digital media sectors.

In Spain, we are an Aldeas Infantiles Future Builder, helping teenagers aged between 16 and 19 in risk of social exclusion with their social skills, personal development, academic qualifications and employability. The programme aims to promote social and labour inclusion in the hospitality business.

The NN Future Matters scholarship programme, a collaboration between NN and EP-Nuffic, gives first-generation higher education students the opportunity to complete a master's degree in the Netherlands. Students are matched with an NN mentor, who supports them during the year. In 2019, we welcomed 40 students from 10 countries.

We also strive to create economic opportunities by encouraging entrepreneurship. In 2019, 13,253 students in 11 countries took part in the Social Innovation Relay. This flagship of the partnership between NN Group and Junior Achievement Europe is a global competition for secondary school students to develop an innovative business concept that addresses a real societal need.

Alleviating financial distress

Even in the world's more prosperous societies, formal social services do not reach all the community's disadvantaged and underserved. NN therefore tries to support families with children in financially challenging circumstances through fundraising and partnerships with local charities.

From Debt to Opportunities

The From Debt to Opportunities Foundation has been part of NN Group's Future Matters programme since 2018. Alongside 30 local not-for-profit partners, the foundation supports the 20% of Dutch households who face structural debt problems, helping them acquire the financial skills to escape poverty and debt, and achieve sustainable financial security.

The Amsterdam University of Applied Sciences researches the programme's impact. It found that 26% of respondents remain debt-free over the long term and after the programme, this group also had more money available for unexpected one-off expenses, such as replacing costly but essential household whitegoods. In 2019, 2,983 households were supported.

In addition to financial support, 171 NN employees volunteered 3,518 hours of their time and expertise to projects that further the foundation's goals.

Read more in Dutch: https://www.vanschuldennaarkansen.nl

In 2019, for example, we organised several fundraising initiatives with colleagues in partnership with the LINDA.foundation, which helps Dutch families in financial distress. To celebrate NN Future Matters' fifth anniversary, and to help NN countries strengthen their partnerships with relevant local charities, we made additional donations of EUR 80,000 to local charities in eight NN markets.

Read more: https://www.nn-group.com/In-society/Positive-change-in-communities.htm

EUR 3.2m

Donations to charitable organisations

12,481

Employee volunteer hours in NN Future Matters focus areas

25,421

Young people reached through NN Future Matters

Contributing to the SDGs

The Sustainable Development Goals (SDGs) address the world's largest societal challenges, such as poverty, climate change, health care and education. At NN, we believe the public and private sector should work together to help achieve these goals. In 2019, we took steps to further link the SDGs to the themes in our strategic agenda: healthy and safe living, a sustainable planet and an inclusive economy.

NN Group's SDG journey

Three years ago, we identified our impact areas through dialogue with both internal and external stakeholders. Our primary focus is on SDG 8 (Decent work and economic growth) and SDG 12 (Responsible consumption and production). Our business can contribute to these goals through both our direct operations and our value chain. In addition, our impact investment activities and various investment instruments address, for example, SDG 3 (Good health and well-being) and SDG 7 (Affordable and clean energy). While through our community investment activities, we strive to contribute to SDG 1 (No poverty).

During 2018, we provided the Dutch Central Bank (DNB) with input via a survey and expert session, thus contributing to a DNB report on sustainability risks and goals in the Dutch financial sector. During NN's International Leadership Conference, our senior leaders reconfirmed our impact areas and discussed how NN can further contribute to the SDGs and further align our target-setting. Through our membership of the UN Global Compact Network Netherlands, we contributed to the development of an SDG Game that was launched at the UN Global Compact Leaders Summit in New York in September 2019, and which helps companies raise awareness about the SDGs and engage their employees in creating a sustainable company.

In 2019, we took steps to further link the SDGs to the areas of our strategic agenda: healthy and safe living, a sustainable planet and an inclusive economy. We made a positive contribution to SDG 8, as employer to 15,194 employees worldwide, and to SDG 12 through our investment activities.

However, some of our activities have a negative impact on the SDGs. For example, we are still involved in activities that generate carbon emissions. In future, we want to better define our impact, by measuring not just our positive but also our negative impact on the SDGs we have identified.

Impact investing and the SDGs

Immediately following the introduction of the SDGs, NN Investment Partners (NN IP) introduced several impact strategies primarily designed for investors who want to make a clear, positive impact on one or more of the SDGs, while still achieving an attractive financial return. Our strategies invest in industries, companies and projects that offer a societal solution, and have a clear and measurable positive impact on people, planet and/or prosperity.

Decent Work and Economic Growth

NN Network Neurodiversity

In 2019, the NN Network Neurodiversity was founded, with the aim to contribute to a working environment in which neurodiversity, for example autism, can be discussed and accepted. This is done by offering a listening ear and by sharing knowledge. The network also makes a connection to the Participation Act, by offering people that are currently unemployed a job within NN.

Responsible Consumption and Production

#Yoursustainableworkspace

To contribute to a sustainable and circular office environment, we formulated the #Yoursustainableworkspace ambition for 2020. It relates to different parts of the office experience, including refurbishments, energy use, catering, waste, plastic and being an inclusive employer. We work together with social entrepreneurs to raise awareness among employees and suppliers.

Creating and sharing value – Sustainable Development Goals continued

These high-quality investments have attractive growth potential, as their products and services offer solutions benefiting from the tailwind of rising capital spend on the SDGs. Environmental, social and governance (ESG) factors are integrated throughout the investment process, and we engage with all portfolio holdings to ensure the investment case is attractive and the solutions make a positive contribution to a cleaner environment and better world.

Our range of impact strategies, which includes listed equity, fixed income and direct loan funds, currently holds EUR 3.5 billion AuM. This includes our Global Equity Impact Opportunities Fund, Green Bond Fund and FMO Emerging Markets Loan Fund. In December 2019, NN IP also introduced three thematic listed equity impact funds: Health and Well-Being, Climate and Environment, and Smart Connectivity.

Measuring business impact

SDG	Impact and opportunity	Performance in 2019	Theme
8 Decent work and economic growth	Impact through job creation, procurement activities and community investment	• Employee engagement 7.4 (up 0.3 from 7.1 in 2018) • 25,421 young people reached through NN Future Matters • 40 scholarships provided to students from 10 countries	Inclusive economy
12 Responsible consumption and production	Impact and opportunities through reduction of our direct carbon footprint and integration of ESG factors into investments	• Reducing our CO_2 emissions per FTE by 14% and purchasing 72% electricity from renewable resources • Integrating ESG factors in investment process for 68% of our total AuM • EUR 22.7bn Assets under Management in sustainable and impact investment strategies	Sustainable planet
1 No poverty	Impact through our community investment activities	• EUR 3.2m donations to charitable organisations • 2,983 households reached by Foundation From Debt to Opportunities	Inclusive economy
3 Good health and well-being	Impact through our insurance products	• Seven countries providing products and services with social added value that promote good health and well-being for customers	Healthy and safe living
7 Affordable and clean energy	Impact through our investments in renewable energy	• EUR 628m investments of own assets in direct renewable infrastructure projects and green bonds used for renewable energy	Sustainable planet

Affordable and Clean Energy

Green bond fund

NN Investment Partners (NN IP) has launched a short-duration green bond fund. The fund adds to the existing green bonds range but has a shorter duration of two years. Green bonds are instruments where the proceeds are applied to financing new or existing projects that have a measurable positive impact on the environment. NN IP is the largest market participant in terms of open-ended green bond funds. The total green bond strategy has reached EUR 1.8 billion at year-end.

Good Health and Well-being

Health insurance in Romania

In Romania, NN offers protection and health products that address the population protection gap. We launched a series of products that have add-on coverages that can be selected by customers depending on their needs. They offer protection for critical illness, and work incapacity due to permanent disability or accident recovery. These were specifically designed for the healthcare needs of Romanians, enabling them to secure their financial futures in case of unexpected medical situations.

Our culture and governance

Our values guide, inspire and unite us

Our values are the foundation of our culture and provide the basis for our company-wide policy framework.

Care

We empower people to be their best, and respect each other and the world we live in

Clear

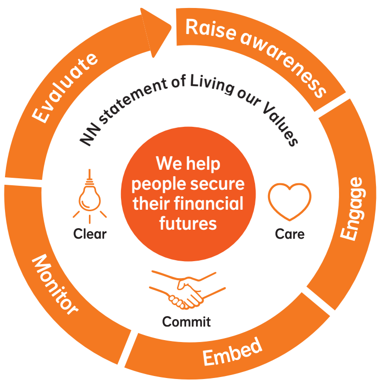
We communicate proactively and honestly, while being accessible and open

Commit

We act with integrity and do business with the future in mind

Living our Values programme

The Living our Values programme was launched in 2014 to encourage and support employees in applying the values in their daily work.



Raise awareness

The NN statement of Living our Values explains what NN stands for, for internal and external stakeholders. We take steps to ensure all employees are aware of our values throughout their NN careers. During the new employee onboarding programme we introduce our values, NN Code of Conduct, brand and work environment. In the Netherlands, new employees must also take the Oath for Financial Institutions, which is included in the NN statement of Living our Values.

Engage

To raise awareness of the values and engage our employees, we organise Values week across 12 countries, hosted by local business units. This year's internal activities centred around the theme: 'Let's talk'. Employees had the chance to jointly reflect on and discuss our values in sessions, such as a dilemma workshop by Compliance, our approach to innovation, and how we work together.

Values week in the Netherlands

In a survey, 71% of participants felt the Netherlands' Values week provided a good opportunity to reflect on our values (2018: 81%), 60% felt it stimulated discussion (2018: 70%) and 95% would encourage colleagues to join the next edition (2018: 98%). As participation and ratings were down compared with 2018, we will use the survey outcomes, including suggestions for improvements, to evaluate how to ensure Values week remains relevant.

Stimulate open dialogue

In 2019, Management Board members and senior management continued to play an active role in the Living our Values programme and gave their support for candid dialogue, with many countries' CEOs participating directly in Values week. Following his official appointment as CEO of NN Group, David Knibbe joined a Let's talk session with colleagues to openly share his personal story and what matters to him, including his successes and failures, reflecting his own commitment to live by our values.

Our culture and governance – Our values continued

Embed

Our values are reflected in the company-wide policies, standards and processes that guide us in our interaction with each other, customers and other stakeholders. The values support an open, honest dialogue and provide a strong basis for a healthy company culture. They are also used as a starting point for hiring new employees. For example, in our NN traineeship programme we use a special tool to look for characteristics in candidates that correspond with our values.

Setting an example

The leadership profile of all managers requires them to act as role models in terms of living our values. In 2019, the profile was updated to better reflect the leadership skills needed to seek new solutions to the challenges the company faces. These capabilities are still strongly founded on our company's values.

As part of our global engagement survey, we asked colleagues how they felt their manager performs on living our values. Particularly encouraging were the scores of 8 for the statement 'I feel encouraged by my manager to meet our high standard of integrity' (2018: 7.9) and 7.8 for 'My manager consistently acts as a role model when it comes to living our NN values' (2018: 7.7).

Monitor

We monitor the effectiveness of the Living our Values programme to gain insights into areas of attention and make recommendations for improvement. We ask employees questions on our values in our employee engagement survey. The Management Board and the values project team use these outcomes to evaluate the Living our Values programme. Results remained high and stable (up 0.1) compared with 2018.

Segment	NN Group Results Nov 2019	Difference with Nov 2018
Care 'In our team we genuinely care about our customers and treat them with respect'	8.2	+0.1
Clear 'On our team we are ready to approach and communicate proactively and honestly'	8.0	+0.1
Commit 'In our team we take responsibility for our actions and deliver on our promises'	8.1	+0.1

Also, the business units conducted a self-assessment on risk awareness within the business unit. Part of the assessment was a dialogue on how the values are perceived locally. Read more on the Risk Culture Check-in on page 47.

Consumer perception

The perception of customers and the general public on how NN is living its values is measured using the Global Brand Health Monitor (GBHM). The 2019 GBHM showed that the values remained strongly embedded in the NN brand, with at least 55% of customers recognising each of the values in all markets, except for Japan.

Evaluate

As part of our programme cycle, we use the monitoring results to continually improve the programme. This assessment is discussed in the Management Board and Supervisory Board annually.

The Management Board is responsible for ensuring our values continue to foster a culture focused on long-term value creation. In 2019, with the NN values five years old, it seemed a natural moment to review whether the wording of the NN statement of Living our Values was still relevant.

We focused on alignment with:

- Internal developments and feedback
- External regulations and expectations
- Trends and developments in society

Consultation with stakeholders

In general, the feedback from business units was that the three values: care, clear, commit, remain very recognisable for employees, so there is no urgent need to change them. This was reflected in the NN Group-wide response to the engagement survey question on whether employees feel connected with our values: 7.9 (2018: 7.8; external benchmark: 7.6).

Throughout the year several consultations took place with senior management, the Living our Values project group, our Supervisory Board and the Central Works Council. During these sessions, the existing culture, and whether it is desirable to implement any changes, was also discussed. Improved cooperation internally as well as externally was mentioned repeatedly as a topic for improvement. This assumption was also supported by the continued low engagement survey score on the question 'In NN Group, departments cooperate effectively to get the job done' (2019: 6.4; 2018: 6.2).

Way forward

In 2020, to help improve cooperation, we will develop a communications and culture programme around the theme 'Connect' and implement the other improvements proposed by the review process.

As part of the maintenance of our values, we will also seek feedback from various external stakeholders, such as supervisory bodies. We will also take into account that the wording remains in tune with both the environment in which our company operates and regulatory requirements, such as the Oath for Financial Institutions in the Netherlands.

Our culture and governance – Our values continued

NN Code of Conduct

Founded on the NN statement of Living our Values, the NN Code of Conduct offers clear guidance in a single, comprehensible document on how we as NN employees should behave: how we interact with colleagues and customers; how we deal with information and data; how we deal with conflicts of interest, fraud, corruption and financial economic crime; how we use equipment and the internet; and how we report and deal with breaches.

Employees must formally acknowledge annually that they understand the content of the NN Code of Conduct and that they can and will apply the policies and standards. Formal acknowledgement of the NN Code of Conduct has been mandatory for all business units for several years. In October 2019 we achieved an acknowledgement score of 100% for internal NN staff (excluding employees on long-term leave and sick leave).

Conduct and culture within our Risk Control framework

Prior to sending out the NN Code of Conduct acknowledgement email in 2019, we launched the online learning platform Conduct Matters. The aim of this learning platform is to raise awareness of the NN Code of Conduct and is accessible for all employees in all local languages. The platform includes exercises, dilemmas, examples of important conduct-related topics, films, articles and hands-on guidance on how to act according the NN Code of Conduct.

Risk Culture Check-in

In January 2019, Group Risk and Group Compliance launched the Risk Culture Check-in. All business units performed a self-assessment on how they perceived the risk culture within the business unit. The business units also assessed head office control functions on their risk culture.

This two-way assessment is the basis for a constructive dialogue with senior management of NN on how we manage risk culture within the company, the conduct we encounter in doing so, and in which areas we can improve. This assessment model and related dialogue has created a 360-degree loop in order to deliver content and statements to underpin the risk appetite statement 'Employee Conduct & Business Culture' in the Control framework. The process is led by Group Risk, in close cooperation with Group Legal & Compliance within the business units.

Reporting concerns

When misconduct occurs, NN carefully reviews and assesses whether an investigation or other action is needed. Breaches of the NN Code of Conduct are not taken lightly and have consequences.

Whistleblower Policy

The NN Group Whistleblower Policy enables every employee to report, if desired anonymously, a concern outside normal reporting channels. NN Group guarantees various rights, including protection from retaliation, for any employee who reports a concern in good faith, provides information, causes information to be provided, or otherwise assists in an investigation. The main outline of the Whistleblower Policy is explained in our NN Code of Conduct. Relevant training materials are developed and rolled out to the business units.

In 2019, NN recorded four concerns filed through the Whistleblower Policy (2018: seven concerns). In three reported concerns, Corporate Security & Investigations was involved for further investigation. The concerns reported in 2019 were related to, amongst others, power harassment, misconduct by manager, and other unethical employee behaviour. The concerns are recorded and reported periodically (in numbers) through the Chief Compliance Officer up to the level of the Management Board.

Whistleblower concerns	Number of concerns 2019	Number of concerns 2018
Total amount	4	7

Other incidents and concerns

In 2019, Corporate Security & Investigations was involved in 95 cases (2018: 100 cases). In six cases, disciplinary measures were taken (e.g. a warning, reprimand, termination of employment or instant dismissal). Employees concerned were informed in writing by the imposed disciplinary measures.

Cases	Amount of cases with disciplinary measures in 2019	Amount of cases with disciplinary measures in 2018
Fraud-related	1	7
Unethical behaviour-related	5	6
Conflict of interest	0	1
Total	6	14

Long-term value creation

NN's commitment to long-term value creation is anchored in the NN statement of Living our Values. Here we emphasise the importance of doing business with the future in mind. It states, amongst other things, that we 'respect each other and the world we live in', 'value long-term objectives over short-term gains' and 'carefully balance the interests of our stakeholders'. Read more in the corporate governance section on our corporate website.

How we are organised

NN Group N.V. (NN Group) is a public limited liability company (naamloze vennootschap) incorporated under the laws of the Netherlands.

Supervisory Board

The Supervisory Board is responsible for supervising the management of the Executive Board and the general course of affairs of NN Group and its businesses. The Supervisory Board also assists the Executive Board with advice.

Read more in the Report of the Supervisory Board on pages 10-20 and in the Corporate governance chapter on pages 21-31 of the Financial Report.

Executive Board

The Executive Board is entrusted with the management, the strategy and the operations of NN Group under supervision of the Supervisory Board.

Read more in the Corporate governance chapter on pages 21-31 of the Financial Report.

Management Board

The Management Board is entrusted with the day-to-day management of NN Group and the overall strategic direction of NN Group.

Read more in the Corporate governance chapter on pages 21-31 of the Financial Report.

The interests of NN Group and our stakeholders

In performing their duties, the Executive Board, Management Board and Supervisory Board must carefully consider and act in accordance with the interests of NN Group and the business connected with it, taking into consideration the interests of all stakeholders of NN Group. The organisation, duties and way of working of the Executive Board, Management Board and Supervisory Board can be found in the charters of the respective Boards. These are available on the NN Group website.

Dutch Corporate Governance Code

NN Group is subject to the Dutch Corporate Governance Code (the Code). The application of the Code by NN Group during the financial year 2019 is described in the publication Application of the Dutch Corporate Governance Code by NN Group, dated 11 March 2020, which is available on the website of NN Group. This publication is to be read in conjunction with the Corporate governance chapter on pages 21-31 of the Financial Report.

NN Group Compliance Function Charter

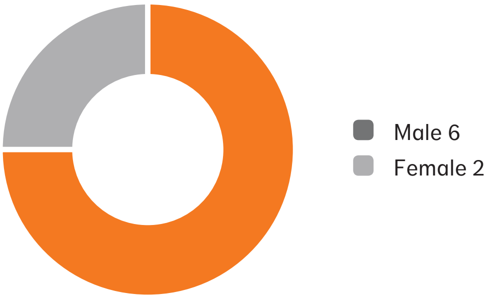
NN Group is committed to upholding its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which the company operates. All employees are expected to adhere to these laws, regulations and ethical standards, and management is responsible for ensuring such compliance. Compliance is therefore an essential ingredient of good corporate governance. The purpose of the NN Group Compliance Function Charter is to help businesses effectively manage their compliance risks. This document is available for download on the NN Group corporate website.

Management Board

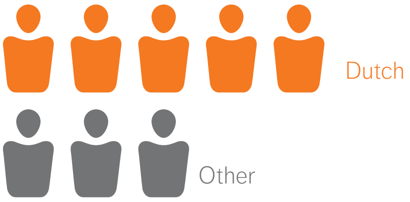
The Management Board is entrusted with the day-to-day management and overall strategic direction of NN Group.

From left to right:
Satish Bapat Chief Executive Officer NN Investment Partners
Dailah Nihot Chief Organisation and Corporate Relations
Tjeerd Bosklopper Chief Executive Officer Netherlands ad interim and Chief Transformation Officer
David Knibbe Chief Executive Officer and chair of the Executive Board and Management Board
Fabian Rupprecht Chief Executive Officer International Insurance
Janet Stuijt General Counsel
Delfin Rueda Chief Financial Officer, Chief Risk Officer ad interim (per 1 January 2020) and vice-chair of the Executive Board and Management Board
Not photographed: **Jan-Hendrik Erasmus** Chief Risk Officer, who stepped down on 31 December 2019

Board diversity



Management Board nationality mix



Read more about our Management Board on pages 21-37 of the Financial Report.

Stakeholder engagement and international commitments

NN Group engages in ongoing dialogue with stakeholders on a variety of topics, ranging from products, services and business performance to our role in society. By endorsing national and international initiatives, we underline our ambitions and join forces with other organisations to achieve more.

Stakeholder engagement

We see stakeholder engagement as a vital part of our efforts to earn their trust and support, and of our duty as a responsible and engaged company. NN Group identifies stakeholders based on their potential to influence or be influenced by our business. Important stakeholder groups include customers, employees, investors, business partners and society, including regulators and societal organisations. We seek feedback from these groups on key topics that matter to them. This helps us align our business interests with the needs and expectations of relevant stakeholder groups, and is a source of information for strategy development and decision-making processes.

Our dialogue with stakeholders takes many forms: day-to-day interaction and regular feedback sessions with customers on our products and services; works council meetings and continued dialogue with our employees; briefing sessions and roadshows for analysts and investors; regular bilateral contact with regulatory bodies, government agencies and other organisations (including non-governmental organisations, trade unions and industry associations); and roundtables with policymakers, academics and peers.

During 2019, we considered a number of different developments and topics that were brought to our attention by and/or discussed with different stakeholders. For a non-exhaustive overview, see the next page.

National and international commitments

As a company based in the Netherlands, we adhere to Dutch law and the Dutch Corporate Governance Code. We observe the laws and regulations of the markets in which we operate. We also adhere to relevant international standards and guidelines, including the UN Global Compact and the OECD Guidelines for Multinational Enterprises.

To underline our ambitions, NN Group and/or our respective businesses have endorsed various national and international initiatives, and we are a member of various relevant international organisations. For an overview, please visit our website.

Commitment of the financial sector to the Dutch Climate Agreement

In July 2019, along with some 50 other financial institutions, NN signed a commitment to the Dutch Climate Agreement. In doing so, a financial institution commits to contribute to the reduction of greenhouse gas emissions and the financing of energy transition. Signatories should disclose the carbon footprint of their relevant investments from book year 2020 onwards, and disclose action plans that contribute to achievement of climate goals by 2022 the latest.

Since 2017, NN has disclosed the carbon footprint associated with a large portion of our proprietary assets. You will find an update on pages 63. In addition, we encourage the energy transition, for example through our voting and engagement work, and make sustainable and impact investments.

We continuously enhance our approach to address climate change into our strategy, policies and activities. Read more in the sections on Responsible Investment on pages 37-39, Our response to the Task Force on Climate-related Financial Disclosures on pages 52-55, and our separate analysis of the carbon footprint of proprietary assets. Furthermore, we are working on initiatives to further develop goals and targets.

International Corporate Social Responsibility (ICSR) covenant

The ICSR covenant for the Dutch insurance sector celebrated its first anniversary in July 2019. The covenant aims to ensure that insurers identify and mitigate any potential negative environmental, social and governance (ESG) impacts they face through their investments.

The covenant's signatories (all Dutch insurers, the government, one trade union and six NGOs) pool their knowledge and experience, identify ESG risks, and initiate steps to mitigate those risks. Insurers are expected to have due diligence processes in place to address ESG risks and, where necessary, to develop, adjust and improve their policies. Publication of policies and restricted lists are required, as are disclosures on voting and engagement activities with investee companies.
Read more in the annual report of the covenant's independent Monitoring Committee, including its recommendations, on www.imvoconvenanten.nl/nl/verzekeringssector/nieuws/jaar-2018-2019-verzekering

Our culture and governance – Stakeholder engagement continued

In 2019, NN refined its Responsible Investment (RI) Framework policy. Amongst other things, by publishing our Statement on Coal (see page 37). We also engaged with issuers to address ESG risks and support their transition to a more sustainable economy. Read more on pages 38-39 and in NN IP's Responsible Investing Report 2019. For an overview of fixed-income bonds by type of issuer held on the NN Group balance sheet, see page 142 of the Financial Report (Note 49).

Our approach to human rights

Respect for human rights is an integral part of our values, as confirmed in the NN statement of Living Our Values. The principles contained in the UN Guiding Principles for Business and Human Rights guide us in implementing human rights in our business activities and interaction with stakeholders.

Our NN Group Human Rights Statement serves as an umbrella document and relates to various policies, such as our Human Capital and RI Framework policies, and a Guidance paper on Human Rights for Investors.

Early 2020, we conducted a review of our human rights policies and processes. The findings enable us to further strengthen our approach across the organisation in the coming year.

Stakeholders, engagement, topics and outcomes

Stakeholder group	Engagement	Topics discussed	Outcome
Customers (retail)	Client panels, NPS survey, Global Brand Health Monitor	Products and services, customer experience, complaint management	Improve products and customer processes, increase customer satisfaction
Customers (institutional)	Client survey, client events, client roundtables	Legislative changes, client satisfaction, responsible investment	Product and process improvements, ICSR sector covenant requirements
Financial advisors, brokers, agents	Training	Products and services, rebranding from Delta Lloyd to NN	Stimulate good cooperation, increase financial advisor satisfaction, ultimately leading to customer satisfaction
Shareholders, analysts, investors	Annual shareholders meeting, analyst calls, investor meetings	Strategy, financial and operational developments, capital position, approach to ESG	Inform and engage shareholders, analysts and investors
Employees	Townhall meetings, works councils, unions, international leadership and other conferences, surveys	Values, Code of Conduct, reorganisation, integration process, engagement	Informed and engaged employees, values-driven culture
Investee companies	Voting at shareholder meetings, dialogue with company management, engagement	Financial and operational developments, corporate governance, climate change, human rights, (non-) financial disclosures	Create value through consistent and transparent voting behaviour, improved disclosures, improved decision-making, including on ESG issues
Regulators, government bodies	Meetings, reporting, information exchange	Economic and financial market developments, risk assessments, regulation, ICSR sector covenant, sustainable finance	Ensure compliance with, and discussion of impact of regulation
Non-governmental organisations	Correspondence, meetings, reports, benchmarks	Investments in coal-related companies, controversial weapons and weapon trade, benchmarking methods	NN Statement on Coal

Our response to the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)

At NN Group, we have covered climate change as part of our Annual Report since the financial year 2017. Our climate change related disclosure reflects NN's response to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), published in June 2017. This response is structured along the four TCFD pillars: governance, strategy, risk management, and metrics and targets.

Governance

The NN Group Executive Board ensures that the company has adequate internal risk management and control systems in place so that it is aware of any material risks run by our company and that these risks can be managed properly. Each year, the Executive Board defines the company's risk appetite, related limits and tolerances. This is ratified by the Supervisory Board. Risk management processes are covered as part of the NN Group Financial Report (Note 49).

The Executive Board's responsibilities include the formulation of the company's strategy in line with its view on long-term value creation. This includes the non-financial aspects relevant to NN, such as environmental, social and governance (ESG) matters. The Supervisory Board supervises the policy pursued by the Executive Board, while the Management Board is responsible for the company's day-to-day management and overall strategic direction. These responsibilities are laid out in the respective charters of these Boards as published on our corporate website.

The Chief Organisation & Corporate Relations has Corporate Citizenship, which includes sustainability, in her portfolio. In addition to this, each of our Board members integrate sustainability into their respective businesses or functions where relevant. To steer and advise the Management Board on the implementation of the overall sustainability direction, we have a dedicated Corporate Citizenship team. This team works closely together with the different businesses and functions to steer and advise on the implementation of the overall strategy.

In May 2019, as part of our Supervisory Board's permanent education programme, there was a session on NN's approach to addressing climate-related risks and opportunities. In March 2020, NN's Management Board discussed and confirmed NN's approach to climate change risks and opportunities.

ESG-related governance within our investment activities

The NN Group Responsible Investment (RI) Framework policy describes our approach to taking into account ESG factors in our investment process. The Management Board decides on adjustments to the RI Framework policy and related restricted list, taking into account the recommendation of the ESG Committee of NN Investment Partners (NN IP). In 2019, responsible investing-related items appeared on the agenda of the Management Board four times.

At NN IP, the executive team provides strategic direction and oversees the implementation of the RI Framework policy in the investment processes. The executive team receives input from NN IP's ESG Committee. The committee is chaired by the Chief Investment Officer (CIO) of NN IP and comprises the Responsible Investment team and senior representatives from NN IP's various business segments, as well as the CIO of NN Group and representatives of Corporate Citizenship. To support the investment teams in the integration of ESG within the investment process, and to further drive the development of responsible investing and engagement, NN IP has a dedicated Responsible Investment team, which report to the CIO of NN IP.

Climate change dialogue

To support TCFD implementation NN has established a so-called Climate Change Dialogue: a multi-disciplinary working group, advising the Management Board on climate risks and opportunities. In 2019, the Dialogue convened to discuss climate-related initiatives within the organisation such as the climate-related scenario analysis work, and explore the emerging area of climate change-related litigation. Climate change cases against organisations are becoming increasingly prevalent and as such we wanted to increase our efforts to understand risks associated with climate change related legal action. The Dialogue's insights were presented to the Management Board in March 2020.

Strategy

Climate change already presents current risks and opportunities, and it is expected that these will increase over the mid to long term. NN Group therefore considers climate change to be an emerging development with potential for considerable risk to our long-term business model and strategy.

NN distinguishes (a) physical and (b) transition risks from climate change, as described below. The materiality and time horizons over which these risks impact our business activities relate to specific types of business, asset portfolios, geography and a range of other differentiating factors as illustrated in the three cases below:

- Our property & casualty (P&C) business is predominantly a one-year renewal business, and consideration of these risks in the underwriting and pricing processes is therefore on a relatively short time horizon (one to three years)
- Many of our product development and strategy updates are based on three-to five-year time frames
- Our investment strategies backing the life and income insurance liabilities need to consider the impacts of climate change over a period well beyond the next five years

Transition risks

Transition risk concerns the transition to low-carbon economies. This may adversely affect individual businesses, sectors and/or the broader economy, impacting our investment portfolios and thus the asset side of our balance sheet. Overall, NN anticipates that the global pricing of financial assets will increasingly be influenced by factors such as public policy, technological developments and changing consumer preferences. Such trends and changes are likely to materialise over the medium term. However, our investments are also exposed to specific short-term risks, such as sudden possible adjustments to market sentiment around climate risks impacting segments and investments in our portfolio.

Our culture and governance – Stakeholder engagement continued

Physical risks

Physical risks relate to the physical consequences of climate change. These risks are particularly relevant to our non-life insurance business, where weather events such as windstorms or hail can lead to higher expenditures (claims and operational costs), thus affecting the margins of our P&C insurance products. Several studies show that the occurrence of these severe weather events will be more likely in the future. Our business unit NN Non-life offers P&C insurance solutions to the Dutch and Belgian markets. In addition, NN offers a range of non-life products in Spain and Poland.

As well as impacting on our liabilities, physical risks could also impact our investment portfolio. For example, a severe windstorm or flooding might damage buildings within our European real estate portfolio which could result in asset impairments or indirectly affect our clients' ability to pay their mortgages.

Finally, prolonged and multiple periods of heatwaves or other consequences of rising temperatures may result in increased mortality and morbidity, thereby impacting our life and income insurance liabilities. Long-term threats are difficult to predict, but at this time, we expect this to have less impact on our life and income insurance liabilities than other risks, such as changes in demographics or pandemics. It should be noted though that whilst pandemic outbreaks can be attributed to a number of interrelated factors, climate change is likely to increase the risks by spreading of disease vectors into areas that formerly did not experience these.

Climate-related opportunities

Despite the various threats it poses to the world, climate change could also create opportunities. Helping our customers adapt to climate change, or supporting them in opportunities related to a lower carbon economy, could generate new sources of revenue. For example:

- Within our asset management business, we continue to see strong interest from investors interested in impact investing and green bond solutions. NN IP is the largest market participant of open-ended green bond funds. During 2019, NN IP expanded its green bonds range of funds by adding a short-duration variant.
- NN's Non-life department has conducted research to capture the carbon footprint linked to our non-life activities. The project also sought possibilities for creating and expanding our role in the circular economy. We will take further steps in this area in 2020.
- Nationale-Nederlanden in the Netherlands launched a web-based platform, Powerly, to help users make their houses more sustainable. It provides customers with tailored advice on energy-efficient measures, then helps them take these measures by connecting them up with partners.

Finally, proactively addressing climate change can improve our reputation, and therewith positively influence customer satisfaction. Of course, the opposite can also occur if we fail to adequately address stakeholder expectations (see also key risk: Good Corporate Citizenship on page 12). For instance, our P&C customers might be displeased if they were charged higher insurance premiums, making affordability an issue, or if they discovered they had been unaware of uninsured risks. We therefore focus on informing our customers clearly and being transparent about coverage, as well as helping initiate adaption and resilience in a changing environment.

Scenario analysis for investments

To get more insight into specific drivers of climate-related risks and opportunities that may impact investment performance, NN has worked on scenario analyses for our proprietary assets. Supported by external sustainability consultant, ERM, we have developed various distinctive analysis and models, focused on the largest asset categories on the NN Group balance sheet: (i) government bonds (approximate 36% of total balance sheet assets), (ii) residential mortgages (23%) and (iii) non-financial corporate exposures (15%). Where possible we considered a relevant short-, medium-, and long-term scenario, aligned with the TCFD recommendations.

We performed an analysis on potential transition risk for government bond holdings issued by six countries that together represent over 70% of the portfolio. Government bonds are typically assessed on the ability and willingness of a government to honour debt obligations. Climate and energy policies are one of several factors that could influence the ability of a government to repay debt. We took the view that countries that have a well-developed long-term strategy for achieving greenhouse gas (GHG) emission reductions consistent with the Paris Agreement are more likely to face lower transition risks. Therefore, we examined the difference between a country's energy-related GHG emissions between a business-as-usual (BAU) and a low-carbon transition scenario (2°C) for the time periods 2022 and 2030. The difference is indicative of the potential magnitude of the transformation required for a country transition to a low-carbon economy. We complemented this quantitative assessment with evaluation of climate policies, targets, and related economic impact assessments to develop an initial risk rating.

For NN's residential mortgage portfolio, we analysed physical risks. Physical risks for mortgages in the Netherlands are mainly related to damage caused to properties by flooding events (including surface water flooding caused by heavy rainfall, river flooding, and coastal flooding). These events could either lead to a value decrease of collateral and/or impact on the ability of a houseowner to pay their mortgage.

For this assessment, we used data from local institutions ('Risicokaart' for the baseline scenario and 'Klimaateffectatlas' for the future scenario) that have projected flooding hazards. The future data set considers the projected impact of climate change (associated with a 2°C temperature rise by 2050) and planned improvements to the Dutch water defence systems during the coming decades (as defined in the Water Act). By comparing the data to properties in NN's mortgage portfolio, we assessed which regions and properties have a high or higher flooding risk, both in the baseline and future scenarios (2050). We also compared this regional data with more specific data on houseowners that gives an indication of the financial ability of the houseowner to cope with potential damages as a result of flooding.

We also analysed potential transition risks associated with NN's Dutch mortgage portfolio. The realisation of the Dutch government's ambition to decarbonise the housing market will require strong incentives and policy regulation. Such policies are drivers of transition risk, as they could require borrowers to make upfront investments in new heating systems or energy efficiency improvements. We took the energy label as a simple indication of the likelihood that a homeowner will be required by regulation to make energy efficiency improvements. In some circumstances, this additional cost could compromise the ability of some borrowers to repay their mortgage. We therefore combined the energy label categories of our mortgage book with indicators of credit risk to evaluate transition risk levels in 2030 and 2040. This analysis provides us with a starting point for further refinements, and furthers our discussion on how we can help support our customers in making their house more energy-efficient over the coming decades.

Our culture and governance – Stakeholder engagement continued

For non-financial corporate exposures (mainly bonds and listed equity), NN developed a screening tool to identify, based on high-level scenario-based analysis, segments of the portfolio where there is likely to be greater potential climate-related risks and opportunities that could impact investment performance. The drivers of climate-related risks and opportunities relate to the transition to a lower carbon economy and changes to physical climatic conditions. The results were translated into heat maps. The exercise will inform our prioritisation of further analytical work and other steps.

Solvency and resilience testing

In our insurance business, we explicitly consider large catastrophic losses in economic capital modelling in order to ensure NN Group is resilient to such extreme scenarios. The Solvency II supervisory framework requires that insurers hold sufficient capital to cover the losses of a 1-in-200-year event, over a one-year time period. In addition, insurers also consider risks beyond this one-year time period as part of their Own Risk and Solvency Assessment (ORSA), and hold a level of capital that is in line with their defined risk appetite.

NN Group, and each of its regulated (re)insurance subsidiaries, prepares an ORSA at least once a year. The ORSA includes the outcomes of stress tests and/or scenario analyses that are aligned with identified key risks. NN Group considers climate change to be an emerging risk that may impact our business model over the long term. As such, the ORSA took into account the scenario-based analysis performed on our own general account investment portfolio to better understand the impact on our business. Specific consideration was given to government bonds and mortgage analyses. The initial outcome of these analyses, based on current understanding and the scenarios shown, imply that in the short-term climate change will not materially affect our business. In the longer run (2030-2050), it is an area for further consideration, given the considerable investments that will be required by both governments and individual houseowners to deal with the transition and physical risks, as well as the macro and micro economic consequences. NN will continue to assess and monitor these potential impacts on our business model and balance sheet.

The impact of climate change on our underwriting business is also included as part of NN Group's ORSA. A stress test conducted by our NN Non-life entity was used to evaluate the impact of climate change on the consolidated balance sheet and capital position of NN Group. The modelled scenario included a sudden shock caused by four windstorm events in Europe, and was partly based on the stress test initiated in 2018 by the European Insurance and Occupational Pensions Authority (EIOPA). While noting that this scenario showed negative effects for NN Non-life, it also shows that those effects would be manageable on NN Group's consolidated balance sheet. This was in line with stress tests performed in 2018.

NN Non-life also studied the impact of climate change leading to a gradual but systemic increase in catastrophic events, and the impact of this on the consolidated balance sheet and capital position. The study concluded that climate change will not materially affect Non-life business in the short term (3-5 years), pointing out that this is an area for further consideration in the longer run (2030-2050).

At an industry level, NN Group cooperates with 17 other insurance companies in the TCFD Insurer Pilot, as part of the UN Principles of Sustainable Insurance (PSI). We do this as part of our efforts to further develop risk assessment tools and better understand the impact of climate change on our insurance underwriting business. This initiative aims to jointly establish standards, methods and tools that will support scenario analysis by including the assessment of climate-related physical and transition risks within insurance portfolios.

Risk management

NN Group's risk policy framework ensures that all risks are managed consistently and that NN Group operates within set risk tolerances.

Processes within investments

NN Group has a policy framework in place to ensure that our assets are invested responsibly. Amongst other things, the policy includes a requirement to systematically incorporate ESG factors into the investment process. The consideration of ESG factors, alongside traditional financial data, helps us to make more informed decisions and optimise the risk-return profile of investment portfolios. At NN IP, assessing the materiality of ESG factors, such as climate change, is an integral part of the investment process, where the analysts identify material risks and opportunities within the investment case. In doing so, they make use of information from various ESG research agencies, including Sustainalytics, MSCI, Bloomberg and ISS-Ethix Climate Solutions.

In addition to analysing individual investment-level risks, we carry out analysis at a portfolio level to assess potential climate risks and opportunities, and to inform the content and implementation of a broader climate change strategy. For example, we measure the carbon intensity of our proprietary investments, which gives us insights into our highest carbon risk exposure and is useful for, amongst other things, engagement purposes.

We consider engagement to be an important tool for managing climate risks. This means we enter into a dialogue with companies and explain which goals we would like them to achieve. Although we prefer to change behaviour through engagement, we may decide to exclude a company when it is not willing to engage in a dialogue, or where we believe not enough progress is being made. In 2019, we expanded our environmentally-focused exclusion criteria to include, in addition to oil sands, thermal coal. This involves group-wide exclusionary criteria for companies that derive more than 30% of their revenues from thermal coal extraction.

For NN Group's proprietary investment portfolio, we additionally announced an objective to reduce our investments in thermal coal mining and/or coal power to close to zero (defined as between 0 and 5%) by 2030. This decision affects a portfolio of bonds in the mining and utility sectors of approximate EUR 2 billion. Whilst most of these bond holdings will mature before 2030, we have some longer-dated exposures. These will be closely monitored, and if by 2030 the companies have not reduced their coal-related business to 5% or lower they will be sold. Through this policy, NN aims to give a strong signal to companies of the need to phase out coal in order to achieve climate targets in line with the Paris Agreement.

To learn about further actions that we could take to support the objectives of the Paris Agreement, NN joined the Paris Aligned Investment Initiative of the Institutional Investor Group on Climate Change (IIGCC). The Initiative aims to help develop a common understanding of concepts relating to alignment with the Paris Agreement, and explore options for approaches and

Our culture and governance – Stakeholder engagement continued

methodologies that investors can use to align their portfolios to the Paris Agreement, and test these approached for different asset classes.

Processes within insurance underwriting

Within our P&C insurance business, we manage physical climate risks in a number of ways. NN helps customers take precautionary measures, with the aim of preventing and minimising claims caused by windstorms, fire or other events. We monitor our claims experience, and reprice or adjust contract conditions where necessary. NN's P&C portfolio is predominantly annually renewable, allowing repricing over the short term. We apply such measures cautiously, as over the longer term insurance product affordability for our clients remains an important consideration for us when making strategic choices.

We let insights from catastrophe models guide our risk management process in terms of pricing/underwriting. For this, we use external vendor models which use meteorological modelling that reflects observed storms and patterns in order to estimate the impact and damage that would be caused by large natural catastrophes, such as windstorms. NN uses a multi-year forward-looking approach. Catastrophe models are also part of the risk management process in terms of solvency/capital management.

Portfolio diversification and tracking concentration risks are other key risk-mitigating steps. NN's wide product range offers a broad variety of non-life insurance protection cover options against damage and loss from a wide range of causes. In addition to our P&C products, our portfolio comprises income products, such as disability and accident insurance, that are less sensitive to windstorm or climate change.

Finally, external reinsurance will, under certain conditions, partially mitigate potential impacts. We have a group-wide catastrophe reinsurance programme in place to protect against the severity and frequency of large natural catastrophes. Reinsurance covers are placed with a broad and diversified panel of strongly-capitalised external reinsurers, and reduce the losses to NN Group from both large events and multiple smaller ones. Both the applicability of the external vendor models, as well as the reinsurance structure and cover, are reviewed annually on renewal.

Regarding climate-related transition risks, our processes to identify, manage and mitigate these risks for insurance underwriting portfolios are less developed compared to physical risks. However, we took a number of steps during the year:

- We raised awareness of the benefits of including ESG issues in the insurance underwriting processes by including a heatmap in the quarterly Financial Risk Dashboard of NN Non-life. This heatmap gives an indication of the levels of potential ESG risks across lines of business. We based it on a published working paper of the UN PSI Initiative, titled 'Underwriting environmental, social and governance risks in non-life insurance business'.
- Several NN Non-life teams participated in awareness raising sessions organised by the group's Corporate Citizenship team. Amongst others, the area of climate change litigation was discussed with legal & compliance staff. In recent years, there has been an increase in climate-related litigation against governments, but also complaints against companies have risen. This can have consequences for NN in the event that we insure them. Given the relative size of NN's general liability insurance portfolio to corporate clients, we currently foresee risks in this area to be low. However, we will monitor developments.
- We decided to align our thermal coal policy for insurance underwriting with the investment side. This means that we will stop providing (non-life) insurance services to companies that derive more than 30% of their revenues from thermal coal mining or use at least 30% thermal coal for power generation. These thresholds will phase down to 5% by 2030. These measures will additionally support in mitigating the climate related transition risks.

Metrics and targets

Carbon footprint – own operations

At NN Group, we are committed to reducing the environmental impact of our own operations. We have set quantitative targets to reduce our GHG emissions and consumption of scarce resources. Read more on page 40.

Carbon footprint – proprietary assets

NN Group measures the carbon footprint of its proprietary assets. In 2019, we measured the carbon footprint of our residential mortgage portfolio for the first time. Combined with the already established analysis of government bonds, corporate fixed income investments and listed equity, the total assessed amount is now EUR 165 billion. This represents 80% of our total asset portfolio which comprises general account assets of the insurance entities, and the assets of NN Bank and NN Group.

As best practice methodologies are still developing, we continue to assess the best ways to consistently measure the carbon footprint for our portfolio. In 2019, we made a change in the way we calculate the portfolio carbon footprint metric. We now use a company's enterprise value (a measure of a company's total value) as a denominator to attribute emissions to both equity and debt positions within our portfolio. This change contributed to the decrease in the portfolio carbon footprint for these asset categories. The new methodology is in line with recommendations made by the Platform Carbon Accounting Financials (PCAF) as it better represents the share of a total company value that has been financed by investors with both equity and bond positions, and avoids double counting.

We also calculated the weighted average carbon intensity for the listed equity and fixed income portfolio. Compared to 2018, the total carbon intensity figure remained stable, although it somewhat declined for corporate fixed income while increased for equities. Refer also to the table on page 62. Further background on the methodology and analysis of the results is available in a separate publication, called 'Analysis of carbon footprint of proprietary assets', on NN Group's corporate website in the Investors/Annual Report section.

Other metrics and targets (investments):

- NN IP's AuM in sustainable and impact strategies: EUR 22.7 billion by year-end 2019
- Amount of green bonds and infrastructure debt projects in the areas of energy and resource efficiency held in the proprietary fixed income portfolio: EUR 821 million by year-end 2019
- GRESB score, as an indicator of the sustainability performance of the proprietary private real estate portfolio: 85 out of 100. Amount the assessment covers: EUR 7 billion or 93% of total real estate exposure
- Amount of securities covered by the coal phase-out strategy for the proprietary portfolio: EUR 2 billion
- Number of company dialogues and engagements conducted by NN IP analysts and ESG specialists: 662
- Percentage of shareholder resolutions focused on environmental issues and climate change where NN IP voted 'for': 96% (71 out of 74 proposals)

Facts and figures

Our approach to reporting

We take an integrated approach to reporting, and our Annual Report consists of two parts: this Annual Review and the Financial Report. It is prepared in accordance with Dutch law and relevant reporting standards.

Structure

In the Annual Review, we aim to provide a concise, accurate and balanced account of NN Group's financial and non-financial performance over the past year. It is structured around six sections: NN at a glance, The world around us, Our performance, Creating value for our stakeholders, Our culture and governance, and Facts and figures.

In-depth information regarding our financial performance, can be found in the Financial Report. It is prepared in accordance with the International Financial Reporting Standards (IFRS), endorsed by the European Union.

NN Group also publishes a Solvency and Financial Condition Report, a Total Tax Contribution Report, and a Carbon Footprint Report. NN Investment Partners publishes a Responsible Investing Report. These reports provide additional information on specific topics and are published on the same date on NN Group's website in the Investors/ Annual Report section.

We believe that this reporting strategy enables us to tailor our reporting for different stakeholders, who require different levels of detail. The online versions of the Annual Review and the Financial Report contain a number of links, including links to sources on the NN Group website.

Reporting profile

This is NN Group's sixth Annual Report since our separation from ING Group and becoming a publicly-listed company on 2 July 2014. It is published on 12 March 2020. We report annually, on a calendar year basis (1 January – 31 December).

Scope of the data in the Annual Review

The scope of the reported data is the range of entities over which NN Group has management control. This applies to all material items as depicted in the materiality matrix, unless otherwise stated.

The scope for community investment and environmental data is all businesses with more than 100 FTE (representing 99% of our total organisation).

Performance data

All financial data in this review is taken directly from NN Group's Financial Report.

For non-financial information and data on community investment and direct environmental footprint, NN Group used an online system, Credit360. Our internal validation process, including the application of Credit360's validation rules ensures to limit any inaccuracies in the reported data. The Human Resources (HR) data is directly sourced from our HR data analytics department.

Review and approval

Information in the Annual Report is based on extensive reporting from our businesses and functions in the countries where we are active. All information is reviewed by NN Group's Disclosure Committee and has been approved by our Executive Board and Supervisory Board before publication.

Relevant topics

Relevant topics were selected for the 2019 Annual Review, through a materiality assessment using internal and external research, and other sources. This assessment included a survey amongst internal and external stakeholders, see page 10.

Reporting guidelines

We aim to strengthen our integrated way of reporting every year. The Annual Review contains various elements from the International Integrated Reporting Council (IIRC) framework, such as our value creation model and a materiality matrix. This review strives to present relevant information about our strategy, governance, performance and future prospects in ways that are relevant to the economic, environmental and social contexts in which we operate.

The information and data in the Annual Review is prepared in accordance with the Standards (Core) from the Global Reporting Initiative (GRI).The GRI Index table shows against which indicators NN Group reports, and where to find the respective information in this Annual Review, the Financial Report and/or the NN Group website. The index Table is published on NN Group's corporate website in the Investors/Annual Report section, where you can also find the Progress reports for the UN Principles for Sustainable Insurance and the UN Global Compact.

External assurance

We aim to be transparent and provide reported content that is reliable. For this reason, our external auditor, KPMG, provided limited assurance on the non-financial information in the Annual Review.

The scope of KPMG's assurance engagement is described on pages 65-69 of the Annual Review, including the key financial and non-financial indicators. We provided evidence to our external auditor in support of the statements we make in this report. Please read more on pages 65-69 in KPMG's Assurance report.

Going forward

Going forward, we will continue to tailor our reporting to serve different stakeholder groups. We will aim for further integration of financial and non-financial information to provide stakeholders with a complete picture of how we create long-term value for our company and our stakeholders. This includes (re)defining key performance indicators and setting targets which are aligned with the refinement of our strategy, to be launched mid-2020.

Facts and figures

Consolidated balance sheet (in EUR million)

As at 31 December	notes	2019	2018
Assets			
Cash and cash equivalents	2	6,436	8,886
Financial assets at fair value through profit or loss:	3		
– investments for risk of policyholders		34,433	30,230
– non-trading derivatives		10,189	5,096
– designated as at fair value through profit or loss		1,184	722
Available-for-sale investments	4	117,644	104,329
Loans	5	61,768	58,903
Reinsurance contracts	16	988	1,010
Associates and joint ventures	6	5,457	5,000
Real estate investments	7	2,571	2,374
Property and equipment	8	465	151
Intangible assets	9	995	863
Deferred acquisition costs	10	1,913	1,843
Deferred tax assets	32	84	131
Other assets	11	4,470	4,708
Total assets		**248,597**	**224,246**
Equity			
Shareholders' equity (parent)		30,768	22,850
Minority interests		260	234
Undated subordinated notes		1,764	1,764
Total equity	12	**32,792**	**24,848**
Liabilities			
Subordinated debt	13	2,409	2,445
Debt securities issued	14	1,992	1,990
Other borrowed funds	15	7,614	5,717
Insurance and investment contracts	16	168,251	161,118
Customer deposits and other funds on deposit	17	15,161	14,729
Financial liabilities at fair value through profit or loss:	18		
– non-trading derivatives		3,232	2,163
Deferred tax liabilities	32	4,030	1,809
Other liabilities	19	13,116	9,427
Total liabilities		**215,805**	**199,398**
Total equity and liabilities		**248,597**	**224,246**

References relate to the notes starting with Note 1 'Accounting policies' of the Financial Report. These form an integral part of the Consolidated annual accounts.

Facts and figures continued

Consolidated profit and loss account (in EUR million)

For the year ended 31 December	notes		2019		2018
Gross premium income	20		14,508		13,272
Investment income	21		4,373		5,169
Result on disposals of group companies			8		60
– gross fee and commission income		1,037		1,087	
– fee and commission expenses		-328		-332	
Net fee and commission income:	22		709		755
Valuation results on non-trading derivatives	23		166		283
Foreign currency results			-9		-56
Share of result from associates and joint ventures	6		619		500
Other income			84		67
Total income			**20,458**		**20,050**
– gross underwriting expenditure		20,024		13,249	
– investment result for risk of policyholders		-4,794		1,258	
– reinsurance recoveries		-237		-192	
Underwriting expenditure:	24		14,993		14,315
Intangible amortisation and other impairments	25		32		986
Staff expenses	26		1,564		1,521
Interest expenses	27		519		475
Other operating expenses	28		921		1,096
Total expenses			**18,029**		**18,393**
Result before tax			**2,429**		**1,657**
Taxation	32		444		524
Net result			**1,985**		**1,133**

Net result (in EUR million)

For the year ended 31 December	2019	2018
Net result attributable to:		
Shareholders of the parent	1,962	1,117
Minority interests	23	16
Net result	**1,985**	**1,133**

Key financial and non-financial indicators

Key financial indicators (in EUR million)

	2019	2018	2017
Operating result	1,794	1,626	1,586
Net result (after minority interests)	1,962	1,117	2,110
Net operating ROE	9.0%	8.9%	10.3%
Solvency II ratio	218%	230%	199%
Value of new business	358	391	345
Assets under Management (end of period, in EUR billion)	276	246	246
Dividend proposal (per ordinary share, in EUR)	2.16	1.90	1.66
NN Group share price (last trading day of the year, in EUR)	33.82	34.80	36.12

Key non-financial indicators

	2019	2018	2017
Customer satisfaction and loyalty			
– insurance business units using NPS	100%	100%	100%
– insurance business units scoring on/above level previous year[1]	82%	42%	91%
– insurance business units scoring on/above market average	36%	67%	100%
Assets under Management in sustainable and impact funds and mandates (end of period – in EUR million)	22,740	16,549	10,852
– as part of the total Assets under Management	8.2%	6.7%	4.4%
Women in Senior Leaders Group (%)	36%	33%	32%
Employee engagement score[2]	7.4	7.1	7.0
– participation in the engagement survey	85%	85%	73%
Young people reached through NN Future Matters programme	25,421	38,536	37,208
Donations to charitable organisations (x EUR 1,000)[3]	3,200	2,700	2,400

1 Reliability interval of 5 points on NPS
2 In 2018 we introduced a new metric for measuring engagement. The previous measurement for 2017 was 66%; with the new metric this is 7.0.
3 Includes cash donations to charitable causes, corporate foundations and partnerships.

Sustainability indices and ratings

	2019	2018	2017
Indices			
Dow Jones Sustainability Index (out of 100)	78 (Included)	77 (Included)	80 (Included)
FTSE4Good	Included	Included	Included
VigeoEiris Euronext: 120	Included	Included	–
Bloomberg Gender-Equality Index	Included	Included	–
Ratings			
CDP (Carbon Disclosure Project)	C	B	C
MSCI	A	A	AA
Oekom	C (Prime)	C (Prime)	C (Prime)
Sustainalytics (position/# insurance companies)[4]	4/254 (Leader)	1/146 (Leader)	3/145 (Leader)
Transparency Benchmark Netherlands[5]	50%	–	183

4 Sustainalytics changed its research method (2017 and 2018 scores: position NN Group out of number of insurance companies) and now provides ESG Risk Ratings scoring companies on their ESG risks from negligible (0-10), low (10-20), medium (20-30), high (30-40) to severe risk (40-100). NN Group's ESG Risk Rating per December 2019 is 16.0/100 (low risk), our Exposure is 39.7/100 (medium) and our Management is rated 62.7/100 (Strong).
5 The Transparency Benchmark takes place on a bi-annual basis. Due to a new methodology, the 2019 result can not be compared to the result in 2017. The relative score of 50% represents a 78th position out of 240 companies.

Key financial and non-financial indicators continued

Customer-related indicators (in EUR million)

	2019	2018	2017
Total claims and benefits paid	13.907	15,171	15,772
New sales life insurance (APE)	1.741	1,640	1,791
Gross premium income	14.508	13,272	12,060

Responsible investment indicators (in EUR million)

	2019	2018	2017
Assets under Management in sustainable and impact investing funds and mandates (end of period)	22,740	16,549	10,852
– as part of total Assets under Management NN Investment Partners	8.2%	6.7%	4.4%
Equity			
– NN Duurzaam Aandelen Fonds	2,153	1,512	734
– NN Europa Duurzaam Aandelen Fonds (new)	720	–	–
– NN (L) European Sustainable Equity Fund	388	267	308
– NN (L) Global Sustainable Equity Fund	1,993	1,496	1,717
– NN Global Sustainable Opportunities Fund	254	205	263
– NN (L) Global Equity Impact Opportunities	314	284	368
– NN Thematic Equity Impact funds (new)	406	–	–
– NN Enhanced Index Sustainable Equity Fund[1]	4,658	2,749	2,942
– NN Equity Investment Fund	714	628	–
– European Sustainable Equity Mandates	465	342	387
– Global Sustainable Equity Mandates	1,008	1,129	1,612
Subtotal	13,073	8,611	8,331
Fixed income			
– NN (L) Euro Sustainable Credit (excluding Financials)	485	491	679
– NN (L) Euro Sustainable Credit	976	852	117
– NN (L) Euro Green Bond Fund	1,335	578	173
– Sustainable Fixed Income Mandates	1,922	1,639	1,319
– NN FMO Emerging Markets Loans Fund	148	94	–
Subtotal	4,865	3,654	2,288
Multi-asset			
– NN (L) Patrimonial Balanced European Sustainable	429	346	234
– Star Fund	4,373	3,938	–
Subtotal	4,802	4,284	234
Voting			
Shareholders meetings where we voted	2,752	2,118	1,507
– as % of total votable meetings	99%	97%	97%
Agenda items on which we voted	31,775	26,839	18,978
How we voted on agenda items (%)			
– for	83.2%	87.5%	89.6%
– against	14.5%	12.2%	10.1%
– abstain/other	2.3%	0.3%	0.3%
Countries where we voted	61	58	54
Shareholder resolutions on which we voted by topic	706	596	348
– environmental	74	40	56
– social	147	119	74
– governance	485	437	218
GRESB Real Estate Assessment scores[2]			
Private real estate – portfolio average (vs. benchmark average)	85 (77)	80 (66)	74 (61)

1 Previously: Delta Lloyd Equity Sustainable Global Fund.
2 NN calculates the GRESB scores on a value-weighted basis, and compares these to the relevant benchmark average. Scores are on a scale of 1 to 100. The real estate portfolios are part of NN Group's proprietary assets.

Key financial and non-financial indicators continued

Carbon footprint of NN Group's proprietary assets

	2019	2018	2017
Assessed Assets under Management (in EUR billion)	165	108	103
Fixed income	113	104	99
Equity	5	3	4
Residential mortgages	47		
Carbon Footprint (tCO_2e/EURm invested)	73		
Carbon Footprint (tCO_2e/EURm invested) – excl. mortgages	95	146	241
Fixed income	93	146	278
Equity	130	153	120
Residential mortgages	19		
Weighted Average Carbon Intensity (tCO_2e/EURm of revenue) – excl. mortgages	106	107	231
Government bonds	39	42	233
Corporate fixed income	284	318	276
Equity	228	213	171

Carbon footprinting can help us understand carbon and climate change-related risks within our investment portfolio, and can also be useful to inform corporate engagement. In the context of an investment portfolio, a carbon footprint measures the amount of greenhouse gas (GHG) emissions and intensity associated with the underlying portfolio holdings. The footprint is measured in carbon dioxide equivalents (CO_2e).

Scope of our carbon footprint disclosure
In 2019, we measured the carbon footprint of our residential mortgage portfolio for the first time. This brought the assessed AuM up to EUR 165 billion. This represents 80% of our total asset portfolio which comprises general account assets of the insurance entities, and the assets of NN Bank and NN Group. The main asset categories that were not in scope of this carbon footprint analysis included real estate, private equity, and cash. The fixed income holdings that we assessed included government bonds and corporate fixed income securities. The corporate fixed income portfolio comprised mainly corporate bonds, but also asset-backed securities and loans (although the data availability on these two asset categories was limited).

In 2019, we made a change in the way we calculate the carbon footprint metric as we now use enterprise value (a measure of a company's total value) as a denominator to attribute emissions to both equity and debt positions within our portfolio. This change contributed to the decrease in the portfolio carbon footprint for these asset categories. Note that the 2018/2017 comparison was distorted by a methodology improvement for sovereign bonds, which contributed to the large decline in the portfolio carbon footprint and carbon intensity for this asset category. More information on the methodology and results can be found in a separate report, called 'Analysis of carbon footprint of proprietary assets', published on the NN Group website.

Human capital indicators

	2019	2018	2017
Workforce (end of year)			
Total full-time equivalents (FTEs)[1]	14,913	14,492	14,853
Total number of employees (headcount)[2]	15,194	14,953	15,406
– Netherlands Life	2,485	2,620	2,924
– Netherlands Non-life	3,109	2,906	2,157
– Netherlands Bank	894	834	n.r.
– Insurance Europe	4,975	4,688	4,847
– Insurance Japan	868	899	868
– Asset Management	978	1,017	1,165
– Other	1,885	1,989	3,445
Part-time employees[1]	17.0%	20.6%	22.0%
Temporary employees	5.9%	6.1%	5.8%
Average years of service	12.2	12.8	11.8
Male/female ratio	52/48	52/48	52/48
Male/female ratio managers	63/37	65/35	65/35
Male/female ratio Senior Leaders Group	64/36	67/33	68/32

1 Different number in FTE reflects changes due to the CLA in the Netherlands; Delta Lloyd used to count for 38 hours per week as FTE (instead of 36 hours per week as FTE). This also has an impact on the (lower) number of part-time employees.
2 By further refining the segmentation of employees per business unit data may differ from the previous year (i.e. NN Bank is now separately presented where in 2017 it was allocated to Other).

Key financial and non-financial indicators continued

Human capital indicators continued

	2019	2018	2017
Well-being and engagement			
Sick leave[3]	3.5%	3.6%	3.3%
Engagement score[4]	7.4	7.1	7.0
Participation in engagement survey	85%	85%	73%
Grievances on labour practices[5]	14	18	10
Employee participation			
Employees covered by Collective Labour Agreement (CLA)	75.5%	76.9%	75.1%
Employees represented by an employee representative body	80%	85%	87%
Formal meetings held with employee representative bodies	173	134	127
Talent development			
Total spending on training and development (in EUR million)	18.9	21.5	21.4
Spending/average FTE	1.291	1,469	1.441
Human capital return on investment[6]	2.4	2.3	2.3
Employees with completed standard performance process	96.8%	93.1%	91.8%
Employee turnover			
New hires	2.314	1,674	1,521
Employee turnover	13.4%	15.0%	14.9%
– voluntary employee turnover	7.7%	7.9%	7.8%
– involuntary employee turnover	5.6%	7.1%	7.2%
Open positions filled by internal candidates[7]	34.9%	46.7%	26.8%
Whistleblower concerns filed	4	7	11
Of which investigated by Corporate Security & Investigations	3	4	3
Other incidents and concerns	95	100	71
Measures taken, related to:	6	14	n.r.
– Fraud (and alleged fraud)	1	7	n.r.
– Unethical behaviour	5	6	n.r.
– Conflict of interest	0	1	n.r.
Employee compensation			
Total employee wages and benefits (in EUR million)	1,545	1,500	1,496
Ratio of CEO compensation to the average employee compensation[8]	27:1	33:1	29:1

3 For 2019 the scope is global. For previous years, the scope was Netherlands only; this counts for 60% of the total organisation.
4 In 2018 we introduced a new metric for measuring engagement. The previous measurement for 2017 was 66%; with the new metric this is 7.0.
5 The 2019 and 2018 numbers cover data from our global organisation (where in 2017 it accounted for the Netherlands only). It does not include the complaints received in relation to the integration process of Delta Lloyd and Nationale-Nederlanden, given the specific nature of these complaints.
6 Human capital ROI is calculated as: (operating result ongoing business + employee expenses)/employee expenses.
7 The increase in 2018 is mainly due to a change of definition: number of employees with a change in position/(number of employees with a change in position + hired employees).
8 For more information, refer to the Remuneration report on pages 32-37 of the Financial Report.

n.r. indicates not reported.

Key financial and non-financial indicators continued

Community investment indicators

	2019	2018	2017
Total donations to charitable organisations (x EUR 1,000)[1]	3,200	2,700	2,400
Of which received by charitable organisations through our corporate foundations (country/name)			
– The Netherlands/Together for Society	159	189	218
– The Netherlands/From Debt to Opportunities	882	942	850
– Romania/Foundation for Life[2]	–	26	11
Total hours of volunteering work (in Future Matters focus areas)	12,481	13,236	14,099
Total number of young people reached through NN Future Matters programme[3]	25,421	38,536	37,208
Total number of households reached through the From Debt to Opportunities programme[4]	2,983	2,468	2,386

1 Includes cash donations to charitable causes, corporate foundations and partnerships.
2 No donations made in 2019 as Foundation has ended.
3 Numbers reached include partnership with JA and EP-Nuffic, the Future Matters anniversary donations and main Dutch programmes (excluding the From Debt to Opportunities programme).
4 The figures for 2017 and 2018 have been restated according to corrected data relating to households supported.

Environmental indicators

	2019	2018	2017
CO_2 emissions of our direct operations			
% of CO_2 emissions offset annually	100%	100%	100%
CO_2 emissions (kilotonnes)	20	23	25
CO_2 emissions from energy consumed on NN sites	7	10	11
– of which electricity	4	6	6
– of which natural gas	1	2	3
– of which district heating	2	2	2
CO_2 emissions from air travel	5	5	4
CO_2 emissions from car travel	8	8	10
CO_2 emissions (tonnes)/FTE	1.4	1.6	1.7
Business travel			
Air travel (km x 1 million)	30	28	22
Car travel (km x 1 million)	45	44	56
Energy consumption			
Total energy consumption (MWh x 1,000)	47	53	59
Electricity	9	12	11
Renewable electricity	23	23	24
– Renewable electricity as % of total electricity	72%	66%	69%
Natural gas	6	8	13
District heating	9	10	11
Paper			
Total paper use (kg)	285,028	457,139	776,380
– Sustainable paper (i.e. FSC) (kg)	182,260	357,450	678,418
– Sustainable paper as % of total paper	64%	78%	87%
Waste[1]			
Total waste (kg)	632,679	387,139	389,517
– Recycled waste (kg)	366,146	243,891	320,897
– Recycled waste as % of total waste	58%	63%	82%

1 Increase in total waste due to refurbishment of the NN Group headquarters in The Hague.

Assurance report of the independent auditor

To: the Stakeholders and the Supervisory Board of NN Group N.V.

Our conclusion

We have reviewed the Non-Financial Information in the Annual Review 2019 ('the Non-Financial Information') of NN Group N.V. ('NN Group') based in Amsterdam and headquartered in The Hague. A review is aimed at obtaining a limited level of assurance.

Based on our procedures performed, nothing has come to our attention that causes us to believe that the information relating to material non-financial topics (for selection of topics, see page 10) is not prepared, in all material respects, in accordance with the reporting criteria as described in 'Our approach to reporting' (page 57).

The Non-Financial Information comprises a representation of the policy of NN Group with regard to corporate responsibility, and the thereto related business operations, events and achievements during the year.

Basis for our conclusion

We have performed our review on the Non-Financial Information in accordance with Dutch law, including Dutch Standard 3810N: 'Assurance-opdrachten inzake maatschappelijke verslagen' (Assurance engagements relating to sustainability reports).

We are independent of NN Group N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Reporting criteria

The Non-Financial Information needs to be read and understood together with the reporting criteria. NN Group is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the Non-Financial Information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied internal reporting criteria as disclosed on page 57 of the report.

Limitations to the scope of our review

The Non-Financial Information includes prospective information such as ambitions, strategy, plans, expectations and estimates, and risk assessments. Inherently the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the Non-Financial Information.

Responsibilities of the Executive Board and the Supervisory Board for the Non-Financial Information

The Executive Board of NN Group is responsible for the preparation of the Non-Financial Information in accordance with the GRI Standards and the applied supplemental reporting criteria as disclosed in 'Our approach to reporting' on page 57, including the identification of stakeholders and the definition of material matters. The choices made by the Executive Board regarding the scope of the Non-Financial Information and the reporting policy are summarised in 'Our approach to reporting' of the Annual Review. The Executive Board is also responsible for such internal control as it determines is necessary to enable the preparation of the Non-Financial Information that is free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing NN Group's reporting process.

Our responsibilities for the review of the Non-Financial Information

Our objective is to plan and perform the review in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determining the plausibility of information and vary in nature and timing from, and are less in extent, than for an audit engagement. The level of assurance obtained in review engagements with a limited level of assurance is therefore substantially less than the assurance obtained in audit engagements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the Non-Financial Information. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS, Regulations on quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

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Our review engagement included, among other things, the following procedures:

- performing an analysis of the external environment and obtaining an understanding of relevant societal themes and issues, and the characteristics of NN Group;
- evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the Non-Financial Information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by management;
- obtaining an understanding of the reporting processes for the Non-Financial Information, including obtaining a general understanding of internal control relevant to our review;
- identifying areas of the Non-Financial Information with a higher risk of misleading or unbalanced information or material misstatements, whether due to fraud or error.
- designing and performing further assurance procedures aimed at determining the plausibility of the Non-Financial Information responsive to this risk analysis.
  These procedures included among other things:
  - interviewing management and relevant staff at corporate level responsible for the non-financial strategy, policy and results;
  - interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the Non-Financial Information;
  - obtaining assurance information that the Non-Financial Information reconciles with underlying records of NN Group;
  - reviewing, on a limited test basis, relevant internal and external documentation;
  - performing an analytical review of the data and trends in the information submitted for consolidation at corporate level;
- evaluating the consistency of the Non-Financial Information with the information in the report which is not included in the scope of our review;
- evaluating the presentation, structure and content of the Non-Financial Information;
- considering whether the Non-Financial Information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the review and significant findings that we identify during our review.

Amstelveen, 11 March 2020

KPMG Accountants N.V.

P.A.M. de Wit RA

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Glossary

Assets under Management (AuM) in sustainable and impact strategies	Assets managed with a specific focus on sustainability, for example strategies that focus on today's and tomorrow's sustainability leaders and companies that make a clear positive contribution to the UN SDGs.
Carbon Disclosure Project (CDP)	A global disclosure system for companies, cities, states and regions to manage their environmental impacts, and for investors and purchasers to access environmental information for use in financial decisions.
Central Works Council (CWC)	Required by the Dutch Works Council Act 2013, a standing works council formed by representatives from, in NN Group's case, eight Dutch work councils. The NN CWC is informed and/or consulted about important NN Group developments in the Netherlands, and about developments internationally to the extent that they influence Dutch interests.
COLI	Corporate-owned life insurance.
Environmental, social and governance (ESG) factors	A subset of non-financial performance indicators concerning sustainable, ethical and corporate governance issues, such as managing the company's carbon footprint and having systems in place to ensure accountability.
Financial economic crime (FEC)	Involvement in money laundering, the funding of terrorism or other criminal activities that could harm stakeholder confidence in a financial services provider such as NN.
Financial sector oath or promise	An ethical statement introduced in early 2013 for employees in the Dutch financial sector, along with the introduction of a social charter and update of the Banking Code. It applies to employees of banks and other financial enterprises, including insurance companies, investment firms and financial service providers. By taking the oath, employees declare that they are bound by a code of conduct to the ethical and careful practice of their profession.
General Data Protection Regulation (GDPR)	Regulation by which the European Parliament, Council of the European Union and European Commission aim to unify data protection for all individuals within the European Union. The GDPR came into effect on 25 May 2018.
Global Real Estate Sustainability Benchmark (GRESB)	An industry-driven organisation committed to assessing the sustainability performance of real assets globally, including real estate portfolios. On behalf of close to 60 institutional investors, GRESB Real Estate has assessed almost 1,000 property companies and funds globally.
Global Reporting Initiative (GRI)	An international independent standards organisation that helps businesses, governments and other organisations understand and communicate their impact on issues such as climate change, human rights and corruption.
International Integrated Reporting Council (IIRC)	A global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs that promotes communication about value creation as the next step in the evolution of corporate reporting.
Materiality matrix	Presents the trends and topics that are considered to have a potential impact on a company, and/or on its stakeholders. Likelihood, location and a specific timeframe are taken into account.
Net Promoter Score (NPS)	A management tool to gauge the loyalty of a firm's customer relationships. It serves as an alternative to traditional customer satisfaction research.
Non-Governmental Organisation (NGO)	An organisation that is neither part of a government nor a conventional for-profit business. Usually set up by citizens, NGOs may be funded by governments, foundations, businesses or private individuals.
NN Future Matters	The global community investment programme for NN Group. It aims to empower people in the markets where we operate to improve their financial well-being, and support them in growing their economic opportunities.
NN Group Compliance Charter	A policy set in place by NN Group to help businesses manage their compliance risks effectively and to set out the responsibilities on compliance risk management for the business and the compliance function.
Partial Internal Model (PIM)	A method of calculating the Solvency Capital Requirement (SCR) that combines a standard formula and an approved, internally developed internal model. The Dutch Central Bank (DNB) approved NN Group's PIM in 2015, and in 2018 approved NN expanding the PIM to include the Delta Lloyd entities.

Glossary continued

Peakon survey	A questionnaire measuring how a company's brand and values are experienced by its employees, how its leaders live up to the standards the company sets, and how the company fulfils its employee value proposition as an organisation.
Product approval and review process (PARP)	The assessment of a product in relation to its customer suitability, financial and non-financial risks, and profitability. NN Group conducts a PARP when it introduces a new product, changes the characteristics of an existing product, or reviews a product. This is to ensure the product is acceptable to our company, our customers and society in general.
Report of the management board	The NN Group N.V. 2019 Report of the management board (Bestuursverslag), as referred to in section 2:391 of the Dutch Civil Code. It includes the Annual Review and the following chapters in the Financial Report: Financial Developments, the Report of the Supervisory Board, Corporate Governance, the Remuneration Report, and the Dutch Financial Supervision Act and Dutch Corporate Governance Code statements.
Responsible Investment (RI) Framework policy	Sets out a company's vision, approach and key principles on responsible investment. NN Group defines RI as the systematic integration of relevant ESG factors into investment decision-making and active ownership practices.
SME	Small- and medium-sized enterprise.
SparkLab	NN innovation labs that work to foster innovative ideas by identifying and exploring growth opportunities. The concept was pioneered in the Netherlands in 2016 and has since been replicated in Hungary, Japan, Poland, Romania, Spain and Turkey.
Sustainable Development Goals (SDGs)	Also known as the Global Goals, these are 17 global goals set in 2015 by the UN General Assembly to be achieved by 2030. They form a universal call-to-action to end poverty, protect the planet, and ensure all people can enjoy peace and prosperity.
Task Force on Climate-related Financial Disclosures (TCFD)	An industry-led initiative of the Financial Stability Board to develop recommendations on climate-related financial disclosures. The Task Force published its final recommendations in June 2017.
UN Global Compact	A UN initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and report on their implementation. It is a principle-based framework for business containing ten principles in the areas of human rights, labour, environment and anti-corruption.

We welcome input from our stakeholders. If you would like to provide us with feedback, please feel free to contact us.

Prepared by
NN Group Corporate Relations

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For further information on NN Group, please visit our corporate website or contact us via external.communications@nn-group.com

For further information on NN Group's sustainability strategy, policies and performance, please visit www.nn-group.com/in-society.htm or contact us via sustainability@nn-group.com

Disclaimer
NN Group's 2019 Annual Report consists of two documents: the 2019 Annual Review and the 2019 Financial Report. More information – for example the Solvency and Financial Condition Report (SFCR) and the GRI Index Table – is available on the corporate website in the Investors/Annual Report section.

Small differences are possible in the tables due to rounding.

Certain of the statements in this 2019 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Group's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) breakup of the euro or European Union countries leaving the European Union, (4) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (5) the frequency and severity of insured loss events, (6) changes affecting mortality and morbidity levels and trends, (7) changes affecting persistency levels, (8) changes affecting interest rate levels, (9) changes affecting currency exchange rates, (10) changes in investor, customer and policyholder behaviour, (11) changes in general competitive factors, (12) changes in laws and regulations and the interpretation and application thereof, (13) changes in the policies and actions of governments and/or regulatory authorities, (14) conclusions with regard to accounting assumptions and methodologies, (15) changes in ownership that could affect the future availability to NN Group of net operating loss, net capital and built-in loss carry forwards, (16) changes in credit and financial strength ratings, (17) NN Group's ability to achieve projected operational synergies, (18) catastrophes and terrorist-related events, (19) adverse developments in legal and other proceedings and (20) the other risks and uncertainties detailed in the Risk management section and/or contained in recent public disclosures made by NN Group and/or related to NN Group.

Any forward-looking statements made by or on behalf of NN Group in this Annual Report speak only as of the date they are made, and, NN Group assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.

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Accelerating sustainable transformation

NN Group N.V.
Financial Report 2019

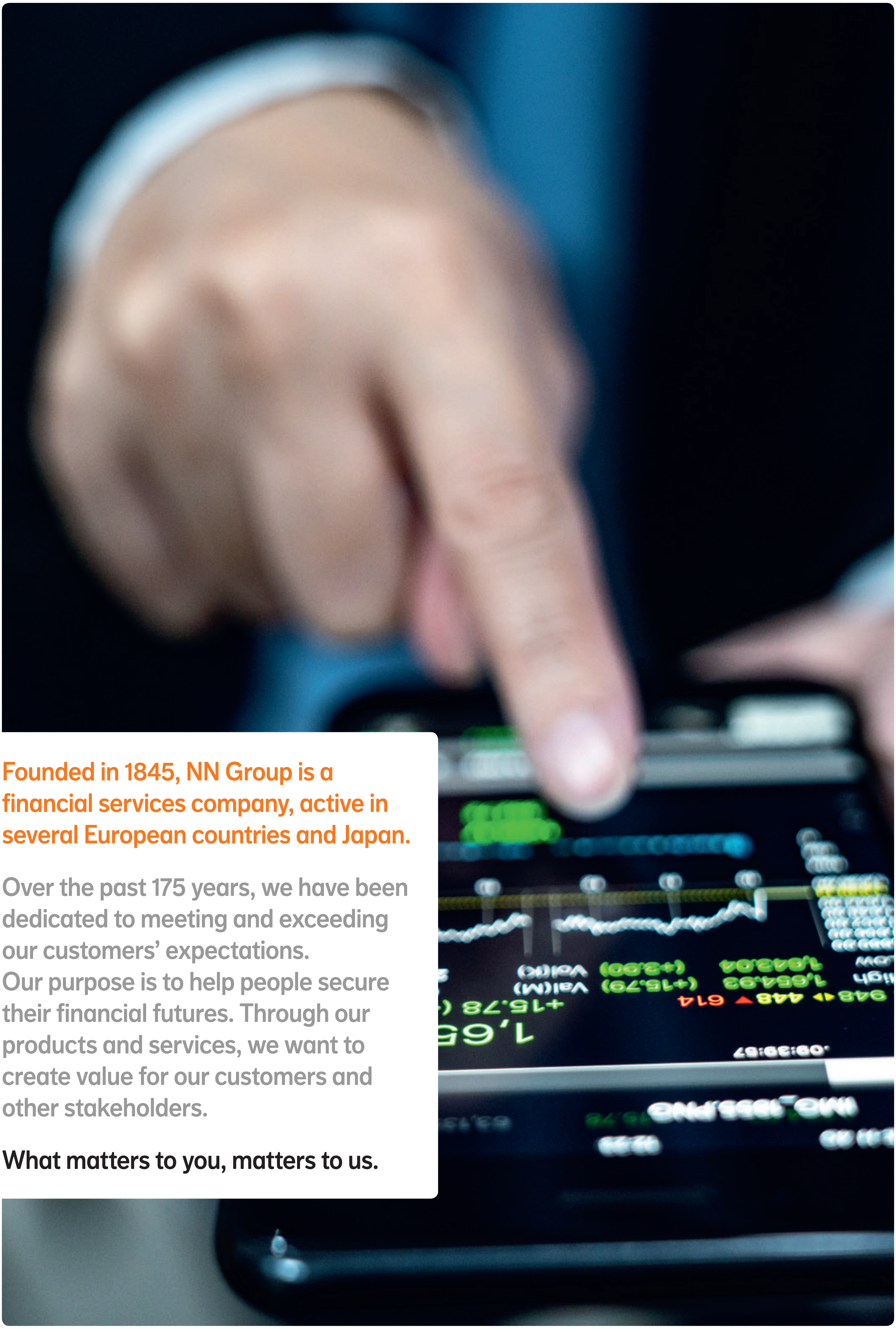
The 2019 Annual Report consists of the 2019 Annual Review and the 2019 Financial Report. It provides an integrated review of the performance of NN Group.

The Annual Report aligns relevant information about our governance, strategy, performance and future prospects in a way that reflects the economic, environmental and social contexts in which we operate. It is prepared in accordance with Dutch law and relevant reporting standards.

Together with this report, NN Group publishes a Solvency and Financial Condition Report, a Total Tax Contribution Report, and a Carbon Footprint Report. Next to that, NN Investment Partners launches a Responsible Investing Report. All these reports are published on NN Group's corporate website in the Investors/Annual Report section.

Read more on our approach to reporting on page 57 of the Annual Review.

Visit our website for further information
www.nn-group.com



Founded in 1845, NN Group is a financial services company, active in several European countries and Japan.

Over the past 175 years, we have been dedicated to meeting and exceeding our customers' expectations.
Our purpose is to help people secure their financial futures. Through our products and services, we want to create value for our customers and other stakeholders.

What matters to you, matters to us.

Financial developments

This Financial developments section includes the analysis of results and key figures of NN Group and its reporting segments. The results presented in this section are derived from the 2019 annual accounts where relevant. In explaining the financial results, NN Group uses Operating result, Adjusted allocated equity (as used in the calculation of Net operating ROE) and Administrative expenses. These are Alternative Performance Measures (APMs). Alternative performance measures are non-IFRS-EU measures that have a relevant IFRS-EU equivalent from which these are derived. For definitions of the Alternative Performance Measures and explanation of their use reference is made to Note 30 'Segments' in the section 'Alternative Performance Measures (Non-GAAP measures)' in the annual accounts. That section also includes a reconciliation between the Alternative Performance Measures and their IFRS equivalent. Furthermore, it includes definitions of other financial metrics used in this Financial developments section.

The Solvency II ratios presented below are not final until filed with the regulators. The Solvency II ratios for NN Group and NN Life are based on the Partial Internal Model.

NN Group

Analysis of result

amounts in millions of euros	2019	2018
Netherlands Life	922	972
Netherlands Non-life	203	94
Insurance Europe	283	271
Japan Life	218	167
Asset Management	161	155
Banking	152	130
Other	-144	-164
Operating result	**1,794**	**1,626**
Non-operating items:	887	1,276
– of which gains/losses and impairments	335	1,034
– of which revaluations	827	427
– of which market & other impacts	-275	-185
Special items	-262	-321
Acquisition intangibles and goodwill	1	-984
Result on divestments	8	60
Result before tax	**2,429**	**1,657**
Taxation	444	524
Minority interests	23	16
Net result	**1,962**	**1,117**

Key figures

amounts in millions of euros	2019	2018
New sales life insurance (APE)	1,741	1,640
Value of new business (VNB)	358	391
Total administrative expenses	2,076	2,116
Net operating ROE	9.0%	8.9%
Solvency II ratio	218%	230%

Operating result

The full-year 2019 operating result increased to EUR 1,794 million from EUR 1,626 million in 2018, which benefited from a total of EUR 38 million of private equity and special dividends and other non-recurring items, versus a total of EUR 121 million of non-recurring benefits in 2019. Excluding these items, the increase mainly reflects improved underwriting results at Netherlands Non-life and higher results at Japan Life.

Result before tax

The full-year 2019 result before tax increased to EUR 2,429 million from EUR 1,657 million in 2018, which included the impairment of goodwill, while 2019 reflects a higher operating result, lower amortisation of acquisition intangibles and lower special items, partly offset by lower non-operating items.

Net result

The full-year 2019 net result was EUR 1,962 million compared with EUR 1,117 million in 2018. The effective tax rate for the full-year 2019 was 18.3%.

Sales and Value of New Business

In 2019, total new sales (APE) were EUR 1,741 million, up 4.8% at constant currencies, driven by higher sales at Netherlands Life and Insurance Europe, partly offset by lower sales at Japan Life.

The value of new business in 2019 amounted to EUR 358 million, down 8.3% on 2018, reflecting lower sales at Japan Life, partly compensated by an improved business mix and higher life and pension sales at Insurance Europe.

Financial developments continued

Netherlands Life

Analysis of result

amounts in millions of euros	2019	2018
Investment margin	844	872
Fees and premium-based revenues	412	444
Technical margin	161	188
Operating income	**1,417**	**1,504**
Administrative expenses	462	494
DAC amortisation and trail commissions	33	38
Expenses	**495**	**532**
Operating result	922	972
Non-operating items:	833	1,310
– of which gains/losses and impairments	205	1,022
– of which revaluations	864	428
– of which market & other impacts	-237	-140
Special items	-57	-63
Result on divestments	5	56
Result before tax	**1,703**	**2,275**
Taxation	308	430
Minority interests	8	10
Net result	**1,386**	**1,835**

Key figures

amounts in millions of euros	2019	2018
New sales life insurance (APE)	480	262
Value of new business (VNB)	9	9
Total administrative expenses	462	494
Net operating ROE	7.1%	7.9%
NN Life Solvency II ratio	213%	255%

The full-year 2019 operating result of Netherlands Life decreased to EUR 922 million from EUR 972 million in 2018. The decrease is largely due to lower fees and premium-based revenues which includes a non-recurring charge of EUR 6 million, lower private equity and special dividends and a lower technical margin, partly offset by lower administrative expenses. The investment margin for full-year 2019 includes private equity and special dividends for a total amount of EUR 83 million, whereas the same period in 2018 included EUR 110 million of such items.

The full-year 2019 result before tax decreased to EUR 1,703 million compared with EUR 2,275 million in 2018. The decrease mainly reflects lower gains on the sale of government bonds.

New sales (APE) for the full-year 2019 increased to EUR 480 million from EUR 262 million in 2018, reflecting a higher volume of group pension contracts up for renewal as well as new business.

The value of new business for the full-year 2019 was stable at EUR 9 million.

Financial developments continued

Netherlands Non-life

Analysis of result

amounts in millions of euros	2019	2018
Earned premiums	2,941	2,954
Investment income	106	118
Other income	-5	-4
Operating income	**3,042**	**3,068**
Claims incurred, net of reinsurance	2,045	2,151
Acquisition costs	516	534
Administrative expenses	305	316
Acquisition costs and administrative expenses	821	850
Expenditure	2,866	3,001
Operating result insurance businesses	**176**	**67**
Operating result health business and broker business	28	27
Total operating result	**203**	**94**
Non-operating items:	61	-2
– of which gains/losses and impairments	48	11
– of which revaluations	12	2
– of which market & other impacts	1	-15
Special items	-67	-91
Result before tax	**197**	**1**
Taxation	42	-2
Minority interests	13	6
Net result	**143**	**-3**

Key figures

amounts in millions of euros	2019	2018
Gross premium income	3,097	3,083
Total administrative expenses	385	393
Combined ratio:	95.4%	99.4%
– of which Claims ratio	67.4%	70.6%
– of which Expense ratio	27.9%	28.8%
Net operating ROE	22.1%	10.8%

The full-year 2019 operating result of Netherlands Non-life increased to EUR 203 million from EUR 94 million in 2018, which included the impact of the January 2018 storm for an amount of EUR 56 million net of reinsurance and EUR 11 million of private equity dividends. Excluding these, the increase was mainly attributable to an improved claims experience in both Property & Casualty (P&C) and Disability & Accident (D&A) and lower administrative expenses.

The full-year 2019 result before tax increased to EUR 197 million from EUR 1 million in 2018, reflecting the higher operating result, higher non-operating items and lower special items. Non-operating items in 2019 benefited from gains on the sale of government bonds and private equity revaluations. Special items include integration expenses and costs related to the migration of the legal aid service provider, while 2018 also included a charge related to the agreement with Van Ameyde to insource claims handling activities.

The combined ratio for 2019 was 95.4% compared with 99.4% in 2018, or 97.5% excluding the impact of the January 2018 storm.

Financial developments continued

Insurance Europe

Analysis of result

amounts in millions of euros	2019	2018
Investment margin	102	93
Fees and premium-based revenues	737	703
Technical margin	239	207
Operating income non-modelled business	1	1
Operating income Life Insurance	**1,080**	**1,005**
Administrative expenses	419	398
DAC amortisation and trail commissions	386	328
Expenses Life Insurance	**805**	**725**
Operating result Life Insurance	**275**	**280**
Operating result Non-life	8	-8
Operating result	**283**	**271**
Non-operating items:	51	4
– of which gains/losses and impairments	73	-2
– of which revaluations	-20	22
– of which market & other impacts	-2	-16
Special items	-35	-28
Acquisition intangibles and goodwill	33	
Result before tax	**331**	**247**
Taxation	73	55
Net result	**259**	**191**

Key figures

amounts in millions of euros	2019	2018
New sales life insurance (APE)	674	627
Value of new business (VNB)	204	168
Total administrative expenses (Life & Non-life)	431	418
Net operating ROE	10.3%	10.9%

The full-year 2019 operating result of Insurance Europe increased to EUR 283 million from EUR 271 million in 2018, mainly driven by higher performance fees in Slovakia, protection growth and a EUR 6 million non-recurring benefit in Non-life, partly offset by lower pension fees in Romania.

The full-year 2019 result before tax increased to EUR 331 million from EUR 247 million in 2018, reflecting the negative goodwill arising from the acquisition of the Czech and Slovak businesses, gains on the sale of government bonds as well as the higher operating result, partly offset by lower revaluations in Belgium.

Full-year 2019 new sales (APE) increased to EUR 674 million from EUR 627 million in 2018. The increase was mainly driven by higher pension and protection sales across the region and the contribution of the aforementioned acquisition, partly offset by negative currency impacts in Turkey and lower unit-linked sales in Belgium.

The full-year 2019 value of new business increased to EUR 204 million from EUR 168 million, up 21.4% from 2018, reflecting an improved business mix and higher life and pension sales.

Financial developments continued

Japan Life

Analysis of result

amounts in millions of euros	2019	2018
Investment margin	-16	-9
Fees and premium-based revenues	659	605
Technical margin	24	-1
Operating income	**667**	**594**
Administrative expenses	148	140
DAC amortisation and trail commissions	302	287
Expenses	**449**	**427**
Operating result	**218**	**167**
Non-operating items:	-34	-25
– of which gains/losses and impairments	-6	-3
– of which revaluations	-28	-22
Special items	-4	-3
Result before tax	**180**	**139**
Taxation	48	41
Net result	**131**	**97**

Key figures

amounts in millions of euros	2019	2018
New sales life insurance (APE)	587	751
Value of new business (VNB)	146	214
Total administrative expenses	148	140
Net operating ROE	7.8%	6.8%

The full-year 2019 operating result of Japan Life was EUR 218 million, up 23.0% compared with 2018, excluding currency effects. The increase was primarily driven by the strong sales in the first quarter of 2019, a higher technical margin on favourable mortality and morbidity results as well as higher surrender results reflecting better persistency after the revised tax regulations.

The result before tax for 2019 was EUR 180 million, up 22.3% compared with the same period in 2018, at constant currencies, reflecting the higher operating result partly offset by lower non-operating items.

New sales (APE) for the full-year 2019 were EUR 587 million, down 24.6% from 2018 at constant currencies, due to lower sales of COLI products following the revised tax regulations.

Full-year 2019 value of new business decreased to EUR 146 million, down 31.8% from the 2018, reflecting the lower sales.

Financial developments continued

Asset Management

Analysis of result

amounts in millions of euros	2019	2018
Investment income	1	-1
Fees	443	454
Operating income	**444**	**453**
Administrative expenses	283	298
Operating result	**161**	**155**
Special items	-15	-31
Result before tax	**146**	**123**
Taxation	35	29
Minority interests	2	
Net result	**108**	**94**

Key figures

amounts in millions of euros	2019	2018
Total administrative expenses	283	298
Assets under Management (in EUR billion)	276	246
Net operating ROE	34.1%	27.6%

The full-year 2019 operating result of Asset Management was EUR 161 million compared with EUR 155 million in 2018. This increase reflects lower administrative expenses, partly offset by lower fees, due to a less favourable asset mix and fee pressure.

The full-year 2019 result before tax increased to EUR 146 million from EUR 123 million in 2018, driven by the higher operating result and lower special items.

Financial developments continued

Banking

Analysis of result

amounts in millions of euros	2019	2018
Interest result	259	259
Commission income	35	36
Total investment and other income	67	35
Operating income	**361**	**330**
Operating expenses	192	189
Regulatory levies	17	17
Addition to Loan loss provision	-1	-7
Total expenses	**209**	**200**
Operating result	**152**	**130**
Non-operating items:	-14	-15
– of which gains/losses and impairments	7	
– of which market & other impacts	-21	-15
Special items	-15	-17
Result before tax	**123**	**99**
Taxation	30	32
Net result	**93**	**66**

Key figures

amounts in millions of euros	2019	2018
Total administrative expenses	210	206
Cost/income ratio	53.3%	57.3%
Total assets (in EUR billion)	25	22
Net operating ROE	15.0%	12.9%

The full-year 2019 operating result of Banking increased to EUR 152 million from EUR 130 million in 2018, mainly driven by higher investment and other income which included EUR 26 million of non-recurring benefits, partly offset by a lower release of Loan loss provisions and higher operating expenses reflecting the increased mortgage production.

The full-year 2019 result before tax increased to EUR 123 million from EUR 99 million in 2018, mainly reflecting the higher operating result.

Financial developments continued

Other

Analysis of result

amounts in millions of euros	2019	2018
Interest on hybrids and debt	-108	-108
Investment income and fees	105	96
Holding expenses	-145	-156
Amortisation of intangible assets		-1
Holding result	**-148**	**-170**
Operating result reinsurance business	-5	-12
Other results	10	18
Operating result	**-144**	**-164**
Non-operating items:	-9	5
– of which gains/losses and impairments	8	7
– of which revaluations	-1	-3
– of which market & other impacts	-16	1
Special items	-69	-87
Acquisition intangibles and goodwill	-32	-984
Result on divestments	4	4
Result before tax	**-251**	**-1,226**
Taxation	-92	-63
Net result	**-158**	**-1,163**

Key figures

amounts in millions of euros	2019	2018
Total administrative expenses:	158	167
– of which reinsurance business	7	9
– of which corporate/holding	152	158

The full-year 2019 operating result of the segment Other was EUR -144 million compared with EUR -164 million in 2018, which was impacted by EUR 44 million of non-recurring charges, while 2019 reflects EUR 12 million of non-recurring benefits and a lower result of the reinsurance business.

The full-year 2019 holding result improved to EUR -148 million from EUR -170 million in 2018, which was impacted by EUR 12 million of non-recurring charges, while the 2019 holding result reflects higher investment income and fees.

The full-year 2019 operating result of the reinsurance business was EUR -5 million compared with EUR -12 million in 2018, which included EUR 33 million of claims relating to the storm in January 2018, a EUR 8 million claim from a legacy reinsurance portfolio as well as EUR 9 million positive hedge-related results on the VA Europe portfolio. The full-year 2019 operating result reflects EUR 22 million of claims related to Non-life's Disability portfolio, as well as a large claim from a legacy reinsurance portfolio.

Other results in 2019 were EUR 10 million compared with EUR 18 million in 2018, which included a provision release of EUR 14 million, while 2019 includes a net release of provisions of EUR 12 million, both related to a legacy entity.

The full-year 2019 result before tax of the segment Other was EUR -251 million compared with EUR -1,226 million in 2018, which included a EUR 852 million impairment of goodwill, while 2019 reflects lower amortisation of acquisition intangibles, the improved operating result and lower special items.

Report of the Supervisory Board

Introduction by the Supervisory Board Chair

As Supervisory Board, we attach great value to good corporate governance and to the role we play in a listed, international company, firmly rooted in the Netherlands. In fulfilling our duties, we oversee and advise the group's Executive Board and Management Board, at all times taking into account the interests of NN Group's many stakeholders, while aiming for long-term value creation.

In 2019, the Supervisory Board was closely involved in three key developments in particular: (i) the appointment of a new CEO and other changes to the composition of the Supervisory Board and Management Board; (ii) the announced acquisition of VIVAT Non-life; and (iii) the topic of transition and innovation.

Following the announcement on 12 August 2019 that Lard Friese had stepped down, the Supervisory Board appointed David Knibbe as Member and Chair of the Executive Board and CEO of NN Group, effective 1 October 2019. David was appointed as the result of a sound succession planning process. The Supervisory Board is pleased to have found an excellent successor from within the company, with the right leadership skills to drive NN Group going forward. David has a deep understanding and experience of the company's businesses, the sector, and the markets in which we operate. Furthermore, David is a dynamic, customer-focused and values-driven business leader.

At the end of the annual general shareholders' meeting in May 2019, Jan Holsboer stepped down as Member and Chair of our Supervisory Board. Jan left us with a well-positioned international company, a strong leadership group and an effective governance system, and we are grateful to him for the manner in which he fulfilled his responsibilities. On a personal note, I was honoured to be selected as his successor as Chair of the Supervisory Board as from May 2019. For other changes that the Supervisory Board and Management Board underwent in 2019, please refer to the corporate governance chapter included in this Annual Report.

The second key development in which the Supervisory Board was closely involved in 2019 was the announced acquisition in the Netherlands of VIVAT's non-life activities (VIVAT Schadeverzekeringen N.V.), which is expected to close early in 2020. The Supervisory Board considered the transaction carefully from the perspective of NN Group's customers, employees, shareholders, regulators and other key stakeholders. The announced acquisition will result in NN becoming the market leader in non-life insurance in the Netherlands, a position NN already holds for life insurance. NN has gained valuable experience in successfully integrating business operations following the acquisition of Delta Lloyd in 2017. We are aware of the complexity such acquisitions and integrations bring. At the same time, we are confident adequate steps will be taken towards a successful combined non-life business.

Third, the Supervisory Board is conscious of the fast and continuously changing environment in which our company operates. Ongoing developments in technology and the need to adapt to new ways of working have significant impact on the company and its employees. NN is transforming and innovating its businesses. With a broad product offering, and by introducing service solutions alongside more traditional insurance products, NN intends to further increase its potential to create long-term value for customers and other stakeholders.

The Supervisory Board is closely involved and regularly updated on the progress of these transformations. Together with the Executive Board and Management Board, we continuously consider whether we are optimising the delivery on our purpose and relevant value to our stakeholders.

On behalf of the entire Supervisory Board, I would like to express our gratitude to Supervisory Board Members Dick Harryvan and Robert Ruijter, whose appointment term will end in 2020. Since joining the Supervisory Board, both Robert and Dick have demonstrated immense commitment and provided critical support to NN Group in establishing its position and pursuing its ambitions and we value their contributions and have enjoyed their constructive engagement.

The Supervisory Board would also like to thank all NN Group employees for their dedication and hard work in 2019. Their efforts and results are noticed and highly appreciated.

The Supervisory Board looks forward to continuing to contribute to the company's purpose to help people secure their financial futures, together with the Executive Board and the Management Board.

For a comprehensive overview of the Supervisory Board's activities during 2019, I invite you to read the full report.

Yours faithfully,

David A. Cole

David Cole
Chair Supervisory Board NN Group

Report of the Supervisory Board continued

Supervisory Board

The Supervisory Board is responsible for supervising the management of the Executive Board, as well as the general course of affairs of NN Group and the businesses affiliated with it.

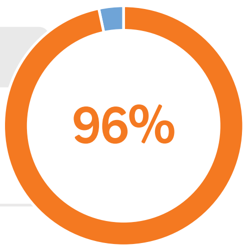
From left to right:
Dick Harryvan Vice-chair, **Robert Jenkins, Hélène Vletter-van Dort, David Cole** Chair, **Robert Ruijter, Hans Schoen, Clara Streit, Heijo Hauser**

Supervisory Board facts & figures

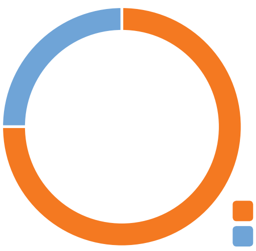
14
Supervisory Board meetings held in 2019

Attendance rate

Overall attendance of the Supervisory Board meetings



Supervisory Board composition (after 29 May 2019)



4
Supervisory Board Committees

19 hours
On average, 19 hours spent on Permanent Education sessions arranged by NN Group
Permanent Education attendance rate: 88.9%

Report of the Supervisory Board continued

Supervisory Board

The Supervisory Board is responsible for supervising the management of the Executive Board, as well as the general course of affairs of NN Group and the businesses affiliated with it. The Supervisory Board also advises the Executive Board. In the performance of its duties, the Supervisory Board carefully considers and acts in accordance with the interests of NN Group and its affiliated businesses, taking into account the interests of all stakeholders.

This Report of the Supervisory Board must be read in conjunction with the Corporate Governance section (pages 21-31) and the Remuneration Report (pages 32-37) of this Financial Report.

Profile of the Supervisory Board

The composition of the Supervisory Board is such that the members are able to act critically and independently of one another, the Executive Board and any particular interests. The Supervisory Board operates as a collegial body and the knowledge, experience and background of its individual members is considered in the context of the Supervisory Board as a whole.

The overall composition of the Supervisory Board is balanced taking into account the members' (a) nationalities, gender, age, education, experience and work background, (b) affinity with the nature of the businesses and culture of NN Group, and (c) executive experience, experience in complex multinationals, and experience in the political and social environment in which such multinationals operate. This ensures a wide range of relevant perspectives and opinions on NN Group, and the opportunities and challenges it faces today and will face tomorrow.

The matrix on the next page provides an overview of the range of knowledge, experience and backgrounds of the individual Supervisory Board members.

Supervisory Board meetings

The Supervisory Board held 14 Supervisory Board meetings in 2019, one of which in Madrid, Spain as part of the Supervisory Board's visit to NN Group's business unit NN Spain. The average attendance rate for Supervisory Board meetings was 96.8%. None of the Supervisory Board members were frequently absent from meetings, and at all meetings attendance was sufficient to constitute a valid quorum.

In addition to the formal meetings, the chair and other members of the Supervisory Board maintained regular contact with the Chief Executive Officer, other members of the Executive Board and Management Board, senior management, heads of staff, business unit CEOs, etc. The Supervisory Board also regularly met with the supervisory authorities. In these meetings, topical issues were discussed, as well as the general course of events at NN Group and its affiliated businesses. Finally, the chair and the Works Council-nominated members of the Supervisory Board met with (representatives of) the Central Works Council.

The attendance rate of the individual Supervisory Board Members was as follows:

Name	Supervisory Board	Audit Committee	Risk Committee	Remuneration Committee	NoCoGov Committee	Combined RemCo/ NoCoGovCo
David Cole[1]	14/14		3/3	4/4	6/6	1/1
Dick Harryvan	14/14	6/6		5/5	7/7	3/3
Heijo Hauser	13/14	6/6	4/4			
Jan Holsboer[2]	5/5	4/4		2/2	3/3	2/2
Robert Jenkins	14/14		4/4	5/5		3/3
Robert Ruijter	12/14	6/6		5/5		3/3
Hans Schoen	13/14	6/6	4/4			
Clara Streit	14/14		4/4		7/7	3/3
Hélène Vletter-van Dort[3]	14/14		4/4	3/3	7/7	3/3
Total	96%	100%	100%	100%	100%	100%

1 Mr Cole was appointed as a member of the Risk Committee, the Remuneration Committee and the Nomination and Corporate Governance Committee on 13 February 2019.
2 Mr Holsboer stepped down as a member of the Supervisory Board after the AGM on 29 May 2019.
3 Ms Vletter-van Dort was appointed as a member and chair of the Remuneration Committee on 29 May 2019.

Report of the Supervisory Board continued

	D. Cole	D. Harryvan	H. Hauser	R. Jenkins	R. Ruijter	H. Schoen	C. Streit	H. Vletter-van Dort
Nationality	NL/US	NL	DE	US	NL	NL	US/DE	NL
Gender	Male	Male	Male	Male	Male	Male	Female	Female
Year of birth	1961	1953	1955	1951	1951	1954	1968	1964
Education	Business Administration	Business Administration	Mathematics	International Studies	Accounting	Economics Auditing	Business Administration	Law
Insurance	√	√	√		√	√	√	√
Asset management	√	√		√		√	√	
Banking	√	√		√	√		√	√
Risk	√	√	√	√	√	√	√	√
Finance & Control	√	√	√	√	√	√	√	
Law & Governance	√	√	√	√	√	√	√	√
Technology	√	√	√		√	√		
Organisation & Conduct	√	√	√	√	√	√	√	√
Executive maturity	√	√	√	√	√	√	√	√
Multinationals	√	√	√	√	√	√	√	√
Social antenna	√	√	√	√	√	√	√	√
International Business	√	√	√	√	√	√	√	√
Financial Expert	√	√	√	√	√	√		

1 As defined in article 39 (1) of Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

All members of the Supervisory Board are independent (as defined in the 2016 Dutch Corporate Governance Code).

Supervisory Board Committees

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

Please refer to pages 16 to 20 of this Report of the Supervisory Board for the reports of each of the committees.

Key developments

In 2019, the Supervisory Board was involved in three key developments aimed at long-term value creation for NN Group and its affiliated businesses.

Changes to the NN Group Supervisory Board Chair and Chief Executive Officer

On 14 February 2019, NN Group announced that Mr Holsboer, chair of the Supervisory Board of NN Group, would step down as of the close of the annual general meeting on 29 May 2019. The Supervisory Board elected Mr Cole as successor to Mr Holsboer, based on Mr Cole's extensive international experience in the insurance and banking industry, his experience as a board member and supervisory board member, and his in-depth knowledge of banking and insurance services. The appointment was approved by the Dutch Central Bank.

On 12 August 2019, NN Group announced that the Supervisory Board intended to appoint Mr Knibbe as a member of the Executive Board and CEO of NN Group. He succeeded Mr Friese, who stepped down as a member and chair of the Executive Board and CEO of NN Group. The appointment of Mr Knibbe was subject to notification of the General Meeting of NN Group at an extraordinary general meeting, and approval from the Dutch Central Bank.

On 26 September 2019, NN Group announced that it had notified the General Meeting of the intended appointment of Mr Knibbe as a member of the Executive Board and CEO of NN Group, and that the intended appointment had been approved by the Dutch Central Bank and supported by the Central Works Council of NN Group. The Supervisory Board subsequently decided to appoint Mr Knibbe as of 1 October 2019.

The Supervisory Board was actively assisted by the Nomination and Corporate Governance Committee in drafting the selection criteria and identifying a successor, while also taking into account the profile of the Executive Board and observing the Diversity Policy.

A number of criteria play a role in identifying a successor to this key position. These include background, age and nationality, but also experience in corporate governance, experience in a political and social/economic setting, and the DNB guidelines. In line with the long-term objectives of NN Group, diversity criteria are also taken into consideration. The appointment of Mr Knibbe was the result of taking these criteria into consideration and having a sound succession planning process in place.

The Supervisory Board is convinced that Mr Knibbe has the right leadership skills to drive NN Group forward. We are also pleased that the position has been filled by promoting a successor from within the group.

VIVAT Schadeverzekeringen N.V. acquisition

On 7 June 2019, NN Group announced its intention to acquire VIVAT Schadeverzekeringen N.V. (VIVAT Non-Life) from Athora, following the intended acquisition of VIVAT by Athora. This acquisition provides the opportunity to create scale while also becoming the market leader for Non-Life in the Dutch market.

The NN Group Executive Board and Management Board held discussions with the Supervisory Board over an extended period of time leading up to the decision to acquire VIVAT Non-Life activities.

Report of the Supervisory Board continued

The Supervisory Board ensured that a rigid governance process was in place, and offered support and guidance throughout that process. Our focus was on maintaining the operational integrity of NN Group during the acquisition, as well as making sure the intended offer was in the best interests of all stakeholders, and that the NN Group values and Code of Conduct were upheld. The Supervisory Board considered the transaction from the perspective of NN Group's customers, employees, shareholders, regulators and other key stakeholders. The Supervisory Board believes that the transaction is in the best interest of all stakeholders, that it is a strategic fit, and that there is a strong financial rationale to support the acquisition.

Transformation and innovation

NN Group has a strong heritage and foundation. However, to stay competitive and relevant, and create long-term value for the generations to come, it must build on its existing capabilities, adapt to the fast-changing and digital environment it operates in, and secure the business of tomorrow. The ambition of NN Group is to truly matter in the lives of its customers by having more digital contact, becoming more personal and being more relevant.

In light of the NN Group strategic priorities and challenges in the various markets, a number of transformation and innovation initiatives have been launched. Throughout 2019, the Supervisory Board was updated by the Executive Board and Management Board on progress on these initiatives. Amongst other things, the updates covered the process of identifying and approving the various initiatives; as well as any successes or challenges involved in implementing them, including issues arising from carrying out the initiatives while also dealing with the demands of decommissioning and replatforming as part of the Delta Lloyd integration.

Other discussion topics

Other important topics of discussion during the meetings of the Supervisory Board in 2019 included (i) progress on the Delta Lloyd integration, (ii) culture, (iii) business plan, capital plan and strategy, (iv) responsible investment, (v) unit-linked products in the Netherlands, (vi) Executive Board assessment, and (vii) annual accounts and dividend. Topics (i) – (vii) are addressed below in turn.

In addition, the Supervisory Board:

- actively followed developments, opportunities and challenges in the various insurance markets, the impact of continued low interest rates, and the integration of the former AEGON activities into the Czech Republic and Slovakia;
- was periodically updated by the Executive Board and Management Board on the overall commercial performance of NN Group and its affiliated businesses;
- discussed and approved the financial quarterly results of NN Group, NN Group's proposed interim and final dividend, proposed distribution of excess capital to shareholders via an open market buyback of NN Group ordinary shares, issuance of the Covered Bond transactions under the Covered Bond Programme and the issuance of Preferred Senior transactions under the Debt Issuance Programme by Nationale-Nederlanden Bank, and the repurchase of Hypenn 1 A3 notes from ING Bank by Nationale-Nederlanden Bank;
- was updated on the (ongoing) review of the internal governance arrangements applicable within the group; and
- was updated on and addressed matters concerning charitable programmes of NN Group, dialogue with non-governmental organisations on social and environmental issues, the International Corporate Social Responsibility covenant for the Dutch insurance sector, the results of the annual employee engagement survey, and the performance goals for the Executive Board and Management Board (including non-financial KPIs).

Delta Lloyd integration

A Transition Committee was established in 2017 to supervise, monitor and advise on the fairness of the Delta Lloyd integration, and safeguard the interests of the combined company. The Transition Committee consisted of three members: Mr Holsboer (chair), Mr Friese and Mr Ruijter. During the Transition Committee meeting held in February 2019, the members concluded that the integration of Delta Lloyd had progressed better than anticipated. The Transition Committee members therefore agreed to discontinue the Transition Committee, subject to the NN Group Supervisory Board being briefed on a quarterly basis by the Executive Board and the Management Board on any remaining integration matters.

The Executive Board and Management Board provided the Supervisory Board with quarterly updates on the progress of the remaining Delta Lloyd integration matters. These included: principles applied, performance against set ambitions, the key challenges identified in relation to decommissioning, replatforming and document management, risk evaluations and monitoring of the remaining integration matters, IT interdependencies, change priorities for 2019, progress in Belgium given a highly complex IT environment, and the result of the negotiations with the trade unions on a harmonised Collective Labour Agreement.

For its part, the Supervisory Board offered support and focused on maintaining the operational integrity of NN Group, as well as ensuring the approach taken was in the best interests of all stakeholders, and that the NN Living our Values statement and Code of Conduct were upheld.

Culture

The values of NN Group, described in the Living our Values statement set the standard for conduct and provided a compass for decision-making within the group. In addition, the NN Code of Conduct clearly outlines minimum rules of conduct that NN Group employees must adhere to at all times, and which they are requested to formally acknowledge on an annual basis.

The Executive Board and Management Board are responsible for creating a culture aimed at long-term value creation, for which the statement and NN Code of Conduct form the foundation. The Executive Board and Management Board therefore periodically report to the Supervisory Board on how the Living our Values statement is being put into practice within the group, and the effectiveness of and compliance with the Code of Conduct. The Supervisory Board supervises the Executive Board and Management Board on this issue.

In 2019, the Supervisory Board also approved the next steps in implementing the Programme, Living our Values 2018, aimed at ensuring the NN values are kept alive and stand the test of time.

Report of the Supervisory Board continued

Business plan, capital plan and strategy

In January 2019, the Executive Board and Management Board presented the Supervisory Board with the NN Group's business plan for 2019–2021 and capital plan for 2019–2023. This outlined, amongst other things, the projected growth of the operating result and value of new business, administrative expense savings and investments within the integration scope, investments related to innovation, projected improvements to the combined ratio (non-life), return on equity (bank) and cost/income ratio (asset management), the capital and cash position over the plan period, and projected performance against various other financial parameters.

Throughout the year, the Supervisory Board was regularly updated on how NN Group was performing on its business and capital plan, and delivering on its strategy. Topics of particular focus included: digital transformation of the business and driving innovation across markets, performance improvement at Netherlands Non-Life, shifting investor preferences confronting the investment industry and thus NN Investment Partners, the impact of the low interest rates and market volatility, especially in Greece and Belgium, the Romanian pensions agreement reached with the government, Polish pension reform, the business environment in Turkey, and the changes to fiscal legislation in Japan.

Responsible investment

NN Group applies a norms-based Responsible Investment Framework policy, which reflects the measures the group takes to responsibly invest its own assets and those entrusted to them by customers. Measures include integration of environmental, social and governance (ESG) factors in research/valuation, voting, engagement and as a measure of last resort restriction.

Compliance with NN Group's Responsible Investment restrictions is managed through a Restricted List, which applies globally across the organisation. The Restricted List is updated four times a year and the Supervisory Board is informed on changes where relevant, for example, when it concerns the exclusion of specific sectors.

Unit-linked products in the Netherlands

See Note 42 in this Financial Report for a description of legal proceedings with respect to unit-linked products in the Netherlands. The Supervisory Board was periodically updated on relevant developments in the collective actions and individual legal proceedings pending against Nationale-Nederlanden.

Executive Board assessment

In the fourth quarter of 2019, the Supervisory Board assessed the performance during 2019 of the Executive Board and Management Board and its members. To this end, the Supervisory Board members met with the Executive Board and Management Board members individually in a series of two-on-one meetings. In addition, the four Management Board members appointed in 2018 were also assessed by an external bureau. Based on the outcome of the two-on-one meetings and external assessments, personal professional development plans are being formulated for each of the Management Board members reflecting their individual needs.

Annual accounts and dividend

The Executive Board prepared the 2019 annual accounts and discussed these with the Supervisory Board. The 2019 annual accounts will be submitted for adoption by the General Meeting at the 2020 annual general meeting, as part of the 2019 Financial Report. NN Group will propose to pay a final dividend of EUR 2.16 per ordinary share, or EUR 698 million in total, based on the number of outstanding shares on the date of this Financial Report, excluding the shares held by NN Group in its own capital in treasury.

Continuous learning

It is essential that the Supervisory Board is knowledgeable about how NN Group and its affiliated businesses are run. The Supervisory Board Induction Programme and Permanent Education Programme for Supervisory Board members therefore cover topics necessary to ensure the continuous learning of Supervisory Board members, both at the outset and after their appointment.

The Supervisory Board members followed the 2019 NN Group Permanent Education Programme, which was developed based on the input received from the 2018 annual Supervisory Board self-assessment and requests from the Supervisory Board members, the Executive Board and Management Board, and staff. In addition, it was decided in 2019 to benchmark the current NN Group Permanent Education Programme (content and best practices) against those of peers, in order to identify areas of improvement. Based on the outcome of the Supervisory Board self-assessment and the benchmark, it was decided to include business deep-dive sessions in addition to the general knowledge sessions, in the 2019 NN Group Permanent Education Programme.

On average, Supervisory Board members spent approximately 19 hours on general knowledge and deep dive sessions arranged by NN Group. The general knowledge sessions included an update on sustainability ratings and NN Group's position in the Dow Jones Sustainability Index, 2019 DNB Themes, Recovery and Resolution law, IFRS, top shifts and developments in technology and digitalisation in the sector, tax, Europe in the light of the May 2019 elections, climate change risks and opportunities, and the impact of the low interest rate environment. The business deep-dive sessions covered NN Life Japan, NN Investment Partners, NN Bank and NN Spain, the latter being part of the Supervisory Board business unit visit in September 2019.

Aside from the Permanent Education Programme, the Supervisory Board members also met with NN Group colleagues and teams, as well as with some of the function heads of NN Group's support functions, in order to learn more about NN Group's businesses and activities. The Supervisory Board members also participated in a number of education and knowledge sessions organised by external organisations.

Self-assessment

As in previous years, in 2019 the Supervisory Board and its committees evaluated their own performance. They were supported by an external party in reviewing the functioning of the Supervisory Board as a whole, of its committees and their respective chairs, and of the individual Supervisory Board members. Each Supervisory Board, Executive Board and Management Board member completed an array of online questionnaires in this regard. The outcome of the self-assessment was discussed during a feedback session with the full Supervisory Board in January 2020. The chair of the Supervisory Board also discussed the self-assessment results with each Supervisory Board member individually.

The performance of the Supervisory Board was seen by all respondents to have either been maintained or improved since the last review and the management of the transition in Supervisory Board Chair was rated highly overall. The Supervisory Board identified succession planning, enhancing the relationship with the Executive Board and Management Board members and making

Report of the Supervisory Board continued

more effective use of board time as the top priorities for the coming year. In addition, during the feedback session in January 2020 the Supervisory Board agreed that each chair will formulate two further priorities for the year 2020.

Risk Committee

The Risk Committee assists the Supervisory Board in the performance of its duties. To this end, it prepares items for discussion and decision-making by the Supervisory Board, and recommends actions in various areas, including:

- NN Group's key risks and risk appetite statements, risk strategy and policies;
- risk exposures resulting from the business strategies and plans of NN Group and its affiliated businesses;
- the design, operation and effectiveness of the internal risk management and control systems of NN Group (the 'Risk Control Framework');
- NN Group's public disclosures on risk and risk management; and
- any Material Transactions, including an assessment of whether Ordinary Material Transactions have been entered into in the ordinary course of business and on terms that are customary for arm's length transactions in the relevant branch of business.

The Risk Committee works closely with the Audit Committee in order to avoid duplication and omissions in its activities. For this reason, the chair of the Risk Committee is also a member of the Audit Committee, and vice versa.

Composition and attendance

The members of the Risk Committee are Mr Hauser (chair), Mr Cole, Mr Jenkins, Mr Schoen, Ms Streit and Ms Vletter-van Dort. The Risk Committee met four times in 2019 with a 100% attendance rate. Mr Cole attended the meeting in February 2019 as observer (as he was appointed a member of the Risk Committee on 13 February 2019), Mr Harryvan attended the meetings in May 2019 and November 2019 as observer, and Mr Ruijter attended the meetings held in February 2019, May 2019 and August 2019 as observer. In addition, Mr Holsboer attended the meetings in February 2019 and May 2019 as observer, after which he stepped down as a member of the Supervisory Board. Other attendees were the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel, General Manager Corporate Audit Services, Head of Group Enterprise Risk Management and the external auditor (KPMG).

During 2019, the chair of the Risk Committee regularly liaised with the Chief Risk Officer and met with the external auditors, the Chief Compliance Officer and relevant subject-matter experts.

Discussion topics

During its meetings, the Risk Committee discussed, amongst other things: (i) the Risk Plan 2019, (ii) the Compliance Operational Plan 2019 and NN Group systematic integrity risk assessment, (iii) the Risk Control Framework, (iv) the risk management report, (v) information technology (IT) and security, and (vi) financial and economic crime. These topics are addressed below in turn.

The Risk Committee also discussed the Own Risk and Solvency Assessment Report for the period 2019-2021, the Key Risks and Risk Appetite Statements 2019, Scope of the 2020 Actuarial Assumption Review, 2020 Preparatory Crisis Plan, Directors and Officers ('D&O') liability insurance policy, and NN Group's D&O indemnity statements.

NN Group Risk Plan 2019

The NN Group Risk Plan 2019 outlines the ex-ante risk priorities for 2019, taking into account NN Group's strategic direction and risk profile, the Risk Control Framework, and external developments and regulations, and is consistent with the NN Group Business Plan 2019-2021. The Risk Plan 2019 focuses, amongst other things, on embedding risk-return considerations in the decision-making process and supporting NN Group's strategic direction by embracing technological developments, automating the risk activities and ensuring the right skills.

Compliance Operational Plan 2019 and NN Group SIRA

The main focus of the Compliance Operational Plan 2019 was on consolidation of what had already been achieved. This included further implementation of the Risk Control Framework, continuous development of the business in managing compliance and integrity risks including effective feedback, rolling-out of e-learning on key non-financial risk topics, and maintaining a solid and sustainably mature compliance function that takes due account of regulatory developments. NN Group SIRA (Systematic Integrity Risk Assessment) forms the basis for the Compliance Operational Plan, and describes the main compliance risks in the Dutch and international contexts, and within NN Group's Asset Management Business and Corporate Staff Departments. For the Compliance function, the SIRA is a key source for setting priorities in the Compliance Operational Plan.

Risk Control Framework

The objectives of the Risk Control Framework include ensuring that the management boards of the NN Group business units and function heads at head office:

- ensure relevant risks are understood at all levels of their organisation/department and mitigated through effective controls;
- have robust processes in place that demonstrate effectiveness of controls and compliance with governance, policies and standards;
- are appropriately informed about the levels of risks and effectiveness of controls; and
- can confirm they operate within the risk appetite and, if not, are aware of the issues and necessary mitigating actions.

In 2019, NN Group and its business units continued to make progress in the ongoing implementation and embedding of the Risk Control Framework. The Risk Committee was informed on the performance and compliance of NN Group and its affiliated businesses with respect to the objectives of the Risk Control Framework. The results of the year-end review of the Risk Control Framework showed positive steps by business units and Corporate Staff Departments in the design and effectiveness of the Risk Control Framework as well as in performing control testing and monitoring. However the Risk Committee acknowledged that more time is required to grow in completeness and effectiveness of the Risk Control Framework as well as in maturity of monitoring activities by the first and second line.

The risk management report

The quarterly risk management report of NN Group to the Supervisory Board reports risks against the risk appetite of NN Group and its affiliated businesses. It covers strategic, financial and non-financial risks.

The Risk Committee therefore periodically discussed the key strategic challenges facing the insurance, asset management and banking businesses of NN Group, the risks associated with the integration of Delta Lloyd business, the balance sheet and sound business performance, specific risk assessments carried out and their

Report of the Supervisory Board continued

quality, specific measures adopted to mitigate risks, and the status of ongoing legal claims and incidents, and any related major incidents.

Information technology and security

NN Group deems the reliability and security of IT and IT infrastructure paramount. Each quarter, the Risk Committee is therefore updated on developments, achievements and risks in the field of IT and security. In 2019, the Risk Committee and Executive Board and Management Board regularly discussed the main IT risks and how to mitigate them, including timely prevention and detection of data breaches and cybersecurity attacks, which could lead to misuse of information, or financial or reputational loss. No major data breaches or cybersecurity attacks were reported in 2019.

The main challenges from an IT perspective in 2019 were in the integration and decommissioning of the Delta Lloyd environment, as well as implementation of various upgrades due to continuous innovation, transformation and the availability of resources in some business units. Furthermore, attracting IT talent has proved challenging, and NN Group has been actively promoting talent engagement and development through graduate traineeship programmes and the training of current employees.

In 2019, progress was made in implementing the IT Availability Programme (ITAP) with respect to improving the availability of core systems, and implementing the IT Security Programme with respect to improving the cyber technology and security environment. Significant progress was also achieved in cloud migration endeavours, the migration of the group Collections & Disbursements, the SAP landscape, and the migration of the group's document management to a new archiving environment, as part of the Delta Lloyd integration.

Financial Economic Crime

Financial and economic crime (FEC), such as money laundering, terrorist financing and non-compliance with sanctions regulations, can harm confidence in the financial sector. Combating FEC is therefore high on the agenda of regulators and supervisory authorities in the Netherlands and elsewhere. In light of this and the recent developments within the financial sector, the Risk Committee was periodically informed on the design, operation and effectiveness of the risk framework aimed at managing and controlling FEC-related risks.

FEC-related risks are an integral part of NN Group's Risk Control Framework. Amongst other things, the framework includes quarterly reporting by the businesses affiliated to NN Group on inherent FEC-related risks, measures adopted to mitigate these risks and how any managed FEC-related risks relate to the risk appetite of NN Group. These reports are incorporated in the risk management report, which is discussed with the Risk Committee on a quarterly basis.

NN Group actively takes preventive measures and has no tolerance for any deviation from relevant FEC laws and regulations. For each area, NN Group looks at the potential impact any incident could have, taking into account not only the financial impact, but also the impact on its customers and reputation.

Audit Committee

The Audit Committee assists the Supervisory Board in the performance of its duties. To this end, it prepares items for discussion and decision-making by the Supervisory Board, and recommends actions in various areas, including:

- the design, operation and effectiveness of the internal risk management and control systems related to financial reporting;
- the integrity and quality of the financial reporting process;
- periodic financial reports and any ad hoc financial information;
- the findings and outcomes of any audit work, by both the external auditor and Corporate Audit Services, the internal audit department of NN Group (e.g. as contained in the quarterly audit reports and yearly management letter/report); and
- establish a procedure for the selection and recommendation of the (re)appointment by the Supervisory Board of the external auditor.

The Audit Committee works closely with the Risk Committee to avoid duplication and omissions in its activities. For this reason, the chair of the Audit Committee is also a member of the Risk Committee, and vice versa.

Composition and attendance

The members of the Audit Committee are Mr Schoen (chair), Mr Harryvan, Mr Hauser and Mr Ruijter. Mr Holsboer stepped down as a member of the Audit Committee on 29 May 2019.

The Audit Committee held six meetings during 2019 with a 100% attendance rate. Mr Cole attended all six meetings as observer and Mr Jenkins attended the meeting in August 2019 as observer. Other attendees were the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel, General Manager Corporate Audit Services, Head of Group Finance & Reporting, Head of Performance & Analytics and the external auditor (KPMG). Subject-matter specialists also regularly attended the meetings.

During 2019, the chair of the Audit Committee separately met with the Chief Financial Officer, General Manager Corporate Audit Services, subject-matter experts and the external auditor to discuss topical issues.

In addition to the regular Audit Committee meetings, the Audit Committee also held closed sessions, which were only attended by the Audit Committee members, the General Manager Corporate Audit Services and the external auditor. In all its meetings, the Audit Committee encouraged open and interactive discussion, and the sharing of critical insights and observations.

Discussion topics

In 2019, the Audit Committee covered a variety of topics in its meetings. These included recurring items that the Audit Committee deals with as a matter of course, typically in relation to the (quarterly) financial reports, (quarterly) press releases, accounting and regulatory developments, pending legal proceedings, interim and final dividend payments to shareholders, the 2019 Audit Plans of the Corporate Audit Services and of KPMG, the independence, remuneration and evaluation of both KPMG and the General Manager Corporate Audit Services, specific financial transactions, the actuarial analyses on the outcome of the reserve adequacy tests in respect of the insurance liabilities, Solvency II, internal controls on financial reporting, (planned) changes in financial reporting processes and systems, and NN Group external reporting frequency.

During 2019, the Audit Committee regularly addressed the acquisition and integration of Aegon Czech and Slovakia, and the intended acquisition of VIVAT Non-life focusing on the key operational, IT and legal risks, as well as the impact on financial reporting and the control environment, with the Executive Board and Management Board, Corporate Audit Services and KPMG. The Audit Committee was also involved in discussions on the implications of the change in external

Report of the Supervisory Board continued

reporting frequency of NN Group from quarterly to semi-annually and was regularly provided with accounting and regulatory updates, including on the preparations for the implementation of IFRS 17.

In its meetings, the Audit Committee also assessed and discussed, amongst other things: (i) the quarterly reports of Corporate Audit Services, (ii) the quarterly reports of KPMG, (iii) reappointment of KPMG, (iv) information technology and security, (v) the annual KPMG Management Letter and annual standard of internal control report of Corporate Audit Services, and (vi) whether there was reasonable assurance that the financial reporting did not contain any errors of material importance. These topics are addressed below in turn.

Quarterly reports of Corporate Audit Services

The quarterly reports of Corporate Audit Services included findings and observations regarding governance, risk management and internal control, focusing on significant internal control weaknesses noted in ongoing audit activities, and follow-up by the Executive Board and Management Board on agreed actions and weaknesses.

The reports categorised the findings and observations into six areas: (i) primary processes, (ii) information technology, cyber and physical security, (iii) financial risk management and reporting, (iv) integration activities, (v) the development of outstanding risks and their mitigation, and (vi) the key internal developments of Corporate Audit Services. The findings of Corporate Audit Services are summarised annually in a Report on the NN Group Standard of Internal Control.

During 2019, Corporate Audit Services reported ongoing progress in the Delta Lloyd integration and transformation process, and in strengthening internal controls leading to improvements in solving high-risk issues. Amongst the challenges, the quarterly reports addressed the high degree of change, and resulting potential vulnerabilities and operational risks for NN Group that should be addressed.

Quarterly reports of KPMG

In its quarterly reports, KPMG presented the outcome of its review of activities and findings in the areas of significant risk identified in its 2019 audit plan, which relate to valuation of insurance liabilities, Solvency II disclosures, unit-linked exposure, valuation of hard-to-value assets, application of hedge accounting and Delta Lloyd integration.

Regarding the areas of significant risk, the quarterly reports provided observations on the valuation of insurance contract liabilities and the reserve adequacy test (RAT), Solvency II capital and risk management disclosures, unit-linked exposure, valuation of hard-to-value assets including impairments, application of hedge accounting, and Delta Lloyd integration. The report also presented specific observations on internal control and external developments relevant to NN Group, including the follow-up on recommendations in the KPMG Management Letter and earlier quarterly reports. Once a year, the findings on internal control are summarised in the annual management letter (described below).

Reappointment of KPMG

The chair of the Audit Committee took an active role in the reappointment process of KPMG as external auditor of NN Group for the three-year term 2020-2022, which reappointment took place at the annual general meeting on 29 May 2019. During this meeting, the chair of the Audit Committee provided an extensive explanation on the process supporting this proposal, which explanation is specifically described in the minutes, available on NN Group website.

Information technology, physical and cybersecurity

The quarterly reports of both Corporate Audit Services and KPMG encompass IT, and the current status and developments concerning the reliability, integrity and availability of data and assets across NN Group and its affiliated businesses. During the Audit Committee meetings, continuous attention was paid to strengthening control, as well as to the IT strategy, processes and priorities, and engineering an IT culture in line with the latest technology.

With respect to IT challenges in 2019, the Audit Committee was regularly updated on the complex integration of Delta Lloyd, including replatforming and decommissioning, as well as a significant number of business initiatives that also put pressure on IT financial resources.

The Audit Committee meetings also addressed in detail the progress and development of IT capabilities during 2019, including reducing the number of incidents and remediation time; increasing the availability of core systems; ensuring an empowered and mature security function, focused on security by design and cybersecurity; automating IT processes and workflows; and attracting and maintaining highly-skilled internal engineering employees. In its meetings, the Audit Committee also regularly discussed agile working methods with an emphasis on the appropriate culture.

KPMG Management Letter 2019

Each year, KPMG issues a management letter which contains observations on NN Group's internal control over financial reporting. The letter is based on the audit and performed quarterly review procedures.

The KPMG Management Letter 2019 contains (i) attention points for the year-end closing, (ii) improvement observations with regards to internal control environment of NN Group, and (iii) a follow-up on the KPMG Management Letter 2018. Section (ii) of the letter contains a set of eight findings. Amongst other things, these relate to NN Group's cyber security controls and observations with respect to CIO and control over IT risk. The findings are rated based on financial reporting risk and urgency or occurrence. The letter also contains a list of concrete recommendations and actions to address (ii) and (iii) above, developed by KPMG and NN Group. In its January 2020 meeting, the Audit Committee discussed the KPMG Management Letter 2019 and the Executive Board and Management Board's response, and reflected extensively on the matters it covered.

No errors of material importance

The Audit Committee discussed on a quarterly basis the financial reporting topics, and related processes and controls, described above. During these discussions, the Audit Committee evaluated these various topics, processes and other considerations, including the risk of fraud, for their potential impact on the quarterly reporting process. The Audit Committee determined that there is reasonable assurance that the financial reporting does not contain any errors of material importance, consistent with the conclusion of the Executive Board on internal control over financial reporting.

Remuneration Committee

The Remuneration Committee assists the Supervisory Board in the performance of its duties. To this end, it prepares items for discussion and decision-making by the Supervisory Board, and recommends actions in various areas, including the:

- remuneration policy for the Executive Board, as well as its implementation and evaluation;
- remuneration and concrete terms & conditions of engagement of individual Executive Board and Management Board members;
- remuneration policy of the Supervisory Board;

Report of the Supervisory Board continued

- remuneration of individual Supervisory Board members;
- remuneration and remuneration policies with respect to Identified Staff (as defined);
- design and implementation of any stock-based compensation programmes;
- application of the remuneration policies within the company;
- compliance with statutory and legal requirements and regulations; and
- performance targets for the Executive Board and Management Board.

Composition and attendance

The members of the Remuneration Committee are Ms Vletter-van Dort (chair), Mr Cole, Mr Harryvan, Mr Jenkins and Mr Ruijter. On 29 May 2019, Ms Vletter-van Dort (previously chair of the Nomination and Corporate Governance Committee) succeeded the former chair of the Remuneration Committee, Mr Holsboer, who stepped down as a member of the Remuneration Committee. The Supervisory Board considers it of great importance that the chair of the Remuneration Committee has affinity with the political and public sphere in the Netherlands.

The Remuneration Committee met five times in 2019 and had a 100% attendance rate. Ms Vletter-van Dort attended the meetings in February 2019 and May 2019 as observer, Mr Cole attended the meeting in February 2019 as observer (as he was appointed as a member of the Remuneration Committee on 13 February 2019) and Mr Hauser attended the meeting in February 2019 as observer. The Chief Executive Officer and Chief Organisation & Corporate Relations also joined the meetings of the Remuneration Committee, unless the committee determined otherwise. The Head of Reward, or a representative, also attended. The chair and members of the Remuneration Committee were in regular contact with the Chief Organisation & Corporate Relations and the Head of Reward.

In addition to the regular Remuneration Committee meetings, three combined meetings with the Nomination and Corporate Governance Committee (Combined Meetings) were held with a 100% attendance rate. Mr Hauser and Mr Schoen attended the Combined Meetings in January 2019 and February 2019 as observers.

Discussion topics

Remuneration policies

The Remuneration Committee reviewed and evaluated the remuneration policies of NN Group as laid down in the NN Group Remuneration Framework, and the remuneration policies for the Executive Board and the Supervisory Board. The NN Group Remuneration Framework was updated with the minimum legal requirements to ensure alignment with regulations and guidelines on governance with effect from 1 January 2019.

Part of the Dutch Law implementing the revised Shareholders' Rights Directive came into force on 1 December 2019. This requires the remuneration policies of the Executive Board and the Supervisory Board to be reviewed and brought in line with the new legislation, and therefore the Supervisory Board, supported by the Remuneration Committee, reviewed these remuneration policies in 2019. The Supervisory Board held various consultation sessions with stakeholders, including shareholders, proxy advisors, employees, regulators and customers and the general public to obtain their feedback on the draft updated policies.

Please refer to page 36 of this Financial Report for more information on the remuneration of the Supervisory Board members.

Other topics

As is required on an annual basis, the Remuneration Committee discussed the risk assessment carried out on the NN Group Remuneration Framework and related processes, which focused on the processes designed to avoid excessive risk-taking by NN Group staff. No high risks have been identified. Identified Staff-related remuneration matters were reviewed and approved in line with the NN Group Remuneration Framework, including the variable remuneration proposals for Identified Staff for performance year 2018 and the 2019 Identified Staff selection. The Remuneration Committee was consulted in relation to the appointment of the new NN Group Chief Executive Officer.

Topics addressed during the Combined Meetings

The following matters were addressed during the Combined Meetings:

- The Remuneration Committee and the Nomination and Corporate Governance Committee assessed the functioning and performance of the Executive Board members, and provided input for the Management Board's performance assessment. Individual meetings with Executive Board and Management Board members formed part of the assessments. The combined committee also reviewed and endorsed the variable remuneration proposals for the Executive Board and Management Board.
- The objectives for the Executive Board for performance year 2019 were discussed and endorsed by the Remuneration Committee and the Nomination and Corporate Governance Committee.
- The Remuneration Committee and the Nomination and Corporate Governance Committee recommended approval of the exception to the NN Group Remuneration Framework in relation to the delivery scheme of variable remuneration selected Identified Staff members of NN Group working at NN Investment Partners. This exception was a result of a change in the remuneration regulatory context.

Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee assists the Supervisory Board in the performance of its duties. To this end, it prepares items for discussion and decision-making by the Supervisory Board, and recommends actions concerning various areas, including:

- the policy of the Executive Board on the selection criteria and appointment procedures for Identified Staff;
- drafting the selection criteria and appointment procedures for Supervisory Board members and Executive Board members;
- the composition of the Supervisory Board and Executive Board; and
- the succession plan for Supervisory Board and Executive Board members.

Composition and attendance

The members of the Nomination and Corporate Governance Committee are Mr Cole (chair), Mr Harryvan, Ms Streit and Ms Vletter-van Dort. On 29 May 2019, Mr Cole succeeded the former chair of the Nomination and Corporate Governance Committee, Ms Vletter-van Dort, who became the chair of the Remuneration Committee. On 29 May 2019, Mr Holsboer stepped down as a member of the Nomination and Corporate Governance Committee.

Report of the Supervisory Board continued

The Nomination and Corporate Governance Committee met seven times in 2019 and had an attendance rate of 100%. Mr Cole, Mr Hauser and Mr Schoen attended the meeting in February 2019 as observers. The Chief Executive Officer and the Chief Organisation & Corporate Relations also joined the meetings of the Nomination and Corporate Governance Committee unless the committee determined otherwise.

Discussion topics

Succession planning

The Nomination and Corporate Governance Committee discussed and evaluated the succession plan for the Executive Board and Management Board members, and other key staff (including Identified Staff), and NN Group's talent management programme. The committee again recommended that more effort should be made to increase the diversity (age, gender, culture and ethnicity) of the succession plan.

Appointment of the Chief Executive Officer

The Nomination and Corporate Governance Committee played an active role in supporting the Supervisory Board in the process of drafting selection criteria and identifying a successor for Mr Friese when he stepped down as a member and chair of the Executive Board and Chief Executive Officer of NN Group, and in the subsequent appointment of Mr Knibbe. The decision to appoint Mr Knibbe was a result of having a sound succession planning process in place. Throughout the appointment process, the Profile of the Executive Board and the Diversity Policy were duly observed.

Composition of the Supervisory Board

The rotation and succession plan for the Supervisory Board was discussed, and the Supervisory Board self-assessment process for 2018 evaluated.

The Nomination and Corporate Governance Committee evaluated, discussed and made recommendations to the Supervisory Board on the composition of the Supervisory Board and its committees, and individual Supervisory Board competencies and skills as at the date of Mr Holsboer' s resignation. In this context, the Nomination and Corporate Governance Committee prepared the discussion for (i) the proposal to appoint Mr Cole as Chair of the Supervisory Board and designate him as a member of the Risk Committee and Remuneration Committee, and a member and chair of the Nomination and Corporate Governance Committee, and (ii) the proposed reappointment of Ms. Vletter-van Dort as a member of the Supervisory Board, Risk Committee, and Nomination and Corporate Governance Committee, and a member and chair of the Remuneration Committee.

Other topics

As is required on an annual basis, the Nomination and Corporate Governance Committee reviewed and discussed the booklet on the application of the Dutch Corporate Governance Code for the financial year 2018. The Nomination and Corporate Governance Committee was consulted in relation to the governance to be followed for, amongst other things, the acquisition of VIVAT Non-Life. The Nomination and Corporate Governance Committee was further consulted in relation to the changes prompted by part of the Dutch Law implementing the revised EU Shareholders' Rights Directive, which came into force on 1 December 2019 in the Charters of the NN Group N.V. Executive Board, Management Board, Supervisory Board and Committees, and the NN Group N.V. Decision Structure.

Evaluation

NN Group has achieved significant progress in 2019 on its path of transformation and innovation initiatives, building on its strong heritage and solid foundation, while adapting to the fast-changing and digital environment and, crucially, becoming more personal and relevant to its customers. NN Group has experienced many changes in 2019 which created opportunities for growth but also posed challenges. Notably, NN Group's intended acquisition of VIVAT Non-Life activities from Athora, has provided opportunities to create scale and become the market leader for Non-Life in the Dutch market. At the same time, this new endeavour coincides with completing Delta Lloyd integration and solving related challenges in relation to monitoring of the remaining integration matters which requires a lot of effort and dedication as well. The Supervisory Board has been continuously involved in discussions on key developments and challenges and has provided its support and guidance, while ensuring that rigid governance processes are in place.

The Supervisory Board appreciates the constructive and successful cooperation with the Executive Board and the Management Board, which have undergone significant changes in 2019. As of 12 August 2019, Mr Friese stepped down as member and chair of the Executive Board and CEO of NN Group. The Supervisory Board is thankful for his outstanding performance over the years and his commitment to serving the long-term interests of the company. Also the Supervisory Board is pleased with the appointment of Mr Knibbe as a member of the Executive Board and CEO of NN Group and is convinced that he has the right leadership skills to drive NN Group forward.

The Supervisory Board would like to extend its gratitude to Mr Erasmus who stepped down as CRO and member of the Management Board of NN Group, effective 31 December 2019. During his tenure, Mr Erasmus made a significant contribution to the stable position that NN Group is in today. The Supervisory Board is playing an active role in supporting the Executive Board in identifying a successor for Mr Erasmus.

On 14 February 2019 it was announced that Mr Holsboer, chair of the Supervisory Board of NN Group, would step down as of the close of the annual general meeting on 29 May 2019. The Supervisory Board elected Mr Cole as his successor, based on Mr Cole's extensive international experience and in-depth knowledge of banking and insurance services. The Supervisory Board appreciates the profound contribution of Mr Holsboer to the development of NN Group and is delighted with Mr Cole joining the Supervisory Board to further strengthen its role and responsibilities towards NN Group.

The Supervisory Board continues to cherish being part of NN Group's resilient journey towards transformation and innovation with long-term values at heart. The Supervisory Board thanks the members of the Executive Board and the Management Board, and all talented people of NN Group and its businesses for their immense efforts, drive and devotion to help NN Group to accelerate transformation and improve the financial futures of its customers.

Corporate governance

General

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

NN Group was incorporated on 29 March 2011 under the name ING Insurance Topholding N.V. On 28 February 2014, NN Group entered into a legal merger with its wholly-owned subsidiary ING Verzekeringen N.V. (ING Verzekeringen), at that time a public limited liability company incorporated under the laws of the Netherlands. On 1 March 2014, the legal merger became effective. As a result of this merger, ING Verzekeringen ceased to exist, NN Group acquired all assets and liabilities of ING Verzekeringen under universal title of succession and was renamed NN Group N.V. At that time NN Group had one shareholder: ING Groep N.V. (ING Group), a public limited liability company incorporated under the laws of the Netherlands. On 2 July 2014, ING Group offered part of its shares in the share capital of NN Group to the public and the shares in the capital of NN Group were listed on Euronext Amsterdam (IPO). Settlement of the offering took place on 7 July 2014. ING Group completed its divestment of NN Group on 19 April 2016. As of 5 October 2015, NN Group voluntarily applied the full large company regime (volledig structuurregime). Effective 29 May 2015, NN Group filed a declaration with the commercial register in which it stated to meet the requirements of paragraph 2 of clause 153 of book 2 of the Dutch Civil Code. As a result, and effective 29 May 2018, NN Group mandatorily applies the full large company regime.

On 2 February 2017, NN Group announced a recommended public cash offer to all holders of issued and outstanding ordinary shares in the capital of Delta Lloyd N.V. (Delta Lloyd) to acquire their shares. On 26 April 2017, NN Group announced that following the settlement, NN Group – via its wholly-owned subsidiary NN Group Bidco B.V. (NN Group Bidco) – held 93.3% of the issued and outstanding ordinary shares in the capital of Delta Lloyd. On 31 May 2017, NN Group Bidco, NN Group and Delta Lloyd entered into a legal merger. On 1 June 2017, the legal merger became effective. As a result of this merger, remaining holders of Delta Lloyd ordinary shares received NN Group's ordinary shares, Delta Lloyd ceased to exist, and NN Group Bidco acquired all assets and liabilities of Delta Lloyd under universal title of succession. Subsequently, as part of the legal restructuring process, NN Group entered into a legal merger with NN Group Bidco. As a result of this merger, NN Group Bidco ceased to exist and NN Group assumed all assets and liabilities of NN Group Bidco, including its subordinated notes of EUR 750 million and the Delta Lloyd legal entities. The legal merger became effective on 31 December 2017.

Executive Board

Duties

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

Certain resolutions of the Executive Board require the approval of the Supervisory Board and/or general meeting of shareholders (General Meeting). These resolutions are outlined in the Articles of Association of NN Group (Articles of Association), which are available on the NN Group website, and in the charter of the Executive Board.

Appointment, removal and suspension

In 2019 NN Group applied the full large company regime. Under this regime the members of the Executive Board are appointed by the Supervisory Board. Prior to appointing a member of the Executive Board, the Supervisory Board must notify the General Meeting of such an intended appointment.

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

Composition

The Executive Board must consist of two or more members, with the total number of members of the Executive Board determined by the Supervisory Board after consultation with the Executive Board. Guiding principles for the appointment of members and the composition of the Executive Board are provided in the profile of the Executive Board and Management Board which includes the diversity policy for the composition of these boards. The profile including the diversity policy is available on the NN Group website.

Lard Friese stepped down on 12 August 2019 as member and Chair of the Executive Board and Chief Executive Officer of the company. He had been appointed as member and Vice-chair of the Executive Board on 1 March 2014 and Chair and Chief Executive Officer as of 7 July 2014. He had been reappointed as member of the Executive Board and had again been designated as Chair of the Executive Board and Chief Executive Officer on 1 June 2017.

As at 31 December 2019 the Executive Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment	Termination/ reappointment	Tenure
David Knibbe	Chair, Chief Executive Officer (CEO)	15 March 1971	Male	Dutch	1 October 2019	2023*	Less than 1 year
Delfin Rueda	Vice-chair, Chief Financial Officer (CFO)	8 April 1964	Male	Spanish	1 March 2014, reappointment 31 May 2018	2022*	6 years

* Terms of appointment will end at the close of the annual general meeting (AGM) of NN Group N.V. in 2023 and 2022 respectively.

Corporate governance continued

David Knibbe was appointed to the Executive Board and designated as Chief Executive Officer of NN Group and chair of the Executive Board effective 1 October 2019. He is responsible for the business strategy, performance and day-to-day operations of NN Group. Mr Knibbe has already been a member of the Management Board since 7 July 2014. On 1 September 2014, Mr Knibbe was appointed Chief Executive Officer Netherlands. In this role Mr Knibbe was responsible for NN Group's insurance and banking business in the Netherlands and leading the integration of NN and Delta Lloyd. From 2013 until 2014, he served as Chief Executive Officer of ING Insurance International. In 2013 he became member of the NN Group Operating Committee. From 2011 to 2013, he served as Chief Executive Officer of ING Insurance Central and Rest of Europe. During 2010, Mr Knibbe was Chief Executive Officer Insurance Corporate Clients in the Netherlands. From 2007 to 2008, Mr Knibbe was General Manager of Nationale-Nederlanden Individual Life (retail life and individual pensions), which then became Intermediary Pensions and Retail Life with the addition of the SME pensions business in 2008. In 2009, Mr Knibbe became General Manager Pensions with the addition of corporate pensions and removal of retail life from his area of responsibility. Prior to that, from 2004 to 2007, Mr Knibbe was Director Disability and Accident Insurance of Nationale-Nederlanden. From 2002 to 2004, he was Managing Director of ING's life insurance and employee benefits joint venture with Piraeus Bank in Greece. Mr Knibbe was Head of Investments of Central-Holland of ING Bank from 2000 to 2002. Mr Knibbe started his professional career in 1997 when he joined ING, serving in various positions in investment management and banking. Mr Knibbe holds a Master's degree in monetary economics from the Erasmus University in Rotterdam (the Netherlands). Mr Knibbe was chair of the board of the Dutch Association of Insurers (Verbond van Verzekeraars) from 9 December 2015 until 20 June 2018. From 20 July 2018 until 18 December 2019, he was Vice-chair of the Dutch Association of Insurers. Furthermore, Mr Knibbe is member of the board and treasurer of the Confederation of Netherlands Industry and Employers (VNO-NCW), as well as Member of the Federative Board VNO-NCW and MKB NL. He is also member of the board of the Johan Cruyff Foundation and member of the advisory board of JINC.

Delfin Rueda was appointed to the Executive Board as Chief Financial Officer on 1 March 2014. As of 7 July 2014, he serves as Vice-chair of the Executive Board. On 31 May 2018, he was reappointed as member of the Executive Board and again designated Chief Financial Officer of NN Group and Vice-chair of the Executive Board. Mr Rueda is responsible for NN Group's finance departments and investor relations. As of 1 January 2020 he assumes the Chief Risk Officer portfolio ad interim. From 1 October 2013 until the legal merger between NN Group and ING Verzekeringen, which became effective on 1 March 2014, he was a member of the management board and Chief Financial Officer of ING Verzekeringen. Mr Rueda served as Chief Financial Officer and as a member of the management board of ING Insurance Eurasia from 1 November 2012 until 7 July 2014. Prior to joining ING in November 2012, Mr Rueda served as Chief Financial and Risk Officer and as a member of the management board at Atradius from 2005 to 2012. From 2000 to 2005, Mr Rueda served as Senior Vice-president of the Financial Institutions Group, Corporate Finance, at J.P. Morgan. Prior to that, from 1993 to 2000, he was Executive Director of the Financial Institutions Group, Corporate Finance, at UBS. Mr Rueda began his career with Andersen Consulting, which later became Accenture, where he undertook different advisory assignments in information systems and strategic management services from 1987 to 1991. Mr Rueda holds a master degree in economic analysis and quantitative economics from the Complutense University of Madrid (Spain) and an MBA with a finance major from the Wharton School, University of Pennsylvania (USA). Besides being a member of the Executive Board, Mr Rueda is supervisory board member and chairman of the audit committee of the supervisory board of Adyen N.V. Mr Rueda is also Vice-chair of the CFO Forum and member of the Supervisory Committee of Alma Mundi Insurtech Fund.

Remuneration

Information on the remuneration policy for members of the Executive Board and on their individual remuneration can be found in the Remuneration Report, on page 32-37.

Management Board

Role and duties

The Management Board is entrusted with the day-to-day management of NN Group and the overall strategic direction of NN Group. In performing its duties, the Management Board must carefully consider and act in accordance with the interests of NN Group and the business connected with it, taking into consideration the interests of all the stakeholders of NN Group. The authority to manage NN Group is vested in the Executive Board as a whole, notwithstanding that each of the members of the Management Board is responsible and accountable to the Executive Board and within the Management Board for the specific tasks as assigned. Being comprised of the Executive Board members as well as key leaders with a divisional or functional responsibility, the Management Board allows for integral and holistic decision-making at the highest level of NN Group with functions, the businesses and Executive Board members represented. Besides serving balanced, effective and timely decision-making, NN Group having a Management Board also provides for flexibility in terms of composition, allocation of tasks and responsibilities and required knowledge. In supervising the functioning of NN Group's corporate governance structure, including its checks and balances, the Supervisory Board pays specific attention to the dynamics and relationship between the Executive Board and the Management Board as well as the manner in which the Management Board operates. The Supervisory Board will be provided with all the information necessary for the proper performance of this duty. In principle, members of the Management Board are present at meetings with the Supervisory Board where topics are discussed that relate to their area of responsibility. Next to that, the Supervisory Board regularly meets with the full Management Board. The organisation, role, duties and working methods of the Management Board are detailed in the charter of the Management Board. The charter is available on the NN Group website.

Composition, appointment and removal

The Management Board consists of the members of the Executive Board and such other members as appointed by the Executive Board after consultation with the Supervisory Board. The number of members of the Management Board is determined by the Executive Board. Guiding principles for the appointment of members and the composition of the Management Board are provided in the profile of the Executive Board and Management Board which includes the diversity policy for the composition of these boards. The profile including the diversity policy is available on the NN Group website.

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

Corporate governance continued

As at 31 December 2019 the Management Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment	Tenure
David Knibbe	Chair, Chief Executive Officer (CEO) (as of 1 October 2019)	15 March 1971	Male	Dutch	7 July 2014	5 years
Delfin Rueda	Vice-chair, Chief Financial Officer (CFO)	8 April 1964	Male	Spanish	7 July 2014	6 years
Satish Bapat	Chief Executive Officer NN Investment Partners	23 June 1966	Male	Dutch	1 April 2017	2 year
Tjeerd Bosklopper	Chief Executive Officer Netherlands a.i. (as of 17 December 2019) and CTO	3 March 1975	Male	Dutch	1 September 2018	1 year
Jan-Hendrik Erasmus	Chief Risk Officer (CRO) (as of 1 October 2016)	27 July 1980	Male	British and South African	1 September 2016 Mr Erasmus stepped down on 31 December 2019	3 years
Dailah Nihot	Chief Organisation & Corporate Relations	12 June 1973	Female	Dutch	1 September 2018	1 year
Fabian Rupprecht	Chief Executive Officer International Insurance	22 December 1969	Male	German and Swiss	1 September 2018	1 year
Janet Stuijt	General Counsel	26 September 1969	Female	Dutch	1 September 2018	1 year

Lard Friese had been appointed to the Executive Board on 1 March 2014 and reappointed in 2017 and was also a member of the Management Board. He stepped down on 12 August 2019 as member of the Executive Board, resulting in the termination of his membership of the Management Board.

Information in respect of the members of the Management Board who are also members of the Executive Board, David Knibbe and Delfin Rueda, can be found under 'Executive Board – Composition', on page 21.

Satish Bapat was appointed to the Management Board as Chief Executive Officer NN Investment Partners as of 1 April 2017. Mr Bapat is responsible for NN Group's asset management business. From 2013 to 1 April 2017, he was Chief Executive Officer of NN Life Japan and, prior to this, Chief Executive Officer of Asia Pacific for ING Investment Management. From 2011 to 2012, Mr Bapat was Global Chief Financial Officer at ING Investment Management and from 2010 to 2011 he was Chief Financial Officer Europe for ING Investment Management. Before joining ING, Mr Bapat was Change Project Manager at RBS N.V. from 2009 to 2010. From 2008 to 2009, he served as Global Head of Finance at Robeco Asset Management, and from 2006 to 2008 as Global Head of Finance at ABN AMRO Asset Management. Prior to this, from 2005 to 2006 Mr Bapat was Group Financial Controller at TNT N.V. From 1998 to 2005, Mr Bapat served as Senior Manager at Deloitte & Touche in the Netherlands, after having held the role of Audit Senior at Deloitte & Touche in the USA since 1994. Mr Bapat holds a Master of Business Administration degree in finance from the Temple University of Philadelphia (USA) and a Bachelor's degree in Accounting from the University of Bombay (India). He is also a public accountant (USA).

Tjeerd Bosklopper was appointed CEO Netherlands ad interim as of 17 December 2019. In this role, he is responsible for all insurance and banking business in the Netherlands and IT. Mr Bosklopper was appointed to the Management Board as Chief Transformation Officer on 1 September 2018, and as such responsible for three areas: IT, driving (technological) transformation, and innovation. In 2018, Mr Bosklopper was Head of Integration of Nationale-Nederlanden Netherlands and Belgium. From 2015 to 2018, Mr Bosklopper was Head of Individual Life at NN Group in the Netherlands. From 2012 to 2015, Mr Bosklopper was Chief Executive Officer at Nationale-Nederlanden Life & Pensions in Poland. From 2010 to 2012, he was Chief Information & Transformation Officer at Nationale-Nederlanden Netherlands. From 2006 to 2010, he was Director Product Management at Nationale-Nederlanden Non-life Netherlands. From 2004 to 2006, Mr Bosklopper was Executive Vice-president and Chief Marketing Officer at ING Life South Korea. From 2003 to 2004, he was Project Manager at ING Aetna Life Indonesia. From 2001 to 2003, he was Regional e-business Manager at ING Group's regional office in Hong Kong. From 1999 to 2001, he participated in the Global Management Programme (GMP) at ING Group. Mr Bosklopper holds a Master of Science in Business Information Technology from the University of Twente (the Netherlands). As of 18 December 2019, Mr Bosklopper is a member of the board of the Dutch Association of Insurers (Verbond van Verzekeraars).

Jan-Hendrik Erasmus was appointed to the Management Board on 1 September 2016 and as Chief Risk Officer of NN Group on 1 October 2016. Mr Erasmus stepped down as Management Board member and Chief Risk Officer of NN Group on 31 December 2019. Mr Erasmus was responsible for NN Group's overall risk framework with direct responsibility for the risk management departments. He was also responsible for the Actuarial function, reinsurance and procurement globally. Prior to joining NN Group, Mr Erasmus was a partner in Oliver Wyman's Financial Services business, Head of the UK Insurance Practice and a member of the European leadership team. Jan-Hendrik joined Oliver Wyman in 2009 and his consulting work predominantly focused on risk, capital and asset-liability management for UK and European insurers. From 2007 to 2009, Mr Erasmus worked for Lucida plc where he led one of the deal teams and was the Director of Risk and Capital Management. From 2005 to 2007, Mr Erasmus worked at Prudential plc's Group Head Office, lastly as Head of Group Risk-adjusted Profitability. He started his professional career in 2003 at Momentum Life in the investment product development department. Mr Erasmus holds an Executive MBA (with distinction) from London Business School (United Kingdom) and a Bachelor of Commerce (Hons) in actuarial science from the University of Pretoria (South Africa). He is a Fellow of the Institute of Actuaries in the United Kingdom, and holds the Chartered Enterprise Risk Actuary (CERA) qualification. Mr Erasmus is also member of the CRO Forum and member of the Supervisory Committee of Alma Mundi Insurtech Fund.

Corporate governance continued

Dailah Nihot was appointed to the Management Board as Chief Organisation & Corporate Relations as of 1 September 2018. Ms Nihot is responsible for human resources, corporate communications, sustainability and corporate citizenship, branding and sponsorship, public and government affairs, and facility management. From 2013 to 2018, she was Managing Director of Corporate Relations for NN Group. Prior to this, from 2006 to 2013, she was Global Head of Sustainability, and Director of the ING for Something Better Foundation at ING Group, which focuses on the company's global ethical, social and environmental strategy and performance. Ms Nihot started her professional career in the external communications department of ING Group, and was a corporate spokesperson and strategic communications advisor from 2001 to 2006. Ms Nihot serves as management representative in the Central Works Council of NN Group (Works Council). She holds a Master of European Studies from the University of Amsterdam (the Netherlands) and an Executive Master in Corporate Communication from the RSM Erasmus University in Rotterdam (the Netherlands).

Fabian Rupprecht was appointed to the Management Board as Chief Executive Officer International Insurance as of 1 September 2018. Mr Rupprecht is responsible for NN Group's insurance businesses outside the Netherlands: Insurance Europe, Japan Life and Japan Closed Block VA businesses. From 1996 to 2018, Mr Rupprecht worked for AXA. From 2016 to 2018, he was Chief Executive Officer Middle East & Africa, and Regional Chief Financial Officer and member of the regional executive committee at AXA Emerging Markets (CEE, MEA, LATAM). From 2013 to 2016, he was Regional Chief Financial Officer at AXA Mediterranean Holding, and member of the regional executive committee. From 2010 to 2013, he was Head of AXA Global Life, and member of the Global Life & Health board. From 2008 to 2010, he was Head of Individual Life, and member of the executive board of AXA-Winterthur. From 2001 to 2007, he was Head of Life & Annuity Offer at AXA Germany. From 1998 to 2000, Mr Rupprecht was Head of EquiVest Product Management at The Equitable Life Assurance (AXA) USA. From 1996 to 1998, he served as Head of Accounting for Health & Life Insurance at Colonia Konzern AG (AXA/UAP). From 1994 to 1996, he was assistant to the executive board at Colonia Konzern AG (UAP). Mr Rupprecht holds a Diploma in Business Administration, with majors in finance and controlling, from the WHU Otto Beisheim School of Management (Koblenz, Germany).

Janet Stuijt was appointed to the Management Board as General Counsel as of 1 September 2018. Ms Stuijt is responsible for NN Group's legal function and compliance function and holds the position of company secretary. Ms Stuijt joined ING Verzekeringen in 2011 in that same capacity. From 2008 to 2010 she was General Counsel Commercial Banking at ING Group. From 1998 to 2008, Ms Stuijt held various senior (global) management positions within ABN AMRO's legal department, primarily relating to ABN AMRO's corporate strategic and investment banking activities. In 1998, she was Regional Legal Counsel at ABN AMRO's regional office in Singapore. From 1993 to 1997 Ms Stuijt practised law as an associate at Loeff Claeys Verbeke/Allen Overy, Singapore office (1997) and De Brauw Blackstone Westbroek (1993-1997). Ms Stuijt holds a Master's in Civil law, from the University of Leiden, the Netherlands. Since 2016 she is a member of the supervisory board of N.V. Nederlandse Spoorwegen and a member of its risk & audit committee and chair of the nomination & remuneration committee.

Supervisory Board

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

Appointment, removal and suspension
The members of the Supervisory Board are appointed by the General Meeting upon nomination of the Supervisory Board. The General Meeting and the Works Council may recommend candidates for nomination to the Supervisory Board. The Supervisory Board must simultaneously inform the General Meeting and the Works Council of the nomination. The nomination must state the reasons on which it is based. The Supervisory Board is required to nominate one-third of the Supervisory Board members on the enhanced recommendation (versterkt aanbevelingsrecht) of the Works Council, unless the Supervisory Board objects to the recommendation on the grounds that the recommended candidate is not suitable to fulfil the duties of a member of the Supervisory Board or that the Supervisory Board will not be properly composed if the nominated candidate is appointed.

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

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

Corporate governance continued

The Supervisory Board may suspend a member of the Supervisory Board. The suspension will lapse by law if NN Group has not submitted a petition to the Enterprise Chamber of the Amsterdam Court of Appeal (Ondernemingskamer van het Gerechtshof te Amsterdam) within one month after commencement of the suspension. The General Meeting can, by an absolute majority of votes cast, representing at least one-third of the issued share capital, resolve to abandon its trust (het vertrouwen opzeggen) in the entire Supervisory Board. A resolution to remove the Supervisory Board for lack of confidence cannot be adopted until the Executive Board has notified the Works Council of the proposal for the resolution and the reasons therefore. If the General Meeting removes the Supervisory Board members for lack of confidence, the Executive Board must request the Commercial Division of the Amsterdam Court of Appeal to temporarily appoint one or more Supervisory Board members.

Composition

The Supervisory Board must consist of three or more members, with the total number of members of the Supervisory Board determined by the Supervisory Board. As at 31 December 2019 the Supervisory Board consisted of eight members, who are all independent within the meaning of best practice provision 2.1.8. of the Dutch Corporate Governance Code. In accordance with the Offer Memorandum, issued in connection with the recommended public cash offer to all holders of issued and outstanding ordinary shares in the capital of Delta Lloyd, two Continuing Members – as described in the Offer Memorandum – were appointed as members of the Supervisory Board on 1 June 2017. The Continuing Members monitor and protect the interests of Delta Lloyd's stakeholders.

The profile of the Supervisory Board is available on the NN Group website.

As at 31 December 2019 the Supervisory Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment	Termination/ reappointment	Tenure
David Cole	Chair (as of the close of the AGM on 29 May 2019)	2 October 1961	Male	Dutch and American	1 January 2019	2022	1 year
Dick Harryvan	Vice-chair (as of 24 February 2016)	10 May 1953	Male	Dutch	2 February 2016	2020	4 years
Heijo Hauser	Member	23 June 1955	Male	German	7 July 2014, reappointment 31 May 2018	2022	5 years
Robert Jenkins	Member	17 January 1951	Male	American	2 February 2016	2020	4 years
Robert Ruijter	Member (recommended by Works Council)	14 April 1951	Male	Dutch	1 June 2017	12 April 2020	2 years
Hans Schoen	Member	2 August 1954	Male	Dutch	7 July 2014, reappointment 31 May 2018	2022	5 years
Clara Streit	Member	18 December 1968	Female	German and American	1 June 2017	12 April 2020	2 years
Hélène Vletter–van Dort	Member (recommended by Works Council)	15 October 1964	Female	Dutch	6 October 2015, reappointment 29 May 2019	2023	4 years

Jan Holsboer who had been appointed to the Supervisory Board on 1 March 2014, who served as Chair as of 7 July 2014 and was considered by the Central Works Council as appointed pursuant to its enhanced recommendation as of 31 May 2018, stepped down as of the close of the AGM on 29 May 2019.

David Cole was appointed to the Supervisory Board on 31 May 2018, which became effective on 1 January 2019. As of the close of the AGM on 29 May 2019, he serves as Chair of the Supervisory Board. Mr Cole was born on 2 October 1961 and has Dutch and American nationality. He was chief financial officer and chief risk officer of Swiss Re Ltd., chief financial officer and chief risk officer of (former) ABN AMRO Holding (Bank) N.V. and member of the board of directors of FWD Group Management Holdings Ltd. Besides being a member of the Supervisory Board, Mr Cole is, amongst others, member of the board of directors of Vontobel Holding AG (Zürich) and of Swiss Re Asia Pte. Ltd and Swiss Re Corporate Solutions Brazil and chair of the supervisory board of IMC B.V.

Dick Harryvan was appointed to the Supervisory Board on 6 October 2015, which became effective on 2 February 2016. He was appointed Vice-chair of the Supervisory Board on 24 February 2016. From 2006 through 2009, Mr Harryvan was member of the executive board of ING Group and chief executive officer of ING Direct. Other former positions include co-chair of the International Academy of Retail Banking, non-executive director of Voya Financial Inc., general manager Bancassurance at ING Bank, deputy general manager at Nationale-Nederlanden, vice-president Operations of the Halifax Insurance Company, member of the advisory board of Gulf Bank and member of the advisory board of ONYX4People. Besides being a member of the Supervisory Board, Mr Harryvan is, amongst others, member of the supervisory board of ANWB B.V. and partner at Finch Capital (formerly called Orange Growth Capital). The term of appointment of Mr Harryvan ends at the close of the AGM on 28 May 2020 (2020 AGM). He has indicated that he is not available for reappointment.

Corporate governance continued

Heijo Hauser was appointed to the Supervisory Board as of 7 July 2014. On 31 May 2018, he was reappointed as Supervisory Board member. From January 1991 until June 2011, Mr Hauser was managing director of Towers Watson in Germany. He specialised in providing consulting services to insurance companies in areas such as strategy, distribution, product and risk management. He also managed Towers Watson's businesses in the German-speaking, Nordic and Central European countries. From September 1987 until December 1990, Mr Hauser was managing director of the travel and financial services subsidiaries of Metro in Germany. Other previous positions include sales director of Deutsche Krankenversicherung and marketing actuary of Victoria Lebensversicherung. Mr Hauser holds a Master's degree in mathematics from the Ruhr University of Bochum (Germany). Besides being a member of the Supervisory Board, Mr Hauser is chair of the board of Freundeskreis Elisabeth-Hospiz e.V.

Robert Jenkins was appointed to the Supervisory Board on 6 October 2015, which became effective on 2 February 2016. Since 2009, he is adjunct professor of finance at London Business School where he teaches investment management. From 2014 to 2016 he was founding chair of the AQR Asset Management Institute at LBS. From September 2013 through September 2019 Mr Jenkins was a member of the board of governors of CFA Institute. During his tenure he served as chairman of the board, chair of the audit and risk committee, chair of the remuneration committee and chair of the nominations committee. From 2009 until 2014 Mr Jenkins was a senior advisor to CVC Capital Partners and from 2011 until 2013 he was an external independent member of the interim Financial Policy Committee of the Bank of England. Mr Jenkins has served as chair of the Investment Management Association, UK, chair of the board of F&C Asset Management, plc (non-executive) and chief executive officer of the F&C Group. Other former positions include that of chief operating officer of Credit Suisse Asset Management Holding, UK, chief investment officer and head of asset management at Credit Suisse, Japan, and senior vice-president at Citigroup with executive assignments in the Middle East, Switzerland, United States and Japan. He was senior fellow at Better Markets, Washington, D.C. The Supervisory Board has nominated him for reappointment as member of the Supervisory Board for a term of four years. The proposal for reappointment will be submitted for adoption at the 2020 AGM.

Robert Ruijter was appointed to the Supervisory Board on 1 June 2017. He is the former chair of the supervisory board of Delta Lloyd N.V. and one of the Continuing Members. He was managing director and chief financial officer of KLM Royal Dutch Airlines, director of finance of the Philips Group and chief financial officer and member of the executive board of VNU N.V. (currently called: The Nielsen Company). He has also served as non-executive board member of Inmarsat plc. Besides being a member of the Supervisory Board, Robert Ruijter is member of the supervisory board of Wavin N.V. and non-executive board member of Interxion Holding N.V. The term of appointment of Mr Ruijter ends on 12 April 2020. He has indicated that he is not available for reappointment.

Hans Schoen was appointed to the Supervisory Board as of 7 July 2014. On 31 May 2018, he was reappointed as Supervisory Board member. From September 1977 until October 2008, Mr Schoen worked at KPMG Accountants and was a partner as of January 1989. He specialised in providing audit and advisory services to domestic and foreign insurance companies. Other former significant positions of Mr Schoen include member and chair of several insurance industry committees of the NIVRA and the Dutch Accounting Standards Board, member of the governmental advice committee Traas in respect of the financial and prudential reporting obligations of Dutch insurance companies, member of several advisory committees of the IASC/IASB on insurance company financial reporting requirements and member and part-time acting director of research of the Technical Expert Group of EFRAG in Brussels (Belgium). Until 27 April 2016, Mr Schoen served as chair of the EFRAG Insurance Accounting Working Group. Mr Schoen holds a degree in economics and a postdoctoral degree in accountancy from the University of Amsterdam (the Netherlands). In September 2015, he received a Doctorate (PhD) from the VU University Amsterdam (the Netherlands). As of 12 April 2020, Mr Schoen will be considered as appointed pursuant to the enhanced recommendation right of the Central Works Council.

Clara Streit was appointed to the Supervisory Board on 1 June 2017. She is a former member of the supervisory board of Delta Lloyd N.V. and one of the Continuing Members. Clara Streit was senior partner at McKinsey & Company Inc. in Munich and Frankfurt. Until 12 April 2018, she was member of the board of directors of Unicredit S.p.A (Milan). Positions currently held by Ms Streit include membership of the board of directors of Vontobel Holding AG (Zürich) and membership of the supervisory board of Vonovia SE (Düsseldorf). Ms Streit is also a member of the board of directors of Jerónimo Martins SGPS S.A. (Lisbon). In May 2019, Ms Streit was appointed member of the supervisory board of Deutsche Börse AG (Frankfurt). The term of appointment of Ms Streit ends on 12 April 2020. The Supervisory Board has nominated her for reappointment as member of the Supervisory Board for a term of four years. The proposal for reappointment will be submitted for adoption at the 2020 AGM.

Hélène Vletter-van Dort was appointed to the Supervisory Board on 6 October 2015 pursuant to the enhanced recommendation right of the Works Council. On 29 May 2019, she was reappointed as Supervisory Board member. In addition to being a member of the Supervisory Board, Ms Vletter-van Dort is, amongst others, a professor of financial law & governance at the Erasmus School of Law, chair of the supervisory board of Intertrust N.V. and chair of the board of Stichting Luchtmans. Ms Vletter-van Dort is a former non-executive board member of Barclays Bank plc. Ms Vletter-van Dort also served as a member of the supervisory board of the Dutch Central Bank (DNB) and chair of its committee on supervisory policy. Other previous positions include, amongst others, visiting research professor at New York University, professor of securities law at the University of Groningen, judge at the Enterprise Chamber of the Amsterdam Court of Appeal, lawyer at Clifford Chance in Amsterdam (the Netherlands), member of the supervisory board of Fortis Bank Nederland (Holding) N.V. and Fortis Bank (Nederland) N.V., chair of the Appeal Panel of the Single Resolution Board and member of the Monitoring Committee Corporate Governance Code. As of the close of the 2020 AGM, Ms Vletter-van Dort will serve as Vice-chair of the Supervisory Board.

More information on the composition of the Supervisory Board can be found in the Report of the Supervisory Board, on pages 10-20.

Remuneration

Information on the remuneration of the members of the Supervisory Board can be found in the Remuneration Report, on pages 32-37.

Corporate governance continued

Committees of the Supervisory Board

The Supervisory Board has established four committees: the Audit Committee, the Risk Committee, the Remuneration Committee, and the Nomination and Corporate Governance Committee. The organisation, duties and working methods of the Supervisory Board committees are detailed in a separate charter for each committee. These charters are available on the NN Group website. Information on the duties and responsibilities of the respective committees and their composition can also be found in the Report of the Supervisory Board on pages 10-20.

Diversity

NN Group aims to have an adequate and balanced composition of its boards. When composing a board, several relevant selection criteria need to be balanced.

When Lard Friese stepped down as member of the Executive Board on 12 August 2019, he was succeeded by David Knibbe, an excellent successor from within the company. Mr Knibbe has the right leadership skills to drive NN Group going forward. Having worked in a variety of senior management roles, Mr Knibbe has a deep understanding and experience of NN's businesses, the sector, and the markets in which NN operates. He successfully led the integration of Delta Lloyd and is a dynamic, customer-focused and values-driven business leader, whose vision and execution track record contribute to the future of NN Group. The appointment of Mr Knibbe was in accordance with the profile of the Executive Board and Management Board. With the appointment of Mr Knibbe, the gender balance within the Executive Board, which consists of two members, remained unchanged and did not meet the gender balance of having at least 30% men and at least 30% women in 2019.

Two out of the four appointments to the Management Board in 2018 were women. As a result, 22% of the members of the Management Board were female and 78% were male. Following the resignation of Lard Friese on 12 August 2019, the composition of the Management Board was 25% female and 75% male.

In 2019 the gender balance of having at least 30% men and at least 30% women amongst the members of the Supervisory Board was not met. When searching for suitable candidates for the Supervisory Board, various criteria play a role, for instance background, age and nationality, but also experience in corporate governance, experience in a political and social/economic setting, and DNB guidelines. In line with the long-term objectives of NN Group diversity criteria are also taken into consideration as factors. In case of vacancies, efforts were made to find suitable female successors. At the same time, appointments must be made on the basis of suitability for a position. This means considering someone's personality and the experience and insights that he or she can bring.

As announced, the Supervisory Board nominated Clara Streit and Robert Jenkins for reappointment. If reappointed, the composition of the Supervisory Board will be 33% female and 67% male following the 2020 AGM.

In future appointments of board members, NN Group will continue to take into account all laws and regulations and relevant selection criteria including but not limited to executive experience, experience in corporate governance of large stock-listed companies, and experience in the political and social environment in which such companies operate. In the selection of the members of the Executive Board and the Management Board considered as a whole, and in the selection of the members of the Supervisory Board, there will be a balance in terms of nationality, gender, age, experience, education and work background. In addition, there will be a balance in the affinity with the nature and culture of the business of the company and its subsidiaries.

In order to ensure that the Executive Board, the Management Board and the Supervisory Board are at all times adequately composed, appointments to these boards are made on the basis of harmonised policies and visions of the various corporate bodies of NN Group and in accordance with legal and regulatory requirements. Both the profile of the Executive Board and Management Board and the profile of the Supervisory Board include a diversity policy. The guiding principles included in the profiles are taken into account when (re-) appointing board members. Notwithstanding the above, the principle of having at least 30% men and at least 30% women is applied in the succession planning for all Executive Board and Supervisory Board positions, as well as for all Strategic Leadership Group – including Management Board – positions. Succession planning is a key instrument in achieving the long-term diversity objectives and is part of the Human Capital Development policies of NN Group. More detail can be found in the Diversity and inclusion section on page 33 in the Annual Review.

Conflicts of interest

No transactions were entered into in 2019 in which there were conflicts of interest with Executive Board members and/or Supervisory Board members that are of material significance to NN Group and/or to the relevant board members.

General meeting

Frequency, notice and agenda

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

General meetings are convened by a public notice via the NN Group website no later than on the 42nd day before the day of the general meeting. The notice includes the place and time of the meeting and the agenda items. Shareholders who, alone or jointly, represent at least 3% of the issued share capital of NN Group may request to place items on the agenda, provided that the reasons for the request are stated therein and the request is received by the chair of the Executive Board or the chair of the Supervisory Board in writing at least 60 days before the date of the general meeting.

Corporate governance continued

Admission to the general meeting
Each holder of shares in the share capital of NN Group entitled to vote, and each other person entitled to attend and address the general meeting, is authorised to attend the general meeting, to address the general meeting and to exercise voting rights. For each general meeting a statutory record date will in accordance with Dutch law be set on the 28th day prior to the date of the general meeting, in order to determine whose voting rights and rights to attend and address the general meeting are vested. Those entitled to attend and address a general meeting may be represented at a general meeting by a proxy holder authorised in writing.

Voting and resolutions
Each share in the share capital of NN Group confers the right on the holder to cast one vote. At a general meeting all resolutions must be adopted by an absolute majority of the votes cast, except in those cases in which the law or the Articles of Association require a greater majority. If there is a tie in voting, the proposal concerned will be rejected.

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

In addition, as of 1 December 2019, the General Meeting advises on the Remuneration Report and adopts the remuneration policy for the members of the Supervisory Board, including the remuneration for the Supervisory Board members, upon a proposal of the Supervisory Board.

Shares and share capital

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

Currently, only ordinary shares are issued, while a call option to acquire preference shares is granted to the foundation (stichting): Stichting Continuiteit NN Group (NN Group Continuity Foundation). The objectives of NN Group Continuity Foundation are to protect the interests of NN Group, the business maintained by NN Group and the entities with which NN Group forms a group and all persons involved therein, in such a way that the interests of NN Group and those businesses and all persons involved therein are protected to the best of its abilities, and by making every effort to prevent anything which may affect the independence and/or the continuity and/or the identity of NN Group and of those businesses in violation of the interests referred above. NN Group Continuity Foundation shall pursue its objectives, inter alia, by acquiring and holding preference shares in the share capital of NN Group and by enforcing the rights, in particular the voting rights, attached to those preference shares. To this end, NN Group Continuity Foundation has been granted a call option by NN Group. According to the call option agreement concluded between NN Group and NN Group Continuity Foundation, NN Group Continuity Foundation has the right to subscribe for preference shares in the share capital of NN Group, consisting of the right to subscribe for such preference shares repeatedly. This may happen each time up to a maximum corresponding with 100% of the issued share capital of NN Group in the form of ordinary shares, as outstanding immediately prior to the exercise of the subscribed rights, less one share, from which maximum shall be deducted any preference shares already placed with NN Group Continuity Foundation at the time of the exercise of the subscribed rights. NN Group Continuity Foundation qualifies as a legal entity independent from NN Group, within the meaning of section 5:71, paragraph 1, subparagraph c of the Dutch Financial Supervision Act.

As at 31 December 2019, the board of NN Continuity Foundation consisted of three members who are independent from NN Group: Marc van Gelder (chair), Hessel Lindenbergh (treasurer) and Steven Perrick (secretary).

Issuance of shares and pre-emptive rights
The General Meeting may resolve to issue shares in the share capital of NN Group, or grant rights to subscribe for such shares, upon a proposal of the Executive Board which has been approved by the Supervisory Board. The Articles of Association provide that the General Meeting may delegate the authority to issue shares, or grant rights to subscribe for shares, to the Executive Board, upon a proposal of the Executive Board which has been approved by the Supervisory Board. If the Executive Board has been designated as the body authorised to resolve upon an issue of shares in the share capital of NN Group, the number of shares of each class concerned must be specified in such designation. Upon such designation, the duration of the designation shall be set, which shall not exceed five years. A resolution of the Executive Board to issue shares requires the approval of the Supervisory Board.

Corporate governance continued

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

Upon a proposal of the Executive Board which has been approved by the Supervisory Board, the General Meeting may resolve to limit or exclude the pre-emptive rights. According to the Articles of Association, the General Meeting may designate the Executive Board as the competent body to do so upon a proposal of the Executive Board which has been approved by the Supervisory Board. Both resolutions require a majority of at least two-thirds of the votes cast, if less than one-half of the issued share capital is represented at the general meeting. The designation to the Executive Board to resolve to limit or exclude the pre-emptive rights may be granted for a specified period of time of not more than five years and only if the Executive Board has also been designated or is simultaneously designated the authority to resolve to issue shares. A resolution of the Executive Board to limit or exclude the pre-emptive rights requires the approval of the Supervisory Board.

Designation of the Executive Board at the 2019 AGM

Share issuance in the context of issuing Contingent Convertible Securities
On 29 May 2019, the General Meeting designated the Executive Board for a term of five years, from 29 May 2019 up to and including 28 May 2024, as the competent body to resolve, subject to the approval of the Supervisory Board, on the issuance of ordinary shares in the share capital of the NN Group (including the granting of rights to subscribe for ordinary shares) upon conversion of any CCS instruments in accordance with its terms and conditions during the term of the CCS instruments. This authority of the Executive Board is limited to a maximum of 30% of the issued share capital of NN Group as at 29 May 2019. This designation enables the Executive Board to issue CCS instruments and to set the terms and conditions for any CCS instrument, including the limitation or exclusion of pre-emptive rights, the mechanism for the conversion and the conversion price.

Share issuance and limitation of pre-emptive rights
On 29 May 2019, the General Meeting designated the Executive Board for a term of 18 months, from 29 May 2019 up to and including 28 November 2020, as the competent body to resolve, subject to the approval of the Supervisory Board:
- on the issuance of ordinary shares in the share capital of NN Group and on the granting of rights to subscribe for such shares; and
- to limit or exclude the pre-emptive rights of existing shareholders with respect to such issue of ordinary shares in the share capital of NN Group and such granting of rights to subscribe for ordinary shares.

The authority of the Executive Board is limited to a maximum of 10% of the issued share capital of NN Group as at 29 May 2019.

Rights issue
On 29 May 2019, the General Meeting designated the Executive Board for a term of 18 months, from 29 May 2019 up to and including 28 November 2020, as the competent body to resolve, subject to the approval of the Supervisory Board, on the issuance of ordinary shares in the share capital of NN Group and on the granting of rights to subscribe for ordinary shares by way of a rights issue. This authority of the Executive Board is limited to a maximum of 20% of the issued share capital of NN Group as at 29 May 2019. This authority to issue shares may be used for any purpose, including but not limited to safeguarding or conserving the capital position of NN Group and mergers or acquisitions.

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

On 29 May 2019, the General Meeting authorised the Executive Board for a term of 18 months, from 29 May 2019 up to and including 28 November 2020, to acquire in the name of NN Group, subject to the approval of the Supervisory Board, fully paid-up ordinary shares in the share capital of NN Group. This authorisation is subject to the condition that following such acquisition the par value of the ordinary shares in the share capital of NN Group which are held by NN Group or for which NN Group holds a right of pledge, or which are held by its subsidiaries for their own account, shall not exceed 10% of the issued share capital of NN Group on 29 May 2019. Shares may be acquired on the stock exchange or otherwise, at a price not less than the par value of the ordinary shares in the share capital of NN Group and not higher than 110% of the highest market price of the shares on Euronext Amsterdam on the date of the acquisition or on the preceding day of stock market trading.

Corporate governance continued

Cancellation of own shares
On 29 May 2019, the General Meeting adopted the proposal to reduce the issued share capital of NN Group by cancellation of ordinary shares held by NN Group in its own share capital up to a maximum of 20% of the issued share capital of NN Group as at 29 May 2019. The cancellation may be executed in one or more tranches. The number of ordinary shares to be cancelled shall be determined by the Executive Board. Capital reduction shall take place with due observance of the applicable statutory provisions and the articles of association of NN Group.

Transfer of shares and transfer restrictions
The transfer of ordinary shares in the share capital of NN Group included in the Statutory Giro System must take place in accordance with the provisions of the Dutch Securities Giro Act (Wet giraal effectenverkeer). The transfer of shares in the share capital of NN Group not included in the Statutory Giro System requires an instrument intended for that purpose. To become effective, NN Group has to acknowledge the transfer, unless NN Group itself is a party to the transfer. The Articles of Association do not restrict the transfer of ordinary shares in the share capital of NN Group, while the transfer of preference shares in the share capital of NN Group requires the prior approval of the Executive Board. NN Group is not aware of the existence of any agreement pursuant to which the transfer of ordinary shares in the share capital of NN Group is restricted.

Significant shareholdings

Substantial shareholdings, gross and net short positions
Under the Dutch Financial Supervision Act each legal and natural person having a substantial holding or gross short position in relation to the issued share capital and/or voting rights of NN Group that reaches, exceeds or falls below any one of the following thresholds: 3%, 5%, 10 %, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%, must immediately give written notice to the Dutch Authority for Financial Markets. These notifications will be made public via the Register substantial holdings and gross short positions (Register substantiële deelnemingen en bruto shortposities) of the Dutch Authority for Financial Markets.

Information on shareholders with an (indirect) holding and/or gross short position of 3% or more can be found in the Annual Review on page 35 and is deemed to be incorporated by reference herein.

Pursuant to EU regulation No 236/2012, each legal and natural person holding a net short position representing 0.2% of the issued share capital of NN Group must report this position and any subsequent increase by 0.1% to the Dutch Authority for Financial Markets. Each net short position equal to 0.5% of the issued share capital of NN Group and any subsequent increase of that position by 0.1% will be made public via the short selling register of the Dutch Authority for Financial Markets.

In 2019 no legal or natural person held at least 10% of the shares in NN Group, therefore NN Group did not enter into any transaction with any such person.

Dutch Corporate Governance Code
NN Group is subject to the Dutch Corporate Governance Code (Code). The application of the Code by NN Group during the financial year 2019 is described in the publication 'Application of the Dutch Corporate Governance Code by NN Group', dated 11 March 2020, which is available on the website of NN Group. This publication is to be read in conjunction with this chapter and is deemed to be incorporated by reference herein. The Code is available on the website of the Dutch Corporate Governance Code Monitoring Committee (www.commissiecorporategovernance.nl).

Articles of Association
The General Meeting may pass a resolution to amend the Articles of Association with an absolute majority of the votes cast, but only on a proposal of the Executive Board, which has been approved by the Supervisory Board. NN Group's Articles of Association were last amended on 2 June 2017.

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

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

External auditor
The external auditor is appointed by the General Meeting upon nomination of the Supervisory Board, after recommendation by the Audit Committee. On 28 May 2015, the General Meeting appointed KPMG Accountants N.V. as the external auditor of NN Group for the financial years 2016 through 2019. On 29 May 2019 KPMG Accountants N.V. was reappointed as the external auditor of NN Group for the financial years 2020 through 2022.

The external auditor may be questioned at the general meeting in relation to its audit opinion on the annual accounts. The external auditor will therefore attend and be entitled to address this meeting. The external auditor attended the meetings of the Audit Committee and the Risk Committee of the Supervisory Board in 2019.

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

Corporate governance continued

Risk management and control systems

A description of the main characteristics of the risk management and control systems of NN Group and its group companies can be found in Note 49 'Risk management' to the Consolidated annual accounts, which is deemed to be incorporated by reference herein.

The Executive Board is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the annual accounts in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets.
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of the annual accounts in accordance with generally accepted accounting principles (International Financial Reporting Standards as endorsed by the European Union and Part 9 of Book 2 of the Dutch Civil Code).
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the annual accounts.

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

Corporate Governance Statement

This chapter, including parts of this Annual Report incorporated by reference, together with the separate publication 'Application of the Dutch Corporate Governance Code by NN Group', dated 11 March 2020, which is available on the NN Group website, also serves as the corporate governance statement referred to in section 2a of the Decree contents of the management report (Besluit inhoud bestuursverslag).

Remuneration report

Introduction

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

I Remuneration in general
II Remuneration of the Executive Board
III Remuneration of the Supervisory Board
IV 2019 review of Executive Board remuneration policy and Supervisory Board remuneration

Reference is made to Note 46 'Key management personnel compensation' in the Consolidated annual accounts for more information on the remuneration of the Executive Board, Management Board and Supervisory Board, including loans and advances provided to the members of these Boards. This remuneration report serves as the report referred to in article 2:135b of the Dutch Civil Code and Best Practice Provision 3.4.1 of the Dutch Corporate Governance Code.

The information as provided in this remuneration report is based on the current applicable remuneration policy of NN Group. Throughout the year 2019, the Supervisory Board has reviewed the current remuneration policy for the Executive Board and the remuneration for the Supervisory Board. The Supervisory Board will propose to adopt amended remuneration policies for the members of the Executive Board and the members of the Supervisory Board at the annual general meeting to be held on 28 May 2020. Further details are provided in the last paragraph of this remuneration report (subsection IV).

I Remuneration in general

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

NN Group's remuneration policy for executives and senior staff is based on a total compensation approach, and is benchmarked on a regular basis with relevant national and international peers, both within the financial sector and outside the financial sector. Clear financial and non-financial performance objectives are set which are aligned with the overall strategy of NN Group, both in the short term and the long term, to ensure that remuneration is properly linked to individual, team and NN Group performance. The remuneration policy supports a focus on the company's long-term interests and the interests of its customers and various stakeholders by ensuring that there is careful management of risk and that staff is not encouraged, via remuneration, to take excessive risk. In addition, the remuneration policy ensures that NN Group complies with all the relevant (inter)national regulations on remuneration, such as the Act on the Remuneration Policies of Financial Undertakings (Wet beloningsbeleid financiële ondernemingen), as relevant to our business.

With respect to performance year 2019, the total number of staff of NN Group eligible for variable remuneration is 6,696. The total amount of variable remuneration approved is EUR 65.4 million, which will be paid in March or April 2020. In 2019, six persons employed within NN Group and NN IP received a total remuneration of more than EUR 1 million.

II Remuneration of the Executive Board

The Executive Board members have an assignment contract (in Dutch: overeenkomst van opdracht) with NN Group N.V. Mr Knibbe, previously CEO of NN Netherlands, was appointed as member and chair of the Executive Board and CEO of NN Group by the Supervisory Board on 1 October 2019, after notification to the General Meeting of NN Group at an extraordinary general meeting (EGM) on 26 September 2019. He succeeded Mr Friese, who stepped down as member and chair of the Executive Board and CEO of NN Group as of 12 August 2019. The term of appointment of Mr Knibbe will end at the close of the annual general meeting to be held in 2023. Mr Rueda was reappointed as member of the Executive Board and again designated as CFO of NN Group and as vice-chair of the Executive Board on 31 May 2018 for a term of four years. His term of appointment will end at the close of the annual general meeting to be held in 2022. Executive Board members can be reappointed by the Supervisory Board for consecutive periods of up to four years after notification to the General Meeting of NN Group.

The remuneration policy for the Executive Board members was approved by the General Meeting on 28 May 2015, effective as from 1 January 2015. The Supervisory Board conducted a scenario analysis in February 2019 and determined that this policy is still effective in changing circumstances. This remuneration policy has not been amended since its effective date and was also applicable in 2019. The data presented in this report relates to remuneration awarded to the Executive Board members in respect of the whole of 2019. The 2019 total remuneration as provided to the members of the Executive Board is in line with the applicable remuneration policy. The Supervisory Board has not applied any deviation or derogation from the remuneration policy of the Executive Board.

Remuneration report continued

The remuneration of the Executive Board members consists of a combination of fixed remuneration ('base salary'; of which 80% is paid in cash and 20% in shares) and base salary allowances, variable remuneration, pension arrangements and other emoluments as described below. To support the long-term value creation, a retention period of five years starting from the date of award is applicable to all share awards. The total compensation of the Executive Board members is benchmarked on a regular basis against market data that includes peers both inside and outside the financial sector in the Netherlands and abroad. The peers are selected with reference to asset base, market capitalisation, revenue and number of employees. In line with the remuneration policy as adopted by the General Meeting on 28 May 2015, the Supervisory Board aims to set the remuneration levels slightly below market median. If, based on the annual benchmark the remuneration level is not in line with the approved policy, appropriate measures will be considered. The Supervisory Board also takes into account all stakeholders' interests, including social context, before finalising executive pay levels.

Only in the event of an involuntary exit (e.g. a mutual agreement at NN Group's initiative whereas the Executive Board member has been requested to leave), Executive Board members are eligible to an exit-arrangement limited to a maximum of one year base salary. Exit-arrangements will in no way qualify as reward for failure (within the meaning of the applicable regulatory requirements).

Executive Board base salary

In 2017, the Supervisory Board announced a gradual, step-by-step increase in the remuneration of the Executive Board members. That increase has been implemented in 2017 and 2018. Even after these adjustments, the salary of the CEO of NN Group was still below the median for comparable positions in the market. As announced in the annual general meeting on 29 May 2019, the Supervisory Board has decided to increase NN Group's CEO base salary by 5% with effect from 1 January 2019 and by 3% as of 1 October 2019. The base salary of Mr Knibbe is positioned at the same level as previously agreed and disclosed for Mr Friese. No changes in the base salary of the CFO of NN Group have been adopted throughout 2019.

Executive Board variable remuneration

The remuneration policy for the Executive Board members combines the short and long-term variable components into one structure. This structure supports both long-term value creation and short-term company objectives. Performance objectives follow NN Group's medium-term strategic priorities as communicated to the market and as such contribute to the long-term strategy of NN Group. Variable remuneration is based on both financial and non-financial performance of the individual and the company. The Supervisory Board annually determines the performance objectives at the start of the performance year and defines the relevant 'at target' level. Following the performance year, the Supervisory Board determines based on the full-year financial results the extent to which the financial performance objectives are met. The extent to which non-financial performance objectives are met is assessed by the Supervisory Board. Performance regarding the year 2019 is assessed based on a number of objectives, as outlined in the table below. Estimated risks and capital adequacy were also taken into account when determining the award of variable remuneration. The Risk and Compliance function provided input in this respect.

The emphasis on long-term performance indicators within the variable component of the compensation package is realised by means of deferral of 60% of the total variable remuneration. Furthermore, an annual re-evaluation by the Supervisory Board will take place with the possibility to hold back (i.e. prevent from ever vesting) and/or claw back vested and paid variable remuneration. The Supervisory Board has the authority to reclaim any variable remuneration allocated to an Executive Board member based on inaccurate data and/or behaviour that led to significant harm to the company. In addition, the Supervisory Board has the authority to adjust variable remuneration in the event that the application of the predetermined performance criteria would result in an undesired outcome.

The maximum variable remuneration of the Executive Board members for performance year 2015 onwards has been capped at 20% of the base salary and the on target level of the annual variable remuneration has been set at 16% of the base salary.

Additionally, the short-term component of variable remuneration (the so called 'Upfront Portion') is 40% of the total variable remuneration and is equally divided between an award in cash and an award in stock. The Deferred Portion is also equally divided between an award in deferred cash and an award in deferred stock. Both the deferred cash and the deferred stock awards are subject to a tiered vesting on the first, second and third anniversary of the grant date (one third per annum). Similar to the shares awarded as fixed remuneration, a retention period of five years starting from the date of award is applicable to all stock awards (both upfront and deferred), with the exception that part of the stock will be withheld at the relevant date of vesting to cover any income tax liability arising from the vested share award (withhold-to-cover). In addition to the general principles described above, more specific details on the 2019 variable remuneration of the Executive Board members are provided below.

Performance objectives Executive Board members

The performance of the Executive Board members is assessed against their financial and non-financial objectives, set at by the Supervisory Board at the beginning of 2019. When determining the objectives for a specific performance year, the Supervisory Board takes into account the medium-term financial and non-financial company objectives. At the end of the year, the Supervisory Board executes a performance assessment to determine to what extent the objectives have been met. The Supervisory Board is supported by the relevant functions, such as Finance, Corporate Development, Compliance, Corporate Relations, Risk and HR, to provide relevant input. In 2019 the financial and non-financial performance objectives included the following:

Remuneration report continued

2019 Objectives	Weight CEO	Weight CFO	Financial and non-financial performance criteria
NN Group financial targets	40%	25%	The following financial performance objectives were used: cost reduction, free cash flow to the holding, operating result and Solvency II operating capital generation. Cost reduction, free cash flow to the holding and operating result ambitions were also communicated to the financial markets. Overall the financial objectives were met in 2019.
Strategy, customer and society	30%	30%	Several strategic, customer and societal objectives were used in 2019, in which the aim was to execute the corporate strategy by launching or preparing the launch of new strategic partnerships, improve customer engagement (as measured by the Global Brand Health Monitor), brand performance and corporate reputation amongst the public (both measured by external partners) and further integrate ESG criteria in investment decisions. Overall these objectives were met in 2019.
Sustainable business and Risk	15%	30%	The focus for 2019 was to further embed a sustainable control environment. For example, the target to materially complete the Risk Control Framework cycle with tracking and independent testing of key and assurance controls in 2019. The control environment objective was met in 2019.
Employee engagement	15%	15%	NN Group's position as an employer of choice was measured by employee engagement scores, focusing on building the future leadership and maintaining a diversity level of at least 30% of women in senior roles. All these objectives were met in 2019.

In 2019 there was no hold back applied to unvested deferred variable remuneration nor was claw back applied to paid or vested variable remuneration for any of the Executive Board members.

Executive Board pension arrangements

The pension arrangement for the Executive Board members is the same as the pension arrangement that is applicable to all staff of NN Group in the Netherlands and comprises a collective defined contribution (CDC) plan up to the annual tax limit (EUR 107,593 as from 1 January 2019) and a taxable individual savings allowance on pensionable fixed remuneration exceeding the tax limit.

The table on next page provides details on the amount of contribution that was paid by NN Group to the pension arrangement of the Executive Board members.

Executive Board other emoluments

The Executive Board members were eligible for a range of other emoluments, such as health care insurance, life cycle saving scheme, security, transportation, external tax advice and expat allowances (CFO only). The Executive Board members were also able to obtain banking and insurance services from NN Group in the ordinary course of business and on terms that apply to all employees of NN Group in the Netherlands. As at 31 December 2019, the Executive Board members had EUR 415,000 of loans outstanding with NN Group regulated entities. No guarantees or advanced payments were granted to the Executive Board members. The table below provides details on the amount of emoluments that was paid by NN Group
to the benefit of the Executive Board members.

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

	Lard Friese		David Knibbe		Delfin Rueda	
	2019[1]	2018	2019[2]	2018	2019	2018
Base salary in cash	849	1,314	355		1,137	1,058
Base salary in shares	212	328	89		284	264
Total base salary	**1,061**	**1,642**	**444**	**0**	**1,421**	**1,322**
Variable remuneration	0	328	71		284	264
Total direct remuneration	**1,061**	**1,970**	**515**	**0**	**1,705**	**1,586**
Employer contribution to pension fund	17	27	6		25	27
Individual savings allowance[3]	273	418	97		339	331
Other emoluments[4]	102	69	38		227	142
Employer cost social security[5]	45	86	18		61	70
Relative proportion base salary versus variable remuneration	100%/0%	83.4%/16.6%	86.2%/13.8%		83.3%/16.7%	83.4%/16.6%

1 Mr Friese stepped down as member and chair of the Executive Board and CEO of NN Group as of 12 August 2019. His remuneration in the capacity of CEO of NN Group is shown in the table above. No severance payments have been provided, the unvested deferred share and cash awards at the moment of resignation have lapsed, and no variable remuneration award in relation to his performance in 2019 has been granted.

2 Mr Knibbe was appointed by the Supervisory Board as member and chair of the Executive Board and CEO of NN Group on 1 October 2019. His remuneration in the capacity of CEO of NN Group is shown in the table above. The annual base salary of Mr Knibbe, as approved by the Supervisory Board amounts EUR 1,775,000, with an annual target variable remuneration opportunity of 16%. As a result, the total at target direct remuneration amounts EUR 2,059,000, which is the same level as previously approved for Mr Friese. The new salary of Mr Knibbe is based on the new responsibilities, and has been determined in line with the principles (including market positioning) as outlined in the remuneration policy for the Executive Board as adopted by the annual general meeting. The remuneration package is at the same level as was agreed and approved for the previous CEO.

3 The individual saving allowance scheme is applicable for both the Executive Board and staff of NN Group in the Netherlands.

4 The increase in other benefits compared to the performance year 2018 is mainly caused by costs in relation to security, and the fact that external tax advice for the Executive Board members at the request of the employer and transportation were not included for performance year 2018.

5 The employer social security contributions do not impact the overall remuneration received by Executive Board members.

Remuneration report continued

The total remuneration as disclosed in the table above (for 2019: EUR 4.5 million) includes all variable remuneration related to the performance year 2019. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in staff expenses in 2019 and therefore included in 'Total expenses' in 2019, relating to the fixed expenses of 2019 and the vesting of variable remuneration of 2019 and earlier performance years, is EUR 4.7 million.

2019 Variable remuneration of the Executive Board members (in EUR 1,000 and gross)

	Upfront cash paid	Deferred cash granted	Upfront shares granted	Deferred shares granted	Total
Lard Friese					
David Knibbe	14	21	14	21	71
Delfin Rueda	57	85	57	85	284

Long-term incentives awarded in previous years and in 2019 to the Executive Board members

The Executive Board members receive deferred cash and upfront and deferred share awards under NN Group's Aligned Remuneration Plan (ARP).

The table below provides an overview of the number of NN Group shares awarded and vested for the Executive Board members during 2019 under the ARP. Mr Knibbe was appointed by the Supervisory Board as member and chair of the Executive Board and CEO of NN Group on 1 October 2019. Since the remuneration in shares in relation to long-term incentives are awarded yearly in March, Mr Knibbe did not receive granted or vested shares in the capacity of CEO of NN Group during 2019.

Overview of number of NN Group shares awarded and vested for the Executive Board members during 2019

	Plan	Award Date	Outstanding and unvested per 1 January 2019	Awarded during 2019	Vested during 2019	Outstanding and unvested per 31 December 2019	Vesting Price in euros
Lard Friese	Deferred Shares Plan	29 March 2016	748		748	0	36.60
	Deferred Shares Plan	20 March 2017	1,725		862	0	38.84
	Deferred Shares Plan	15 March 2018	2,414		804	0	38.45
	Deferred Shares Plan	18 March 2019	0	2,636		0	
	Upfront Shares Plan	18 March 2019	0	1,758	1,758	0	38.71
Delfin Rueda	Deferred Shares Plan	29 March 2016	649		649	0	36.60
	Deferred Shares Plan	20 March 2017	1,362		681	681	38.84
	Deferred Shares Plan	15 March 2018	1,820		606	1,214	38.45
	Deferred Shares Plan	18 March 2019	0	2,123		2,123	
	Upfront Shares Plan	18 March 2019	0	1,415	1,415	0	38.71

The table below shows an overview of the (vested) NN Group shares held by the Executive Board members on 31 December 2019 (including the shares vested during 2019) and 31 December 2018. Mr Friese stepped down as member and chair of the Executive Board and CEO of NN Group as of 12 August 2019. Therefore the overview shows the NN Group shares held by Mr Friese on 31 December 2018. Mr Knibbe was appointed by the Supervisory Board as member and chair of the Executive Board and CEO of NN Group on 1 October 2019. Therefore the overview shows the NN Group shares held by Mr Knibbe on 31 December 2019.

Overview of NN Group shares held by the Executive Board members

	2019	2018
Lard Friese	n/a	44,549
David Knibbe	22,224	n/a
Delfin Rueda	43,760	37,697

The table below shows the annual change of remuneration of each Executive Board member, the performance of the company, and the average remuneration of employees of the company over the past five financial years.

Remuneration report continued

Remuneration of the Executive Board members, company performance and average employee remuneration (amounts in EUR 1,000 and gross)

	2019	2018	2017	2016	2015
Executive Board remuneration					
Total direct remuneration Mr Friese	1,061[1]	1,970	1,713	1,558	1,394
Total direct remuneration Mr Knibbe	515[2]				
Total direct remuneration Mr Rueda	1,705	1,586	1,292	1,230	1,210
Company performance					
Operating result	1,794	1,626	1,586	1,227	1,435
Solvency II ratio	218%	230%	199%	241%	239%
Average remuneration					
Average employee remuneration	78.5	76.2	75.5	75.8	75.6
Pay ratio[3]	27:1[4]	33:1	29:1	26:1	23:1

1 Mr Friese stepped down as member and chair of the Executive Board and CEO of NN Group as of 12 August 2019. His remuneration in the capacity of CEO of NN Group is shown in the table above.

2 Mr Knibbe was appointed by the Supervisory Board as member and chair of the Executive Board and CEO of NN Group on 1 October 2019. His remuneration in the capacity of CEO of NN Group is shown in the table above.

3 The ratio compares the total CEO compensation and the remuneration of all staff ('Pay ratio') as stated in the Dutch Corporate Governance Code. For the CEO, the total remuneration used in the pay ratio is the total remuneration as disclosed in the Remuneration report. For the staff members, the total remuneration used in the pay ratio is the total remuneration as disclosed in the Consolidated annual accounts Note 26 'Staff expenses'; in order to provide a meaningful comparison, the total remuneration of the staff population excludes Social security costs, External staff costs and the remuneration of the CEO of NN Group. The total remuneration of the CEO of NN Group excludes Social security costs as well. The Supervisory Board takes the pay ratio into consideration when deciding on the remuneration for the Executive Board members.

4 The 2019 decrease in total remuneration compared with the 2018 total remuneration of the CEO reflects the fact that Mr Friese stepped down as member and chair of the Executive Board and CEO of NN Group as of 12 August 2019, as a result of which no variable remuneration was paid to Mr Friese in relation to his performance in 2019. Given the fact that Mr Knibbe was appointed as CEO of NN Group as of 1 October 2019, no CEO base salary was paid between 12 August 2019 and 1 October 2019, which reduces the outcome of the pay ratio calculation.

III Remuneration of the Supervisory Board

The Supervisory Board was comprised of the following members in 2019: Mr Cole, Mr Holsboer (until 29 May 2019), Mr Harryvan, Mr Hauser, Mr Jenkins, Mr Ruijter, Mr Schoen, Ms Streit and Ms Vletter-van Dort.

More information on the composition of the Supervisory Board and its Committees can be found in the Report of the Supervisory Board, on pages 10-20 of this Financial Report.

The remuneration scheme of the Supervisory Board members was approved by the General Meeting on 6 May 2014 and amendments (in relation to the international attendance fee) were approved by the General Meeting on 28 May 2015. The proposal for a more simplified and balanced structure with more moderate payments for extra meetings and better alignment of the fixed annual remuneration in relation to the number of Supervisory Board (Committee) meetings per calendar year was adopted by the General Meeting on 1 June 2017, effective as from 1 January 2017. The 2019 total remuneration as paid to the members of the Supervisory Board is in line with the adopted scheme. However, the Supervisory board decided not to receive additional fees for the additional meetings held in 2019.

NN Group does not grant variable remuneration, shares or options to the Supervisory Board members. This ensures the independence of the Supervisory Board, contributes to NN Group's long-term performance and is in line with the Dutch Corporate Governance Code. Supervisory Board members may obtain banking and insurance services from NN Group in the ordinary course of business and on terms that are customary in the sector. As from 31 December 2019, the Supervisory Board members have EUR 426,890 of loans outstanding with NN Group regulated entities. No repayments were made during the year. No guarantees or advanced payments were granted to Supervisory Board members.

In line with market practice, a distinction is made between chair, vice-chair and other Supervisory Board members. A fixed annual expense allowance is payable to cover all out-of-pocket expenses. Travel and lodging expenses in relation to meetings are paid by NN Group.
An additional fee is payable for the additional time commitments when intercontinental or international travel is required for attending meetings.

Remuneration report continued

The remuneration for the members of the Supervisory Board (in EUR)

	Chair	Vice-chair	Member
Fixed Annual fee Supervisory Board	85,000	65,000	52,500
Fixed annual fee Nomination and Corporate Governance Committee/Remuneration Committee/Risk Committee	11,000	n/a	7,000
Fixed annual fee Audit Committee	15,000	n/a	11,000
Fixed fee for extra Supervisory Board meeting (due as from the eleventh meeting within a calendar year)	3,000	3,000	3,000
Fixed fee for extra Supervisory Board Committee meeting (due as from the ninth meeting of a Committee within a calendar year)	750	750	750
Fixed annual expense allowance to cover out of pocket expenses (travel and lodging will be paid)	9,000	6,500	6,500
International attendance fee	4,000	4,000	4,000

As from the eleventh Supervisory Board meeting within the same calendar year, a fixed fee of EUR 3,000 is paid for each extra Supervisory Board meeting. Furthermore, as from the ninth meeting of a Supervisory Board Committee within the same calendar year, a fixed fee of EUR 750 is paid for each additional meeting of that Supervisory Board Committee. In 2019, the Supervisory Board decided not to receive additional fees for the additional meetings held in 2019.

Fees and allowances of Supervisory Board members[1]

	Fees		Total fixed gross expense allowance		Total international attendance fees		VAT	
In EUR and gross	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
J.H. (Jan) Holsboer (Chair)[2]	47,500	112,000	3,750	9,000	0	4,000	10,763	26,250
D.A. (David) Cole (Chair)[3]	91,292	0	7,959	0	32,000	0	27,563	0
D.H. (Dick) Harryvan	90,000	90,000	6,500	6,500	4,000	4,000	21,105	21,105
H.J.G. (Heijo) Hauser	74,500	74,500	6,500	6,500	28,000	32,000	22,890	23,730
J.W. (Hans) Schoen	74,500	74,500	6,500	6,500	4,000	4,000	17,850	17,850
H.M. (Hélène) Vletter-van Dort	74,584	70,500	6,500	6,500	4,000	4,000	17,868	17,010
R.W. (Robert) Jenkins	66,500	66,500	6,500	6,500	28,000	28,000	21,210	21,210
R.A. (Robert) Ruijter	70,500	70,500	6,500	6,500	4,000	4,000	17,010	17,010
C.C.F.T. (Clara) Streit	66,500	66,500	6,500	6,500	28,000	24,000	21,210	20,370

1 This table shows the fixed fees, expense allowances and international attendance fees for the members of the Supervisory Board for 2019 and 2018.
2 Mr Holsboer stepped down as member and Chair of the Supervisory Board as of 29 May 2019. His remuneration in the capacity of Supervisory Board member of NN Group is shown in the table above.
3 Mr Cole was appointed as member of the Supervisory Board as per 1 January 2019. He was appointed Chair of the Supervisory Board as per 29 May 2019.

IV 2019 review of Executive Board remuneration policy and Supervisory Board remuneration

On 1 December 2019 part of the Dutch law implementing the revised EU Shareholders' Rights Directive (2017/828/EU) ('SRDII Implementation Act') entered into force. The SRDII Implementation Act introduces new requirements for the remuneration policy for the members of the Executive Board, and requires a detailed remuneration policy for the members of the Supervisory Board. In order to comply with the new legislation, the Supervisory Board will propose to adopt remuneration policies for the members of the Executive Board and the members of the Supervisory Board at the annual general meeting to be held on 28 May 2020. In 2019, the Supervisory Board, supported by the Remuneration Committee, reviewed the current remuneration policy for the Executive Board and the remuneration for the Supervisory Board. The Supervisory Board held various consultation sessions with stakeholders, including shareholders, proxy advisors, employees, regulators, customers, and the general public to obtain their feedback on the draft remuneration policies.

One of the conclusions from the stakeholder feedback was their support for a simple and transparent remuneration of the Executive Board and Supervisory Board. When designing the proposed remuneration policies for the Executive Board and the Supervisory Board, simplicity and transparency were therefore the guiding principles. In this respect, among other changes NN Group will disclose the peers selected for the compensation benchmark on an annual basis, as also outlined in the Executive Board and Supervisory Board remuneration policies that are subject to adoption by the General Meeting on 28 May 2020. These companies are selected based on comparability with NN Group in terms of size, scope and international footprint. For the year of 2020, the proposed peer group consists of ABN AMRO Bank, Achmea, Aegon, Ageas, Akzo Nobel, Aviva, CNP Assurances, Koninklijke DSM, Legal & General Group, Munich Re, Rabobank, Randstad, Swiss Life Holding, Talanx and Wolters Kluwer.

Works Councils

Members Central Works Council 2019[1]

Afra Peeters-Stans	Secretary	OR Leven
Alexander ter Haar		OR Leven
Alfred Botterman		OR S&I
Cormac Harkin		OR NNIP
Dennis Molenberg		OR Zicht
Eric Spakman		OR S&I
Erik van Vliet		OR NNIP
Frank Meijer		OR S&I
Hennie Post	Vice-chair	OR Staven
Jan Krutzen		OR AZL
Koen van Vliet		OR NN Bank
Leo Baars		OR NN Bank
Martin Potma		OR Staven
Mervyn Verploegen		OR NN Bank
Michel Vonk	Chair	OR S&I
Oscar Willems		OR Leven
Pieke vd Pas		OR Zicht
Richarda Hogeboom		OR S&I
Robert Heinsbroek	Daily board member	OR AAV
Ronald Knier		OR AAV
Sjoerd Comello		OR S&I
Willem van der Hel		OR Staven

1 In the Netherlands, all works councils held elections in October, with those elected taking up their roles in January 2020.

Members European Works Council 2019

EU country	Primary member	Deputy
Belgium	René de Meij (Secretary)	Kris Neefs
Bulgaria	Maria Milanova	
Czech Republic	Jana Doskočilová	–
Greece	Maria Tapini	Foteini Goublia
Hungary	Mátyás Németh	–
Netherlands	Reinoud Rijpkema (Chair)	
	Robert Coleridge	Elisabeth Juillard
	Alexander ter Haar	
Poland	Agnieszka Majerkiewicz	–
Romania	Alexandra Vulpeanu	Melania Manole
Slovakia	Maria Vitálosová	Marcela Sarlinova
Spain	Angel Otero	Trini Aguilar

Statements Dutch Financial Supervision Act and Dutch Corporate Governance Code

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

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

- The NN Group N.V. 2019 annual accounts, as referred to in section 2:361 of the Dutch Civil Code including the relevant additional information as referred to in section 2:392 paragraph 1 of the Dutch Civil Code, give a true and fair view of the assets, liabilities, financial position and profit or loss of NN Group N.V. and the enterprises included in the consolidation taken as a whole.
- The NN Group N.V. 2019 Report of the management board (bestuursverslag), as referred to in section 2:391 of the Dutch Civil Code, gives a true and fair view of the position at the balance sheet date, and the development and performance of the business during the 2019 financial year of NN Group N.V. and the enterprises included in the consolidation taken as a whole, together with a description of the principal risks NN Group N.V. is confronted with.

With reference to best practice provision 1.4.3(i), (iii) and (iv) of the Dutch Corporate Governance Code, the Executive Board hereby confirms that, to the best of its knowledge:

- The NN Group N.V.'s description of its risk management organisation and framework as described in the Report of the management board (bestuursverslag) including Note 49 'Risk management' to the Consolidated annual accounts provides sufficient insights into any material failings in the effectiveness of the internal risk management and control systems,
- Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis, and
- The NN Group N.V. 2019 Report of the management board (bestuursverslag) includes those material risks and uncertainties that are relevant to the expectation of NN Group N.V.'s continuity for the period of twelve months after the preparation of the report.

The Executive Board of NN Group N.V. assessed the effectiveness of the internal control over financial reporting during 2019. Based on the Executive Board's assessment, with reference to best practice provision 1.4.3(ii) of the Dutch Corporate Governance Code, the Executive Board of NN Group N.V. concluded that the risk management and control systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies.

The Hague, 11 March 2020

David Knibbe
CEO, Chair of the Executive Board

Delfin Rueda
CFO, Vice-chair of the Executive Board

Annual accounts contents

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Other information

Consolidated balance sheet
Amounts in millions of euros, unless stated otherwise

Consolidated balance sheet

As at 31 December	notes	2019	2018
Assets			
Cash and cash equivalents	2	6,436	8,886
Financial assets at fair value through profit or loss:	3		
– investments for risk of policyholders		34,433	30,230
– non-trading derivatives		10,189	5,096
– designated as at fair value through profit or loss		1,184	722
Available-for-sale investments	4	117,644	104,329
Loans	5	61,768	58,903
Reinsurance contracts	16	988	1,010
Associates and joint ventures	6	5,457	5,000
Real estate investments	7	2,571	2,374
Property and equipment	8	465	151
Intangible assets	9	995	863
Deferred acquisition costs	10	1,913	1,843
Deferred tax assets	32	84	131
Other assets	11	4,470	4,708
Total assets		**248,597**	**224,246**
Equity			
Shareholders' equity (parent)		30,768	22,850
Minority interests		260	234
Undated subordinated notes		1,764	1,764
Total equity	12	**32,792**	**24,848**
Liabilities			
Subordinated debt	13	2,409	2,445
Debt securities issued	14	1,992	1,990
Other borrowed funds	15	7,614	5,717
Insurance and investment contracts	16	168,251	161,118
Customer deposits and other funds on deposit	17	15,161	14,729
Financial liabilities at fair value through profit or loss:	18		
– non-trading derivatives		3,232	2,163
Deferred tax liabilities	32	4,030	1,809
Other liabilities	19	13,116	9,427
Total liabilities		**215,805**	**199,398**
Total equity and liabilities		**248,597**	**224,246**

References relate to the notes starting with Note 1 'Accounting policies'. These form an integral part of the Consolidated annual accounts.

Consolidated profit and loss account

Consolidated profit and loss account

For the year ended 31 December	notes		2019		2018
Gross premium income	20		14,508		13,272
Investment income	21		4,373		5,169
Result on disposals of group companies			8		60
– gross fee and commission income		1,037		1,087	
– fee and commission expenses		-328		-332	
Net fee and commission income:	22		709		755
Valuation results on non-trading derivatives	23		166		283
Foreign currency results			-9		-56
Share of result from associates and joint ventures	6		619		500
Other income			84		67
Total income			**20,458**		**20,050**
– gross underwriting expenditure		20,024		13,249	
– investment result for risk of policyholders		-4,794		1,258	
– reinsurance recoveries		-237		-192	
Underwriting expenditure:	24		14,993		14,315
Intangible amortisation and other impairments	25		32		986
Staff expenses	26		1,564		1,521
Interest expenses	27		519		475
Other operating expenses	28		921		1,096
Total expenses			**18,029**		**18,393**
Result before tax			**2,429**		**1,657**
Taxation	32		444		524
Net result			**1,985**		**1,133**

Net result

For the year ended 31 December	2019	2018
Net result attributable to:		
Shareholders of the parent	1,962	1,117
Minority interests	23	16
Net result	**1,985**	**1,133**

Earnings per ordinary share

amounts in euros	2019	2018
Earnings per ordinary share		
Basic earnings per ordinary share	5.76	3.15
Diluted earnings per ordinary share	5.75	3.15

Reference is made to Note 29 'Earnings per ordinary share' for the disclosure on the Earnings per ordinary share.

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

For the year ended 31 December		2019		2018
Net result		**1,985**		**1,133**
– unrealised revaluations available-for-sale investments and other	4,487		-333	
– realised gains/losses transferred to the profit and loss account	-286		-823	
– changes in cash flow hedge reserve	4,284		793	
– deferred interest credited to policyholders	-1,403		-38	
– share of other comprehensive income of associates and joint ventures	-4		1	
– exchange rate differences	53		93	
Items that may be reclassified subsequently to the profit and loss account:		7,131		-307
– remeasurement of the net defined benefit asset/liability	-38			
– unrealised revaluations property in own use	3		7	
Items that will not be reclassified to the profit and loss account:		-35		7
Total other comprehensive income		**7,096**		**-300**
Total comprehensive income		**9,081**		**833**
Comprehensive income attributable to:				
Shareholders of the parent		9,039		827
Minority interests		42		6
Total comprehensive income		**9,081**		**833**

Reference is made to Note 32 'Taxation' for the disclosure on the income tax effects on each component of comprehensive income.

Consolidated statement of cash flows

Consolidated statement of cash flows

For the year ended 31 December	notes	2019	2018
Result before tax		2,429	1,657
Adjusted for:			
– depreciation and amortisation		146	195
– deferred acquisition costs and value of business acquired		-41	-73
– underwriting expenditure (change in insurance liabilities)		-277	-2,575
– realised results and impairments of Available-for-sale investments		-347	-1,032
– other impairments and reversals of other impairments			852
– other		15	451
Taxation paid (received)		37	-55
Changes in:			
– non-trading derivatives		2,433	450
– other financial assets at fair value through profit or loss		-493	-36
– loans		-3,327	-3,079
– other assets		437	911
– customer deposits and other funds on deposit		464	331
– financial liabilities at fair value through profit or loss – non-trading derivatives		-1,899	-131
– other liabilities		3,177	-357
Net cash flow from operating activities		**2,754**	**-2,491**
Investments and advances:			
– group companies, net of cash acquired		-104	-5
– available-for-sale investments	4	-26,437	-12,704
– associates and joint ventures		-531	-326
– real estate investments		-120	-206
– property and equipment		-144	-40
– investments for risk of policyholders		-6,430	-6,749
– other investments		-43	-85
Disposals and redemptions:			
– group companies		38	
– available-for-sale investments	4	19,750	13,266
– associates and joint ventures		497	262
– real estate investments		6	552
– property and equipment		2	3
– investments for risk of policyholders		7,182	9,046
– other investments		414	
Net cash flow from investing activities		**-5,920**	**3,014**
Repayments of subordinated debt	13	-12	
Proceeds from other borrowed funds		4,704	1,695
Repayments of other borrowed funds		-2,827	-2,023
Dividend paid		-411	-421
Purchase/sale of treasury shares and warrants		-697	-307
Coupon on undated subordinated notes		-78	-78
Net cash flow from financing activities		**679**	**-1,134**
Net cash flow		**-2,487**	**-611**

Consolidated statement of cash flows continued

Included in Net cash flow from operating activities

For the year ended 31 December	2019	2018
Interest received	4,410	4,224
Interest paid	-533	-506
Dividend received	512	701

Cash and cash equivalents

For the year ended 31 December	2019	2018
Cash and cash equivalents at beginning of the period	8,886	9,383
Net cash flow	-2,487	-611
Effect of exchange rate changes on cash and cash equivalents	37	114
Cash and cash equivalents at end of the period	**6,436**	**8,886**

Consolidated statement of changes in equity

Consolidated statement of changes in equity (2019)

	Share capital	Share premium	Reserves	Total Shareholders' equity (parent)	Minority interest	Undated subordinated notes	Total equity
Balance at 1 January 2019	**41**	**12,572**	**10,237**	**22,850**	**234**	**1,764**	**24,848**
Unrealised revaluations available-for-sale investments and other			4,468	4,468	19		4,487
Realised gains/losses transferred to the profit and loss account			-286	-286			-286
Changes in cash flow hedge reserve			4,284	4,284			4,284
Deferred interest credited to policyholders			-1,403	-1,403			-1,403
Share of other comprehensive income of associates and joint ventures			-4	-4			-4
Exchange rate differences			53	53			53
Remeasurement of the net defined benefit asset/liability			-38	-38			-38
Unrealised revaluations property in own use			3	3			3
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**7,077**	**7,077**	**19**	**0**	**7,096**
Net result for the period			1,962	1,962	23		1,985
Total comprehensive income	**0**	**0**	**9,039**	**9,039**	**42**	**0**	**9,081**
Dividend			-387	-387	-24		-411
Purchase/sale of treasury shares			-707	-707			-707
Employee stock option and share plans			2	2			2
Coupon on undated subordinated notes			-59	-59			-59
Changes in composition of the group and other changes			30	30	8		38
Balance at 31 December 2019	**41**	**12,572**	**18,155**	**30,768**	**260**	**1,764**	**32,792**

Consolidated statement of changes in equity continued

Consolidated statement of changes in equity (2018)

	Share capital	Share premium	Reserves	Total Shareholders' equity (parent)	Minority interest	Undated subordinated notes	Total equity
Balance at 1 January 2018	**41**	**12,572**	**10,105**	**22,718**	**317**	**1,764**	**24,799**
Unrealised revaluations available-for-sale investments and other			-323	-323	-10		-333
Realised gains/losses transferred to the profit and loss account			-823	-823			-823
Changes in cash flow hedge reserve			793	793			793
Deferred interest credited to policyholders			-38	-38			-38
Share of other comprehensive income of associates and joint ventures			1	1			1
Exchange rate differences			93	93			93
Unrealised revaluations property in own use			7	7			7
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-290**	**-290**	**-10**	**0**	**-300**
Net result for the period			1,117	1,117	16		1,133
Total comprehensive income	**0**	**0**	**827**	**827**	**6**	**0**	**833**
Dividend			-332	-332	-89		-421
Purchase/sale of treasury shares			-231	-231			-231
Employee stock option and share plans			2	2			2
Coupon on undated subordinated notes			-58	-58			-58
Changes in composition of the group and other changes			-76	-76			-76
Balance at 31 December 2018	**41**	**12,572**	**10,237**	**22,850**	**234**	**1,764**	**24,848**

Notes to the Consolidated annual accounts

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

1 Accounting policies

NN Group prepares its Consolidated annual accounts in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS-EU) and Part 9 of Book 2 of the Dutch Civil Code. In the Consolidated annual accounts, the term IFRS-EU is used to refer to these standards, including the decisions NN Group made with regard to the options available under IFRS-EU. IFRS-EU provides a number of options in accounting policies. The key areas, in which IFRS-EU allows accounting policy choices and the related NN Group accounting policy, are summarised as follows:

- Under IFRS 4, an insurer may continue to apply its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS in 2005, NN Group decided to continue the then existing accounting principles for insurance contracts. NN Group operates in different countries and the accounting principles for insurance contracts follow local practice in these countries. For NN Group's businesses in the Netherlands, NN Group for example applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its insurance liabilities. Changes in those local accounting standards (including Dutch GAAP) subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policy under IFRS-EU.
- NN Group's accounting policy for real estate investments is fair value, with changes in the fair value reflected immediately in the Consolidated profit and loss account.
- NN Group's accounting policy for property in own use is fair value, with changes in the fair value reflected, after tax, in the 'Revaluation reserve' in 'Other comprehensive income' (equity). A net negative revaluation on individual properties is reflected immediately in the Consolidated profit and loss account.

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

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

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

Changes in IFRS-EU effective in 2019

IFRS 16 'Leases'

IFRS 16 'Leases' is effective for NN Group as of 1 January 2019. IFRS 16 contains a new accounting model for lessees. Under IFRS 16, the net present value of operating lease commitments is recognised on the consolidated balance sheet as a 'right of use asset' under Property and equipment or Real estate investments and a lease liability is recognised under Other liabilities. Until 2018, the operating lease commitments were disclosed as an off-balance commitment, but not recognised in the balance sheet.

The implementation of IFRS 16 as at 1 January 2019 did not impact shareholders' equity and net result of NN Group. A right of use asset and a lease liability were recognised in the balance sheet. At 31 December 2019 a right of use asset of EUR 304 million is presented under Property and equipment (1 January 2019: EUR 249 million) and EUR 38 million under Real estate investments (1 January 2019: EUR 38 million). A lease liability of EUR 345 million is presented under Other liabilities (1 January 2019: EUR 287 million). IFRS 16 applies to all lease contracts entered into, or modified, on or after 1 January 2019. For existing lease contracts at 1 January 2019, NN Group applied the modified retrospective approach for implementing IFRS 16 and, therefore, the comparative figures have not been amended.

Upon implementation of IFRS 16, lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate (as at 1 January 2019: 2.8% for all lease contracts). The right of use asset was recognised at an amount equal to the lease liability. There were no significant differences between the operating lease commitments disclosed in the 2018 NN Group Consolidated annual accounts and the amounts used to determine the lease liabilities under IFRS 16. NN Group elected not to recognise a right of use asset and a lease liability for short-term leases that have a lease term of 12 months or less and for leases of low value assets. The lease payments associated with these leases are recognised as an expense.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Upcoming changes in IFRS-EU

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014. IFRS 9 replaces most of the current IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

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

Impairment

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

Hedge accounting

The hedge accounting requirements of IFRS 9 aim to simplify hedge accounting. IFRS 9 includes the option to continue applying IAS 39 for hedge accounting.

IFRS 9 is effective as of 2018. However, in September 2016 the IASB issued an amendment to IFRS 4 'Insurance Contracts' (the 'Amendment'). This Amendment addresses the issue arising from the different effective dates of IFRS 9 and the new standard on accounting for insurance contracts (IFRS 17). The Amendment allows applying a temporary exemption from implementing IFRS 9, so that it can be implemented together with IFRS 17. This exemption is only available to entities whose activities are predominantly connected with insurance.

NN Group's activities are predominantly connected with insurance as defined in this Amendment as more than 90% of liabilities are connected with insurance activities. Liabilities connected with insurance activities of NN Group include insurance liabilities within the scope of IFRS 4, certain investment contract liabilities and other liabilities relating to insurance entities and activities. Liabilities of NN Group that are not related to insurance activities represent mainly the liabilities of the Banking operations. NN Group qualified for the temporary exemption at the reference date (31 December 2015) and continued to qualify for the temporary exemption after the acquisition of Delta Lloyd in 2017.

NN Group applies the temporary exemption and, therefore, NN Group expects to implement IFRS 9 together with IFRS 17.

The Amendment requires certain additional disclosures on whether financial assets that remain accounted for under IAS 39 meet the definition of 'solely payments of principal and interest on the principal amount outstanding' in IFRS 9 as well as additional information on the credit rating of such assets and whether such assets are 'low credit risk'. In this context, 'low credit risk' is equivalent to 'investment grade' as defined by ratings agencies (generally a rating of BBB- or better). These additional disclosures are included in Note 33 'Fair value of financial assets and liabilities' and in Note 49 'Risk management'. These disclosures reflect the current business models and the current accounting choices and interpretations. These may therefore change when IFRS 9 and IFRS 17 are implemented.

Certain subsidiaries within NN Group (mainly NN Bank) do not qualify under the Amendment. Therefore, the financial information of these entities is based on IFRS 9 in the statutory IFRS reporting of these entities, but not in the consolidated financial reporting of NN Group. The impact of applying IFRS 9 for these entities would not have been significant to NN Group. NN Group does not have associates or joint ventures for which IFRS 9 has a significant impact.

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017. IFRS 17 covers the recognition and measurement, presentation and disclosure of insurance contracts and replaces the current IFRS 4. IFRS 17 will fundamentally change the accounting for insurance liabilities and DAC for all insurance companies, including NN Group and its subsidiaries. The published but not EU-endorsed IFRS 17 includes 1 January 2021 as the effective date.

NN Group's current accounting policies for insurance liabilities and DAC under IFRS 4 are largely based on the pre-IFRS accounting policies in the relevant local jurisdictions. IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts and the premium allocation approach mainly for short-duration contracts (typically certain non-life insurance contracts).

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

The main features of IFRS 17 are:
- Measurement of the insurance liabilities in the balance sheet at current fulfilment value, being the sum of the present value of future cash flows and a risk adjustment
- Remeasurement of the current fulfilment value every reporting period using current assumptions and discount rates
- A Contractual Service Margin (CSM) recognised in the balance sheet that is equal to the unearned profit in the insurance contract at issue and is subsequently recognised as result in the profit and loss account over the remaining life of the portfolio
- Certain changes in the insurance liability are adjusted against the CSM and thereby recognised in the profit and loss account over the remaining life of the portfolio
- The effect of changes in discount rates is recognised either in the profit and loss account or in equity (OCI)
- The presentation of the profit and loss account and the disclosures in the Notes will change fundamentally

IFRS 17 must be implemented retrospectively with amendment of comparative figures. However, several simplifications may be used on transition.

NN Group will implement IFRS 17 together with IFRS 9 (see above). NN Group initiated an implementation project and has been performing high-level impact assessments. Whilst the current published IFRS 17 includes an effective date of 1 January 2021, in June 2019 the IASB issued the Exposure Draft 'Amendments to IFRS 17' in which it proposed various changes to the current published IFRS 17, including a deferral of the effective date to 1 January 2022. Based on the ongoing discussions, it is not unlikely that further changes will be made to IFRS 17 and that the effective date may be deferred further. NN Group expects that the implementation of IFRS 9 and IFRS 17 will result in significant changes to its accounting policies and will have a significant impact on shareholders' equity, net result, presentation and disclosure.

Interest rate benchmark reform

In September 2019 the IASB issued an amendment to IAS 39 and IFRS 7 in relation to the interest rate benchmark reform. These amendments eliminate the impact, if any, of the interest rate benchmark reform on derivatives qualifying for hedge accounting under IFRS. The amendments are effective as of 2020. Almost all hedge accounting applied by NN Group relates to interest rate risk based on Euribor. The calculation method of Euribor changed during 2019 and Euribor will continue to be used after the benchmark reform. As a result, NN Group expects that Euribor will continue to exist as a benchmark and does not anticipate replacing Euribor in its interest rate risk management and related hedge accounting. Therefore, the implementation of the amendments are not expected to have on impact on NN Group.

Changes in presentation

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

Critical accounting policies

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

Reference is made to Note 49 'Risk management' for a sensitivity analysis of certain assumptions as listed below.

Acquisition accounting, goodwill and other intangible assets

NN Group's acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of acquisition) of assets acquired, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquiree. Assets acquired include intangible assets such as brand names, client relationships and distribution channels. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Goodwill, being the positive difference between the cost of the acquisition (including assumed debt) and NN Group's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. In case there is a negative difference between the cost of the acquisition (including assumed debt) and NN Group's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, this is referred to as negative goodwill and is recognised in profit and loss in the reporting period the acquisition is finalised. Acquisition-related costs are recognised in the profit and loss account as incurred and presented in the profit and loss account as 'Other operating expenses'.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

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

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

Goodwill is allocated to cash generating units (reporting units) for the purpose of impairment testing of goodwill and other intangible assets. These cash generating units (reporting units) represent the lowest level at which goodwill is monitored for internal management purposes, which is either at the segment level or at a level below. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the cash generating units (reporting units including goodwill) is compared to its recoverable amount which is the higher of its fair value less costs to sell and its value in use.

The identification of cash generating units and impairments is an inherently uncertain process involving various assumptions and factors, including expected future cash flows, discount rates, etc. Estimates and assumptions are based on management's judgement and other information available. Significantly different results can occur as circumstances change and additional information becomes known.

Insurance liabilities and deferred acquisition costs (DAC)

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

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

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

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

Fair value of real estate

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

Reference is made to Note 34 'Fair value of non-financial assets' for more disclosure on fair value of real estate investments at the balance sheet date.

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

Fair value of financial assets and liabilities

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

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

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

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

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

Reference is made to Note 33 'Fair value of financial assets and liabilities' for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

Impairments

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

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

General accounting policies

Consolidation

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

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

The results of the operations and the net assets of subsidiaries are included in the profit and loss account and the balance sheet from the date control is obtained until the date control is lost. Minority interests are initially measured at their proportionate share of the subsidiaries' identifiable net assets at the date of acquisition. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in net result.

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

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

A list of principal subsidiaries is included in Note 31 'Principal subsidiaries and geographical information'.

Foreign currency translation

Functional and presentation currency

Items included in the annual accounts of each NN Group entity are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Consolidated annual accounts are presented in euros, which is NN Group's functional and presentation currency.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Transactions and balances

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

Exchange rate differences on non-monetary items, measured at fair value through profit or loss, are reported as part of the 'Fair value gain or loss'. Exchange rate differences on non-monetary items measured at fair value through other comprehensive income (equity) are included in the 'Revaluation reserve' in equity.

Exchange rate differences in the profit and loss account are generally included in 'Foreign currency results and net trading income'. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in 'Investment income'. As mentioned below in Group companies, on disposal of group companies, any exchange rate difference deferred in equity is recognised in the profit and loss account in 'Result on disposals of group companies'.

Group companies

The results and financial positions of all group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities included in each balance sheet are translated at the closing rate at the date of that balance sheet
- Income and expenses included in each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions)
- All resulting exchange rate differences are recognised in a separate component of equity in 'Currency translation reserve'

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

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

Recognition and derecognition of financial instruments

Financial assets and liabilities are generally (de)recognised at trade date, which is the date on which NN Group commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which NN Group receives or delivers the asset.

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

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

Fair value of financial assets and liabilities

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

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques, based on market conditions existing at each balance sheet date. An active market for the financial instrument is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Assessing whether a market is active requires judgement, considering factors specific to the financial instrument.

Reference is made to Note 33 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial instruments.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when NN Group has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability at the same time.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Impairments of financial assets

NN Group assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the specific case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities; generally, 25% and six months are used as triggers.

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

In determining the impairment loss, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio. NN Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and then individually or collectively for financial assets that are not individually significant.

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

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

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

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

Maximum credit risk exposure

The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items, the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 41 'Contingent liabilities and commitments' for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure. The manner in which NN Group manages credit risk and determines credit risk exposures is explained in Note 49 'Risk management'.

Leases

The leases entered into by NN Group as a lessee are primarily operating leases. At inception of a contract, NN Group assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The net present value of operating lease commitments is recognised on the balance sheet as a 'right of use asset' under Property and equipment or Real estate investments and a lease liability is recognised under Other liabilities. NN Group does not recognise a right of use asset and a lease liability for short-term leases that have a lease term of 12 months or less and for leases of low value assets. The lease payments associated with these leases are recognised as an expense.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Taxation

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

Current tax consists of the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses carried forward where it is probable that future taxable profits will be available against which the temporary differences can be used. Unrecognised deferred tax assets are reassessed periodically and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by NN Group and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be used.

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

Employee benefits

Defined benefit pension plans

The net defined benefit asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date. Plan assets are measured at fair value at the balance sheet date. For determining the pension expense, the expected return on plan assets is determined using a high quality corporate bond rate identical to the discount rate used in determining the defined benefit obligation.

Defined contribution pension plans

For defined contribution plans, NN Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. NN Group has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit and loss account when they are due.

Other post-employment obligations

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

Share-based payments

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

Interest income and expenses

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

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Fiduciary activities

NN Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions when conducting asset management activities. The assets and income arising thereon are excluded from these annual accounts, as they are not assets or income of NN Group. Fees received acting as trustee and in other fiduciary capacities are recognised as income.

Statement of cash flows

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

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

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

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

Accounting policies for specific items

Financial assets and liabilities at fair value through profit or loss (Notes 3 and 18)

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

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

Investments for risk of policyholders

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

Derivatives and hedge accounting

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

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

At the inception of the hedge transaction NN Group documents the relationship between hedging instruments and hedged items, its risk management objectives, together with the methods selected to assess hedge effectiveness. In addition, NN Group documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of the hedged items. NN Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Cash flow hedges

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

Fair value hedges

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

Net investment hedges

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

Non-trading derivatives that do not qualify for hedge accounting

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

Certain derivatives embedded in other contracts are measured as separate derivatives if:
- Their economic characteristics and risks are not closely related to those of the host contract
- The host contract is not carried at fair value through profit or loss
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative (unless the embedded derivative meets the definition of an insurance contract)

These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when NN Group first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

Available-for-sale investments (Note 4)

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

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

Loans (Note 5)

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

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Associates and joint ventures (Note 6)

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

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

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

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

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

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

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

Associates include interests in real estate funds and private equity funds. The underlying assets of both the real estate and the private equity funds are measured at fair value through profit or loss (i.e. no revaluations in other comprehensive income). The fair value of underlying real estate in real estate funds is determined as set out below for Real estate investments. The fair value of underlying private equity investments in private equity funds is generally based on a forward-looking market approach. This approach uses a combination of company financials and quoted market multiples. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and by reference to market valuations for similar entities quoted in an active market. Valuations of private equity investments are mainly based on an 'adjusted multiple of earnings' methodology on the following basis:

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

Real estate investments (Note 7)

Real estate investments under construction are included in 'Real estate investments'. Real estate investments are held for long-term rental yields and are not occupied by NN Group. Real estate investments are initially measured at cost, including transaction cost and are subsequently measured at fair value. Changes in the carrying value resulting from revaluations are recognised in the profit and loss account. On disposal the difference between the sales proceeds and carrying value is recognised in the profit and loss account. The fair value of real estate investments is based on regular appraisals by independent qualified valuers. For each reporting period every property is valued either by an independent valuer or internally. Market transactions and disposals made by NN Group are monitored as part of the validation procedures to test the valuations. Valuations performed earlier in the year are updated if necessary to reflect the situation at the year-end. All real estate investments are appraised externally at least annually.

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

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

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

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

Property and equipment (Note 8)

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

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

Equipment is stated at cost less accumulated depreciation and any impairment losses. The estimated useful lives are generally as follows: two to five years for data processing equipment and four to ten years for fixtures and fittings. Expenditure incurred on maintenance and repairs is recognised in the profit and loss account as incurred. Expenditure incurred on major improvements is capitalised and depreciated. The difference between the proceeds on disposal and net carrying value is recognised in the profit and loss account in 'Other income'.

Methods of depreciation and amortisation

Items of property and equipment are depreciated, intangible assets with finite useful lives are amortised. The carrying values of the assets are depreciated/amortised on a straight-line basis over the estimated useful lives. Methods of depreciation and amortisation, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets (Note 9)

Goodwill

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

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

Acquisition-related costs are recognised in the profit and loss account as incurred and presented in the profit and loss account as 'Other operating expenses'.

Until 2009, before IFRS 3 'Business Combinations' was revised, the accounting of previously held interests in the assets and liabilities of the acquired entity were not remeasured at the acquisition date and the acquisition-related costs were considered to be part of the total consideration. Goodwill is only capitalised on acquisitions after the implementation date of IFRS-EU (1 January 2004). Accounting for acquisitions before that date has not been restated; goodwill and internally generated intangibles on these acquisitions were recognised directly in shareholders' equity.

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

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Goodwill is allocated to cash generating units (reporting units) for the purpose of impairment testing. These cash generating units (reporting units) represent the lowest level at which goodwill is monitored for internal management purposes, which is either at the segment level or at a level below. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the cash generating units (reporting units including goodwill) is compared to its recoverable amount which is the higher of its fair value less costs to sell and its value in use.

Computer software

Computer software that has been purchased or generated internally for own use is stated at cost less amortisation and any impairment losses. The expected useful life of computer software will generally not exceed three years. Amortisation is included in 'Other operating expenses'.

Value of business acquired (VOBA)

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

Other intangible assets

Other intangible assets include brand names, client relationships and distribution channels. These assets are stated at cost less amortisation and any impairment losses. The expected useful life is between two and 17 years.

Impairment

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

Deferred acquisition costs (Note 10)

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

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

For other types of flexible life insurance contracts DAC is amortised over the lives of the policies in relation to the emergence of estimated profits. Amortisation is adjusted when estimates of current or future profits, to be realised from a group of products, are revised.

DAC amortisation is included in the Underwriting expenditure in the profit and loss account.

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

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

Subordinated debt, debt securities issued and other borrowed funds (Notes 13, 14 and 15)

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

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

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

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Insurance and investment contracts, reinsurance contracts (Note 16)

Insurance liabilities are established in accordance with IFRS 4 'Insurance Contracts'. Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS-EU in 2005, NN Group decided to continue the then existing accounting principles for insurance contracts under IFRS-EU. NN Group operates in many different countries and the accounting principles for insurance contracts follow local practice in these countries. For NN Group's businesses in the Netherlands, NN Group applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its insurance contracts. Changes in those local accounting standards (including Dutch GAAP) subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policies under IFRS-EU.

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

Insurance contracts

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

Life insurance liabilities

The life insurance liabilities are generally calculated on the basis of a prudent prospective actuarial method. Specific methodologies may differ between business units as they may reflect local regulatory requirements and local practices for specific product features in the local markets.

Insurance liabilities on traditional life policies are calculated using various assumptions, including assumptions on mortality, morbidity, expenses, investment returns and surrenders. Assumptions for insurance liabilities for traditional life insurance contracts, including traditional whole-life and term-life insurance contracts, are based on best estimate assumptions including margins for adverse deviations. Generally, these assumptions are set initially at the policy issue date and remain constant throughout the life of the policy. For the insurance liabilities that were taken over in the Delta Lloyd acquisition, these assumptions are set as at the date of acquisition, 1 April 2017.

Insurance liabilities for universal life, variable life and annuity contracts, unit-linked contracts, etc. are generally set equal to the balance that accrues to the benefit of the policyholders.

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

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

Liabilities for unearned premiums and unexpired insurance risks

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

Claims liabilities

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

Deferred interest credited to policyholders

For insurance contracts and investment contracts with discretionary participation features, 'Deferred interest credited to policyholders' is recognised for the full amount of the unrealised revaluations on allocated investments. Upon realisation, the 'Deferred interest credited to policyholders' regarding unrealised revaluations is reversed and a deferred profit sharing amount is recognised for the share of realised results on allocated investments that is expected to be shared with policyholders. The amount of deferred profit sharing is reduced by the actual allocation to individual policyholders. The change in the amount of 'Deferred interest credited to policyholders' on unrealised revaluations (net of tax) is recognised in the 'Revaluation reserve' in other comprehensive income (equity).

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Liabilities for life insurance for risk of policyholders

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

Reinsurance contracts

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

Adequacy test

The adequacy of the insurance liabilities, net of DAC, is evaluated at each reporting period by each business unit for the business originated in that business unit. The test involves comparing the established net insurance liability to a liability based on current best estimate actuarial assumptions. The assumed investment returns are a combination of the run-off of current portfolio yields on existing assets and reinvestment rates in relation to maturing assets and anticipated new premiums, as a result (part of) the revaluation reserve in shareholders equity is taken into account in assessing the adequacy of insurance liabilities.

If, for any business unit, the established insurance liability is lower than the liability based on current best estimate actuarial assumptions the shortfall is recognised immediately in the profit and loss account.

If the net insurance liabilities are determined to be more than adequate no reduction in the net insurance liabilities is recognised.

Investment contracts

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

Other liabilities (Note 19)

Provisions

Other liabilities include reorganisation provisions, litigation provisions and other provisions. Reorganisation provisions include employee termination benefits when NN Group is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Provisions are discounted when the effect of the time value of money is significant, using a before tax discount rate. The determination of provisions is an inherently uncertain process involving estimates regarding amounts and timing of cash flows.

Gross premium income (Note 20)

Premiums from insurance policies are recognised as income when due from the policyholder. Receipts under investment contracts are not recognised as gross premium income; instead deposit accounting is applied. When applying deposit accounting, the amounts contributed by policyholders are recognised as direct increases in the provision for investment contracts, not as premium income and payments are deducted directly from the provision.

Net fee and commission income (Note 22)

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

Earnings per ordinary share (Note 29)

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

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

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

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Segments and Principal subsidiaries and geographical information (Notes 30 and 31)

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

2 Cash and cash equivalents

Cash and cash equivalents

	2019	2018
Cash and bank balances	4,900	4,435
Money market funds	1,362	2,386
Short-term deposits	174	2,065
Cash and cash equivalents	**6,436**	**8,886**

As at 31 December 2019, NN Group held EUR 1,660 million (31 December 2018: EUR 1,320 million) at central banks.

NN Group invests in several types of money market funds, some qualifying as cash equivalents and some as investments. Short-term investments in money market funds are presented as cash equivalents only if these are highly liquid and quoted in an active market and have low investment risk.

3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

	2019	2018
Investments for risk of policyholders	34,433	30,230
Non-trading derivatives	10,189	5,096
Designated as at fair value through profit or loss	1,184	722
Financial assets at fair value through profit or loss	**45,806**	**36,048**

Investments for risk of policyholders

	2019	2018
Equity securities	31,534	27,373
Debt securities	1,695	1,443
Loans and receivables	1,204	1,414
Investments for risk of policyholders	**34,433**	**30,230**

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

Non-trading derivatives

	2019	2018
Derivatives used in:		
– fair value hedges	52	47
– cash flow hedges	7,365	3,219
Other non-trading derivatives	2,772	1,830
Non-trading derivatives	**10,189**	**5,096**

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

Designated as at fair value through profit or loss

	2019	2018
Equity securities	333	259
Debt securities	31	12
Money market funds	820	451
Designated as at fair value through profit or loss	**1,184**	**722**

Notes to the Consolidated annual accounts continued

4 Available-for-sale investments

Available-for-sale investments

	2019	2018
Equity securities:		
– shares in NN Group managed investment funds	2,096	2,101
– shares in third-party managed investment funds	1,552	1,279
– other	4,430	3,354
Equity securities	**8,078**	**6,734**
Debt securities	109,566	97,595
Available-for-sale investments	**117,644**	**104,329**

Changes in available-for-sale investments

	Equity securities		Debt securities		Total	
	2019	2018	2019	2018	2019	2018
Available-for-sale investments – opening balance	6,734	7,980	97,595	97,002	104,329	104,982
Additions	1,582	979	24,855	11,725	26,437	12,704
Amortisation			-485	-504	-485	-504
Transfers and reclassifications	-29	-277	-1	24	-30	-253
Changes in unrealised revaluations	976	-230	5,780	-168	6,756	-398
Impairments	-93	-91			-93	-91
Disposals and redemptions	-1,099	-1,767	-18,651	-11,499	-19,750	-13,266
Changes in the composition of the group and other changes		110	51		51	110
Exchange rate differences	7	30	422	1,015	429	1,045
Available-for-sale investments – closing balance	**8,078**	**6,734**	**109,566**	**97,595**	**117,644**	**104,329**

Transfers and reclassifications mainly relate to the transfer of certain investments in real estate funds to associates and joint ventures due to an increase in level of influence.

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

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

Total exposure to debt securities

	2019	2018
Available-for-sale investments	109,566	97,595
Loans	1,251	1,365
Available-for-sale investments and loans	**110,817**	**98,960**
Investments for risk of policyholders	1,695	1,443
Designated as at fair value through profit or loss	31	12
Financial assets at fair value through profit or loss	**1,726**	**1,455**
Total exposure to debt securities	**112,543**	**100,415**

NN Group's total exposure to debt securities included in 'Available-for-sale investments' and 'Loans' is specified as follows by type of exposure:

Notes to the Consolidated annual accounts continued

4 Available-for-sale investments continued

Debt securities by type

	Available-for-sale investments		Loans		Total	
	2019	2018	2019	2018	2019	2018
Government bonds	74,271	69,303			74,271	69,303
Corporate bonds	19,024	16,154			19,024	16,154
Financial institution and Covered bonds	13,318	10,242			13,318	10,242
Bond portfolio (excluding ABS)	**106,613**	**95,699**	**0**	**0**	**106,613**	**95,699**
US RMBS	552	531			552	531
Non-US RMBS	1,987	1,164	1,138	1,211	3,125	2,375
CDO/CLO	6	11			6	11
Other ABS	408	190	113	154	521	344
ABS portfolio	**2,953**	**1,896**	**1,251**	**1,365**	**4,204**	**3,261**
Debt securities – Available-for-sale investments and Loans	**109,566**	**97,595**	**1,251**	**1,365**	**110,817**	**98,960**

Reference is made to Note 49 'Risk management'.

Available-for-sale equity securities

	2019	2018
Listed	5,354	4,256
Unlisted	2,724	2,478
Available-for-sale equity securities	**8,078**	**6,734**

5 Loans

Loans

	2019	2018
Loans secured by mortgages	47,750	44,875
Unsecured loans	10,543	9,917
Asset-backed securities	1,251	1,365
Loans related to savings mortgages	1,672	1,841
Deposits		422
Policy loans	666	636
Other	8	14
Loans – before loan loss provisions	**61,890**	**59,070**
Loan loss provisions	-122	-167
Loans	**61,768**	**58,903**

Changes in Loans secured by mortgages

	2019	2018
Loans secured by mortgages – opening balance	44,875	42,820
Additions/origination	6,312	6,073
Amortisation	-199	-263
Redemption	-3,699	-3,916
Impairments and write-offs	-2	-4
Fair value changes recognised on hedged items	402	107
Changes in the composition of the group and other changes	61	58
Loans secured by mortgages – closing balance	**47,750**	**44,875**

NN Group has sold mortgage loans to securitisation entities that, in turn, issued notes to investors that are collateralised by the purchased assets. These mortgage loans continue to be recognised on NN Group's balance sheet as NN Group retained all or substantially all of the risks and rewards of the mortgage loans. Reference is made to Note 44 'Structured entities'.

Notes to the Consolidated annual accounts continued

5 Loans continued

Changes in Loan loss provisions

	2019	2018
Loan loss provisions – opening balance	167	179
Write-offs	-52	-5
Increase/decrease in loan loss provisions	11	-18
Changes in the composition of the group and other changes	-4	11
Loan loss provisions – closing balance	**122**	**167**

NN Group applies an interest rate pricing system for mortgage loans based on risk-based pricing with multiple risk premium categories, whereby the interest rate for a mortgage loan is set depending on the loan-to-valuation (LTV) ratio. In the past, mortgage loans were eligible to move into another risk premium category only on the interest reset date. In the second quarter of 2018 a change to this pricing system was announced, under which a mortgage loan can move into another (lower) risk premium category during the fixed interest rate term if the LTV has decreased due to an increase of the value of the house and/or repayment of the mortgage loan. The amended pricing system allows for the adjustment of the mortgage interest rate by moving to a lower risk premium category automatically following (partial) repayment of the loan principal, also taking into account (p)repayments that have already been made, and/or upon request following a proven revaluation of the relevant mortgaged asset. This amended pricing system represents a modification of the outstanding mortgage loans under IFRS and the related impact on the balance sheet value of outstanding mortgage loans of EUR 59 million was recognised as a charge in the profit and loss account in 2018.

6 Associates and joint ventures

Associates and joint ventures (2019)

	Interest held	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Vesteda Residential Fund FGR	24%	1,467	7,333	1,313	955	103
CBRE Dutch Office Fund FGR	19%	361	2,664	720	405	61
CBRE Retail Property Fund Iberica L.P.	50%	265	616	84	78	33
CBRE Dutch Retail Fund FGR	20%	218	1,601	529	60	40
Lazora S.I.I. S.A.	22%	205	1,435	508	154	42
CBRE Dutch Residential Fund FGR	10%	200	2,024	56	255	29
NRP Nordic Logistic Fund AS	42%	190	454	2	58	10
CBRE UK Property Fund PAIF	10%	182	1,890		27	
CBRE European Industrial Fund FGR	19%	151	1,145	370	169	33
Allee center Kft	50%	129	277	20	37	8
Achmea Dutch Health Care Property Fund	27%	119	446	10	50	5
DPE Deutschland II B GmbH & Co KG	35%	117	378	47	16	
Dutch Student and Young Professional Housing Fund FGR	49%	113	296	68	43	9
Robeco Bedrijfsleningen FGR	26%	112	434		11	1
Fiumaranuova s.r.l.	50%	101	238	36	17	9
Siresa House S.L.	49%	96	512	314	56	53
Parcom Buy-Out Fund V CV	21%	96	481	26	18	5
Boccaccio – Closed-end Real Estate Mutual Investment Fund	50%	93	249	64	17	4
Parcom Investment Fund III B.V.	100%	91	91		15	1
Parcom Buy Out Fund IV B.V.	100%	89	89		18	8
the Fizz Student Housing Fund SCS	50%	83	227	59	18	6
CBRE Dutch Retail Fund II FGR	10%	74	759	15	18	11
Dutch Urban Living Venture FGR	42%	71	221	50	17	1
CBRE Property Fund Central and Eastern Europe FGR	50%	62	170	46	36	8
Delta Mainlog Holding GmbH & Co. KG	50%	61	122	1	16	2
DPE Deutschland III (Parallel) GmbH & Co	17%	56	341	1	18	1
Parquest Capital II B FPCI	29%	53	190	5	1	7
Other		602				
Associates and joint ventures		**5,457**				

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

Notes to the Consolidated annual accounts continued

6 Associates and joint ventures continued

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

NN Group holds associates over which it cannot exercise control despite holding more than 50% of the share capital. For this reason, these are classified as associates and are not consolidated.

Other includes EUR 417 million of associates and joint ventures with an individual balance sheet value of less than EUR 50 million and EUR 185 million of receivables from associates and joint ventures.

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

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

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

Associates and joint ventures (2018)

	Interest held	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Vesteda Residential Fund FGR	27%	1,473	7,333	1,818	1,132	103
CBRE Dutch Office Fund FGR	28%	456	1,883	249	333	49
CBRE Retail Property Fund Iberica L.P.	33%	281	977	138	163	41
CBRE Dutch Retail Fund FGR	20%	223	1,591	495	77	36
CBRE Dutch Residential Fund FGR	10%	182	1,804	14	279	28
CBRE UK Property Fund PAIF	10%	176	1,838		145	19
Lazora S.I.I. S.A.	22%	164	1,083	343	88	26
CBRE European Industrial Fund FGR	19%	138	1,058	350	126	29
Allee center Kft	50%	121	260	19	36	8
Fiumaranuova s.r.l.	50%	102	239	35	21	9
Dutch Student and Young Professional Housing Fund FGR	49%	96	253	60	25	5
DPE Deutschland II B GmbH & Co KG	35%	92	293	32	28	
Boccaccio – Closed-end Real Estate Mutual Investment Fund	50%	89	242	65	12	4
Achmea Dutch Health Care Property Fund	25%	84	339		40	5
Robeco Bedrijfsleningen FGR	25%	80	324		9	1
Siresa House S.L.	49%	78	389	228	50	54
the Fizz Student Housing Fund SCS	50%	78	224	66	7	6
CBRE Dutch Retail Fund II FGR	10%	76	774	13	29	13
Parcom Investment Fund III B.V.	100%	76	80	3	-2	
Parcom Investment Fund II B.V.	100%	69	69		79	
CBRE Property Fund Central and Eastern Europe FGR	50%	67	197	64	123	14
Delta Mainlog Holding GmbH & Co. KG	50%	56	113	1	9	1
Parcom Buy-Out Fund V CV	21%	54	260	9	12	2
Parcom Buy Out Fund IV B.V.	100%	50	50		65	1
Other		639				
Associates and joint ventures		**5,000**				

In 2018, NN Group sold a Dutch residential real estate portfolio to Vesteda for a total consideration of EUR 1,427 million. The purchase price was paid approximately 75% in participation rights in the Vesteda fund and 25% in cash. As a result of the transaction, NN Group's existing participation in the Vesteda fund of EUR 340 million is now classified under Associates (previously classified under Available-for-sale investments). Consequently, a capital gain of EUR 108 million was recognised in the profit and loss account.

Notes to the Consolidated annual accounts continued

6 Associates and joint ventures continued

Changes in Associates and joint ventures

	2019	2018
Associates and joint ventures – opening balance	5,000	3,450
Additions	531	1,406
Transfers to/from available-for-sale investments	14	344
Share in changes in equity (Revaluations)	-4	
Share of result	619	500
Dividends received	-212	-429
Disposals	-497	-262
Changes in the composition of the group and other changes		-7
Exchange rate differences	6	-2
Associates and joint ventures – closing balance	**5,457**	**5,000**

Transfers to/from available-for-sale investments mainly relate to the transfer of certain investments in real estate funds to associates and joint ventures due to an increase in level of influence.

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

7 Real estate investments

Changes in Real estate investments

	2019	2018
Real estate investments – opening balance	2,374	3,582
Additions	158	206
Transfers to/from property in own use		15
Transfers to/from other assets	3	3
Fair value gains/losses	42	200
Disposals	-6	-1,632
Real estate investments – closing balance	**2,571**	**2,374**

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2019 is EUR 146 million (2018: EUR 177 million).The Real estate investments include properties that are leased (ground lease). At 31 December 2019, the corresponding right of use assets amount to EUR 38 million.

The total amount of direct operating expenses (including repairs and maintenance) in relation to real estate investments recognised in rental income for the year ended 31 December 2019 is EUR 46 million (2018: EUR 57 million).

Real estate investments by year of most recent appraisal

	2019	2018
Most recent appraisal in current year	100%	100%
	100%	**100%**

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

Real estate exposure

	2019	2018
Real estate investments	2,571	2,374
Available-for-sale investments	1,116	779
Associates and joint ventures	4,631	4,383
Property and equipment – property in own use	82	75
Other assets – property obtained from foreclosures		1
Real estate exposure	**8,400**	**7,612**

Furthermore, the exposure is impacted by third-party interests, leverage in funds and off-balance commitments, resulting in an overall exposure at 31 December 2019 of EUR 9,453 million (2018: EUR 9,384 million). Reference is made to Note 49 'Risk management'.

Notes to the Consolidated annual accounts continued

8 Property and equipment

Property and equipment

	2019	2018
Property in own use	82	75
Equipment	79	76
Property and equipment owned	**161**	**151**
Right of use assets	304	
Property and equipment total	**465**	**151**

Changes in Property in own use

	2019	2018
Property in own use – opening balance	75	82
Additions	4	2
Transfers to/from real estate investments		-15
Revaluations	4	9
Disposals		-2
Depreciation	-2	-2
Reversal of impairments	1	1
Property in own use – closing balance	**82**	**75**
Gross carrying value	120	116
Accumulated depreciation, revaluations and (reversal of) impairments	-38	-41
Net carrying value	**82**	**75**
Revaluation surplus – opening balance	12	3
Revaluation in year	4	9
Revaluation surplus – closing balance	**16**	**12**

Changes in Equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2019	2018	2019	2018	2019	2018
Equipment – opening balance	23	20	53	48	76	68
Additions	17	12	14	26	31	38
Disposals			-1	-1	-1	-1
Depreciation	-12	-11	-15	-20	-27	-31
Changes in the composition of the group and other changes		2			0	2
Equipment – closing balance	**28**	**23**	**51**	**53**	**79**	76
Gross carrying value	137	120	194	181	331	301
Accumulated depreciation	-109	-97	-143	-128	-252	-225
Net carrying value	**28**	**23**	**51**	**53**	**79**	**76**

Changes in Right of use assets (2019)

	Property	Equipment	Total
Right of use assets – opening balance			0
Additions	321	36	357
Depreciation	-39	-13	-52
Exchange rate differences	-1		-1
Right of use assets – closing balance	**281**	**23**	**304**
Gross carrying value	320	36	356
Accumulated depreciation	-39	-13	-52
Net carrying value	**281**	**23**	**304**

Notes to the Consolidated annual accounts continued

9 Intangible assets

Intangible assets (2019)

	Goodwill	Value of business acquired	Software	Other	Total
Intangible assets – opening balance	532		73	258	863
Additions	8		37	5	50
Amortisation		-30	-33	-33	-96
Changes in the composition of the group and other changes		178	2	-2	178
Exchange rate differences	-1	1			0
Intangible assets – closing balance	**539**	**149**	**79**	**228**	**995**
Gross carrying value	1,512	179	853	643	3,187
Accumulated amortisation		-30	-708	-367	-1,105
Accumulated impairments	-973		-66	-48	-1,087
Net carrying value	**539**	**149**	**79**	**228**	**995**

Intangible assets (2018)

	Goodwill	Value of business acquired	Software	Other	Total
Intangible assets – opening balance	1,392		53	396	1,841
Additions			44		44
Amortisation			-28	-134	-162
Impairments	-852				-852
Changes in the composition of the group and other changes			4	-4	0
Exchange rate differences	-8				-8
Intangible assets – closing balance	**532**	**0**	**73**	**258**	**863**
Gross carrying value	1,505		814	640	2,959
Accumulated amortisation			-675	-334	-1,009
Accumulated impairments	-973		-66	-48	-1,087
Net carrying value	**532**	**0**	**73**	**258**	**863**

Other intangible assets include the remaining part of the intangibles recognised in 2017 on the acquisition of Delta Lloyd. The acquisition intangibles comprise:
- Brand names – with an average expected remaining useful life at the acquisition date of approximately 10 years
- Client relationships – with an average expected remaining useful life at the acquisition date of approximately 9 years
- Distribution channels/agreements – with an average expected remaining useful life at the acquisition date of approximately 17 years
- Software – with an average expected remaining useful life at the acquisition date of approximately 3 years

The increase in 2019 in Value of business acquired includes the impact of the acquisitions in Czech Republic and Slovakia. Reference is made to Note 43 'Companies and businesses acquired and divested'.

Amortisation of software and other intangible assets is included in the profit and loss account in 'Other operating expenses' and 'Intangible amortisation and other impairments' respectively.

Goodwill by cash generating unit (reporting unit)

	2019	2018
Netherlands Non-life	90	86
Insurance Europe	76	77
Asset Management	311	307
Bank	62	62
Goodwill	**539**	**532**

Reference is made to Note 43 'Companies and businesses acquired and divested'.

Notes to the Consolidated annual accounts continued

9 Intangible assets continued

Goodwill impairment

Goodwill is tested for impairment at the lowest level at which it is monitored for internal management purposes. This level is defined as the cash generating unit (reporting unit) as set out above. Goodwill is tested for impairment by comparing the carrying value of the cash generating unit (reporting unit) to the best estimate of the recoverable amount of that cash generating unit (reporting unit). The carrying value is determined as the IFRS-EU book value including goodwill and certain acquisition intangibles. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount.

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

As a result of the further integration of Delta Lloyd entities in the Netherlands, as evidenced by the approval of the legal mergers of Delta Lloyd Levensverzekering N.V. (Delta Lloyd Life) into Nationale-Nederlanden Levensverzekering Maatschappij N.V. (NN Life) and Delta Lloyd Schadeverzekering N.V. (Delta Lloyd Non-life) into Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (NN Non-life) at the end of 2018, the life and non-life businesses in the Netherlands are now combined in one cash generating unit for Life and one cash generating unit for Non-life, for the purpose of goodwill impairment testing. These cash generating units are equal to the segment Netherlands Life and Netherlands Non-life. The IFRS equity of Delta Lloyd Life at the acquisition date reflected assets and liabilities at fair value. Whilst most assets in the combined Netherlands Life segment are also reflected at fair value, most of the NN Life insurance liabilities are recognised at historical locked-in assumptions in IFRS. Consequently, the IFRS book value of the combined Netherlands Life segment is higher than the fair value of its assets and liabilities. The impairment test, based on a recoverable amount for the segment using a 10% discount rate, resulted in an impairment of the goodwill for Delta Lloyd Life of EUR 852 million through a charge in the IFRS profit and loss account of NN Group in 2018. There was no impact for Netherlands Non-life.

For the goodwill other than Netherlands Life there is a significant excess of recoverable amount over book value for the cash generating units (reporting units) to which goodwill is allocated.

There was no impairment of goodwill in 2019.

10 Deferred acquisition costs

Changes in Deferred acquisition costs

	Life insurance		Non-life insurance		Total	
	2019	2018	2019	2018	2019	2018
Deferred acquisition costs – opening balance	1,766	1,601	77	90	1,843	1,691
Capitalised expenses	497	491	478	461	975	952
Amortisation and unlocking	-424	-402	-480	-474	-904	-876
Changes in the composition of the group and other changes	4				4	0
Exchange rate differences	-5	76			-5	76
Deferred acquisition costs – closing balance	**1,838**	**1,766**	**75**	**77**	**1,913**	**1,843**

11 Other assets

Other assets

	2019	2018
Insurance and reinsurance receivables	824	1,038
Income tax receivables	29	110
Accrued interest and rents	1,512	1,597
Other accrued assets	258	301
Cash collateral amounts paid	1,326	1,190
Other	521	472
Other assets	**4,470**	**4,708**

Notes to the Consolidated annual accounts continued

11 Other assets continued

Insurance and reinsurance receivables

	2019	2018
Receivables on account of direct insurance from:		
– policyholders	566	732
– intermediaries	161	168
Reinsurance receivables	97	138
Insurance and reinsurance receivables	**824**	**1,038**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 25 million as at 31 December 2019 (2018: EUR 23 million). The receivable is presented net of this allowance.

12 Equity

Total equity

	2019	2018
Share capital	41	41
Share premium	12,572	12,572
Revaluation reserve	15,269	8,198
Currency translation reserve	3	-34
Net defined benefit asset/liability remeasurement reserve	-144	-106
Other reserves	3,027	2,179
Shareholders' equity (parent)	**30,768**	**22,850**
Minority interests	260	234
Undated subordinated notes	1,764	1,764
Total equity	**32,792**	**24,848**

Changes in equity (2019)

	Share capital	Share premium	Reserves	Total shareholders' equity (parent)
Equity – opening balance	41	12,572	10,237	22,850
Total amount recognised directly in equity (Other comprehensive income)			7,077	7,077
Net result for the period			1,962	1,962
Dividend			-387	-387
Purchase/sale of treasury shares			-707	-707
Employee stock option and share plans			2	2
Coupon on undated subordinated notes			-59	-59
Changes in the composition of the group and other changes			30	30
Equity – closing balance	**41**	**12,572**	**18,155**	**30,768**

Purchase/sale of treasury shares (2019)

In 2019, 20,996,349 ordinary shares for a total amount of EUR 712 million were repurchased under an open market share buyback programme, including repurchases to neutralise the dilutive effect of stock dividends. Treasury shares for an amount of EUR 5 million were delivered under Employee share plans. The repurchased shares are held by NN Group and the amount was deducted from Other reserves (Purchase/sale of treasury shares).

In 2019, 5,850,000 NN Group treasury shares were cancelled.

As at 31 December 2019, 21,485,285 treasury shares were held by NN Group.

Issue of ordinary shares (2019)

In 2019, 4,807,859 NN Group shares (for the shareholders that opted to receive a stock dividend) were issued for the final dividend and 3,539,191 NN Group shares were issued for the interim dividend.

Notes to the Consolidated annual accounts continued

12 Equity continued

Coupon paid on undated subordinated notes (2019)

The undated subordinated notes have optional annual coupon payments in June and July. The annual coupons resulted in a deduction of EUR 59 million (net of tax) from equity.

Changes in the composition of the group and other (2019)

In 2018 NN Group reached an agreement to strengthen the long-term partnership between NN Investment Partners (NNIP) and ING Bank Śląski in Poland. Under this agreement, ING Bank Śląski acquired a 45% stake in NNIP Poland and will distribute NNIP investment funds to the Polish retail market. This transaction closed in July 2019. NN Group continues to consolidate NNIP Poland with a minority interest. The positive difference between the transaction price and the related share in the book value of NNIP Poland of EUR 30 million is recognised directly in retained earnings in equity.

Changes in equity (2018)

	Share capital	Share premium	Reserves	Total shareholders' equity (parent)
Equity – opening balance	41	12,572	10,105	22,718
Total amount recognised directly in equity (Other comprehensive income)			-290	-290
Net result for the period			1,117	1,117
Dividend			-332	-332
Purchase/sale of treasury shares			-231	-231
Employee stock option and share plans			2	2
Coupon on undated subordinated notes			-58	-58
Changes in the composition of the group and other changes			-76	-76
Equity – closing balance	**41**	**12,572**	**10,237**	**22,850**

Purchase/sale of treasury shares (2018)

In 2018, 6,375,646 ordinary shares for a total amount of EUR 237 million were repurchased under open market share buyback programmes to neutralise the dilutive effect of stock dividends and treasury shares for an amount of EUR 6 million were delivered under Employee share plans. The repurchased shares are held by NN Group and the amount was deducted from Other reserves (Purchase/sale of treasury shares).

In 2018, 6,176,884 NN Group treasury shares were cancelled.

As at 31 December 2018, 6,554,128 treasury shares were held by NN Group.

Issue of ordinary shares (2018)

In 2018, 3,918,712 NN Group shares (for the shareholders that opted to receive a stock dividend) were issued for the final dividend and 2,566,901 NN Group shares were issued for the interim dividend.

Coupon paid on undated subordinated notes (2018)

The undated subordinated notes have optional annual coupon payments in June and July. The annual coupons resulted in a deduction of EUR 58 million (net of tax) from equity.

Shareholders' equity (parent)

Share capital

	Ordinary shares (in number)		Ordinary shares (amounts in millions of euros)	
	2019	2018	2019	2018
Authorised share capital	700,000,000	700,000,000	84	84
Unissued share capital	356,443,879	358,940,929	43	43
Issued share capital	**343,556,121**	**341,059,071**	**41**	**41**

Ordinary shares

The authorised ordinary share capital consists of 700,000,000 ordinary shares with a par value of EUR 0.12 per share. At 31 December 2019 issued and fully paid ordinary share capital consists of 343,556,121 ordinary shares with a par value of EUR 0.12 per share.

Notes to the Consolidated annual accounts continued

12 Equity continued

Distributable reserves

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

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

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

Distributable reserves based on the Dutch Civil Code

	2019	2019	2018	2018
Total shareholders' equity		30,768		22,850
– share capital	41		41	
– revaluation reserve	15,269		8,198	
– currency translation reserve	3			
– share of associates reserve	1,271		747	
– other non-distributable reserves	198		118	
Total non-distributable part of shareholders' equity:		16,782		9,104
Distributable reserves based on the Dutch Civil Code		**13,986**		**13,746**

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

Freely distributable reserves

	2019	2019	2018	2018
Solvency requirement under the Financial Supervision Act	8,154		7,274	
Reserves available for financial supervision purposes	17,792		16,727	
Total freely distributable reserves on the basis of solvency requirements		9,638		9,453
Total freely distributable reserves on the basis of the Dutch Civil Code		13,986		13,746
Total freely distributable reserves (lower of the values above)		**9,638**		**9,453**

Reference is made to Note 50 'Capital and liquidity management' for more information on solvency requirements.

Other restrictions

There are other restrictions to the ability of subsidiaries, associates and joint ventures to distribute reserves to NN Group as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the group companies operate. Reference is made to Note 50 'Capital and liquidity management' for the minimum capital requirements.

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

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

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

Notes to the Consolidated annual accounts continued

12 Equity continued

Preference shares

As at 31 December 2019, none of the preference shares had been issued. The authorised number of preference shares is 700,000,000 shares.

Warrants

On 15 November 2018, NN Group repurchased its warrants that were issued to ING Group on 10 June 2014 in connection with the Initial Public Offering of NN Group, for a consideration of EUR 76 million. All outstanding warrants were cancelled. The amount paid was deducted from Other reserves and is presented as Changes in composition of the group and other changes.

Changes in Revaluation reserve (2019)

	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – opening balance	9	3,675	4,514	8,198
Unrealised revaluations	3	4,473		4,476
Realised gains/losses transferred to the profit and loss account		-286		-286
Changes in cash flow hedge reserve			4,284	4,284
Deferred interest credited to policyholders		-1,403		-1,403
Revaluation reserve – closing balance	**12**	**6,459**	**8,798**	**15,269**

Changes in Revaluation reserve (2018)

	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – opening balance	2	4,874	3,721	8,597
Unrealised revaluations	7	-338		-331
Realised gains/losses transferred to the profit and loss account		-823		-823
Changes in cash flow hedge reserve			793	793
Deferred interest credited to policyholders		-38		-38
Revaluation reserve – closing balance	**9**	**3,675**	**4,514**	**8,198**

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

Changes in Currency translation reserve

	2019	2018
Currency translation reserve – opening balance	-34	-139
Unrealised revaluations after taxation	-16	12
Exchange rate differences for the period	53	93
Currency translation reserve – closing balance	**3**	**-34**

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

Changes in Other reserves (2019)

	Retained earnings	Share of associates reserve	Total
Other reserves – opening balance	1,432	747	2,179
Net result for the period	1,962		1,962
Transfers to/from share of associates reserve	-524	524	0
Dividend	-387		-387
Purchase/sale of treasury shares	-707		-707
Employee stock option and share plans	2		2
Coupon on subordinated notes	-59		-59
Changes in the composition of the group and other changes	37		37
Other reserves – closing balance	**1,756**	**1,271**	**3,027**

Notes to the Consolidated annual accounts continued

12 Equity continued

Changes in Other reserves (2018)

	Retained earnings	Share of associates reserve	Total
Other reserves – opening balance	1,056	697	1,753
Net result for the period	1,117		1,117
Transfers to/from share of associates reserve	-50	50	0
Dividend	-332		-332
Purchase/sale of treasury shares	-231		-231
Employee stock option and share plans	2		2
Coupon on subordinated notes	-58		-58
Changes in the composition of the group and other changes	-72		-72
Other reserves – closing balance	**1,432**	**747**	**2,179**

Dividends

	2019	2018
Dividend distributed from Other reserves:		
Dividend paid in cash (interim current year)	144	127
Dividend paid in cash (final previous year)	243	205
Stock dividend (interim current year)	106	95
Stock dividend (final previous year)	172	143
Total dividend	**665**	**570**

Interim dividend 2019
In September 2019, NN Group paid a 2019 interim dividend of EUR 0.76 per ordinary share, or approximately EUR 250 million in total. The 2019 interim dividend was paid either in cash, after deduction of withholding tax if applicable, or ordinary shares at the election of the shareholder. As a result, an amount of EUR 144 million was distributed out of Other reserves (cash dividend) and 3,539,191 ordinary shares, with a par value of EUR 0.12 per share, were issued (EUR 106 million stock dividend). To neutralise the dilutive effect of the interim stock dividend, NN Group repurchased ordinary shares for an amount equivalent to the stock dividend.

Proposed final dividend 2019
At the annual general meeting on 28 May 2020, a final dividend will be proposed of EUR 1.40 per ordinary share, or approximately EUR 448 million in total based on the current number of outstanding shares (net of treasury shares). Together with the 2019 interim dividend of EUR 0.76 per ordinary share paid in September 2019, NN Group's total dividend over 2019 will be EUR 698 million, or EUR 2.16 per ordinary share which is equivalent to a dividend pay-out ratio of 50% of NN Group's full-year 2019 net operating result. The final dividend will be paid in cash, after deduction of withholding tax if applicable, or ordinary shares from the share premium reserve, at the election of the shareholder. To neutralise the dilutive effect of the stock dividend, NN Group will repurchase ordinary shares for an amount equivalent to the stock dividend. If the proposed dividend is approved by the shareholders, NN Group ordinary shares will be quoted ex-dividend on 1 June May 2020. The record date for the dividend will be 2 June 2020. The election period will run from 3 June up to and including 17 June 2020. The stock fraction for the stock dividend will be based on the volume weighted average price of NN Group ordinary shares on Euronext Amsterdam for the five trading days from 11 June through 17 June 2020. The dividend will be payable on 24 June 2020.

Interim dividend 2018
In September 2018, NN Group paid a 2018 interim dividend of EUR 0.66 per ordinary share, or approximately EUR 222 million in total. The 2018 interim dividend was paid either in cash, after deduction of withholding tax if applicable, or ordinary shares at the election of the shareholder. As a result, an amount of EUR 127 million was distributed out of Other reserves (cash dividend) and 2,566,901 ordinary shares, with a par value of EUR 0.12 per share, were issued (EUR 95 million stock dividend). To neutralise the dilutive effect of the interim stock dividend, NN Group repurchased ordinary shares for an amount equivalent to the stock dividend.

Notes to the Consolidated annual accounts continued

12 Equity continued

Final dividend 2018

On 29 May 2019, the annual general meeting adopted the proposed final dividend of EUR 1.24 per ordinary share, or approximately EUR 415 million in total based on the current number of outstanding shares (net of treasury shares). Together with the 2018 interim dividend of EUR 0.66 per ordinary share paid in September 2018, NN Group's total dividend for 2018 was EUR 637 million, or EUR 1.90 per ordinary share which is equivalent to a dividend pay-out ratio of 50% of NN Group's full-year 2018 net operating result. The final dividend was paid in cash, after deduction of withholding tax if applicable, or ordinary shares from the share premium reserve, at the election of the shareholder. As a result, an amount of EUR 243 million was distributed out of Other reserves (cash dividend) and 4,807,859 ordinary shares, with a par value of EUR 0.12 per share, were issued EUR 172 million stock dividend). To neutralise the dilutive effect of the stock dividend, NN Group repurchases ordinary shares for an amount equivalent to the stock dividend. The dividend was paid on 25 June 2019.

Proposed appropriation of result

The result is appropriated pursuant to Article 34 of the Articles of Association of NN Group N.V., of which the relevant provisions state that the appropriation of result shall be determined by the General Meeting, on the proposal of the Executive Board, as approved by the Supervisory Board. It is proposed to add the 2019 net result of EUR 1,962 million less the (interim and final) cash dividends to the retained earnings.

Minority interest

Through the acquisition of Delta Lloyd, NN Group owns 51% of the shares of ABN AMRO Verzekeringen Holding B.V. (ABN AMRO Verzekeringen). ABN AMRO Verzekeringen's principal place of business is Zwolle, the Netherlands. ABN AMRO Verzekeringen is fully consolidated by NN Group, with a minority interest recognised of 49%.

At 31 December 2019, the minority interest relating to ABN AMRO Verzekeringen recognised in equity was EUR 241 million.

Summarised information ABN AMRO Verzekeringen[1]

	2019	2018
Total assets	4,867	4,889
Total liabilities	4,375	4,436
Total income	561	559
Total expenses	503	527
Net result recognised in period	42	32
Other comprehensive income recognised in period	46	-13
Dividends paid	49	183

1 All on 100% basis.

Undated subordinated notes

In July 2014, NN Group N.V. issued fixed to floating rate undated subordinated notes with a par value of EUR 1,000 million. The notes are undated, but are callable after 11.5 years and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 4.5% per annum for the first 11.5 years and will be floating thereafter. As these notes are undated and include optional deferral of interest at the discretion of NN Group, these are classified under IFRS-EU as equity. Coupon payments are distributed out of equity if and when paid or contractually due. The discount to the par value and certain issue costs were deducted from equity at issue, resulting in a balance sheet value equal to the net proceeds of EUR 986 million.

In June 2014, fixed to floating rate undated subordinated notes with a par value of EUR 750 million were originally issued by Delta Lloyd which are classified as equity under IFRS-EU. The notes are undated, but are callable as from 13 June 2024 and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 4.375% per annum until 13 June 2024 and will be floating thereafter. Coupon payments are distributed out of equity if and when paid or contractually due. These notes were recognised upon acquisition of Delta Lloyd for an amount of EUR 778 million.

Notes to the Consolidated annual accounts continued

13 Subordinated debt

Subordinated debt

				Notional amount		Balance Sheet Value	
Interest rate	Year of issue	Due date	First call date	2019	2018	2019	2018
4.625%	2017	13 January 2048	13 January 2028	850	850	839	838
9.000%	2017	29 August 2042	29 August 2022	500	500	577	604
6.000%	2017	13 July 2019	13 July 2019		12		12
4.625%	2014	8 April 2044	8 April 2024	1,000	1,000	993	991
Subordinated debt						**2,409**	**2,445**

The above subordinated debt instruments have been issued to raise hybrid capital. Under IFRS-EU these debt instruments are classified as liabilities. They are considered capital for regulatory purposes. All subordinated debt is euro denominated.

14 Debt securities issued

Debt securities issued

				Notional amount		Balance Sheet Value	
Interest rate	Year of issue	Due date	First call date	2019	2018	2019	2018
1.000%	2015	18 March 2022	Not applicable	600	600	599	599
0.875%	2017	13 January 2023	13 October 2022	500	500	497	497
0.250%	2017	1 June 2020	1 March 2020	300	300	300	299
1.625%	2017	1 June 2027	1 March 2027	600	600	596	595
Debt securities issued						**1,992**	**1,990**

15 Other borrowed funds

Other borrowed funds

	2019	2018
Credit institutions	1,556	1,050
Other	6,058	4,667
Other borrowed funds	**7,614**	**5,717**

Other borrowed funds includes the funding of the consolidated securitisation programmes as disclosed in Note 44 'Structured entities' and unsecured Debt Issuance.

During 2019, NN Bank issued EUR 1.1 billion bonds under its Conditional Pass-Through Covered Bond Programme, backed by Dutch prime residential mortgage loans (2018 EUR 1 billion) and EUR 1.6 billion under its Debt Issuance Programme.

Notes to the Consolidated annual accounts continued

16 Insurance and investment contracts, reinsurance contracts

Insurance and investment contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance and investment contracts	
	2019	2018	2019	2018	2019	2018
Non-participating life policy liabilities	57,376	56,937	225	132	57,601	57,069
Participating life policy liabilities	54,114	52,961	454	561	54,568	53,522
Investment contracts with discretionary participation features	6,073	6,754			6,073	6,754
Liabilities for (deferred) profit sharing and rebates	8,526	6,591			8,526	6,591
Life insurance liabilities excluding liabilities for risk of policyholders	**126,089**	**123,243**	**679**	**693**	**126,768**	**123,936**
Liabilities for life insurance for risk of policyholders	32,979	28,971	34	45	33,013	29,016
Investment contract with discretionary participation features for risk of policyholders	245	215			245	215
Life insurance liabilities	**159,313**	**152,429**	**713**	**738**	**160,026**	**153,167**
Liabilities for unearned premiums and unexpired risks	**390**	**401**	**15**	**13**	**405**	**414**
Reported claims liabilities	3,991	3,980	203	209	4,194	4,189
Claims incurred but not reported (IBNR)	1,409	1,302	57	50	1,466	1,352
Claims liabilities	**5,400**	**5,282**	**260**	**259**	**5,660**	**5,541**
Insurance liabilities and investment contracts with discretionary participation features	**165,103**	**158,112**	**988**	**1,010**	**166,091**	**159,122**
Investment contracts	1,025	1,078			1,025	1,078
Investment contracts for risk of policyholders	1,135	918			1,135	918
Investment contracts liabilities	**2,160**	**1,996**	**0**	**0**	**2,160**	**1,996**
Insurance and investment contracts, reinsurance contracts	**167,263**	**160,108**	**988**	**1,010**	**168,251**	**161,118**

The liabilities for insurance and investment contracts are presented gross in the balance sheet as 'Insurance and investment contracts'. The related reinsurance is presented as 'Reinsurance contracts' under Assets in the balance sheet.

Deferred interest credited to policyholders is included in the 'Liabilities for (deferred) profit sharing and rebates' and amounts to EUR 8,245 million as at 31 December 2019 (2018: EUR 6,341 million).

Notes to the Consolidated annual accounts continued

16 Insurance and investment contracts, reinsurance contracts continued

Changes in Life insurance liabilities (2019)

	Net life insurance liabilities[1]	Net liabilities for risk of policyholders[2]	Reinsurance contracts	Life insurance liabilities
Life insurance liabilities – opening balance	123,243	29,186	738	153,167
Deferred interest credited to policyholders	1,905			1,905
Current year liabilities	7,092	2,207	16	9,315
Prior years liabilities:				
– benefit payments to policyholders	-9,347	-2,910	-45	-12,302
– interest accrual and changes in fair value of liabilities	2,525		7	2,532
– valuation changes for risk of policyholders		4,792		4,792
– effect of changes in discount rate assumptions	-4		1	-3
– effect of changes in other assumptions	-97	-31		-128
Changes in the composition of the group and other changes	328	-66	-8	254
Exchange rate differences	444	46	4	494
Life insurance liabilities – closing balance	**126,089**	**33,224**	**713**	**160,026**

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

Changes in Life insurance liabilities (2018)

	Net life insurance liabilities[1]	Net liabilities for risk of policyholders[2]	Reinsurance contracts	Life insurance liabilities
Life insurance liabilities – opening balance	122,838	32,526	666	156,030
Deferred interest credited to policyholders	-279			-279
Current year liabilities	6,205	2,302	14	8,521
Prior years liabilities:				
– benefit payments to policyholders	-8,962	-4,459	49	-13,372
– interest accrual and changes in fair value of liabilities	2,530		8	2,538
– valuation changes for risk of policyholders		-1,254		-1,254
– effect of changes in discount rate assumptions	6		-1	5
– effect of changes in other assumptions	-174	45		-129
Changes in the composition of the group and other changes	13	-181	-4	-172
Exchange rate differences	1,066	207	6	1,279
Life insurance liabilities – closing balance	**123,243**	**29,186**	**738**	**153,167**

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

Where discounting is used in the calculation of life insurance liabilities, the rate for the Dutch portfolios is within the range of 1.0% to 4.0% (2018: 1.0% to 4.0%). The rate for the foreign portfolios is within the range of 0.0% to 6.0% (2018: 0.0% to 6.0%).

Changes in the composition of the group and other changes includes insurance contracts for risk of policyholders with guarantees that were extended as general account contracts and the transfer of certain insurance contracts.

Changes in Liabilities for unearned premiums and unexpired risks

	Liabilities net of reinsurance		Reinsurance contracts		Liabilities for unearned premiums and unexpired risk	
	2019	2018	2019	2018	2019	2018
Liabilities for unearned premiums and unexpired risks – opening balance	401	473	13	10	414	483
Premiums written	2,990	2,941	164	195	3,154	3,136
Premiums earned during the year	-3,001	-3,009	-162	-192	-3,163	-3,201
Changes in the composition of the group and other changes		-4			0	-4
Liabilities for unearned premiums and unexpired risks – closing balance	**390**	**401**	**15**	**13**	**405**	**414**

Notes to the Consolidated annual accounts continued

16 Insurance and investment contracts, reinsurance contracts continued

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2019	2018	2019	2018	2019	2018
Claims liabilities – opening balance	5,282	5,085	259	204	5,541	5,289
Additions:						
– for the current year	2,071	2,252	35	34	2,106	2,286
– for prior years	-126	-118	7	42	-119	-76
– interest accrual of liabilities	70	66	-8		62	66
Additions	**2,015**	**2,200**	**34**	**76**	**2,049**	**2,276**
Claim settlements and claim settlement costs:						
– for the current year	-805	-939	20	21	-785	-918
– for prior years	-1,093	-1,066	-53	-38	-1,146	-1,104
Claim settlements and claim settlement cost	**-1,898**	**-2,005**	**-33**	**-17**	**-1,931**	**-2,022**
Changes in the composition of the group and other changes		1		-4	0	-3
Exchange rate differences	1	1			1	1
Claims liabilities – closing balance	**5,400**	**5,282**	**260**	**259**	**5,660**	**5,541**

Where discounting is used in the calculation of the claims liabilities the rate is within the range of 1.0% to 4.0% (2018: 1.0% to 4.0%).

Changes in Investment contracts

	2019	2018
Investment contracts – opening balance	1,996	1,837
Current year liabilities	268	331
Prior years liabilities:		
– payments to contract holders	-261	-178
– interest accrual	27	21
– valuation changes investments	130	-62
Changes in the composition of the group and other changes		47
Investment contracts – closing balance	**2,160**	**1,996**

Notes to the Consolidated annual accounts continued

16 Insurance and investment contracts, reinsurance contracts continued

Gross claims development table

											Accident year
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of cumulative claims											
At the end of accident year	2,165	2,220	2,400	2,250	2,094	2,092	2,250	2,161	2,358	2,192	
1 year later	2,209	2,358	2,331	2,313	2,158	2,131	2,273	2,184	2,328		
2 years later	2,179	2,301	2,285	2,279	2,131	2,165	2,265	2,136			
3 years later	2,178	2,260	2,241	2,257	2,153	2,161	2,277				
4 years later	2,166	2,231	2,229	2,228	2,129	2,123					
5 years later	2,144	2,215	2,228	2,210	2,122						
6 years later	2,143	2,204	2,236	2,211							
7 years later	2,130	2,207	2,224								
8 years later	2,144	2,194									
9 years later	2,153										
Estimate of cumulative claims	**2,153**	**2,194**	**2,224**	**2,211**	**2,122**	**2,123**	**2,277**	**2,136**	**2,328**	**2,192**	**21,960**
Cumulative payments	-1,998	-1,986	-1,957	-1,910	-1,761	-1,686	-1,743	-1,490	-1,407	-785	-16,723
	155	**208**	**267**	**301**	**361**	**437**	**534**	**646**	**921**	**1,407**	**5,237**
Effect of discounting	-17	-25	-31	-31	-30	-38	-42	-46	-57	-60	-377
Liabilities recognised	**138**	**183**	**236**	**270**	**331**	**399**	**492**	**600**	**864**	**1,347**	**4,860**
Liabilities relating to accident years prior to 2010											800
Gross claims											**5,660**

Gross claims in the claims development table include the claims in the Delta Lloyd entities as from the original date of the claim.

To the extent that the assuming reinsurers are unable to meet their obligations, NN Group is liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts if and when they are deemed uncollectable.

As at 31 December 2019, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in Note 11 'Other assets') amounts to EUR 1,085 million (2018: EUR 1,148 million).

17 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit

	2019	2018
Savings	6,718	6,699
Bank annuities	8,443	8,030
Customer deposits and other funds on deposit	**15,161**	**14,729**

Customers have not entrusted any funds to NN Group on terms other than those prevailing in the normal course of business. All customer deposits and other funds on deposit are interest bearing.

Changes in Customer deposits and other funds on deposit

	2019	2018
Customer deposits and other funds on deposit – opening balance	14,729	14,434
Deposits received	3,877	3,821
Withdrawals	-3,413	-3,491
Amortisation	-32	-35
Customer deposits and other funds on deposit – closing balance	**15,161**	**14,729**

Notes to the Consolidated annual accounts continued

18 Financial liabilities at fair value through profit or loss

Non-trading derivatives

	2019	2018
Derivatives used in:		
– fair value hedges	691	698
– cash flow hedges	375	189
– hedges of net investments in foreign operations	3	
Other non-trading derivatives	2,163	1,276
Non-trading derivatives	**3,232**	**2,163**

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

19 Other liabilities

Other liabilities

	2019	2018
Income tax payable	83	16
Net defined benefit liability	175	124
Other post-employment benefits	17	18
Other staff-related liabilities	106	122
Other taxation and social security contributions	133	123
Deposits from reinsurers	321	336
Lease liabilities	345	
Accrued interest	245	238
Costs payable	289	449
Amounts payable to policyholders	1,052	898
Provisions	292	293
Amounts to be settled	1,290	1,954
Cash collateral amounts received	7,978	4,086
Other	790	770
Other liabilities	**13,116**	**9,427**

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

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

Net defined benefit liability

	2019	2018
Fair value of plan assets	26	30
Defined benefit obligation	201	154
Net defined benefit liability recognised in the balance sheet (funded status)	**175**	**124**

Changes in Provisions

	2019	2018
Provisions – opening balance	293	319
Additions	97	137
Releases	-16	-21
Charges	-82	-139
Exchange rate differences		-3
Provisions – closing balance	**292**	**293**

Notes to the Consolidated annual accounts continued

19 Other liabilities continued

Provisions relate to reorganisation provisions, litigation provisions and other provisions. Provisions in 2019 and 2018 include EUR 134 million relating to ING Australia Holdings. The remainder mainly relates to reorganisations. Reorganisation provisions were recognised for operations in the Netherlands for the cost of workforce reductions. Additions to the reorganisation provision were recognised in 2019 and 2018 due to additional initiatives announced during the year. During 2019 EUR 76 million was charged to the reorganisation provision for the cost of workforce reductions (2018: EUR 130 million). For litigation provisions reference is made to Note 42 'Legal proceedings'.

20 Gross premium income

Gross premium income

	2019	2018
Gross premium income from life insurance policies	11,354	10,136
Gross premium income from non-life insurance policies	3,154	3,136
Gross premium income	**14,508**	13,272

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

Premiums written – net of reinsurance

	Life		Non-life		Total	
	2019	2018	2019	2018	2019	2018
Direct gross premiums written	11,320	10,099	3,152	3,135	14,472	13,234
Reinsurance assumed gross premiums written	34	37	2	1	36	38
Gross premiums written	**11,354**	**10,136**	**3,154**	**3,136**	**14,508**	**13,272**
Reinsurance ceded	-298	-284	-164	-195	-462	-479
Premiums written net of reinsurance	**11,056**	**9,852**	**2,990**	**2,941**	**14,046**	**12,793**

Non-life premiums earned – net of reinsurance

	2019	2018
Direct gross premiums earned	3,162	3,200
Reinsurance assumed gross premiums earned	1	1
Gross premiums earned	**3,163**	**3,201**
Reinsurance ceded	-162	-192
Non-life premiums earned – net of reinsurance	**3,001**	**3,009**

Reinsurance ceded is included in Underwriting expenditure. Reference is made to Note 24 'Underwriting expenditure'.

Notes to the Consolidated annual accounts continued

21 Investment income

Investment income

	2019	2018
Interest income from investments in debt securities	1,781	1,829
Interest income from loans:		
– mortgage loans	1,266	1,218
– unsecured loans	197	211
– policy loans	10	10
– other	121	40
Interest income from investments in debt securities and loans	**3,375**	**3,308**
Realised gains/losses on disposal of available-for-sale debt securities	330	775
Realised gains/losses and impairments of available-for-sale debt securities	**330**	**775**
Realised gains/losses on disposal of available-for-sale equity securities	109	348
Impairments of available-for-sale equity securities	-93	-91
Realised gains/losses and impairments of available-for-sale equity securities	**16**	**257**
Interest income on non-trading derivatives	221	219
Increase/decrease in loan loss provisions	-11	18
Income from real estate investments	100	120
Dividend income	300	272
Change in fair value of real estate investments	42	200
Investment income	**4,373**	**5,169**

Impairments on investments by segment

	2019	2018
Netherlands Life	-73	-68
Netherlands Non-life	-9	-1
Insurance Europe	-7	-21
Japan Life	-3	
Other	-1	-1
Impairments on investments	**-93**	**-91**

22 Net fee and commission income

Net fee and commission income

	2019	2018
Asset management fees	764	807
Insurance brokerage and advisory fees	118	124
Other	155	156
Gross fee and commission income	**1,037**	**1,087**
Trailer fees	175	199
Asset management fees	43	47
Commission expenses and other	110	86
Fee and commission expenses	**328**	**332**
Net fee and commission income	**709**	**755**

Notes to the Consolidated annual accounts continued

23 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2019	2018
Change in fair value of derivatives relating to:		
– fair value hedges	-1,395	-452
– cash flow hedges (ineffective portion)	11	15
– other non-trading derivatives	163	262
Net result on non-trading derivatives	**-1,221**	**-175**
Change in fair value of assets and liabilities (hedged items)	1,385	448
Valuation results on assets and liabilities designated as at fair value through profit or loss	2	10
Valuation results on non-trading derivatives	**166**	**283**

Included in 'Valuation results on non-trading derivatives' are the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. These derivatives hedge exposures in insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as share prices, interest rates and currency exchange rates. The change in fair value of the derivatives is largely offset by changes in insurance contract liabilities, which are included in 'Underwriting expenditure'. Reference is made to Note 24 'Underwriting expenditure'.

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

Reference is made to Note 35 'Derivatives and hedge accounting'.

24 Underwriting expenditure

Underwriting expenditure

	2019	2018
Gross underwriting expenditure:		
– before effect of investment result for risk of policyholders	15,230	14,507
– effect of investment result for risk of policyholders	4,794	-1,258
Gross underwriting expenditure	**20,024**	**13,249**
Investment result for risk of policyholders	-4,794	1,258
Reinsurance recoveries	-237	-192
Underwriting expenditure	**14,993**	**14,315**

The investment income and valuation results regarding investments for risk of policyholders is EUR 4,794 million (2018: EUR -1,258 million). This amount is recognised in 'Underwriting expenditure'. As a result, it is shown together with the equal amount of related change in insurance liabilities for risk of policyholders.

Notes to the Consolidated annual accounts continued

24 Underwriting expenditure continued

Underwriting expenditure by class

	2019	2018
Expenditure from life underwriting:		
– reinsurance and retrocession premiums	298	284
– gross benefits	11,973	13,176
– reinsurance recoveries	-157	-130
– change in life insurance liabilities	-597	-2,547
– costs of acquiring insurance business	445	459
– other underwriting expenditure	278	163
– profit sharing and rebates	70	86
Expenditure from life underwriting	**12,310**	**11,491**
Expenditure from non-life underwriting:		
– reinsurance and retrocession premiums	164	195
– gross claims	1,934	1,995
– reinsurance recoveries	-80	-62
– changes in the liabilities for unearned premiums	-11	-68
– changes in claims liabilities	118	196
– costs of acquiring insurance business	552	563
– other underwriting expenditure	-23	-16
Expenditure from non-life underwriting	**2,654**	**2,803**
Expenditure from investment contracts:		
– costs of acquiring investment contracts	1	
– other changes in investment contract liabilities	28	21
Expenditure from investment contracts	**29**	**21**
Underwriting expenditure	**14,993**	**14,315**

Profit sharing and rebates

	2019	2018
Distributions on account of interest or underwriting results	8	26
Bonuses added to policies	62	60
Profit sharing and rebates	**70**	**86**

The total costs of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 998 million (2018: EUR 1,022 million). This includes amortisation and unlocking of DAC of EUR 904 million (2018: EUR 876 million) and the net amount of commissions paid of EUR 1,069 million (2018: EUR 1,098 million) and commissions capitalised in DAC of EUR 975 million (2018: EUR 952 million).

The total amount of commission paid and commission payable amounted to EUR 1,294 million (2018: EUR 1,281 million). This includes the commissions recognised in 'costs of acquiring insurance business' of EUR 1,069 million (2018: EUR 1,097 million) referred to above and commissions recognised in 'other underwriting expenditure' of EUR 225 million (2018: EUR 184 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 63 million (2018: EUR 63 million).

As set out in the section 'Accounting policies for specific items – Insurance and investment contracts, reinsurance contracts', NN Group applies, for certain specific products or components thereof, the option in IFRS 4 to measure (components of) the liabilities for insurance contracts using market-consistent interest rates and other current estimates and assumptions. This relates mainly to certain guarantees embedded in insurance contracts in Japan. The impact of these market-consistent assumptions is reflected in 'Underwriting expenditure – change in life insurance liabilities'.

This impact is largely offset by the impact of related hedging derivatives. As disclosed in Note 23 'Valuation results on non-trading derivatives', the valuation results on non-trading derivatives include the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. For insurance operations, these derivatives hedge mainly exposures in Insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates. The change in fair value of the derivatives is largely offset by changes in insurance contract liabilities, which are included in 'Underwriting expenditure'.

Notes to the Consolidated annual accounts continued

25 Intangible amortisation and other impairments

Intangible amortisation and other impairments

	2019	2018
Goodwill		852
Property and equipment	-1	-1
Other intangible assets		1
Other impairments and reversals of other impairments	**-1**	**852**
Amortisation of other intangible assets	33	134
Intangible amortisation and other impairments	**32**	**986**

Impairment on debt securities, equity securities and loans are included in Note 21 'Investment income'.

Reference is made to Note 9 'Intangible assets' for impairment on Goodwill.

26 Staff expenses

Staff expenses

	2019	2018
Salaries	831	818
Variable salaries	78	81
Pension costs	126	125
Social security costs	144	127
Share-based compensation arrangements	12	13
External staff costs	301	301
Education	19	22
Other staff costs	53	34
Staff expenses	**1,564**	**1,521**

Pension costs

	2019	2018
Current service cost	7	8
Net interest cost	-3	-4
Defined benefit plans	**4**	**4**
Defined contribution plans	122	121
Pension costs	**126**	**125**

Defined contribution plans

Certain group companies sponsor defined contribution pension plans. The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in 'Other assets' or 'Other liabilities'.

Number of employees

Reference is made to Note 31 'Principal subsidiaries and geographical information' for information on the average number of employees.

Remuneration of Executive Board, Management Board and Supervisory Board

Reference is made to Note 46 'Key management personnel compensation'.

Share plans

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

Share awards comprise upfront shares and deferred shares. The entitlement to the deferred shares is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. A retention period applies from the moment of vesting these awards (five years for Management Board and one year for Identified Staff).

Notes to the Consolidated annual accounts continued

26 Staff expenses continued

Share awards

Changes in Share awards outstanding

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2019	2018	2019	2018
Share awards outstanding – opening balance	613,118	662,580	33.38	29.62
Granted	267,338	408,323	38.96	36.11
Vested	-362,048	-441,194	34.00	30.39
Forfeited	-40,350	-16,591	29.35	30.04
Share awards outstanding – closing balance	**478,058**	**613,118**	**36.38**	**33.38**

In 2019, 30,801 (2018: 33,458) share awards on NN Group shares were granted to the members of the Executive and Management Board. In 2019, 236,537 (2018: 374,865) share awards on NN Group shares were granted to senior management and other employees.

As at 31 December 2019, the share awards on NN Group shares consist of 449,781 (2018: 587,593) share awards relating to equity-settled share-based payment arrangements and 28,277 (2018: 25,525) share awards relating to cash-settled share-based payment arrangements.

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

As at 31 December 2019, total unrecognised compensation costs related to share awards amount to EUR 6 million (2018: EUR 8 million). These costs are expected to be recognised over a weighted average period of 1.5 years (2018: 1.4 years).

27 Interest expenses

Interest expenses

	2019	2018
Interest expenses on non-trading derivatives	177	151
Other interest expenses	342	324
Interest expenses	**519**	**475**

In 2019, total interest income and total interest expenses for items not valued at fair value through profit or loss were EUR 3,375 million (2018: EUR 3,308 million) and EUR 342 million (2018: EUR 324 million) respectively.

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

Total net interest income

	2019	2018
Investment income	3,596	3,527
Interest expenses on non-trading derivatives	-177	-151
Other interest expenses	-342	-324
Total net interest income	**3,077**	**3,052**

28 Other operating expenses

Other operating expenses

	2019	2018
Depreciation of property and equipment	81	33
Amortisation of software	33	27
Computer costs	309	313
Office expenses	68	125
Travel and accommodation expenses	21	20
Advertising and public relations	87	90
External advisory fees	175	180
Addition/(releases) of provisions for reorganisation and relocations	55	115
Other	92	193
Other operating expenses	**921**	**1,096**

Due to the introduction of IFRS 16 (refer to note 1 'Accounting policies') lease amounts that were included in the line 'other' in 2018, were recognised in 2019 in the line 'Depreciation of property and equipment'.

Notes to the Consolidated annual accounts continued

29 Earnings per ordinary share

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

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

Earnings per ordinary share

	Amounts (in millions of euros)		Weighted average number of ordinary shares (in millions)		Per ordinary share (in euros)	
	2019	2018	2019	2018	2019	2018
Net result	1,962	1,117				
Coupon on undated subordinated notes	-59	-58				
Basic earnings per ordinary share	**1,903**	**1,059**	**330.5**	**335.5**	**5.76**	**3.15**
Dilutive instruments:						
– Share plans			0.5	0.6		
Dilutive instruments			**0.5**	**0.6**		
Diluted earnings per ordinary share	**1,903**	**1,059**	**331.0**	**336.1**	**5.75**	**3.15**

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

30 Segments

As of 2019, Banking, previously included in the segment 'Other', is reported as a separate segment. At the same time, the segment Japan Closed Block VA is no longer reported separately, but is included in the segment 'Other'. There is no impact on the total Net result. The comparative figures have been amended in line with the new segmentation.

As a result, the reporting segments for NN Group, based on the internal reporting structure, are as follows:

- Netherlands Life (Group life and individual life insurance products in the Netherlands)
- Netherlands Non-life (Non-life insurance in the Netherlands including disability and accident, fire, motor and transport insurance)
- Insurance Europe (Life insurance, pension products and to a small extent non-life insurance and retirement services in Central and Rest of Europe)
- Japan Life (Life insurance primarily Corporate Owned Life Insurance (COLI) business)
- Asset Management (Asset management activities)
- Banking
- Other (Operating segments that have been aggregated due to their respective size; including Japan Closed Block VA (Closed block single premium variable annuity individual life insurance portfolio in Japan, including the internally reinsured minimum guarantee risk, which has been closed to new business and which is being managed in run-off), reinsurance and items related to capital management and the head office)

The Executive Board and the Management Board set the performance targets and approve and monitor the budgets prepared by the reporting segments. The segments formulate strategic, commercial and financial policies in conformity with the strategy and performance targets set by the Executive Board and the Management Board.

The accounting policies of the segments are the same as those described in Note 1 'Accounting policies'. Transfer prices for inter-segment transactions are set at arm's length. Corporate expenses are allocated to segments based on time spent by head office personnel, the relative number of staff, or on the basis of income and/or assets of the segment. Intercompany loans that qualify as equity instruments under IFRS-EU are presented in the segment reporting as debt; related coupon payments are presented as income and expenses in the respective segments.

Notes to the Consolidated annual accounts continued

30 Segments continued

Operating result (before tax) is used by NN Group to evaluate the financial performance of its segments.

The operating result for the life insurance business is analysed through a margin analysis, which includes the investment margin, fees and premium-based revenues and the technical margin. Disclosures on comparative years also reflect the impact of current year's divestments. Operating result as presented below is an Alternative Performance Measure (non-GAAP financial measure) and is not a measure of financial performance under IFRS-EU. Because it is not determined in accordance with IFRS-EU, operating result as presented by NN Group may not be comparable to other similarly titled measures of performance of other companies. The net result on transactions between segments is eliminated in the net result of the relevant segment. Operating result is calculated as explained below in the section Alternative Performance Measures.

Segments (2019)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Banking	Other	Total segments
Investment margin	844		102	-16	1			931
Fees and premium-based revenues	412		737	659	443			2,251
Technical margin	161		239	24				425
Operating income non-modelled life business			1					1
Operating income	**1,417**	**0**	**1,080**	**667**	**444**	**0**	**0**	**3,607**
Administrative expenses	462		419	148	283			1,311
DAC amortisation and trail commissions	33		386	302				721
Expenses	**495**	**0**	**805**	**449**	**283**	**0**	**0**	**2,032**
Operating result non-life		203	8					211
Operating result banking						152		152
Operating result other							-144	-144
Operating result	**922**	**203**	**283**	**218**	**161**	**152**	**-144**	**1,794**
Non-operating items:								
– gains/losses and impairments	205	48	73	-6		7	8	335
– revaluations	864	12	-20	-28			-1	827
– market & other impacts	-237	1	-2			-21	-16	-275
Special items before tax	-57	-67	-35	-4	-15	-15	-69	-262
Acquisition intangibles and goodwill			33				-32	1
Result on divestments	5						4	8
Result before tax	**1,703**	**197**	**331**	**180**	**146**	**123**	**-251**	**2,429**
Taxation	308	42	73	48	35	30	-92	444
Minority interests	8	13			2			23
Net result	**1,386**	**143**	**259**	**131**	**108**	**93**	**-158**	**1,962**

Special items in 2019 reflect restructuring expenses incurred in respect of the cost reduction target and other project related expenses, such as the implementation of IFRS 17. Acquisition intangibles and goodwill in Insurance Europe includes negative goodwill on the acquisitions in the Czech Republic and Slovakia in 2019. Reference is made to Note 43 'Companies and businesses acquired and divested'.

Notes to the Consolidated annual accounts continued

30 Segments continued

Segments (2018)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Banking	Other	Total segments
Investment margin	872		93	-9	-1			955
Fees and premium-based revenues	444		703	605	454			2,206
Technical margin	188		207	-1				394
Operating income non-modelled life business			1					1
Operating income	**1,504**	**0**	**1,005**	**594**	**453**	**0**	**0**	**3,556**
Administrative expenses	494		398	140	298			1,330
DAC amortisation and trail commissions	38		328	287				653
Expenses	**532**	**0**	**725**	**427**	**298**	**0**	**0**	**1,982**
Operating result non-life		94	-8					86
Operating result banking						130		130
Operating result other							-164	-164
Operating result	**972**	**94**	**271**	**167**	**155**	**130**	**-164**	**1,626**
Non-operating items:								
– gains/losses and impairments	1,022	11	-2	-3			7	1,034
– revaluations	428	2	22	-22			-3	427
– market & other impacts	-140	-15	-16			-15	1	-185
Special items before tax	-63	-91	-28	-3	-31	-17	-87	-321
Acquisition intangibles and goodwill							-984	-984
Result on divestments	56						4	60
Result before tax	**2,275**	**1**	**247**	**139**	**123**	**99**	**-1,226**	**1,657**
Taxation	430	-2	55	41	29	32	-63	524
Minority interests	10	6						16
Net result	**1,835**	**-3**	**191**	**97**	**94**	**66**	**-1,163**	**1,117**

Special items in 2018 reflect restructuring expenses incurred in respect of the cost reduction target for Netherlands Life, Netherlands Non-life, Belgium, Asset Management, the banking business and Corporate/Holding entities as well as costs for other projects.

The result on divestments of EUR 56 million reflects the recognition of an additional divestment result (before tax) related to the sale of NN Group's former insurance subsidiary ING Life Korea.

Gross premium income and investment income by segment (2019)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Banking	Other	Total segments
Gross premium income	4,373	3,097	3,073	3,939			26	14,508
Investment income	2,858	173	525	173	2	660	-18	4,373

Gross premium income and investment income by segment (2018)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Banking	Other	Total segments
Gross premium income	3,603	3,083	2,931	3,628			27	13,272
Investment income	3,762	148	476	170		630	-17	5,169

Interest income and interest expenses by segment (2019)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Banking	Other	Total segments
Interest income	2,257	109	436	173	2	652	-33	3,596
Interest expenses	-204	-10	-16	-2	-1	-320	34	-519
Interest income and interest expenses	**2,053**	**99**	**420**	**171**	**1**	**332**	**1**	**3,077**

Notes to the Consolidated annual accounts continued

30 Segments continued

Interest income and interest expenses by segment (2018)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Banking	Other	Total segments
Interest income	2,199	122	449	164		623	-30	3,527
Interest expenses	-128	-10	-18	-2	-1	-340	24	-475
Interest income and interest expenses	**2,071**	**112**	**431**	**162**	**-1**	**283**	**-6**	**3,052**

Total assets and Total liabilities by segment

	Total assets 2019	Total liabilities 2019	Total assets 2018	Total liabilities 2018
Netherlands Life	155,358	130,164	139,507	121,610
Netherlands Non-life	7,523	6,449	7,340	6,429
Insurance Europe	31,231	28,515	28,692	26,463
Japan Life	21,259	18,617	18,971	16,602
Asset management	570	239	637	265
Banking	24,569	23,793	21,616	20,827
Other	51,695	18,871	36,859	11,899
Total segments	**292,205**	**226,648**	**253,622**	**204,095**
Eliminations	-43,608	-10,843	-29,376	-4,697
Total assets and Total liabilities	**248,597**	**215,805**	**224,246**	**199,398**

Alternative Performance Measures (Non-GAAP measures)

NN Group uses three Alternative Performance Measures (APMs, also referred to as Non-GAAP measures) in its external financial reporting: Operating result, Adjusted allocated equity and Administrative expenses.

Operating result

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

- Non-operating items: related to (general account) investments that are held for own risk (net of policyholder profit sharing):
  - Gains/losses and impairments: realised gains and losses as well as impairments on financial assets that are classified as Available-for-sale and debt securities that are classified as loans. These investments include debt and equity securities (including fixed income and equity funds), private equity (< 20% ownership), real estate funds and loans quoted in active markets.
  - Revaluations: revaluations on assets marked-to-market through the Consolidated profit and loss account. These investments include private equity (associates), real estate (property and associates), derivatives unrelated to product hedging programmes (i.e. interest rate swaps, foreign exchange hedges) and direct equity hedges.
  - Market & other impacts: these impacts mainly include movements in the liability for guarantees on separate account pension contracts and unit-linked guarantee provisions in the Netherlands and related hedges, the accounting volatility related to the reinsurance of minimum guaranteed benefits of Japan Closed Block VA and the changes in valuation of certain inflation linked liabilities and related derivatives.
- Special items: items of income or expense before tax that are significant and arise from events or transactions that are clearly distinct from the ordinary business activities and therefore are not expected to recur frequently or regularly. This includes, for example, restructuring expenses, rebranding costs, results related to early redemption of debt, and gains/losses from employee pension plan amendments or curtailments.
- Acquisition intangibles and goodwill: At the acquisition date, all assets and liabilities (including investments, loans and funding liabilities) of Delta Lloyd were remeasured to fair value. Acquisition related intangible assets (mainly brand names, distribution agreements and client relationships) were recognised and will be amortised through the profit and loss account over their useful life. Goodwill on acquisition was also recognised; goodwill is not amortised but tested annually for impairment. Any amortisation and goodwill impairment is recognised in the line 'Amortisation of acquisition intangibles and other impairments'.
- Result on divestments: result before tax related to divested operations.

The operating result for the life insurance business is analysed through a margin analysis, which includes the investment margin, fees and premium-based revenues and the technical margin. Disclosures on comparative years also reflect the impact of current year's divestments. Operating result as presented below is an Alternative Performance Measure (non-GAAP financial measure) and is not a measure of financial performance under IFRS-EU. Because it is not determined in accordance with IFRS-EU, operating result as presented by NN Group may not be comparable to other similarly titled measures of performance of other companies. The net result on transactions between segments is eliminated in the net result of the relevant segment.

Notes to the Consolidated annual accounts continued

30 Segments continued

Adjusted allocated equity

NN Group evaluates the efficiency of the operational deployment of its equity by calculating Return On Equity (ROE). The net operating ROE is calculated using Net operating result in the numerator and average Adjusted allocated equity in the denominator. Net operating result of NN Group is the Net operating result, adjusted to reflect the deduction of the accrued coupon on undated subordinated notes classified in equity. Adjusted allocated equity is derived from IFRS equity by adjusting for:

- Revaluation reserves
- Undated subordinated notes classified as equity under IFRS
- Goodwill and Intangible assets recognised upon the acquisition of Delta Lloyd

Allocated equity per segment represents the part of equity that is economically deployed by the segments. This allocation does not impact equity in total for NN Group. Adjusted allocated equity is an Alternative Performance Measure that is not a measure under IFRS-EU. Adjusted allocated equity as applied by NN Group may not be comparable to other similarly titled measures of other companies. Adjusted allocated equity is reconciled to IFRS Total equity as follows:

Adjusted allocated equity

	2019	2018
IFRS Total equity	32,792	24,848
Revaluation reserves, Goodwill and Intangible assets recognised upon the acquisition of Delta Lloyd	-15,742	-8,668
Undated subordinated notes	-1,764	-1,764
Adjusted allocated equity	**15,286**	**14,416**

Administrative expenses

NN Group monitors the level of expenses and assesses cost savings through the Administrative expenses. Administrative expenses are the expenses included in operating result, unless already included in the technical margin or the investment margin in the margin analysis of the operating result.

Administrative expenses

	2019
Staff expenses	1,564
Other operating expenses	923
IFRS operating expenses	**2,487**
Presented in non-operating items (including special items)	-277
Presented in the Technical margin (claims handling expenses)	-102
Presented in the Investment margin (investment expenses)	-19
Other	-13
Administrative expenses	**2,076**

Administrative expenses are calculated as the total of IFRS Staff expenses and IFRS Other operating expenses, adjusted for expenses already recognised in the technical margin and the investment margin and for expenses that are not included in operating result (non-operating expenses and special items). From the total administrative expenses of EUR 2,076 million, EUR 1,311 million relates to the segments Netherlands Life, Insurance Europe Life, Japan Life and Asset Management. The remainder of EUR 765 million is included in the operating result non-life, banking and other.

In addition, NN Group discloses a number of other metrics (that are not defined in IFRS and/or not defined in regulatory capital legislation). As these are not derived from comparable metrics under IFRS, these cannot be reconciled to an IFRS equivalent. These include the following:

- Annual Premium Equivalent (APE): the total of the IFRS annual recurring premiums and 10% of the IFRS single premiums received in a given period
- Assets under Management (AuM): the total market value of all investments being managed by NN Group's asset management segment on behalf of NN Group entities and clients
- Combined ratio: the sum of the claims ratio (claims incurred, net of reinsurance, excluding unwind of interest accrual, divided by net earned premiums) and the expense ratio (sum of acquisition costs and administrative expenses, divided by net earned premiums)
- Financial leverage ratio: the percentage of financial leverage in the total of financial leverage and equity
- Fixed cost coverage ratio: the ability of Earnings Before Interest and Tax (EBIT) to cover funding costs on financial leverage; calculated on a last 12-months basis
- Free cash flow: the change in the cash capital position at the holding company over the period, excluding acquisitions and capital transactions with shareholders and debtholders
- Cash capital position at the holding company: net current assets available at the holding company
- Net interest margin (NIM): interest result of the banking operations divided by the average total interest bearing assets of the banking operations

Notes to the Consolidated annual accounts continued

30 Segments continued

- Net operating ROE: the (annualised) net operating result, adjusted to reflect the deduction of the accrued coupon on undated subordinated notes classified in equity, divided by (average) adjusted allocated equity
- Value of New Business (VNB): the additional economic value created through writing new business during the period

31 Principal subsidiaries and geographical information

The table below provides additional information on principal subsidiaries, the nature of the main activities and employees by country. Information on guarantees issued by NN Group N.V. to subsidiaries under article 403 of Book 2 of the Dutch Civil Code is filed with the Chamber of Commerce.

Principal subsidiaries and geographical information (2019)

Country/Name of principal subsidiaries	Main activity	Average number of employees[1]	Total income	Total assets	Result before tax	Taxation[2]	Income tax paid
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	Life insurance						
Nationale-Nederlanden Bank N.V.	Banking						
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	General insurance						
REI Investment I B.V.	Real estate						
NN Re (Netherlands) N.V.	Reinsurance						
ABN AMRO Levensverzekering N.V.	Life insurance						
The Netherlands		**8,344**	**12,319**	**192,195**	**1,793**	**283**	**-26**
NN Life Insurance Company, Ltd.	Life insurance						
Japan		**900**	**4,088**	**22,708**	**170**	**46**	**-64**
NN Insurance Belgium nv	Life insurance						
Belgium		**672**	**1,361**	**17,480**	**114**	**29**	**5**
Nationale Nederlanden Vida, Compania de Seguros y Reaseguros. S.A.	Life insurance						
Nationale Nederlanden Generales, Compania de Seguros y Reaseguros, S.A.	General insurance						
Spain		**525**	**676**	**5,054**	**40**	**13**	**6**
Nationale-Nederlanden Towarzystwo Ubezpieczeń na Życie S.A.	Life insurance						
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	Pensions						
Poland		**961**	**497**	**2,281**	**97**	**21**	**12**
NN Hellenic Life Insurance Co. S.A.	Life insurance						
Greece		**415**	**444**	**2,010**	**8**	**6**	
NN Životní pojišťovna N.V. (pobočka pro Českou republiku)	Life insurance						
Czech Republic		**572**	**232**	**1,447**	**24**	**4**	**5**
NN Biztosító Zártkörûen Mûködõ Részvénytársaság	Life insurance						
Hungary		**351**	**263**	**1,325**	**12**	**3**	**3**
NN Asigurari de Viata S.A.	Life insurance						
Romania		**448**	**206**	**985**	**23**	**4**	**4**
NN Životná poisťovna, a.s.	Life insurance						
Slovak Republic		**291**	**166**	**788**	**15**	**3**	**4**
Germany		**10**	**38**	**718**	**37**	**7**	**2**
France		**9**	**69**	**697**	**54**	**16**	
Italy		**6**	**5**	**259**	**9**	**3**	**2**
United Kingdom		**10**	**3**	**226**	**16**	**4**	**4**
Denmark			**12**	**194**	**11**	**1**	
Bulgaria		**134**	**24**	**99**	**2**		
Turkey		**503**	**51**	**84**	**-6**	**-1**	
Ireland				**21**			

Notes to the Consolidated annual accounts continued

31 Principal subsidiaries and geographical information continued

Country/Name of principal subsidiaries	Main activity	Average number of employees[1]	Total income	Total assets	Result before tax	Taxation[2]	Income tax paid
Singapore		**31**	**1**	**12**	**4**	**1**	**1**
United States		**13**		**6**	**4**	**1**	**2**
Mexico		**1**	**1**	**4**	**-1**		
Switzerland		**11**	**1**	**3**	**1**		**1**
Argentina		**2**		**1**			
Luxembourg		**20**	**1**				**2**
Uruguay		**1**			**2**		
Total		**14,230**	**20,458**	**248,597**	**2,429**	**444**	**-37**

1 The average number of employees is on a full-time equivalent basis.
2 Taxation is the taxation amount charged to the profit and loss account.

Principal subsidiaries and geographical information (2018)

Country/Name of principal subsidiaries	Main activity	Average number of employees[1]	Total income	Total assets	Result before tax	Taxation[2]	Income tax paid
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	Life insurance						
Delta Lloyd Levensverzekering N.V.	Life insurance						
Nationale-Nederlanden Bank N.V.	Banking						
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	General insurance						
Delta Lloyd Schadeverzekering N.V.	General insurance						
REI Investment I B.V.	Real estate						
NN Re (Netherlands) N.V.	Reinsurance						
The Netherlands		**8,613**	**12,075**	**170,922**	**1,023**	**380**	**-4**
NN Life Insurance Company, Ltd.	Life insurance						
Japan		**901**	**3,779**	**21,463**	**138**	**41**	**-33**
NN Insurance Belgium nv	Life insurance						
Belgium		**693**	**1,328**	**16,510**	**87**	**11**	**21**
Nationale Nederlanden Vida, Compania de Seguros y Reaseguros. S.A.	Life insurance						
Nationale Nederlanden Generales, Compania de Seguros y Reaseguros, S.A.	General insurance						
Spain		**509**	**680**	**4,917**	**45**	**6**	**6**
Nationale-Nederlanden Towarzystwo Ubezpieczeń na Życie S.A.	Life insurance						
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	Pensions						
Poland		**883**	**506**	**2,313**	**109**	**22**	**37**
NN Hellenic Life Insurance Co. S.A.	Life insurance						
Greece		**417**	**448**	**1,687**	**3**	**14**	
NN Biztosító Zártkörûen Mûködõ Részvénytársaság	Life insurance						
Hungary		**349**	**277**	**1,337**	**24**	**2**	**2**
NN Životní pojišťovna N.V. (pobočka pro Českou republiku)	Life insurance						
Czech Republic		**499**	**183**	**1,166**	**32**	**7**	**3**
NN Asigurari de Viata S.A.	Life insurance						
Romania		**470**	**196**	**874**	**19**	**3**	**5**
NN Životná poisťovna, a.s.	Life insurance						
Slovak Republic		**214**	**94**	**502**	**10**	**3**	
Germany		**9**	**35**	**682**	**33**	**9**	**1**
France		**8**	**42**	**549**	**28**	**4**	**1**

Notes to the Consolidated annual accounts continued

31 Principal subsidiaries and geographical information continued

Country/Name of principal subsidiaries	Main activity	Average number of employees[1]	Total income	Total assets	Result before tax	Taxation[2]	Income tax paid
Italy		6	-1	464	2	3	3
United Kingdom		10	15	393	31	9	7
Denmark			18	178	15		
Turkey		501	45	82	5		
Bulgaria		126	24	81	3		
Luxembourg		41	303	73	38	6	3
Ireland				21			
Singapore		33		10	3	1	1
Hong Kong				7	2	1	
United States		15		5	4	1	1
Switzerland		12	1	5	4	1	1
Mexico		1	1	4	-1		
Argentina		2	1	1			
Total		14,312	20,050	224,246	1,657	524	55

1 The average number of employees is on a full-time equivalent basis.
2 Taxation is the taxation amount charged to the profit and loss account.

Notes to the Consolidated annual accounts continued

32 Taxation

Deferred tax (2019)

	Net liability 2018	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2019
Investments	2,884	646	-85	-77	10	3,378
Real estate investments	709		69	-1		777
Financial assets and liabilities at fair value through profit or loss	21			1		22
Deferred acquisition costs	387		13	13	9	422
Fiscal reserves	10					10
Depreciation	-2		25			23
Insurance liabilities	-2,646	-500	-63	54		-3,155
Cash flow hedges	1,170	1,303				2,473
Pension and post-employment benefits	20	-11		-4		5
Other provisions	-51	1	-22	28		-44
Receivables	-25		1			-24
Loans	-8	2	-14			-20
Unused tax losses carried forward	-915		832	6		-77
Other	124	4	25	1	2	156
Deferred tax	**1,678**	**1,445**	**781**	**21**	**21**	**3,946**
Presented in the balance sheet as:						
Deferred tax liabilities	1,809					4,030
Deferred tax assets	-131					-84
Deferred tax	**1,678**					**3,946**

Notes to the Consolidated annual accounts continued

32 Taxation continued

Deferred tax (2018)

	Net liability 2017	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2018
Investments	3,942	-634	-162	-280	18	2,884
Real estate investments	277		20	412		709
Financial assets and liabilities at fair value through profit or loss	36		-15			21
Deferred acquisition costs	349		12	4	22	387
Fiscal reserves	12		-2			10
Depreciation	-2					-2
Insurance liabilities	-4,134	319	1,164	4	1	-2,646
Cash flow hedges	1,241	-71				1,170
Pension and post-employment benefits	14	3	5		-2	20
Other provisions	-26	1	-26			-51
Receivables	-30		4	-1	2	-25
Loans	-7		-1			-8
Unused tax losses carried forward	-113		-810	8		-915
Other	146	-10	-7	-10	5	124
Deferred tax	**1,705**	**-392**	**182**	**137**	**46**	**1,678**

Presented in the balance sheet as:		
Deferred tax liabilities	1,830	1,809
Deferred tax assets	-125	-131
Deferred tax	**1,705**	**1,678**

In 2018 and 2019, changes to the tax valuation of certain insurance liabilities in the Netherlands were implemented. These changes impacted the deferred tax on insurance liabilities and the (deferred tax on) tax losses carried forward. There was no impact on total deferred tax.

Deferred tax on unused tax losses carried forward

	2019	2018
Total unused tax losses carried forward	566	4,024
Unused tax losses carried forward not recognised as a deferred tax asset	-252	-260
Unused tax losses carried forward recognised as a deferred tax asset	**314**	**3,764**
Average tax rate	24.6%	24.3%
Deferred tax asset	**77**	**915**

Tax losses carried forward will expire as follows as at 31 December:

Total unused tax losses carried forward analysed by term of expiration

	No deferred tax asset recognised		Deferred tax asset recognised	
	2019	2018	2019	2018
Within 1 year	13	22	11	
More than 1 year but less than 5 years	56	68	1	16
More than 5 years but less than 10 years	16	37	7	3,026
Unlimited	167	133	295	722
Total unused tax losses carried forward	**252**	**260**	**314**	**3,764**

Deferred tax assets are recognised for temporary deductible differences, for tax losses carried forward and unused tax credits only to the extent that realisation of the related tax benefit is probable.

Notes to the Consolidated annual accounts continued

32 Taxation continued

Taxation on result

	2019	2018
Current tax	-337	342
Deferred tax	781	182
Taxation on result	**444**	**524**

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

Reference is made to Note 31 'Principal subsidiaries and geographical information' for more information on the taxation per country.

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

	2019	2018
Result before tax	2,429	1,657
Weighted average statutory tax rate	24.8%	24.4%
Weighted average statutory tax amount	**602**	**404**
Participation exemption	-100	-106
Other income not subject to tax and other	-5	-19
Expenses not deductible for tax purposes	3	225
Impact on deferred tax from change in tax rates	-39	21
Deferred tax benefit for previously not unrecognised amounts	5	-5
Tax for non-recognised losses	1	-6
Write-off/reversal of deferred tax assets		7
Adjustments to prior periods	-23	3
Effective tax amount	**444**	**524**
Effective tax rate	**18.3%**	**31.6%**

In 2019, the effective tax rate of 18.3% was lower than the weighted average statutory tax rate of 24.8%. This is mainly a result of tax exempt results of associates and participations. In 2018, the effective tax rate of 31.6% was higher than the weighted average statutory tax rate of 24.4%. This was mainly caused by the non-tax deductible costs of the goodwill impairment (included in 'Expenses not deductible for tax purposes').

In 2018, the Dutch corporate income tax rates were reduced. This implied that the corporate tax rate in 2019 would remain 25%, but that the tax rate for 2020 would become 22.55% and for 2021 and subsequent years 20.5%. As a result, the deferred tax assets and liabilities of NN Group were remeasured in 2018 to the expected new tax rates. As most of NN Group's deferred tax assets and liabilities are expected to materialise over a long period, the largest part of the deferred tax position was remeasured to the 20.5% rate that would apply as of 2021. The net impact of the tax rate change in 2018 was EUR 218 million (positive), of which EUR 25 million (negative) was recognised in the profit and loss account.

In 2019, these enacted corporate tax rates have been amended, so that the tax rate for 2020 will remain at 25% (instead of 22.55%) and for 2021 21.7% (instead of 20.5%). The impact of this amendment is recognised in 2019. In addition, the 2019 tax charge is impacted by the difference between the estimated realisation in future years (with different tax rates) that was used in 2018 versus the updated actual/estimated realisation in 2019. The combined impact related to the 2018 and 2019 tax rate changes in the 2019 profit and loss account was EUR 34 million positive.

Notes to the Consolidated annual accounts continued

32 Taxation continued

Taxation on components of other comprehensive income

	2019	2018
Unrealised revaluations property in own use	-1	-2
Unrealised revaluations available-for-sale investments and other	-1,203	418
Realised gains/losses transferred to the profit and loss account	61	208
Changes in cash flow hedge reserve	-1,303	71
Deferred interest credited to policyholders	501	-319
Remeasurement of the net defined benefit asset/liability	10	
Income tax	**-1,935**	**376**

33 Fair value of financial assets and liabilities

The following table presents the estimated fair value of NN Group's financial assets and liabilities. Certain balance sheet items are not included in the table, as they do not meet the definition of a financial asset or liability. The aggregation of the fair value presented below does not represent and should not be construed as representing, the underlying value of NN Group.

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2019	2018	2019	2018
Financial assets				
Cash and cash equivalents	6,436	8,886	6,436	8,886
Financial assets at fair value through profit or loss:				
– investments for risk of policyholders	34,433	30,230	34,433	30,230
– non-trading derivatives	10,189	5,096	10,189	5,096
– designated as at fair value through profit or loss	1,184	722	1,184	722
Available-for-sale investments	117,644	104,329	117,644	104,329
Loans	66,018	60,264	61,768	58,903
Total financial assets	**235,904**	**209,527**	**231,654**	**208,166**
Financial liabilities				
Subordinated debt	2,807	2,568	2,409	2,445
Debt securities issued	2,079	2,003	1,992	1,990
Other borrowed funds	7,725	5,774	7,614	5,717
Investment contracts with discretionary participation features for risk of policyholders	245	215	245	215
Investment contracts for risk of company	1,063	1,092	1,025	1,078
Investment contracts for risk of policyholders	1,135	918	1,135	918
Customer deposits and other funds on deposit	15,799	15,001	15,161	14,729
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	3,232	2,163	3,232	2,163
Total financial liabilities	**34,085**	**29,734**	**32,813**	**29,255**

For the other financial assets and financial liabilities not included in the table above, including short-term receivables and payables, the carrying amount is a reasonable approximation of fair value.

Reference is made to Note 1 'Accounting policies' for the upcoming changes as a result of IFRS 9 'Financial instruments'. One of the requirements in IFRS 9 is to assess whether investments in debt securities and loans meet the definition of 'Solely Payments of Principal and Interest', also referred to as 'SPPI assets'. SPPI assets are financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (as defined in IFRS 9), excluding assets that are held for trading and/or that are managed and whose performance is evaluated on a fair value basis. The table below provides a split of the fair value of financial assets into three categories: SPPI assessment applicable under IFRS 9 and conditions met (SPPI compliant assets), SPPI assessment applicable under IFRS 9 and conditions not met (SPPI non-compliant assets), and SPPI assessment not applicable. Whilst IFRS 9 becomes effective for NN Group on the same date as IFRS 17, the information in the table below is based on the assets held, and business models in place, on 31 December 2019.

Notes to the Consolidated annual accounts continued

33 Fair value of financial assets and liabilities continued

Fair value of financial assets – SPPI assessment

	SPPI compliant assets		SPPI non-compliant assets		SPPI assessment not applicable	
	2019	2018	2019	2018	2019	2018
Cash and cash equivalents					6,436	8,886
Financial assets at fair value through profit or loss:						
– investments for risk of policyholders					34,433	30,230
– non-trading derivatives					10,189	5,096
– designated as at fair value through profit or loss					1,184	722
Available-for-sale investments	108,174	95,477	4,858	3,974	4,612	4,878
Loans	65,110	59,419	219	215	689	630
Financial assets	**173,284**	**154,896**	**5,077**	**4,189**	**57,543**	**50,442**

The estimated fair value represents the price at which an orderly transaction to sell the financial asset or to transfer the financial liability would take place between market participants at the balance sheet date (exit price). The fair value of financial assets and liabilities is based on unadjusted quoted market prices, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available market prices are obtained from independent market vendors, brokers or market makers. Because substantial trading markets do not exist for all financial instruments, various techniques have been developed to estimate the approximate fair value of financial assets and liabilities that are not actively traded. The fair value presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of the future fair value.

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

Cash and cash equivalents

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

Financial assets and liabilities at fair value through profit or loss

Derivatives

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

Available-for-sale investments

Equity securities

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

Debt securities

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

Notes to the Consolidated annual accounts continued

33 Fair value of financial assets and liabilities continued

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

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

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

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

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

Financial assets and liabilities at fair value
The fair value of the financial instruments carried at fair value was determined as follows:

Methods applied in determining the fair value of financial assets and liabilities at fair value (2019)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	33,406	225	802	34,433
Non-trading derivatives	18	10,121	50	10,189
Financial assets designated as at fair value through profit or loss	1,045	139		1,184
Available-for-sale investments	77,468	38,842	1,334	117,644
Financial assets	**111,937**	**49,327**	**2,186**	**163,450**
Financial liabilities				
Investment contracts with discretionary participation features for risk of policyholders		245		245
Investment contracts (for contracts at fair value)	1,135			1,135
Non-trading derivatives	11	3,162	59	3,232
Financial liabilities	**1,146**	**3,407**	**59**	**4,612**

Notes to the Consolidated annual accounts continued

33 Fair value of financial assets and liabilities continued

Methods applied in determining the fair value of financial assets and liabilities at fair value (2018)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	29,339	103	788	30,230
Non-trading derivatives	68	4,943	85	5,096
Financial assets designated as at fair value through profit or loss	609	113		722
Available-for-sale investments	69,762	33,480	1,087	104,329
Financial assets	**99,778**	**38,639**	**1,960**	**140,377**
Financial liabilities				
Investment contracts with discretionary participation features for risk of policyholders		215		215
Investment contracts (for contracts at fair value)	918			918
Non-trading derivatives	16	2,048	99	2,163
Financial liabilities	**934**	**2,263**	**99**	**3,296**

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

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

Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs which are based on NN Group's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads. Transfers into and transfers out of levels in the fair value hierarchy are recognised on the date of the event or change of circumstances that caused the transfer.

Level 1 – (Unadjusted) Quoted prices in active markets
This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market that NN Group can access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.

Level 2 – Valuation technique supported by observable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable the instrument is still classified in this category, provided that the impact of those unobservable inputs elements on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices but for which there was insufficient evidence of an active market.

Notes to the Consolidated annual accounts continued

33 Fair value of financial assets and liabilities continued

Level 3 – Valuation technique supported by unobservable inputs

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

Changes in Level 3 Financial assets (2019)

	Investments for risk of policyholders	Non-trading derivatives	Available-for-sale investments	Total
Level 3 Financial assets – opening balance	788	85	1,087	1,960
Amounts recognised in the profit and loss account	21	-35	-55	-69
Revaluations recognised in other comprehensive income (equity)			-2	-2
Purchase			334	334
Sale	-7		-9	-16
Maturity/settlement			-15	-15
Exchange rate differences			-6	-6
Level 3 Financial assets – closing balance	**802**	**50**	**1,334**	**2,186**

Changes in Level 3 Financial assets (2018)

	Investments for risk of policyholders	Non-trading derivatives	Available-for-sale investments	Total
Level 3 Financial assets – opening balance	803	148	1,348	2,299
Amounts recognised in the profit and loss account	-4	-62	90	24
Revaluations recognised in other comprehensive income (equity)			-90	-90
Purchase			69	69
Sale	-11	-1	-57	-69
Maturity/settlement			-94	-94
Other transfers and reclassifications			-272	-272
Transfers into Level 3			96	96
Transfers out of Level 3			-3	-3
Level 3 Financial assets – closing balance	**788**	**85**	**1,087**	**1,960**

Other transfers and reclassifications

In 2018, Other transfers and reclassifications mainly relate to the transfer of investments in real estate funds to associates and joint ventures, relating to Vesteda.

Transfers into Level 3

In 2018, Transfers into Level 3 reflect certain Asset-backed securities for which market liquidity has decreased and as a result are classified as Level 3.

Notes to the Consolidated annual accounts continued

33 Fair value of financial assets and liabilities continued

Changes in Level 3 Financial liabilities (2019)

	Non-trading derivatives
Level 3 Financial liabilities – opening balance	99
Amounts recognised in the profit and loss account	-29
Sale	-11
Level 3 Financial liabilities – closing balance	**59**

Changes in Level 3 Financial liabilities (2018)

	Non-trading derivatives
Level 3 Financial liabilities – opening balance	150
Amounts recognised in the profit and loss account	-51
Level 3 Financial liabilities – closing balance	**99**

Level 3 – Amounts recognised in the profit and loss account during the year (2019)

	Held at balance sheet date	Derecognised during the period	Total
Financial assets			
Investments for risk of policyholders	21		21
Non-trading derivatives	-35		-35
Available-for-sale investments	-55		-55
Financial assets	**-69**	**0**	**-69**
Financial liabilities			
Non-trading derivatives	-29		-29
Financial liabilities	**-29**	**0**	**-29**

Level 3 – Amounts recognised in the profit and loss account during the year (2018)

	Held at balance sheet date	Derecognised during the period	Total
Financial assets			
Investments for risk of policyholders	-4		-4
Non-trading derivatives	-62		-62
Available-for-sale investments	-5	95	90
Financial assets	**-71**	**95**	**24**
Financial liabilities			
Non-trading derivatives	-51		-51
Financial liabilities	**-51**	**0**	**-51**

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2019 of EUR 163,450 million (2018: EUR 140,377 million) include an amount of EUR 2,186 million (1.3%) that is classified as Level 3 (2018: EUR 1,960 million (1.4%)). Changes in Level 3 are disclosed above in the table 'Level 3 Financial assets'.

33 Fair value of financial assets and liabilities continued

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

Unrealised gains and losses that relate to 'Level 3 Financial assets' are included in the profit and loss account as follows:
- Those relating to Investments for risk of policyholders are included in 'Underwriting expenditure'
- Those relating to Non-trading derivatives are included in 'Valuation results on non-trading derivatives'
- Those relating to financial assets designated as at fair value through profit or loss are included in 'Valuation results on non-trading derivatives – Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)'

Unrealised gains and losses that relate to available-for-sale investments are recognised in other comprehensive income (equity) and included in reserves in 'Unrealised revaluations available-for-sale investments and other'.

Investments for risk of policyholders

Investments for risk of policyholders classified as 'Level 3 Financial assets' amounted EUR 802 million as at 31 December 2019 (2018: EUR 788 million). Net result is unaffected when reasonable possible alternative assumptions would have been used in measuring these investments.

Non-trading derivatives

Non-trading derivatives classified as 'Level 3 Financial assets' are mainly used to hedge the fair value risk of the mortgage loan portfolio at NN Bank. These derivatives classified as Level 3 amounted EUR 50 million as at 31 December 2019 (2018: EUR 85 million).

Available-for-sale investments

The available-for-sale investments classified as 'Level 3 Financial assets' amounted EUR 1,334 million as at 31 December 2019 (2018: EUR 1,087 million) mainly consists of investments in debt securities and shares in real estate investment funds and private equity investment funds of which the fair value is determined using (unadjusted) quoted prices in inactive markets for the securities or quoted prices obtained from the asset managers of the funds. It is estimated that a 10% change in valuation of these investments would have no significant impact on net result but would increase or reduce shareholders' equity by EUR 133 million (2018: EUR 109 million), being approximately 0.4% (before tax) (2018: 0.5% (before tax)), of total equity.

Level 3 Financial liabilities at fair value

Non-trading derivatives

The total amount of financial liabilities classified as Level 3 at 31 December 2019 of EUR 59 million (2018: EUR 99 million) relates to non-trading derivative positions. In 2019, EUR 50 million (2018: EUR 85 million) relates to derivatives used to hedge the interest rate risk associated with the funding position of NN Bank. EUR 9 million (2018: EUR 15 million) relates to longevity hedges closed by NN Group. It is estimated that a 5% increase in mortality assumptions for these longevity hedges reduces result and equity before tax by EUR 17 million (2018: EUR 16 million) and a 5% decrease in mortality assumptions increases result and equity before tax by EUR 16 million (2018: EUR 14 million).

Notes to the Consolidated annual accounts continued

33 Fair value of financial assets and liabilities continued

Financial assets and liabilities at amortised cost

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

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (2019)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	6,436			6,436
Loans	5	5,038	60,975	66,018
Financial assets	**6,441**	**5,038**	**60,975**	**72,454**
Financial liabilities				
Subordinated debt	2,807			2,807
Debt securities issued	2,079			2,079
Other borrowed funds	4,242	3,481	2	7,725
Investment contracts for risk of company	43		1,020	1,063
Customer deposits and other funds on deposit	9,136	6,663		15,799
Financial liabilities	**18,307**	**10,144**	**1,022**	**29,473**

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (2018)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	8,886			8,886
Loans	421	5,601	54,242	60,264
Financial assets	**9,307**	**5,601**	**54,242**	**69,150**
Financial liabilities				
Subordinated debt	2,555	13		2,568
Debt securities issued	2,003			2,003
Other borrowed funds	1,497	4,274	3	5,774
Investment contracts for risk of company	49		1,043	1,092
Customer deposits and other funds on deposit	8,822	6,179		15,001
Financial liabilities	**14,926**	**10,466**	**1,046**	**26,438**

Notes to the Consolidated annual accounts continued

34 Fair value of non-financial assets

The following table presents the estimated fair value of NN Group's non-financial assets that are measured at fair value in the balance sheet. Reference is made to Note 1 'Accounting policies' in the sections 'Real estate investments' and 'Property and equipment' for the methods and assumptions used by NN Group to estimate the fair value of the non-financial assets.

Fair value of non-financial assets

	Estimated fair value		Balance sheet value	
	2019	2018	2019	2018
Real estate investments	2,571	2,374	2,571	2,374
Property in own use	82	75	82	75
Fair value of non-financial assets	**2,653**	**2,449**	**2,653**	**2,449**

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

Methods applied in determining the fair value of non-financial assets at fair value (2019)

	Level 1	Level 2	Level 3	Total
Real estate investments			2,571	2,571
Property in own use			82	82
Non-financial assets	**0**	**0**	**2,653**	**2,653**

Methods applied in determining the fair value of non-financial assets at fair value (2018)

	Level 1	Level 2	Level 3	Total
Real estate investments			2,374	2,374
Property in own use			75	75
Non-financial assets	**0**	**0**	**2,449**	**2,449**

Changes in Level 3 non-financial assets (2019)

	Real estate investments	Property in own use
Level 3 non-financial assets – opening balance	2,374	75
Amounts recognised in the profit and loss account during the year	42	-2
Purchase	158	4
Revaluation recognised in equity during the year		4
Sale	-6	
Changes in the composition of the group and other changes	3	1
Level 3 non-financial assets – closing balance	**2,571**	**82**

Changes in Level 3 non-financial assets (2018)

	Real estate investments	Property in own use
Level 3 non-financial assets – opening balance	3,582	82
Amounts recognised in the profit and loss account during the year	201	1
Purchase	206	2
Revaluation recognised in equity during the year		8
Sale	-1,631	-2
Changes in the composition of the group and other changes	16	-16
Level 3 non-financial assets – closing balance	**2,374**	**75**

Notes to the Consolidated annual accounts continued

34 Fair value of non-financial assets continued

Level 3 – Amounts recognised in the profit and loss account during the year on non-financial assets (2019)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	52	-10	42
Property in own use	-2		-2
Level 3 Amounts recognised in the profit and loss account during the year on non-financial assets	**50**	**-10**	**40**

Level 3 – Amounts recognised in the profit and loss account during the year on non-financial assets (2018)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	59	142	201
Property in own use		1	1
Level 3 Amounts recognised in the profit and loss account during the year on non-financial assets	**59**	**143**	**202**

Real estate investments and Property in own use

Valuation methodology

The fair value of real estate is based on regular appraisals by independent, qualified valuers. The fair value is established using valuation methods that take into account recent comparable market transactions (CMT), capitalisation of income (CI) methods and/or discounted cash flow (DCF) calculations.

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

Notes to the Consolidated annual accounts continued

34 Fair value of non-financial assets continued

Key assumptions

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

Significant assumptions

	Fair value	Valuation technique	Current rent/m²	ERV/m²	Net initial yield %	Vacancy %	Average lease term in years
The Netherlands							
Office	152	DCF	324-334	330-340	4.0	5	7.25
Industrial	64	DCF	51-53	51-54	4.3-4.4		6.0
Germany							
Retail	288	DCF	173-351	171-327	4.3-4.8		6.8
Industrial	212	DCF	45-105	42-81	4.5-7.4	8	3.6
France							
Office	194	DCF	501-615	498-608	0.0-4.0	67	8.7
Residential	123	Comparison	253-273	253-273	4.5-5.0	3	
Industrial	143	DCF	41-84	42-67	0.0-7.4	6	2.2
Industrial	116	Income Capitalisation	35-51	34-56	1.7-5.4	3	4.4
Spain							
Retail	265	DCF	192-257	202-254	5.7-7.4	4	4.5
Industrial	140	DCF	27-89	24-85	1.0-7.6	10	1.5
Italy							
Retail	250	DCF	170-814	170-800	-8.9-6.7	3	7.3
Belgium							
Retail	130	DCF	54-362	97-357	3.6-7.5	4	3.4
Industrial	27	DCF	45	43	6.0		1.0
Office	4	Income Capitalisation	227	196	7.0		2.0
Denmark							
Residential	166	DCF	207-231	275-287	3.9-4.0	1	
Industrial	20	DCF	153	114	5.5		20.0
Poland							
Retail	94	DCF	163	164	7.3	4.1	2.8
Real estate under construction and other	183						
Total real estate	**2,571**						

Sensitivities

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

Notes to the Consolidated annual accounts continued

35 Derivatives and hedge accounting

Use of derivatives and hedge accounting

NN Group uses derivatives for effective portfolio management and the management of its asset and liability portfolios. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure.

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

To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the profit and loss account. However, in certain cases, NN Group mitigates the profit and loss account volatility by designating hedged assets and liabilities at fair value through profit or loss. If hedge accounting is applied under IFRS-EU, it is possible that a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the profit and loss account may be higher than would be expected from an economic point of view.

With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however, they do not represent amounts at risk.

In 2017, NN Group entered into a longevity hedge, based on a general index of Dutch mortality. The maximum pay-out of the hedge amounts to EUR 100 million, payable after 20 years. The hedge is financed by annual premium payments to the counterparty. The longevity hedge is accounted for as derivative. The hedge reduces the impact of longevity trend scenarios implying more improvement in life expectancy. The regulator gave approval to include the effects of this specific hedge on the SCR. The purpose of the hedge is to reduce the longevity risk.

Cash flow hedge accounting

NN Group's hedge accounting consists mainly of cash flow hedge accounting. NN Group's cash flow hedges principally consist of Euribor based (forward) interest rate swaps and cross-currency interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults.

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in Shareholders' equity. Interest income and expenses on these derivatives are recognised in the profit and loss account consistent with the manner in which the forecast cash flows affect Net result. The gains and losses on ineffective portions of such derivatives are recognised immediately in the profit and loss account.

For the year ended 31 December 2019, NN Group recognised EUR 4,284 million (2018: EUR 793 million) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2019 is EUR 11,272 million (2018: EUR 5,684 million) gross and EUR 8,798 million (2018: EUR 4,514 million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value of the underlying derivatives and will be reflected in the profit and loss account under Interest income/ expenses over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 50 years with the largest concentrations in the range 1 year to 12 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in EUR 11 million income (2018: EUR 15 million income) which was recognised in the profit and loss account.

As at 31 December 2019, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 6,990 million (2018: EUR 3,030 million), presented in the balance sheet as EUR 7,365 million (2018: EUR 3,219 million) positive fair value under assets and EUR 375 million (2018: EUR 189 million) negative fair value under liabilities.

As at 31 December 2019 and 2018, there were no non-derivatives designated as hedging instruments for cash flow hedge accounting purposes.

Included in 'Interest income and Interest expenses on non-trading derivatives' is EUR 179 million (2018: EUR 161 million) and EUR 50 million (2018: EUR 8 million), respectively, relating to derivatives used in cash flow hedges.

Notes to the Consolidated annual accounts continued

35 Derivatives and hedge accounting continued

Fair value hedge accounting

NN Group's fair value hedges principally consist of interest rate swaps and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates.

Gains and losses on derivatives designated under fair value hedge accounting are recognised in the profit and loss account. The effective portion of the fair value change on the hedged item is also recognised in the profit and loss account. As a result, only the net accounting ineffectiveness has an impact on the net result.

For the year ended 31 December 2019, NN Group recognised EUR -1,395 million (2018: EUR -452 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR 1,385 million (2018: EUR 448 million) fair value changes recognised on hedged items. This resulted in EUR -10 million (2018: EUR -4 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2019, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR -639 million (2018: EUR -651 million), presented in the balance sheet as EUR 52 million (2018: EUR 47 million) positive fair value under assets and EUR 691 million (2018: EUR 698 million) negative fair value under liabilities.

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

36 Assets by contractual maturity

Amounts presented in these tables by contractual maturity are the amounts as presented in the balance sheet.

Assets by contractual maturity (2019)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	5,305	1,131					6,436
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]						34,433	34,433
– non-trading derivatives	3	69	77	336	9,704		10,189
– designated as at fair value through profit or loss	821		1	3		359	1,184
Available-for-sale investments	1,254	2,075	6,300	26,196	73,739	8,080	117,644
Loans	176	169	1,064	4,685	55,534	140	61,768
Reinsurance contracts	19	49	89	160	590	81	988
Intangible assets	6	13	58	241	138	539	995
Deferred acquisition costs	40	18	90	386	1,379		1,913
Deferred tax assets		5	14	35	27	3	84
Other assets	2,424	1,283	484	101	158	20	4,470
Remaining assets (for which maturities are not applicable)[3]						8,493	8,493
Total assets	**10,048**	**4,812**	**8,177**	**32,143**	**141,269**	**52,148**	**248,597**

1 Includes assets on demand.

2 Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Group.

3 Included in remaining assets for which maturities are not applicable are Property and equipment, Real estate investments and Associates and joint ventures. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Notes to the Consolidated annual accounts continued

36 Assets by contractual maturity continued

Assets by contractual maturity (2018)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	7,154	1,732					8,886
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]						30,230	30,230
– non-trading derivatives	16	89	128	285	4,578		5,096
– designated as at fair value through profit or loss	453		7	12	1	249	722
Available-for-sale investments	473	1,225	2,954	21,341	71,602	6,734	104,329
Loans	239	128	1,442	6,639	50,386	69	58,903
Reinsurance contracts	14	53	113	171	577	82	1,010
Intangible assets	2	2	41	261	24	533	863
Deferred acquisition costs	29	15	90	247	1,462		1,843
Deferred tax assets	1	5	8	42	51	24	131
Other assets	3,034	704	727	89	115	39	4,708
Remaining assets (for which maturities are not applicable)[3]						7,525	7,525
Total assets	**11,415**	**3,953**	**5,510**	**29,087**	**128,796**	**45,485**	**224,246**

1 Includes assets on demand.

2 Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Group.

3 Included in remaining assets for which maturities are not applicable are Property and equipment, Real estate investments and Associates and joint ventures. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

37 Liabilities by maturity

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

Non-financial liabilities, including insurance and investment contracts, are included based on a breakdown of the (discounted) balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in Note 49 'Risk management' for a description on how liquidity risk is managed.

Liabilities by maturity (2019)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment[1]	Total
Liabilities								
Subordinated debt[2]				1,500	850		59	2,409
Debt securities issued			300	1,100	600		-8	1,992
Other borrowed funds	65	273	1,618	3,447	2,211			7,614
Customer deposits and other funds on deposit	9,238	137	586	2,333	2,867			15,161
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	19	270	212	1,552	4,445		-3,266	3,232
Financial liabilities	**9,322**	**680**	**2,716**	**9,932**	**10,973**	**0**	**-3,215**	**30,408**
Insurance and investment contracts	830	1,154	4,927	17,647	110,278	33,415		168,251
Deferred tax liabilities	13	30		140	3,599	248		4,030
Other liabilities	10,741	481	608	328	899	59		13,116
Non-financial liabilities	**11,584**	**1,665**	**5,535**	**18,115**	**114,776**	**33,722**	**0**	**185,397**
Total liabilities	**20,906**	**2,345**	**8,251**	**28,047**	**125,749**	**33,722**	**-3,215**	**215,805**
Coupon interest due on financial liabilities	58	28	169	747	2,118			3,120

1 This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to valuation differences, the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).

2 Subordinated debt maturities are presented based on the first call date. For the legal date of maturity reference is made to Note 13 'Subordinated debt'.

Notes to the Consolidated annual accounts continued

37 Liabilities by maturity continued

Liabilities by maturity (2018)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment[1]	Total
Liabilities								
Subordinated debt[2]			12	500	1,850		83	2,445
Debt securities issued				1,411	592		-13	1,990
Other borrowed funds		126	814	2,819	1,958			5,717
Customer deposits and other funds on deposit	8,941	126	536	2,178	2,948			14,729
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	36	634	279	604	1,771		-1,161	2,163
Financial liabilities	**8,977**	**886**	**1,641**	**7,512**	**9,119**	**0**	**-1,091**	**27,044**
Insurance and investment contracts	1,546	1,231	4,849	19,028	105,069	29,395		161,118
Deferred tax liabilities	10	16	-5	150	1,481	157		1,809
Other liabilities	7,222	395	486	245	931	148		9,427
Non-financial liabilities	**8,778**	**1,642**	**5,330**	**19,423**	**107,481**	**29,700**	**0**	**172,354**
Total liabilities	**17,755**	**2,528**	**6,971**	**26,935**	**116,600**	**29,700**	**-1,091**	**199,398**
Coupon interest due on financial liabilities	26	33	147	840	2,237			3,283

1 This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).

2 Subordinated debt maturities are presented based on the first call date. For the legal date of maturity reference is made to Note 13 'Subordinated debt'.

38 Assets not freely disposable

Assets not freely disposable of EUR 196 million (2018: EUR 223 million) relates to the mandatory reserve deposit at De Nederlandsche Bank and cash balances held at BNG Bank regarding the structured entities Arena NHG, Hypenn RMBS entities and the Covered Bond companies.

Assets relating to securities lending are disclosed in Note 39 'Transferred, but not derecognised financial assets'. Assets in securitisation programmes originated by NN Bank are disclosed in Note 44 'Structured entities'.

39 Transferred, but not derecognised financial assets

The majority of NN Group's financial assets that have been transferred, but do not qualify for derecognition, are debt instruments used in securities lending. NN Group retains substantially all risks and rewards of those transferred assets. The assets are transferred in return for cash collateral or other financial assets. Non-cash collateral is not recognised in the balance sheet. Cash collateral is recognised as an asset and an offsetting liability is established for the same amount as NN Group is obligated to return this amount upon termination of the lending arrangement.

Transfer of financial assets not qualifying for derecognition

	2019	2018
Transferred assets at carrying value		
Available-for-sale investments	12,582	12,366
Associated liabilities at carrying value		
Other borrowed funds	247	247

The table above does not include assets transferred to consolidated securitisation entities, as these related assets are not transferred from a consolidated perspective. Reference is made to Note 44 'Structured entities'.

Notes to the Consolidated annual accounts continued

40 Offsetting of financial assets and liabilities

The following tables include information about rights to offset and the related arrangements. The amounts included consist of all recognised financial instruments that are presented net in the balance sheet under the IFRS-EU offsetting requirements (legal right to offset and intention to settle on a net basis) and amounts presented gross in the balance sheet but subject to enforceable master netting arrangements or similar arrangement.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2019)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial assets	Gross financial liabilities offset in the balance sheet	Net financial assets in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	10,124		10,124	-2,180	-7,774	170
Financial assets at fair value through profit or loss		**10,124**	**0**	**10,124**	**-2,180**	**-7,774**	**170**
Other items where offsetting is applied in the balance sheet		**144**		**144**	**-60**	**-81**	**3**
Total financial assets		**10,268**	**0**	**10,268**	**-2,240**	**-7,855**	**173**

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2018)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial assets	Gross financial liabilities offset in the balance sheet	Net financial assets in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	4,987		4,987	-1,069	-3,793	125
Financial assets at fair value through profit or loss		**4,987**	**0**	**4,987**	**-1,069**	**-3,793**	**125**
Other items where offsetting is applied in the balance sheet		**156**		**156**	**-40**	**-114**	**2**
Total financial assets		**5,143**	**0**	**5,143**	**-1,109**	**-3,907**	**127**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2019)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	2,764		2,764	-2,180	-577	7
Financial liabilities at fair value through profit or loss		**2,764**	**0**	**2,764**	**-2,180**	**-577**	**7**
Other items where offsetting is applied in the balance sheet		**85**		**85**	**-60**	**-23**	**2**
Total financial liabilities		**2,849**	**0**	**2,849**	**-2,240**	**-600**	**9**

Notes to the Consolidated annual accounts continued

40 Offsetting of financial assets and liabilities continued

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2018)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	1,801		1,801	-1,069	-730	2
Financial liabilities at fair value through profit or loss		**1,801**	**0**	**1,801**	**-1,069**	**-730**	**2**
Other items where offsetting is applied in the balance sheet		**133**		**133**	**-40**	**-92**	**1**
Total financial liabilities		**1,934**	**0**	**1,934**	**-1,109**	**-822**	**3**

41 Contingent liabilities and commitments

In the normal course of business NN Group is party to activities whose risks are not reflected in whole or in part in the Consolidated annual accounts. In response to the needs of its customers, NN Group offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments (2019)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	615	1,220	1,927	1,732	272	403	6,169
Guarantees			40	1			41
Contingent liabilities and commitments	**615**	**1,220**	**1,967**	**1,733**	**272**	**403**	**6,210**

Contingent liabilities and commitments (2018)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	865	765	1,708	857	42	593	4,830
Guarantees			20	1			21
Contingent liabilities and commitments	**865**	**765**	**1,728**	**858**	**42**	**593**	**4,851**

NN Group has issued certain guarantees, other than those included in 'Insurance contracts', which are expected to expire without being drawn on and therefore does not necessarily represent future net cash outflows. In addition to the items included in 'Contingent liabilities', NN Group has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

ING Group

During 2016, ING Group, NN Group's former parent company, sold its remaining stake in NN Group. Therefore, ING Group has ceased to be a related party of NN Group in the course of 2016. The following agreements with ING Group are still relevant:

Master claim agreement

In 2012, ING Groep N.V., Voya Financial Inc. (formerly ING U.S., Inc.) and ING Insurance Eurasia N.V. entered into a master claim agreement to (a) allocate existing claims between these three parties and (b) agree on criteria for how to allocate future claims between the three parties. The master claim agreement contains further details on claim handling, conduct of litigation and dispute resolution.

Indemnification and allocation agreement

ING Groep N.V. and NN Group N.V. have entered into an indemnification and allocation agreement, in which ING Group has agreed to indemnify NN Group for certain liabilities that relate to the business of or control over certain (former) U.S. and Latin American subsidiaries of NN Group in the period until 30 September 2013 or, if the relevant subsidiary was divested by NN Group after 30 September 2013, such later date of divestment. These liabilities mainly include contingent liabilities that may arise as a result of the initial public offering of ING U.S. (such as prospectus liability), the sales of the Latin American businesses (such as claims under warranties and other buyer protection clauses) and the liabilities for the claims concerning the performance of certain interest-sensitive products that were sold by a former subsidiary of NN Group in Mexico.

Notes to the Consolidated annual accounts continued

41 Contingent liabilities and commitments continued

Other agreements

In connection with the initial public offering of NN Group N.V., ING Groep N.V. entered in 2014 into several other agreements with NN Group N.V. which are currently, partly or wholly, in force, such as a joinder agreement, an equity administration agreement, a Risk Management Programme (RMP) indemnity agreement and a warrant agreement (warrants repurchased on 15 November 2018, refer to Note 12 'Equity'). In 2015, NN Group N.V. and ING Groep N.V. entered into an agreement providing amongst others for allocation between them of insurance payments under the public offering securities insurance taken out by ING Groep N.V. with respect to the IPO of NN Group N.V.

42 Legal proceedings

General

NN Group is involved in litigation and arbitration proceedings in the Netherlands and in a number of foreign jurisdictions, involving claims by and against NN Group which arise in the ordinary course of its business, including in connection with its activities as insurer, lender, seller, broker-dealer, underwriter, issuer of securities and investor and its position as employer and taxpayer. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, NN Group believes that some of the proceedings set out below may have, or have in the recent past had, a significant effect on the financial condition, profitability or reputation of NN Group.

Because of the geographic spread of its business, NN Group may be subject to tax audits in numerous jurisdictions at any point in time. Although NN Group believes that it has adequately provided for its tax positions, the ultimate outcome of these audits may result in liabilities that are different from the amounts recognised.

Unit-linked products in the Netherlands

Since the end of 2006, unit-linked products (commonly referred to in Dutch as 'beleggingsverzekeringen') have received negative attention in the Dutch media, from the Dutch Parliament, the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten) and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and Dutch insurers are in general being accused of being less transparent in their offering of such unit-linked products. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008 and 2010, Nationale-Nederlanden and Delta Lloyd (and ABN AMRO Levensverzekering in 2010) reached agreements with consumer protection organisations to offer compensation to unit-linked policyholders. The agreements with the consumer protection organisations are not binding to policyholders, and consequently, do not prevent individual policyholders from initiating legal proceedings against NN Group's Dutch insurance subsidiaries.

On 29 April 2015, the European Court of Justice issued its ruling on preliminary questions submitted by the District Court in Rotterdam, upon request of parties, including Nationale-Nederlanden, to obtain clarity on principal legal questions with respect to cost transparency in relation to unit-linked products. The main preliminary question considered by the European Court of Justice was whether European law permits the application of information requirements based on general principles of Dutch law that extend beyond information requirements as explicitly prescribed by laws and regulations in force at the time the policy was written. The European Court of Justice ruled that the information requirements prescribed by the applicable European directive may be extended by additional information requirements included in national law, provided that these requirements are necessary for a policyholder to understand the essential characteristics of the commitment and are clear, accurate and foreseeable. Although the European Court does not decide on the applicable standards in specific cases and solely provides clarification on the interpretation of the applicable European directive, the ruling of the European Court of Justice has given clarification on this question of legal principle which is also the subject of other legal proceedings in the Netherlands. Dutch courts will need to take the interpretation of the European Court of Justice into account in relevant proceedings.

In 2013 Woekerpolis.nl and in 2017 Consumentenbond and Wakkerpolis, all associations representing the interests of policyholders of Nationale-Nederlanden, individually initiated so-called 'collective actions' against Nationale-Nederlanden. These claims are all based on similar grounds and have been rejected by Nationale-Nederlanden and Nationale-Nederlanden defends itself in these legal proceedings.

Woekerpolis.nl requested the District Court in Rotterdam to declare that Nationale-Nederlanden sold products which are defective in various respects. Woekerpolis.nl alleges that Nationale-Nederlanden failed to meet the required level of transparency regarding, cost charges and other product characteristics, failed to warn policyholders of certain product related risks, such as considerable stock depreciations, the inability to realise the projected final policy value, unrealistic capital projections due to differences in geometric versus arithmetic returns and that certain general terms and conditions regarding costs were unfair. On 19 July 2017, the District Court in Rotterdam rejected all claims of Woekerpolis.nl and ruled that Nationale-Nederlanden has generally provided sufficient information on costs and premiums. Woekerpolis.nl has lodged an appeal with the Court of Appeal in The Hague against the ruling of the District Court in Rotterdam. A ruling from the Court of Appeal in The Hague is expected in the course of the first half of 2020.

Notes to the Consolidated annual accounts continued

42 Legal proceedings continued

Consumentenbond alleges that Nationale-Nederlanden failed to adequately inform policyholders on cost charges, risk premium for life insurance cover and the leverage and capital consumption effect and that Nationale-Nederlanden provided misleading capital projections. Consumentenbond requests the District Court in Rotterdam to order a recalculation of certain types of unit-linked insurance products and to declare that Nationale-Nederlanden is liable for any damage caused by a lack of information and misleading capital projections. On 27 March 2019, the District Court in Rotterdam issued an interim ruling in first instance. The District Court concluded that Nationale-Nederlanden has complied with information requirements prescribed by law and regulations applicable at the time, but also considered that this does not necessarily mean that the costs are agreed upon (wilsovereenstemming) with the customer. As such, the District Court requested Nationale-Nederlanden to provide further information on certain cost components and the agreement thereon. A ruling from the District Court in Rotterdam is expected in the course of the first half of 2020.

The claim from Wakkerpolis primarily concentrates on the recovery of initial costs for policyholders and refers to a ruling of the Kifid in an individual case against Nationale-Nederlanden. In this case, the Kifid's Committee of Appeal ruled that there is no contractual basis for charging initial costs and that the insurer is obliged to warn against the leverage and capital consumption effect. In its ruling of 22 June 2017, the Appeals Committee concluded that Nationale-Nederlanden, at the time of selling the unit-linked insurance product, should have provided more information to this individual customer than was prescribed by the laws and regulations applicable at that time. In the ruling in the collective action initiated by Woekerpolis.nl, the District Court in Rotterdam reached a different conclusion than the Appeals Committee of the Kifid. The Court's judgment is in line with Nationale-Nederlanden's view, that the provision of information needs to be assessed against the laws and regulations and norms applicable at the time of concluding the unit-linked insurance policy. A ruling from the District Court in Rotterdam is expected in the course of the first half of 2020.

There has been for some time and there continues to be political, regulatory and public attention focused on the unit-linked issue in general. Elements of unit-linked policies are being challenged or may be challenged on multiple legal grounds in current and future legal proceedings. There is a risk that one or more of those legal challenges will succeed.

Customers of NN Group's Dutch insurance subsidiaries have claimed, among others, that (a) the investment risk, costs charged or the risk premium was not, or not sufficiently, made clear to the customer, (b) the product costs charged on initial sale and on an ongoing basis were so high that the expected return on investment was not realistically achievable, (c) the product sold to the customer contained specific risks that were not, or not sufficiently, made clear to the customer (such as the leverage capital consumption risk) or was not suited to the customer's personal circumstances, (d) the insurer owed the customer a duty of care which the insurer has breached, (e) the insurer failed to warn of the risk of not realising the projected policy values, (f) the policy conditions were unfair, or (g) the costs charged or the risk premium had no contractual basis. These claims may be based on general standards of contract or securities law, such as reasonableness and fairness, error, duty of care, or standards for proper customer treatment or due diligence, such as relating to the fairness of terms in consumer contracts and may be made by customers, or on behalf of customers, holding active policies or whose policies have lapsed, matured or been surrendered. There is no assurance that further proceedings for damages based on aforementioned legal grounds or other grounds will not be brought. The timing of reaching any finality in last instance on these pending legal claims and proceedings is uncertain and such uncertainty is likely to continue for some time.

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

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

Notes to the Consolidated annual accounts continued

42 Legal proceedings continued

Although the financial consequences of any of these factors or a combination thereof could be substantial for the Dutch insurance business of NN Group and, as a result, may have a material adverse effect on NN Group's business, reputation, revenues, results of operations, solvency, financial condition and prospects, it is not possible to reliably estimate or quantify NN Group's exposures at this time.

Dispute on reinsurance agreement

NN Group has reinsured with another insurance company part of the exposure on certain insured pension obligations. Although the reinsurance agreement was never signed by parties, NN Group's counterparty performed under the agreement for many years. The counterparty acknowledged the existence of a reinsurance arrangement, but disputes the applicability of fundamental aspects of the reinsurance agreement. NN Group started legal proceedings in 2019, which are ongoing. The potential outcome of the legal proceedings is uncertain. A provision was recognised in 2019 for the current best estimate of the potential negative impact to NN Group.

Argentina

On 10 April 2019, NN Group filed a claim with the International Centre for Settlement of Investment Disputes (ICSID) under the Bilateral Investment Treaty between Argentina and the Netherlands, in order to resolve a dispute with the Argentine Republic. The dispute relates to the nationalisation of Orígenes – NN Group's former pension fund manager in Argentina – by the Argentine Government in 2008. These proceedings may last for several years. As the case is still pending, it is unclear at this stage whether and to what extent any compensation will be granted to NN Group and therefore no compensation has been recognised.

Australia

In April 2015, the Australian Taxation Office (ATO) commenced a Tax Audit on ING Australia Holdings Ltd. The Tax Audit concerns the years 2007-2013 and focused on the currency denomination of and interest on intercompany loans which resulted from the transfer of the insurance and asset management businesses in Australia. ING Australia Holdings was transferred by NN Group to ING Group in 2013 as part of which it was agreed that NN Group remains liable for any damages resulting from tax claims. An Independent Review of the Tax Audit was completed by the ATO in July 2017. In 2017, NN Group recognised a provision on the IFRS and Solvency II balance sheets for an amount of AUD 279 million (EUR 185 million) to cover the costs of the expected ATO claim including penalties, interest and related expenses. In November 2017, ING Australia Holdings lodged notices of objections against the final assessments with the ATO. Following payment of part of the claim, the provision amounts to EUR 134 million at 31 December 2019. This does not reflect that the final assessments will be subject to appeal by ING Australia Holdings which may be successful, and also that NN Group may be able to recover part of the amount in its Dutch tax return. The Tax Audit concerns a former subsidiary of NN Group and, therefore, does not impact NN Group's business or strategy going forward.

43 Companies and businesses acquired and divested

Acquisitions (2019)

Aegon's Life Insurance business in the Czech Republic and Aegon's Life Insurance and Pension businesses in Slovakia

In the first quarter of 2019, NN Group acquired all issued and outstanding ordinary shares of Aegon's Life Insurance business in the Czech Republic and Aegon's Life Insurance and Pension businesses in Slovakia for a total consideration of EUR 155 million. NN Group acquired multiple legal entities. As these legal entities are individually and in aggregate not material to NN Group, the disclosures contained in this note are on an aggregated basis, unless specifically indicated.

Included below is an overview of the transaction, the rationale for the transaction, the accounting at the acquisition date and certain additional disclosures on the acquisition.

Overview of transaction

In August 2018, NN Group announced that it had reached an agreement to acquire Aegon's Life Insurance business in the Czech Republic and Aegon's Life Insurance and Pension businesses in Slovakia (the businesses acquired) for a total consideration of EUR 155 million. The transaction was closed on 8 January 2019.

This transaction is in line with NN Group's strategy to achieve profitable growth and value creation. This bolt-on acquisition is expected to strengthen NN Group's position in the Life insurance market and its distribution network in the Czech Republic and Slovakia and is expected to further strengthen NN Group's leading position in the Slovak pension market.

Accounting at the acquisition date

The acquisition date for the acquired businesses by NN Group for acquisition accounting under IFRS is 8 January 2019. On this date, NN Group acquired 100% of the ordinary shares of the relevant entities and thus obtained control. NN Group used 1 January 2019 as a proxy for the acquisition date for practical reasons. As a result, the businesses are included in the NN Group consolidation as of 1 January 2019.

Notes to the Consolidated annual accounts continued

43 Companies and businesses acquired and divested continued

The values of certain assets and liabilities acquired as at 1 January 2019 as disclosed below differ from the values of the assets and liabilities in the balance sheet of the businesses immediately before the acquisition by NN Group. This results from differences between the accounting previously applied and the acquisition accounting at fair value as required under IFRS. The difference relates mainly to the valuation of insurance liabilities.

At the acquisition date, the fair value as defined by IFRS of the Insurance liabilities was calculated. The fair value of insurance liabilities differs from the book value as previously reported. The fair value of the insurance liabilities was determined based on the estimated price that a market participant would charge to assume the insurance liabilities of the businesses in an orderly transaction at the measurement date. In arriving at the fair value of the insurance liabilities, future cash flows were estimated using current best estimate actuarial assumptions. Relevant observable input data was used as far as possible. These estimated future cash flows were discounted using a current market rate to reflect the time value of money. Subsequently, a risk margin was added for the compensation that a market participant would require for assuming the risks and uncertainties relating to these insurance liabilities. This compensation was calculated using the cost of capital approach.

Whilst the determination of the fair value of the insurance liabilities involved estimates and expert judgement, there are no elements in the valuation where using reasonably supportable alternative assumptions would have had a material impact on NN Group.

In accordance with IFRS 4 and in line with NN Group's accounting policies, NN Group opted to recognise the difference between the fair value and the existing book value of the insurance liabilities as an asset (Value of Business Acquired, or 'VOBA') and to report the Liabilities for insurance contracts in the balance sheet at the existing book values.

No significant acquisition intangibles (other than VOBA) were recognised and no significant adjustments were made to the valuation of assets and liabilities other than insurance liabilities.

The fair value of the total purchase consideration was EUR 155 million. This was fully paid in cash.

Cash flow on acquisition

	Acquisition date
Cash paid to acquire shares	-155
Cash in company acquired	32
Cash flow on acquisition	**-123**

Acquisition date fair values of the assets and liabilities acquired

	Acquisition date
Assets	
Cash and cash equivalents	32
Financial assets at fair value through profit or loss:	
– investments for risk of policyholders	193
Available-for-sale investments	51
Intangible assets	181
Other	13
Total assets	**470**
Liabilities	
Insurance and investment contracts	239
Other	44
Total liabilities	**283**
Net assets acquired	**187**
Fair value of purchase consideration	155
Fair value of net assets acquired	187
Difference	**-32**

In the second quarter 2019, the presentation of certain amounts in the acquisition balance sheet was updated. There was no net impact on Net assets acquired.

Notes to the Consolidated annual accounts continued

43 Companies and businesses acquired and divested continued

For the pension business in Slovakia the purchase consideration paid was EUR 1 million higher than the net assets acquired; the difference represents goodwill. This goodwill is capitalised in the NN Group balance sheet; it is not amortised but will be tested for impairment at least annually going forward.

For the business in the Czech Republic and the life insurance business in Slovakia the purchase consideration paid was in total EUR 33 million lower than the net assets acquired; the difference represents negative goodwill. This negative goodwill is recognised in Other income in the profit and loss account immediately (presented in the segment Insurance Europe).

The (negative) goodwill is not taxable.

Other information

	Acquisition date
Total income recognised in profit and loss since date of acquisition	112
Net profit recognised in profit and loss since date of acquisition	2

No significant acquisition-related costs were recognised on this transaction.

As 1 January 2019 is used as the date of acquisition and, therefore, the results of the acquired businesses are included in the NN Group consolidation for the full period, no separate disclosure is relevant for the amounts that would have been recognised if the transaction had occurred at the start of the year.

The financial assets acquired do not include any significant receivables, other than investments in debt securities.

There were no significant contingent liabilities related to the businesses that were recognised at the date of acquisition.

Acquisition announced in 2019

On 7 June 2019, NN Group announced to acquire VIVAT Schadeverzekeringen N.V. (VIVAT Non-life) for a consideration of EUR 416 million. NN Group will acquire VIVAT Non-life from Athora, following the acquisition of the VIVAT Group (VIVAT) by Athora. In addition, NN Group will acquire the intercompany Tier 2 loans granted by VIVAT to VIVAT Non-life for a consideration of EUR 150 million. The completion of the acquisition is subject to the closing of the acquisition of VIVAT by Athora and customary closing conditions, including antitrust clearance, declarations of no-objection from the Dutch Central Bank and consultation of the works council of VIVAT. The approvals for the acquisition are expected to be received in the first quarter of 2020.

44 Structured entities

NN Group's activities involve transactions with structured entities in the normal course of business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed through contractual arrangements. NN Group's involvement in these entities varies and includes both debt financing and equity financing of these entities as well as other relationships. Based on its accounting policies, as disclosed in Note 1 'Accounting policies', NN Group establishes whether these involvements result in no significant influence, significant influence, joint control or control over the structured entity.

The structured entities over which NN Group can exercise control are consolidated. NN Group may provide support to these consolidated structured entities as and when appropriate, however, this is fully reflected in the Consolidated annual accounts of NN Group as all assets and liabilities of these entities are included in the Consolidated balance sheet and off-balance sheet commitments are disclosed.

NN Group's activities involving structured entities are explained below in the following categories:
- Consolidated NN Group originated liquidity management securitisation and covered bond programmes
- Investments – NN Group managed investment funds
- Investments – Third-party managed structured entities

44 Structured entities continued

Consolidated NN Group originated liquidity management securitisation and covered bond programmes

Mortgage loans issued are partly funded by issuing residential mortgage-backed securities under NN Group's Dutch residential mortgage-backed securities programmes (Hypenn and Arena) and covered bonds. The mortgage loans transferred to these securitisation vehicles continue to be recognised in the balance sheet of NN Group. Total amounts of mortgage loans securitised (notes issued) and notes held by third parties as at 31 December is as follows:

Mortgage loans securitised

	Maturity year	Related mortgage loans		RMBS issued and held by third parties	
		2019	2018	2019	2018
Hypenn RMBS I	2020	1,304	1,448		400
Hypenn RMBS II	2019		378		223
Hypenn RMBS IV	2020	401	444	341	390
Hypenn RMBS V	2021	378	424	334	383
Hypenn RMBS VI	2022	700	770	440	494
Arena NHG 2014-I	2019		462		385
Arena NHG 2014-II	2020	448	488	335	401
Arena NHG 2016-I	2021	413	463	289	350
NN Conditional Pass-Through Covered Bond Company	2024-2039	2,963	1,791	2,585	1,488
Total		**6,607**	**6,668**	**4,324**	**4,514**

NN Group companies hold the remaining notes.

NN Group managed investment funds

NN Group originates investment funds. NN Group may hold investments in these funds for its own account through the general account investment portfolio of the insurance operations. Other investments in these funds may be held for the risk of policyholders or by third parties. For the majority of these funds, NN Group also acts as the fund manager. NN Group considers both NN Group's financial interests for own risk and its role as asset manager to establish whether control exists and whether the fund is consolidated. In general, NN Group maintains a minority interest in these funds and NN Group receives a fixed fee over assets under management, at arm's length basis, for its asset management activities. These funds are generally not consolidated by NN Group. Financial interests for risk of policyholders are not taken into account when the policyholders decide on the investment allocations of their insurance policies (i.e. the policyholder has the 'power') and assume all risks and benefits on these investments (i.e. the policyholder assumes the variable returns).

Reference is made to Note 4 'Available-for-sale investments' in which investments in equity securities are specified by NN Group managed investment funds and Third-party managed investment funds. The maximum exposure to loss for NN Group is equal to the reported carrying value of the investment recognised in the balance sheet of NN Group.

Third-party managed structured entities

As part of its investment activities, NN Group invests both in debt and equity instruments of structured entities originated by third parties.

Most of the investments in debt instruments of third-party managed structured entities relate to Asset-backed securities (ABS), classified as loans. Reference is made to Note 4 'Available-for-sale investments' where the ABS portfolio is disclosed.

The majority of the investments in equity instruments of third-party managed structured entities relate to interests in investment funds that are not originated or managed by NN Group. Reference is made to Note 4 'Available-for-sale investments' in which investments in equity securities are specified by NN Group managed investment funds and Third-party managed investment funds.

NN Group has significant influence for some of its real estate investment funds as disclosed in Note 6 'Associates and joint ventures'.

The maximum exposure to loss for NN Group is equal to the reported carrying value of the investment recognised in the balance sheet of NN Group.

Notes to the Consolidated annual accounts continued

45 Related parties

In the normal course of business, NN Group enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of NN Group include, among others, associates, joint ventures, key management personnel and the defined benefit and defined contribution plans. Transactions between related parties have taken place on an arm's length basis and include distribution agreements, sourcing and procurement agreements, human resources-related arrangements, and rendering and receiving of services.

There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

NN Group identifies the following (groups of) related party transactions:

Transactions with key management personnel

Transactions with members of NN Group's Executive Board, Management Board and Supervisory Board are considered to be transactions with key management personnel. Reference is made to Note 46 'Key management personnel compensation' for more information on these transactions.

Transactions with consolidated entities

Entities over which NN Group can exercise control are considered to be related parties of NN Group. These entities are consolidated by NN Group. Transactions with or between entities controlled by NN Group are eliminated in the Consolidated annual accounts. More information on the NN Group originated liquidity management securitisation programmes is disclosed in Note 44 'Structured entities'.

Transactions with associates and joint ventures

Associates and joint ventures of NN Group are related parties of NN Group. The transactions with associates and joint ventures can be summarised as follows:

	2019	2018
Assets	186	193
Income	5	6

Transactions with post-employment benefit plans

Entities administering or executing post-employment benefit plans of the employees of NN Group are considered to be related parties of NN Group. This relates to NN Group's pensions funds, i.e. the ING Group DB pension fund (joint with ING Bank), the Stichting Pensioenfonds Delta Lloyd, the NN CDC pension fund in the Netherlands and Instelling voor Bedrijfspensioenvoorziening Delta Lloyd Life OFP in Belgium. For more information on the post-employment benefit plans, reference is made to Note 26 'Staff expenses'.

Transactions with other related parties

Investment funds

Other related parties include NN Group managed investment funds. Reference is made to Note 44 'Structured entities' for more information.

Pension entities

NN Group operates several pension entities in the Netherlands, including BeFrank PPI N.V. and De Nationale Algemeen Pensioenfonds. For these entities all asset management and other services are provided by NN Group entities on an arm's length basis. NN Group has no financial interest in the pension schemes that are executed by these entities. These entities are considered related parties.

46 Key management personnel compensation

Transactions with key management personnel (Executive Board, Management Board and Supervisory Board) are transactions with related parties. These transactions are disclosed in more detail as required by Part 9 Book 2 of the Dutch Civil Code in sections II and III in the remuneration report in the financial report. These sections of the remuneration report are therefore part of the annual accounts.

Notes to the Consolidated annual accounts continued

46 Key management personnel compensation continued

2019

Executive Board and Management Board (2019)

amounts in thousands of euros	Executive Board[3]	Management Board[4]	Total
Fixed compensation:			
– base salary (cash)	2,341	3,604	5,945
– base salary (fixed shares)	585		585
– pension costs[1]	49	175	224
– individual saving allowance	710	747	1,457
Variable compensation:			
– upfront cash	71	322	393
– upfront shares	71	322	393
– deferred cash	106	405	511
– deferred shares	106	483	589
Other[2]		78	78
Fixed and variable compensation	**4,039**	**6,136**	**10,175**
Other benefits	367	616	983
Employer cost social security[5]	125	225	350
Total compensation	**4,531**	**6,977**	**11,508**

1 The pension costs consist of an amount of employer contribution (EUR 224 thousand) and an individual savings allowance (EUR 1,457 thousand, which is 28,4% of the amount of base salary above EUR 107,593 for the period between January and June and 23,3% of the amount of base salary above EUR 107,593 for the period between July and December).

2 For the NN Investment Partners business, 50% of deferred awards are made in a deferred investment in funds managed by the business instead of awarding deferred cash. In this way, alignment of interests is achieved between staff working in the NN Investment Partners business and the clients who invest in funds managed by that business.

3 Mr Knibbe was appointed by the Supervisory Board as member and chair of the Executive Board and CEO of NN Group on 1 October 2019. He succeeded Mr Friese, who stepped down as member and chair of the Executive Board and CEO of NN Group as of 12 August 2019.

4 As per 30 September 2019, Mr Knibbe stepped down from his position as CEO of NN Netherlands. As per 31 December 2019, Mr Erasmus stepped down from his position in the Management Board.

5 The employer cost social security do not impact the overall remuneration received by the Executive Board and Management Board members.

In the table above, 'Executive Board' refers to the two members of the Executive Board as at 31 December 2019. The two members of the Executive Board are also members of the Management Board. In the table above, 'Management Board' refers to the six members of the Management Board as at 31 December 2019, i.e. those members that are not also member of the Executive Board. In the table above 'Total' refers to all members of the Management Board during 2019.

Remuneration of the members of the Executive Board and the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. The total remuneration as disclosed in the table above (for 2019: EUR 11.5 million) includes all variable remuneration related to the performance year 2019. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in staff expenses in 2019 and therefore included in 'Total expenses' in 2019, relating to the fixed expenses of 2019 and the vesting of variable remuneration of 2019 and earlier performance years, is EUR 11.8 million.

As at 31 December 2019, members of the Executive Board and Management Board held a total of 120,559 NN Group N.V. shares.

In 2019, 30,801 share awards on NN Group N.V. (both deferred and upfront) were granted to the Executive Board and Management Board.

Supervisory Board (2019)

amounts in thousands of euros	Supervisory Board
Fixed fees	794
Expense allowances	69
International attendance fees	160
Compensation Supervisory Board	**1,023**

Notes to the Consolidated annual accounts continued

46 Key management personnel compensation continued

The above mentioned amounts include VAT of EUR 177 thousand for 2019. NN Group does not provide for any pension arrangement, termination arrangements (including termination or retirement benefits) or variable remuneration, for members of the Supervisory Board.

As at 31 December 2019, members of the Supervisory Board held no NN Group N.V. shares.

Loans and advances to members of the Executive Board and Supervisory Board (2019)

amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Executive Board members	415	5.09%	80
Supervisory Board members	427	3.68%	
Loans and advances	**842**		**80**

2018

Executive Board and Management Board (2018)

amounts in thousands of euros	Executive Board	Management Board[3]	Total
Fixed compensation:			
– base salary (cash)	2,372	3,190	5,562
– base salary (fixed shares)	592		592
– pension costs[1]	54	147	201
– individual saving allowance	749	711	1,460
Variable compensation:			
– upfront cash	119	350	469
– upfront shares	119	350	469
– deferred cash	177	441	618
– deferred shares	177	524	701
Other[2]		83	83
Fixed and variable compensation	**4,359**	**5,796**	**10,155**
Other benefits	211	490	701
Employer cost social security[4]	156	191	347
Total compensation	**4,726**	**6,477**	**11,203**

1 The pension costs consist of an amount of employer contribution (EUR 201 thousand) and an individual savings allowance (EUR 1,460 thousand which is in 2018 27.2% of the amount of base salary above EUR 105,075).

2 For the NN Investment Partners business, 50% of deferred awards are made in a deferred investment in funds managed by the business instead of awarding deferred cash. In this way, alignment of interests is achieved between staff working in the NN Investment Partners business and the clients who invest in funds managed by that business.

3 As per 31 May 2018, Mr Spencer stepped down from his position in the Management Board and as per 30 September 2018, Ms Van Vredenburch stepped down from her position in the Management Board. In the table above, fixed and variable compensation of Mr Spencer up to 31 May 2018 is included and for Ms Van Vredenburch up to 30 September 2018 is included. As per 1 September 2018, Ms Nihot and Ms Stuijt as wel as Messrs Rupprecht and Bosklopper joined the Management Board. In the table above, fixed and variable compensation of Ms Nihot, Ms Stuijt, Mr Rupprecht and Mr Bosklopper as from 1 September 2018 are included.

4 The employer cost social security do not impact the overall remuneration received by the Executive Board and Management Board members.

In the table above, 'Executive Board' refers to the two members of the Executive Board as at 31 December 2018. The two members of the Executive Board are also members of the Management Board. In the table above, 'Management Board' refers to the seven members of the Management Board as at 31 December 2018, i.e. those members that are not also member of the Executive Board. In the table above 'Total' refers to all members of the Management Board during 2018.

Remuneration of the members of the Executive Board and the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. The total remuneration as disclosed in the table above (for 2018: EUR 11.2 million) includes all variable remuneration related to the performance year 2018. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in staff expenses in 2018 and therefore included in 'Total expenses' in 2018, relating to the fixed expenses of 2018 and the vesting of variable remuneration of 2018 and earlier performance years, is EUR 11.5 million.

As at 31 December 2018, members of the Executive Board and Management Board held a total of 140,376 NN Group N.V. shares.

In 2018, 33,458 share awards on NN Group N.V. (both deferred and upfront) were granted to the Executive Board and Management Board.

Notes to the Consolidated annual accounts continued

46 Key management personnel compensation continued

Supervisory Board (2018)

amounts in thousands of euros	Supervisory Board
Fixed fees	799
Expense allowances	70
International attendance fees	126
Compensation Supervisory Board	**995**

The above mentioned amounts include VAT of EUR 173 thousand for 2018. NN Group does not provide for any pension arrangement, termination arrangements (including termination or retirement benefits) or variable remuneration, for members of the Supervisory Board.

As at 31 December 2018, members of the Supervisory Board held a total of 13,560 NN Group N.V. shares.

Loans and advances to members of the Management Board and Supervisory Board (2018)

amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Management Board members	495	5.02%	83
Supervisory Board members	427	4.43%	
Loans and advances	**922**		**83**

As at 31 December 2018, no loans and advances were provided to members of the Executive Board.

47 Fees of auditors

Fees of auditors

	2019	2018
Audit fees	17	18
Audit related fees	1	1
Fees of auditors	**18**	**19**

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

The audit related fees include the services in relation to prospectuses, internal control reports provided to external parties and reporting to regulators.

Auditor fees are included in 'External advisory fees' as part of the Other operating expense.

Notes to the Consolidated annual accounts continued

48 Subsequent events
On 13 February, 2020 NN Group announced an open market share buyback programme for an amount up to EUR 250 million over a period of 12 months commencing 2 March 2020. The share buyback will be deducted from Solvency II Own Funds in full in the first quarter of 2020, whilst it will be deducted from IFRS shareholders' equity when the actual buyback transactions occur. NN Group intends to cancel all of the shares acquired under the programme.

49 Risk management

Introduction
Risk management is fundamental to insurance, banking and investment management. Appropriate risk management enables NN Group to meet obligations towards clients, regulators and other stakeholders. Accepting and managing risk is an integral part of NN Group's business: having the right functions and systems in place to manage risks is important.

NN Group's risk management structure and governance follows the 'three lines of defence' concept, which outlines the decision-making, execution and oversight responsibilities for NN Group's risk management. This structure and governance system is embedded in each of NN Group's organisational layers, from the holding level to the individual business units.

NN Group's risk management system includes its integration into NN Group's strategic planning cycle, the management information generated and a granular risk assessment. NN Group has defined and categorised its generic inherent risk types in a mutually exclusive and collectively exhaustive risk taxonomy and subsequently expressed its appetite for these risk types in three key risk appetite statements.

Risk Management Structure and Governance system
In order to have effective and integrated risk management, NN Group's risk management structure and governance are implemented in the NN Group Operating Model. In the NN Group's Operating Model, NN Group is organised in a Head Office and Business Unit structure. In each such organisation layer, risk governance and the three lines of defence concept are implemented.

Risk Management Governance
Executive Board and Management Board
The Executive Board is responsible for ensuring that the company has adequate internal risk management and control system in place so that it is aware, in good time, of any material risks run by the company and that these risks can be managed properly. While the Executive Board retains responsibility for NN Group's risk management, it has entrusted the day-to-day management and the overall strategic direction of the company, including the management of the structure, operation and effectiveness of NN Group's internal risk-management and control systems, to the Management Board. The Executive Board has designated a chief risk officer (CRO) from among the members of the Management Board, who is entrusted with the day-to-day execution of these tasks that are vested in the domain of the Risk Function. The Executive Board has designated day-to-day execution of tasks that are vested within the Legal and Compliance domain to the General Counsel.

Supervisory Board and its committees
The Supervisory Board is responsible for supervising the management of the Executive Board and the general course of affairs of NN Group and the business affiliated with it. The Supervisory Board also assists the Executive Board with advice. For supervising, advising and monitoring the Executive Board with respect to the design, operation and effectiveness of the internal risk-management and control systems, the Supervisory Board is assisted by two committees.

The Risk Committee assists the Supervisory Board in the performance of its duties in respect of, amongst others, NN Group's risk appetite, risk strategy and policies, risk exposures resulting from the business strategies and plans of NN Group and its affiliated business, the design, operation and effectiveness of the internal risk management and control systems of the group and NN Group's public disclosures on risk and risk management.

The Audit Committee assists the Supervisory Board in the performance of its duties in respect of, amongst others, the design, operation and effectiveness of the internal risk management and control systems related to financial reporting; the integrity and quality of the financial reporting process; the periodic financial reports and any ad hoc financial information; and the findings and outcome of the audit work (e.g. those contained in the quarterly audit reports and management letter).

For more details on these two committees, read more in the section 'Report of the Supervisory Board' of this Annual Report.

Risk Policy framework
NN Group's risk policy framework ensures that all risks are managed consistently and that NN Group as a whole operates within set risk tolerances. The policies and minimum standards focus on risk measurement, risk management and risk governance. Policies and standards or any potential waivers to the policies and standards have to be approved by the Management Board of NN Group.

Notes to the Consolidated annual accounts continued

49 Risk management continued

NN Operating Model

NN Group consists of a Head Office and its Business Units. In the NN Group Operating Model, the business units may independently perform all activities that are consistent with the strategy of NN Group and the approved (three year) business plan (the 'Business Plan') and as long as they are consistent with the internal management and risk/control frameworks, applicable laws and regulations, applicable collective agreements, NN Group's risk appetite, NN Group Values, and provided that these activities are not under the decision-making authority of the Management Board. Each business unit is expected to operate transparently and must provide all relevant information to the relevant Management Board members and Support Function Head(s) at Head Office. Particularly when a business unit wishes to deviate from applicable policies or standards, its Business Plan or when there is reason to believe that NN Group's financial position and/or reputation may be materially impacted.

The business unit CEOs are responsible for:
- The financial performance, as well as the business and operational activities, and as such the risk and control, in their respective areas
- The execution in their respective areas of any strategies that conform to the strategic framework of NN Group
- Ensuring that the business is run in compliance with laws and regulations, NN Group policies and standards and internal controls
- Fulfilling their statutory responsibilities
- Operating a sound control framework and operating in accordance with NN Group's values
- Sustainability of the corresponding business unit in the long term
- Sharing best practices across NN Group

Regular interaction between Head Office and business units risk functions takes place with respect to, amongst others, product approval, mandate approval, risk limit setting, risk reporting, Own Risk and Solvency Assessment (ORSA), policy setting and implementation monitoring, model and assumption review and validation.

Ad-hoc interactions also take place when a Business Unit proposes a material business initiative for which any Management Board member has the right to initiate a risk review. A risk review may also be initiated to investigate a significant incident or unexpected significant adverse business performance in and by Business Units. A risk review is an in-depth risk analysis of the object in scope concluded with a risk opinion and advice when and where relevant. The NN Group CRO is ultimately responsible for the risk review and opinion in the domain of the Risk Function. The General Counsel is ultimately responsible for risk reviews in the Legal and Compliance domain.

Three lines of defence concept

The three lines of defence concept, which is implemented throughout NN Group's risk management structure and governance, defines three risk management levels, each with distinct roles, decision authorities, execution responsibilities and oversight responsibilities. This concept helps to ensure that risk is managed in line with the risk appetite as defined by the Executive Board, ratified by the Supervisory Board and cascaded throughout NN Group.
- **First line of defence:** CEO of NN Group and the CEOs of the Business Units, as well as their management board members that collectively make business decisions, with primary accountability for the performance, sales, operations, investments, compliance and related risks affecting their businesses. They underwrite the (insurance) products that reflect local needs and thus know their customers and are well-positioned to act in both the customer's and NN Group's best interest.
- **Second line of defence:** Independent oversight functions at the Head Office and at the business units with a major role for the risk management, model validation, actuarial, compliance and legal functions. The CRO manages a functional, independent risk organisation and the General Counsel manages a functional independent legal function and Compliance Function, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight functions have the following responsibilities:
  - Developing the policies, standards, guidance and charters for their specific risk and control area
  - Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinate the reporting of risks
  - Supporting the first line of defence in making proper risk-return trade-offs
  - Escalation power in relation to business activities that are judged to present unacceptable risks to NN Group
- **Third line of defence:** Corporate Audit Services (CAS) provides independent assurance on the effectiveness of NN Group's business and support processes, including governance, quality of risk management and quality of internal controls. They assess first line of defence activities as well as second line of defence activities.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Control and Support Functions – Second line of defence

Risk Management Function:

The NN Group CRO steers an independent risk organisation which supports the first line in their decision-making, but which also has sufficient countervailing power to prevent excessive risk taking. The NN Group CRO is also responsible for the organisation of Group Risk at Head Office level. Each business unit has its own CRO, who reports (directly or indirectly) to the NN Group CRO. The NN Group CRO must ensure that both the Management Board and the Supervisory Board are at all times informed of, and understand the material risks to which NN Group is exposed. As from 1 January 2020, the CFO of NN Group has assumed the responsibilities of the CRO portfolio on an ad-interim basis until a suitable successor is appointed. Appropriate arrangements to ensure continued second line of defence independence have been made.

Responsibilities of the Risk Management Function include:
- Setting and monitoring compliance with NN Group's overall risk policies issued by the Risk Function
- Formulating NN Group's risk management strategy and ensuring that it is implemented throughout NN Group
- Supervising the operation of NN Group's risk management and business control systems
- Reporting of NN Group's risks, as well as the processes and internal business controls
- Making risk management decisions with regard to matters which may have an impact on the financial results of NN Group or its reputation, without limiting the responsibility of each individual member of the Management Board in relation to risk management

Group Risk supports the NN Group CRO in the execution of his duties and responsibilities. To ensure solid understanding, oversight, and support to the business units, the span of control of the NN Group CRO is strengthened by a Risk Oversight department at Group level. Risk governance and frameworks, as well as internal and external risk reporting, is supported by the Enterprise Risk Management (ERM) team. Specialised Financial Risk Management and Operational Risk Management teams provide extra emphasis to the management of those risk types.

Model Validation Function:

NN Group's Model Validation aims to ensure that NN Group's models are fit for their intended purpose. For this purpose, Model Validation carries out validations of risk and valuation models in particular those related to Solvency II. Any changes to models that have an impact larger than certain pre-set materiality thresholds require approval from either the Group CRO and CFO, or the NN Group Management Board.

Model validation is not a one-off assessment of a model, but an ongoing process whereby the reliability of the model is verified at different stages during its life cycle: at initiation, before approval, when the model has been redeveloped or modified, and on a regular basis, based on a planning discussed and agreed with Model Development. It is not only a verification of the mathematics and/or statistics of the model, but encompasses both a quantitative and qualitative assessment of the model. Accordingly, the validation process covers a mix of developmental evidence assessment, process verification and outcome analysis.

The validation cycle determines the maximum period between two model validations. This means that each model in scope will be independently validated at least once within the validation cycle. In general, the length of the validation cycle relates to the relative materiality of the models in scope.

Compliance Function:

To effectively manage business conduct risk, NN Group has a Compliance Function attributed to the General Counsel, member of the Management Board, who has delegated the responsibility for day-to-day management of the Compliance Function to the Chief Compliance Officer. The Compliance Function is positioned independently from the business it supervises. This independent position is, amongst others, warranted by independent reporting, unrestricted access to senior management as well as structural, periodic meetings with the CEO and the Chairman of the Risk Committee of the Supervisory Board. Within NN Group's broader risk framework, the purpose of the Compliance Function is to:
- Understand and advocate integrity-related rules, regulations and laws for the effective management of Business conduct risk; proactively work with and advise the business to manage Business conduct risk throughout our products' life cycle and our business' activities to meet stakeholder expectations
- Develop and enhance tools to strengthen the three lines of defence to detect, communicate, manage and to report on Business conduct risks
- Support NN Group's strategy by establishing clear roles and responsibilities to help embed good compliance practices throughout the business by using a risk-based approach to align business outcomes with NN Group's risk appetite
- Deepen the culture of compliance by partnering with the business to increase the culture of trust, accountability, transparency and integrity in evaluating, managing and in reporting on Business conduct risk

At the business unit level, management establishes and maintains a Compliance Function and appoints a Local Compliance Officer (LCO). The LCO hierarchically reports to the CEO or the business unit Head of Legal & Compliance or in exceptional cases the CRO.

The LCOs have a functional reporting line to the Chief Compliance Officer. If business unit management wants to deviate from the Compliance charter management must first obtain a waiver from the Chief Compliance Officer who will first consult the General Counsel.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Actuarial Function:

The primary objective of the Actuarial Function, that reports to the Group CFO and has a functional reporting line to the Group CRO, is to reduce the risk of unreliable and inadequate technical provisions with regard to both Solvency II and IFRS reporting. This contributes to an enhanced perception of customers, regulators and investors of the financial solidity of NN Group.

Representatives of the Actuarial Function are involved in daily actuarial and risk management operations. They will supply their expertise pro-actively where and when deemed relevant and when asked for. Particularly the Corporate Chief Actuary and the Actuarial Function Holders in the business units will provide an objective challenge in the review of the technical provisions as well as quality assurance on the underwriting policy and reinsurance arrangements. The Actuarial Function informs management and the supervisory board on its opinion on the adequacy and the reliability of the technical provisions, the adequacy of reinsurance arrangements and the underwriting policy at least on an annual basis through the Actuarial Function Report.

The Actuarial Function operates within the context of NN Group's broader risk management system. Within this system, the role of the Actuarial Function is to:

- Understand and advocate the rules, regulations and laws for effective management of the calculation process of technical provisions, underwriting and reinsurance arrangements; proactively advise the business to manage the risk of unreliable and inadequate technical provisions
- Develop and enhance tools to strengthen the three lines of defence to detect, communicate, manage and to report on risks related to unreliable or inadequate technical provisions
- Support NN Group's strategy by establishing clear roles and responsibilities to help embed good (actuarial) practices throughout the organisation by using a risk-based approach to align insights with NN Group's risk appetite
- Strengthen the culture of professional risk management by challenging management and experts to increase the culture of trust, accountability, transparency and integrity in evaluating, managing and reporting on risks to unreliable or inadequate technical provisions

Control and Support Functions – Third line of defence

Internal Audit Function:

Corporate Audit Services NN Group, the internal audit department within NN Group, is an independent assurance function and its responsibilities are established by the Executive Board of NN Group, pre-discussed with the Audit Committee and approved by the Supervisory Board of NN Group. CAS independently assesses the effectiveness of the design of the organisation and the quality of procedures and control measures. CAS is an essential part of the corporate governance structure of NN Group.

CAS keeps in close contact with home and local supervisors and regulators as well as with the external auditor via regular meetings in which current (audit) issues are discussed as well as internal and external developments and their impact on NN Group and CAS. CAS also exchanges information like risk assessments and relevant (audit) reports.

The General Manager and staff of CAS are authorised to:

- Obtain without delay, from General Managers within NN Group, information on any significant incident concerning NN Group's operations including but not limited to security, reputation and/or compliance with regulations and procedures
- Obtain without delay, from responsible managers within NN Group, a copy of all letters and reports received from external review agencies (e.g. external auditor, supervisors, regulators and other agencies providing assurance related services)
- Have free, full, unrestricted and unfettered access at any time deemed appropriate to all NN Group departments, offices, activities, books, accounts, records, files, information. CAS must respect the confidentiality of (personal) information acquired
- Require all NN Group staff and business management to supply such information and explanations, as may be needed for the performance of assessments, within a reasonable period of time
- Allocate resources, set frequencies, select subjects, determine scope of work and apply appropriate techniques required to accomplish the CAS's objectives
- Obtain the necessary assistance of personnel in various departments/offices of NN Group where CAS performs audits, as well as other specialised/professional services where considered necessary from within or outside NN Group. CAS should exercise its authority with the minimum possible disruption to the day-to-day activities of the area being assessed

In compliance with the Dutch Corporate Governance Code, the Executive Board is responsible for the role and functioning of CAS, supervised by the Supervisory Board, supported by the Audit Committee. The General Manager of CAS is accountable to the CEO and functionally to the chair of the Audit Committee. On a day-to-day basis the General Manager of CAS reports to the CEO.

Risk Management System

The risk management system is not intended to be a sequential process but has instead been designed as a dynamic and integrated system. The system comprises of three important and interrelated components:

- A **risk control cycle**, embedded in
- An appropriate **organisation**, with
- A comprehensive **risk appetite framework**

Notes to the Consolidated annual accounts continued

49 Risk management continued

NN Group's business environment exposes NN Group to inherent risks and obligations. As such, the environment determines the playing field and rules against which to calibrate risk management activities. These activities are carried out within NN Group's risk appetite and framework.

Every employee has a role in identifying risk in their area of responsibility and the role of management is to decide how to manage risk. It is paramount to know which risks we take and why, to be aware of large existing and emerging risks and to ensure an adequate return for the risk assumed in the business. With risk management, we do not try to predict the future but instead prepare pro-actively for a wide range of scenarios.

Risk control cycle

NN Group's risk control cycle consists of four steps. The cycle starts with business processes that support the setting and realisation of business and risk objectives. The latter results in a risk strategy: risk appetite, policies and standards. The next steps of the cycle is to identify and assess the risks that need to be managed, followed by effective mitigation through controls and continuous monitoring effectiveness of controls, including reporting of risk levels.

The risk control cycle, combined with the Business Plan/financial control cycle and performance management/HR cycle, enables realisation of business objectives through ensuring BUs and NN Group operate within the risk appetite.

Risk Strategy – Risk Appetite Framework

Risk appetite is the key link between NN Group's strategy, capital plan and regular risk management as part of business plan execution. Accordingly, NN Group's risk appetite, and the corresponding risk tolerances (limits and thresholds), is established in conjunction with the business strategy, both aligned to the overall ambitions.

The Risk Appetite Statements define how NN Group weighs strategic decisions and communicates its strategy to key stakeholders and BU CEOs with respect to accepting risk. The statements are not hard limits, but inform risk tolerances, contributing to avoiding unwanted or excessive risk taking, and aim to optimise use of capital. Risk tolerances are the qualitative and quantitative boundaries (limits and thresholds) consistent with the risk appetite statements.

NN Group expresses its risk appetite via three key risk appetite statements, which are then internally detailed further into nine sub-statements, relevant risk tolerances, controls and reporting. These three statements are intended to also be aligned with the NN Group's four Strategic priorities focused on creating long-term value for the company:

NN Group's Strategic priorities	Risk Appetite Statement	Description
Disciplined Capital Allocation	Strong Balance Sheet (Running the business – financially)	We would like to avoid having to raise equity capital after a 1-in-20 year event and do not want to be a forced seller of assets when markets are distressed.
Innovate our business and industry	Strategic Challenges (Shaping the business)	We manage our portfolio of businesses on a risk-return basis to meet our strategic objectives whilst considering the interests of all stakeholders.
Value-added products and services		
Agile and cost-efficient operating model	Sound Business Performance (Running the business – operationally)	We conduct our business with the NN Group Values at heart and treat our customers fairly. We aim to avoid human or process errors in our operations and to limit the impact of any errors.

Risk Taxonomy

NN Group has defined and categorised its generic risk landscape in a mutually exclusive and collectively exhaustive risk taxonomy as outlined below. The risk taxonomy consists of approximately 50 main risk types clustered in six risk types mapped to NN Group Risk Appetite Statements. For the use in day-to-day risk management, the main risk types are further split into approximately 150 sub risk types.

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49 Risk management continued

Risk Appetite Statement	Risk Types	Description
Strategic Challenges (Shaping the business)	Emerging Risks	Risks related to future external uncertainties that could pose a threat to the businesses of NN Group
	Strategic Risks	Risks related to unexpected changes to the business profile and the general business cycle as envisaged during strategic decision-making
Strong Balance Sheet (Running the business – financially)	Market Risks	Risks related to (the volatility of) financial and real estate markets. This includes liquidity risk
	Counterparty Default Risks	Risk related to the failure to meet contractual debt obligations
	Non-Market Risks	Risks related to the products NN Group markets
Sound Business Performance (Running the business – operationally)	Non-Financial Risks	Risks related to people and inadequate or failed internal processes, including information technology and communication systems and/or external events.

Key Risk Tolerances

Risk appetite statements are implemented within the business through the use of risk tolerances and limits. Risk policies and procedures provide specific risk tolerances and limits within all relevant risk categories in line with the risk appetite statements.

Risk Appetite Statement	Primary Impact Area	Key Risk Tolerances
Strategic Challenges (Shaping the business)	License to operate	Various metrics related to the Business Plan. **Restricted List:** to prevent investments in securities that are not in line with NN Group's values and/or applicable laws and regulations, NN Group has a Restricted List in place. This list is also leveraged for the risk analysis related to client acceptance for the provision of financial products and services throughout NN Group.
Strong Balance Sheet (Running the business – financially)	Financial	**Solvency II ratio:** the ratio of Eligible Own Funds (EOF) to Solvency Capital Requirement (SCR). NN Group aims to capitalise its operating units adequately at all times. To ensure adequate capitalisation, they are managed to their commercial capital levels (on the Solvency II ratio) in accordance with the risk associated with the business activities. **Solvency II ratio sensitivities:** assess the changes for both EOF and SCR under various scenarios decided by NN Group MB. **Cash capital position at the holding company:** cash capital is defined as net current assets available at the holding company. NN Group holds a cash capital position in the holding company to cover stress events and to fund holding company expenses and interest expenses. It is NN Group's aim for the cash capital position at the holding company to be in a target range between EUR 0.5 billion and EUR 1.5 billion. **Sensitivities of Own Funds:** NN Group monitors the impact of moderate stress events at business units and the required level of capital at the holding level in relation to this. **Interest Rate Risk limits:** NN Group has implemented limits and tolerances for interest rate risk exposures at NN Group level. **Concentration Risk limits:** in order to prevent excessive concentration risk, NN Group has a concentration risk limit framework. The framework sets a risk appetite and concentration limits on issuer category (corporate and sovereign), asset type and country of risk. **Bank capitalisation:** amount of capital NN Bank has to hold as required by the regulator as part of Basel III framework, expressed as a capital adequacy ratio of equity that must be held as a percentage of risk-weighted assets.
Sound Business Performance (Running the business – operationally)	Reputation, Operations	**Annual Loss Tolerance and materiality:** Tolerances on potential yearly loss, reputation impact and financial reporting accuracy.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Risk Assessment & Control

Risk assessments are regularly performed throughout NN Group. For market, counterparty default and non-market risk, NN Group's internal and associated models are leading in risk assessments/measurement. Risks that do not directly impact the balance sheet generally require professional judgement in identification and quantification: risk footprints (non-financial risks) and scenario analysis (strategic/emerging risks) are used to assess (report and follow up on) identified risks.

Risk Appetite Statement	Risk Class	Risk Assessment and main mitigation technique
Strategic Challenges (Shaping the business)	Emerging Risks	Scenario analysis and contingency planning
	Strategic Risks	Scenario analysis and business planning
Strong Balance Sheet (Running the business – financially)	Market Risks	NN Internal Model; NACA, ALM studies, SAA, Limit structure, Derivatives
	Counterparty Default Risks	NN Partial Internal Model; Limit structure
	Non-Market Risks	NN Partial Internal Model; PARP, Limit structure, reinsurance
Sound Business Performance (Running the business – operationally)	Non-Financial Risks	Risk footprints; Business and key controls, control testing, incident management

As part of the regular ORSA, a bottom-up full scope risk assessment is performed at least annually. Risk control activities are proportional to the risks arising from the activities and processes to be controlled. It is management's responsibility to promote appropriate risk control activities, based on risk identification and risk appetite, by ensuring that all employees are aware of their role in the risk management system.

Own Risk and Solvency Assessment (ORSA)
NN Group (and each of its regulated (re)insurance subsidiaries) prepares an ORSA at least once a year. In the ORSA, NN Group articulates its strategy and risk appetite, describes its key risks and how they are managed, analyses whether its risks and capital are appropriately modelled, and evaluates how susceptible the capital position is to shocks through stress and scenario testing. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN Group. Stress testing can also be initiated outside the ORSA, either internally or by external parties such as De Nederlandsche Bank (DNB) and European Insurance and Occupational Pensions Authority (EIOPA). The ORSA includes a forward-looking overall assessment of NN Group's solvency position in light of the risks it holds.

Internal Capital Adequacy Assessment (ICAAP) and Internal Liquidity Adequacy assessment (ILAAP)
At least once a year, NN Group's banking and asset management operations run a process for ICAAP and the bank also for ILAAP in conformity with Basel III requirements. ICAAP and ILAAP test whether current capital and liquidity positions, respectively, are adequate for the risks that the relevant NN Group entities bear.

Product approval and review process (PARP)
The PARP has been developed to enable effective design, underwriting, and pricing of all products as well as to ensure that they can be managed throughout their lifetime. This process establishes requirements to the product risk profile features to ensure that products are aligned with NN Group's strategy. The PARP takes into account customer benefits and product suitability, expected sales volumes, value-oriented pricing metrics and relevant policies. It includes requirements and standards to assess risks as per the risk categories, as well as the assessment of the administration and accounting aspects of the product.

New asset class assessment (NACA) and investment mandate process
NN Group maintains a NACA for approving investments in new asset classes. At the group level, NN Group establishes a global list of asset classes in which the business units may invest. Each business unit also maintains a local asset list that is a subset of the global asset list prescribing in which asset classes the relevant business unit may invest. The investments in these asset classes are governed through investment mandates given to the asset manager.

Non-financial risks
Business conduct, operations, continuity & security risks and related second order potential reputation impact are monitored in their mutual relationship as 'Non-Financial Risk' (NFR). NFRs are identified, assessed, mitigated, monitored and reported in the overall risk control cycle within NN Group. Key NFRs are included into the quarterly risk reporting.

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49 Risk management continued

Responsible Investment Framework policy and Restricted List

NN Group has a policy framework in place to ensure that our assets are invested responsibly. Amongst others, the policy includes requirements to systematically incorporate Environmental, social and governance (ESG) factors into the investment process. Furthermore, the implementation of a Restricted List should prevent investments in securities that are not in line with NN Group's values, and/or applicable laws and regulations.

Risk Monitoring

The risk profile is monitored against the risk appetite, risk assessments and the risk limits derived from the risk appetite. Results, including deficiencies, conclusions and advices, are to be reported regularly to the applicable management boards. Action shall be taken by management when monitoring indicates that risks are not adequately controlled.

Risk Appetite Statement	Risk Reporting and Monitoring
Strategic Challenges (Shaping the business)	We actively monitor and manage our products, distribution channels and organisation, as well as key performance and risk drivers of our business. We monitor alignment of investments with the Restricted List. This function is performed by Corporate Citizenship.
Strong Balance Sheet (Running the business – financially)	We monitor financial risks on our balance sheet via our Solvency II capital position. We monitor our capacity to meet our payment and collateral obligations, even under severe liquidity stress scenarios.
Sound Business Performance (Running the business – operationally)	We monitor alignment with applicable laws and regulations, NN Group policies and standards. We actively monitor and manage employee conduct and foster a business culture demonstrating that we live the NN Group values. We accept but limit losses from non-financial risk and therefore manage to agreed tolerances.

Risk Reporting

On a quarterly basis, the Management Board and Supervisory Board of NN Group are presented with an Own Funds and Solvency Capital Requirement Report and an Enterprise Risk Management Report. The first report aims to provide an overview of the quarterly Solvency II capital position and development. The latter report is to provide one consistent, holistic overview of the risks of NN Group. It focuses on comparing current risk levels to our risk appetite and aims to encourage forward-looking risk management.

The Own Funds and Solvency Capital Requirement Report includes the Solvency II ratio sensitivities assessing the changes in various scenarios for both Eligible Own Funds and SCR at NN Group level. The size and type of the shocks applied for each sensitivity is decided by the Management Board. Solvency II Own Funds and SCR reporting is the NN Group equivalent to the Value at Risk. Solvency II ratio sensitives are therefore the alternative analysis for market risk sensitivities versus IFRS sensitivities according to IFRS 7 Financial Instruments: Disclosures.

Recovery planning

NN Group has determined a set of measures for early detection of and potential response to a financial or non-financial crisis, should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, allocate roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis. The Management Board is responsible for the Preparatory Crisis Plan and the update of the report is performed by first line of defence – Finance.

Risk profile

Partial Internal Model

The SCR constitutes a risk-based capital buffer which is calculated based on actual risks on the balance sheet. Under Solvency II, the SCR is defined as the loss in basic own funds resulting from a 1-in-200 year adverse event over a one-year period. The internal risk capital framework is a combination of Internal Model and Standard Formula components. The largest component covering all major Dutch insurance entities uses internally developed methodologies for modelling the market, business and insurance risks to determine the solvency position for local reporting and Group consolidation purposes. For the EU-based international insurance businesses and some smaller insurance undertakings in the Netherlands, NN Group uses the Solvency II Standard Formula to calculate the SCR for local reporting and for Group consolidation.

Furthermore, the capital requirement for operational risk is based on the Standard Formula approach across the group. Finally, the non-insurance businesses and international insurance undertakings not based in the EU are consolidated in the group SCR based on the (local) applicable (sectorial) capital requirements under equivalence. The total group SCR is obtained from the Internal Model and Standard Formula capital requirements using EIOPA's integration technique 3.

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49 Risk management continued

The choice for a Partial Internal Model is based on the conviction that an internal model better reflects the risk profile of the Dutch insurance entities and has additional benefits for risk management purposes, whilst the Standard Formula adequately captures the risk profile of the international businesses:

- An internal model approach can better reflect the specific assets and therefore the market risk in the portfolio of Life businesses e.g. sovereign and other credit spread risks. In addition, the approach used for most significant non-market risks within the Life businesses such as longevity (trend uncertainty) and expense risk (closed block treatment) can be better tailored to NN Group's specific portfolio characteristics.

An internal model approach better reflects the reinsured risks of NN Re. A significant proportion of the NN Re risks are a share of the NN Non-life risks where an internal model approach is applied. Variable Annuity risks are not adequately addressed by the Standard Formula, while the internal model captures the integrated market risks and hedging programmes more accurately.

Assumptions and limitations

Risk-free rate and volatility adjustment/Aligned Reference Portfolio:
The assumptions regarding the underlying risk-free curve are crucial in discounting future cash flows when calculating the market values of certain assets and liabilities. For liabilities, NN Group applies the methodology provided by EIOPA for the risk-free rate including the credit risk adjustment (CRA) and the ultimate forwards rate (UFR). Where approved by the regulator, the risk-free rate is adjusted with the volatility adjustment for the calculation of Own Funds.

Valuation assumptions – replicating portfolios:
NN Group uses replicating portfolio techniques to represent the product-related cash flows, options and guarantees by means of standard financial instruments in the risk calculations. The replications are used to determine and revalue insurance liabilities under a large number of Monte Carlo scenarios, this approach is also followed for mortgages.

Diversification and correlation assumptions:
As for any integrated financial services provider offering a variety of products across different business segments and geographic regions, diversification is key to NN Group's business model. The resulting diversification reflects the fact that not all potential worst-case losses are likely to materialise at the same time. The Internal Model takes diversification effects into account when aggregating results at Group level with correlations. Important diversification benefits include regions, business units and risk categories.

Where possible, correlation parameters are derived through statistical analysis based on historical data. In case historical data or other portfolio-specific observations are insufficient or not available, correlations are set by expert judgement via an established, well-defined and controlled process. Based on these correlations, industry-standard approaches such as Gaussian copula and VaR–CoVaR approach are used to determine the dependency structure of quantifiable risks.

Model limitations:
NN Group's PIM resulted from balancing between (1) an easy-to-communicate methodology and (2) efficient calculations with appropriate accuracy and granularity in the underlying risks. Despite several limitations stemming from this, the overall PIM is considered to be materially robust, appropriate and compliant with Solvency II.

As a result of the granular modelling approach and wide variety of NN Group's assets and liabilities, the PIM is more complex than the Standard Formula.

Inherent model limitations related to the calibration of a 1-in-200 year stress events for a full spectrum of market and non-market risks include the use of limited historical data to determine a distribution of forward-looking risk factor stresses as well as the use of modelling assumptions and expert judgement.

Non-quantifiable risks such as strategic, reputational and model risks, are managed through qualitative risk assessments. In addition, and as part of the ORSA, NN Group holistically assesses its risk exposure to both quantifiable and non-quantifiable risks in order to agree mitigating actions as required.

NN Group's Partial Internal Model has, in general, been developed centrally by Group Risk, with the inherent risk that the developed models have aspects which might be less appropriate for individual entities.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Solvency II ratio of NN Group

The following table shows the NN Group Solvency II ratio as at 31 December 2018 and 31 December 2019 respectively.

	2019	2018
Eligible Own Funds	17,792	16,727
Solvency Capital Requirement	8,154	7,274
NN Group Solvency II ratio (Eligible Own Funds/SCR)	**218%**	**230%**

The SCR is based on the Partial Internal Model. As at 31 December 2019, this comprises Internal Model calculation for NN Life, NN Non-life, NN Re, MOVIR and the portfolios owned by NN Group N.V., and Standard Formula calculation for ABN AMRO Life and ABN AMRO Non-life, NN Insurance Services and the international insurance entities of NN Group.

As NN Group is designated as a Financial Conglomerate, Solvency II Own Funds and SCR do not include NN Bank. NN Bank has a Capital Requirement Regulation (CRR) transitional Total capital ratio of 17.2% at the end of 2019 compared to 17.9% at the end of 2018, and a CRR transitional Common Equity Tier 1 (CET1) ratio of 15.8% at the end of 2019 compared to 16.3% at the end of 2018. NN Bank has a Liquidity Coverage ratio (LCR) of 173% at year-end 2019 compared to 171% at the end of 2018.

NN Life Japan is treated as 'equivalent' to calculate the Solvency Capital Requirement. The Solvency II concept of Equivalence is granted to capital frameworks that are deemed to have similarity with the Solvency II framework and/or principles and as such can be relied-upon to assess capital requirements.

Solvency Capital Requirement

The following table shows the NN Group Solvency Capital Requirement as at 31 December 2018 and 31 December 2019 respectively.

Solvency II Capital Requirements

	2019	2018
Market risk	4,558	4,055
Counterparty default risk	259	274
Non-market risk	6,745	5,883
Total BSCR (before diversification)	**11,562**	**10,212**
Diversification[1]	-2,910	-2,638
Total BSCR (after diversification)	**8,652**	**7,574**
Operational risk	704	659
LACDT	-1,732	-1,456
Other	-12	-10
Solvency II entities SCR	**7,612**	**6,767**
Non-Solvency II entities	542	507
Total SCR	**8,154**	**7,274**

1 For 2019, non-market sub-risks for Standard Formula units are presented on diversified basis as part of Non-market risk; in 2018 these sub-risks were presented as a simple sum.

The Solvency II Basic Solvency Capital Requirements (BSCR) includes both the Internal Model businesses' BSCR and the Standard Formula businesses' BSCR. Together, these figures reflect the diversification benefits between the Internal Model and Standard Formula businesses.

The breakdown of specific SCR risk types and explanations for the most important changes in the risk profile over the year of 2019 are presented in the next sections.

The loss-absorbing capacity of deferred taxes (LACDT) benefit increased mainly due to an increase in LACDT benefit caused by a higher tax base and change in the Dutch corporate tax percentage. In the above table, 'Other' includes loss-absorbing capacity of technical provisions (LACTP), capital for non-modelled Solvency II entities and some minor non-modelled risks including those required by the regulator.

Non-Solvency II entities includes mainly NN Life Japan, Pension Funds and NN Investment Partners.

49 Risk management continued

Solvency II ratio sensitivities

Along with the Solvency II Capital Requirement, NN Group regularly calculates the sensitivities of the Solvency II ratio under various scenarios, by assessing the changes for both Eligible Own Funds and SCR. The Solvency II ratio sensitivities are primarily designed to support the NN Group Management Board and the Risk Management functions in having a forward-looking view on the risks to solvency of the company, and to analyse the impacts of market or other events. The sensitivities are selected to reflect plausible, realistic scenarios that could materialise within the foreseeable future and are not calibrated on a pre-defined confidence interval.

The effect on the Solvency II ratio is calculated based on applying an instantaneous stress on the balance sheet, and on ceteris paribus basis. For all insurance entities including NN Life Japan, the after stress own funds are calculated for each of the sensitivity scenarios; the SCR impacts are recalculated for BSCR and Operational risk SCR. Other SCR components including the LACDT amount are kept constant.

Main types of risks

As outlined above in the table 'SII capital requirements', the following principal types of risk are associated with NN Group's business which are further discussed below:

Market, counterparty default and liquidity risk

- **Market risk:** is the risk of potential losses due to adverse movements in financial markets and includes: equity risk, real estate risk, interest rate risk, credit spread risk, foreign exchange risk, inflation risk, basis risk and concentration risk
- **Counterparty default risk:** is the risk of potential losses due to unexpected default or deterioration in the credit rating of NN Group's counterparties and debtors
- **Liquidity risk:** is the risk that one of NN Group's entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. This risk is not part of the SCR Partial Internal Model

Market risk

Market risk comprises the risks related to the impact of changes in various financial markets indicators on NN Group's balance sheet. Market risks are taken in pursuit of returns for the benefit of customers and shareholders. These returns are used to fulfil policyholder obligations with any surplus return benefiting the shareholders. Accordingly, optimisation within the risk appetite is paramount to generate returns for both policyholder and shareholder. In general, market risks are managed through a well-diversified portfolio under a number of relevant policies within clearly defined and monitored limits. NN Group integrates Environmental, Social, and Governance (ESG) factors in the investment decision-making framework and reduce downside risk through various hedging programmes.

Market risk capital requirements

	2019	2018
Interest rate risk	3,817	3,036
Equity risk	2,800	2,065
Credit spread risk	3,706	3,632
Real estate risk	1,533	1,384
Foreign exchange risk	418	456
Inflation risk	120	233
Basis risk	115	104
Diversification market risk	-7,951	-6,855
Market risk	**4,558**	**4,055**

In 2019, the Market Risk SCR increased to EUR 4,558 million, driven by higher exposure to equities and lower interest rate levels. The lower interest rate level has resulted in higher valuations which led to a proportional increase in required capital. The table below sets out NN Group's market value of assets for each asset class as at the end of 2019 and 2018. The values in these tables may differ from those included in the consolidated IFRS balance sheet as derivatives are excluded and furthermore due to classification and valuation differences to reflect a risk management view.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Investment assets

	Market value 2019	% of total 2019	Market value 2018	% of total 2018
Fixed income[1]	**164,272**	**85%**	**153,131**	**86%**
Government bonds and loans	73,143	38%	71,580	40%
Financial bonds and loans	10,888	5%	9,157	5%
Corporate bonds and loans	24,787	13%	21,143	12%
Asset-backed securities	4,388	2%	3,478	2%
Mortgages[1]	49,472	26%	46,075	26%
Other retail loans	1,594	1%	1,698	1%
Non-fixed income	**17,164**	**9%**	**15,031**	**9%**
Common & preferred stock	4,435	2%	3,469	2%
Private equity	933	1%	689	0%
Real estate[2]	9,257	5%	8,307	5%
Mutual funds (money market funds excluded)[3]	2,539	1%	2,566	2%
Money market instruments (money market funds included)[4]	**12,099**	**6%**	**9,464**	**5%**
Total investments	**193,535**	**100%**	**177,626**	**100%**

1 Mortgages are on amortised cost value. The mortgage value on the consolidated IFRS balance sheet differs from the value in the current table due to the acquisition premium of mortgages. Mortgage values include mortgages underlying the mortgage structure vehicles.

2 The real estate values exclude the real estate forward commitments, since NN Group has no price risk related to them.

3 Fixed income mutual funds are included in mutual funds.

4 Money market mutual funds are included in the Money market instruments.

Total investment assets have increased from EUR 177,626 million at the end of 2018 to EUR 193,535 million at the end of 2019. Main developments in 2019 are explained by valuation changes. The lower interest rate level also led to additional cash collateral. In addition, there has also been additional investments in mortgage loans.

Interest rate risk

Interest rate risk is defined as the possibility of having losses in the Solvency II Own Funds due to adverse changes in the level or shape of the risk-free interest rate curve used for discounting assets and liabilities cash flows. Exposure to interest rate risk arises from asset or liability positions that are sensitive to changes in this risk-free interest rate curve. NN Group's Partial Internal Model SCR does not include the change in value of the risk margin due to interest rate shocks.

Risk profile

As shown in the 'Market risk capital requirements' table above, the interest rate risk SCR of NN Group increased from EUR 3,036 million in 2018 to EUR 3,817 million in 2019. The increase is mainly reflecting the change in market movements during the year, which includes a decrease in Volatility Adjustment and a decrease of the risk-free interest curve. The increase of interest rate risk SCR also contributes to the increase of the diversification across market risks.

Risk mitigation

The interest rate position indicates to what extent assets and liabilities are matched. NN Group manages its interest rate position by investing in long-term bonds and interest rate swaps. The interest rate risk management focuses on matching asset and liability cash flows for the durations for which the markets for fixed income instruments are sufficiently deep and liquid.

NN Group has implemented limits and tolerances for interest rate risk exposures at NN Group level as well as for a limited number of business units.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Risk measurement

For the purpose of discounting EUR-denominated asset cash flows, NN Group uses market swap curves to value assets. For the asset cash flows denominated in other currencies, the relevant swap or government curve is used for that specific currency.

For the purpose of discounting the EUR-denominated liability cash flows NN Group uses a swap curve less credit risk adjustment (CRA) plus Volatility Adjustment (VOLA) in line with definitions under the Solvency II. For the liability cash flows denominated in other currencies, the relevant swap or government curve is used where this curve is also lowered by the credit risk adjustment and adding the Volatility Adjustment specific for each currency. In line with Solvency II regulations, NN Group extrapolates the EUR swap curve starting from the last liquid point onwards to the Ultimate Forward Rate for each relevant currency in its portfolio. The last liquid point (LLP) used for EUR is 20 years. As such, the sensitivity of SCR for interest rate risk primarily depends on the level of cash flow matching between assets and liabilities up to the 20-year point, and the difference between the swap curve and the curve extrapolated to the UFR for longer cash flows.

The sensitivity of the Solvency II ratio to changes in interest rates is monitored on a quarterly basis. The table below presents the Eligible Own Funds, SCR and Solvency II ratio sensitivities to various changes in interest rates.

Solvency II Ratio sensitivities for interest rate comprise the following set of shocks, each of them is calculated independently as a standalone scenario: a parallel up and a parallel down shift of the discount curve, a steepening scenario for the interest rate used to discount asset cash flows after the last liquid point and a change of the ultimate forward rate.

NN Group's Solvency II ratio decreases when interest rates or the UFR decrease. As at the end of 2019, the EUR risk-free interest rate curve without the Volatility Adjustment was lower compared with the end of 2018 which decreases the Solvency II ratio of NN Group, in line with the interest parallel shock -50bps sensitivity shown in the table below. At the same time the EUR UFR level decreased from 4.05% to 3.90% as of 1 January 2019, which had a slightly negative effect on the Solvency II ratio of NN Group. The Volatility Adjustment decreased from 24bps at the end of 2018 to 7bps as at the end of 2019, which had a negative effect on the Solvency II ratio.

Solvency II ratio sensitivities: interest rate risk at 31 December 2019

	Own Funds impact	SCR impact	Solvency II ratio impact
Interest rate: Parallel shock +50 bps	-791	-587	6%
Interest rate: Parallel shock -50 bps	1,068	730	-6%
Interest rate: 10 bps steepening between 20y-30y	-665	-14	-8%
UFR: Downward adjustment of 15 bps (EUR UFR at 3.75%)	-272	40	-4%

Under the parallel shock scenarios, the base risk-free interest rate curves for each currency are shocked by +/-50 bps for all tenors up until the last liquid point. The other components of the basic risk-free interest rate curve – namely UFR, Credit Risk Adjustment, Volatility Adjustment and extrapolation technique towards UFR remain unchanged.

In the interest rate steepening scenario the EUR asset valuation curve is shocked after the last liquid point (the last liquid point for EUR is set at 20 years under Solvency II). The steepening is applied for interest rate curve tenors between 20 and 30 years (a linear increase from 0 to 10bps of 1bp per tenor). After the 30 years point, the shift in the interest rate curve remains constant at 10bps. The discount curve for liability cash flows is not adjusted in this scenario.

For 2019, the UFR for EUR under Solvency II is set at 3.90%. In April 2017, EIOPA published an updated methodology to derive the UFR. In line with the updated methodology, the calculated value of the UFR for EUR is 3.60%, but annual changes to the UFR will not be higher than 15 basis points. Therefore the UFR for EUR is expected to decrease from 3.90% to 3.75% on 1 January 2020. The UFR downward adjustment scenario provides the impact in Own Funds and SCR using the applicable UFR downward adjustment of 15bps for each currency. The other components of the basic risk-free interest rate curve – namely the Credit Risk Adjustment, Volatility Adjustment and extrapolation technique towards UFR – are kept constant in this sensitivity.

Equity risk

Equity risk is defined as the possibility of having losses in Solvency II Own Funds due to adverse changes in the level of equity market prices. Exposure to equity risk arises from direct or indirect asset or liability positions, including equity derivatives such as futures and options, that are sensitive to equity prices.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Risk profile

The table below sets out the market value of NN Group's equity assets as at the 31 December 2019 and 2018, respectively.

Equity assets

	2019	2018
Common & preferred stock	4,435	3,469
Private equity	933	689
Mutual funds (money market funds excluded, includes fixed income mutual funds)	2,539	2,566
Total	**7,907**	**6,724**

NN Group is mostly exposed to public listed equity, but also invests in private equity funds and equity exposures through mutual funds. The equity exposure is diversified mainly across the Netherlands (36%) and other European countries (63%), with some exposure also present in the United States and Asia. Note that mutual funds are classified as equity in the table above, but include predominantly fixed income funds. The slight decrease in mutual funds is largely driven by switches from emerging market fund investments to emerging market bonds. Changes in public and private equities are largely driven by market value movements.

As shown in the 'Market risk capital requirements' table above, the Equity Risk SCR of NN Group increased from EUR 2,065 million in 2018 to EUR 2,800 million in 2019. This reflects a higher equity exposure as well as higher equity valuations.

Risk mitigation

Exposure to equities provides additional diversification and up-side return potential in the asset portfolio of an insurance company with long-term illiquid liabilities. The concentration risk on individual issuers is mitigated under relevant investment mandates. There is no natural hedge for equity risk on the liability side of the balance sheet. NN Group has the possibility to protect the downside risk of the equity portfolio by buying put options and other hedge instruments.

Risk measurement

The sensitivity of the Solvency II ratio to changes in the value of equity is monitored on a quarterly basis. This scenario estimates the impact of an instantaneous shock of -25% applied to the value of direct equity and equity mutual funds. Derivatives like equity options or equity forwards which have equity as underlying are also revalued using the same shock applied to the underlying equities or equity indices.

The table below presents the Eligible Own Funds, SCR and Solvency II ratio sensitivity to a downward shock in equity prices.

Solvency II ratio sensitivities: equity risk at 31 December 2019

	Own Funds impact	SCR impact	Solvency II ratio impact
Equity Downward shock -25%	-1,503	-201	-13%

Credit spread risk

The credit spread risk is defined as the possibility of having losses in Solvency II Own Funds due to adverse movements in the credit spreads of fixed income assets. The credit spread widening (or narrowing) reflects market supply and demand, rating migration of the issuer and changes in expectation of default. Changes in liquidity and other risk premiums that are relevant to specific assets can play a role in the value changes.

In the calculation of the SCR for the Partial Internal Model entities, NN Group assumes no change to the volatility adjustment on the liability side of the balance sheet after a shock-event, but instead reflects the illiquidity of liabilities in the asset shocks to ensure appropriate solvency capital requirements. This approach ensures appropriate risk incentives and is approved by DNB. NN Group also shocks all government bonds and its mortgage portfolio in the calculation of spread risk capital requirements for the Partial Internal Model entities.

The main asset classes in scope of the credit spread risk module for Partial Internal Model entities are government and corporate bonds, mortgages and loans.

For the calculation of the SCR for credit spread risk of the Standard Formula insurance entities, the main asset classes in scope are corporate bonds and loans.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Risk profile

As shown in the 'Market risk capital requirements' table, the credit spread risk SCR of NN Group increased from EUR 3,632 million in 2018 to EUR 3,706 million in 2019. This increase is mainly driven by higher asset valuation caused by the drop in the interest rate level and mortgage exposure increases. Capital is also required to be held against spread risk arising from government bonds under the Partial Internal Model.

The table below shows the market value of NN Group's fixed-income bonds which are subject to credit spread risk SCR by type of issuer as at the 31 December 2019 and 31 December 2018, respectively. The European government bonds are not subject to credit spread risk SCR for Standard Formula entities.

Fixed-income bonds and loans by type of issuer

	Market value		Percentage	
	2019	2018	2019	2018
Government Bonds	73,143	71,580	64%	68%
Manufacturing	7,933	6,575	7%	6%
Finance and Insurance	10,888	9,157	9%	9%
Asset-backed securities	4,388	3,478	4%	3%
Utilities	2,937	2,824	3%	3%
Information	2,194	2,111	2%	2%
Transportation and Warehousing	2,981	1,754	3%	2%
Real Estate and Rental and Leasing	1,800	1,594	2%	1%
Other	6,942	6,285	6%	6%
Total	**113,206**	**105,358**	**100%**	**100%**

The table below sets out the market value of NN Group's assets invested in government bonds and loans by country and maturity.

Market value government bond and loans exposures (2019)

			Market value of government bond and loans in 2019 by number of years to maturity[4]								
	Rating[1]	Domestic exposure[2]	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2019
France	AA	0%	92	48	170	375	654	2,887	2,368	4,937	11,531
Japan	A+	98%	238	356	511	1,064	2,372	3,090	1,643	747	10,021
Germany	AAA	0%	86	24	163	1,112	1,459	4,529	2,223	0	9,596
Netherlands	AAA	99%	7	228	82	916	1,355	2,519	2,521	29	7,657
Belgium	AA-	33%	308	53	451	404	1,537	2,534	3,063	38	8,388
Austria	AA+	0%	189	185	191	223	1,684	1,690	1,078	1,259	6,499
Multilateral[3]	AAA	0%	38	62	247	346	644	1,525	812	14	3,688
Spain	A-	26%	14	9	27	204	530	1,322	1,429	3	3,538
Finland	AA+	0%	158	39	5	2	559	11	997	0	1,771
United States	AAA	0%	1	1	1	0	1	58	2,156	0	2,218
Italy	BBB	0%	73	8	47	119	837	429	180	0	1,693
Other[5] – Above Investment Grade			354	221	546	522	2,129	1,815	214	19	5,820
Other[5] – Below Investment Grade			119	6	30	211	155	152	34	16	723
Total			**1,677**	**1,240**	**2,471**	**5,498**	**13,916**	**22,561**	**18,718**	**7,062**	**73,143**

1 NN Group uses the second best rating across Fitch, Moody's and S&P to determine the credit rating label of its bonds.
2 Percentage of the bonds held in the local unit, e.g. percentage of Dutch bonds held by entities registered in the Netherlands.
3 Includes EIB, ECB, EFSF, EU and ESM.
4 Based on legal maturity date.
5 Investment Grade reflects a rating of BBB or higher; Below Investment Grade reflects a rating below BBB.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Market value government bond and loans exposures (2018)

	Rating[1]	Domestic exposure[2]	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2018
			Market value of government bond and loans in 2018 by number of years to maturity[4]								
Japan	A+	98%	316	267	461	1,229	2,836	3,360	1,607	604	10,680
Germany	AAA	0%	77	107	89	480	2,437	3,586	3,777	0	10,553
France	AA	0%	93	100	67	467	749	2,803	2,006	4,016	10,301
Netherlands	AAA	98%	115	54	328	939	1,644	2,501	2,883	30	8,494
Belgium	AA-	33%	346	336	55	745	1,549	2,095	2,664	6	7,796
Austria	AA+	0%	149	211	223	292	2,062	1,873	964	1,058	6,832
European Union[3]	AA-	0%	120	50	105	348	847	1,536	691	11	3,708
Spain	A-	27%	1	15	17	53	365	1,490	1,176	2	3,119
Finland	AA+	0%	92	164	59	69	646	15	979	0	2,024
Italy	BBB	0%	29	76	8	147	313	791	195	0	1,559
Ireland	A+	0%	0	10	0	127	361	333	142	0	973
Other[5] Investment Grade			238	376	269	707	1,789	1,391	226	0	4,996
Other[5] below Investment Grade			73	39	2	114	156	116	45	0	545
Total			**1,649**	**1,805**	**1,683**	**5,717**	**15,754**	**21,890**	**17,355**	**5,727**	**71,580**

1 NN Group uses the second best rating across Fitch, Moody's and S&P to determine the credit rating label of its bonds.
2 Percentage of the bonds held in the local unit, e.g. percentage of Dutch bonds held by entities registered in the Netherlands.
3 Includes EIB, ECB, EFSF, EU and ESM.
4 Based on legal maturity date.
5 Investment Grade reflects a rating of BBB or higher; Below Investment Grade reflects a rating below BBB.

Exposures to German, French and Japanese government bonds and loans represents 43% of NN Group total sovereign debt exposure. German and French government bonds and loans primarily held by Netherlands Life while Japanese government bonds are primarily held by NN Life Japan. Of the EUR 31 billion German, French and Japanese government bonds and loans held by NN Group, 72% will mature after year 10 and 38% after year 20. These long-term government bonds and loans are sensitive to sovereign credit spread movements versus EUR swap rates. A combination of Dutch, German and French government bonds, were included in the spread lock programme during 2019, which means that NN Group has forward sold the underlying bonds using derivatives. Some German and Dutch spread locks have been settled during the last quarter of 2019, although some French spread locks have been cash settled but the underlying bond have been kept in portfolio. With regard to Central and Eastern Europe, the government bond exposures are mainly domestically held. All relative exposures to the top 10 government exposures slightly increased. In the Partial Internal Model, all government bonds contribute to credit spread risk, including those rated AAA.

The tables below set out the market value of non-government fixed-income securities (excluding mortgages and derivatives) by rating and maturity.

Market value non-government bond securities and loans (2019)[1]

	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2019
	Market value of non-government bond securities and loans in 2019 by number of years to maturity								
AAA	1,040	501	496	616	600	1,065	879	2,635	7,832
AA	391	812	595	546	1,014	411	229	108	4,106
A	1,031	1,319	1,746	2,962	3,633	775	497	91	12,054
BBB	1,098	1,357	1,480	3,974	3,367	909	638	119	12,942
BB	65	179	201	843	785	23	29	5	2,130
B	10	41	5	90	141	0	0	0	287
No rating available[1]	170	37	4	13	31	142	0	314	711
Total	**3,805**	**4,246**	**4,527**	**9,044**	**9,571**	**3,325**	**2,272**	**3,272**	**40,062**

1 This category also includes limited exposure in CCC or below rated instruments of around EUR 59 million and instruments with 'No Rating (NR)'.

Notes to the Consolidated annual accounts continued

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Market value non-government bond securities and loans (2018)

	Market value of non-government bond securities and loans in 2018 by number of years to maturity									
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	N.A.[2]	Total 2018
AAA	615	455	286	464	424	426	812	1,903	0	5,385
AA	358	309	595	572	718	355	175	131	0	3,213
A	957	726	825	2,925	3,024	326	427	160	0	9,370
BBB	1,110	878	1,148	3,116	4,438	854	961	274	0	12,779
BB	109	123	265	858	825	11	6	31	0	2,228
B	0	0	25	29	99	0	0	7	0	160
No rating available[1]	285	2	44	3	4	48	135	113	9	643
Total	**3,434**	**2,493**	**3,188**	**7,967**	**9,532**	**2,020**	**2,516**	**2,619**	**9**	**33,778**

1 This category also includes limited exposure in CCC or below rated instruments of around EUR 59 million and instruments with 'No Rating (NR)'.

2 These included matured bonds in Delta Lloyd Life, Delta Lloyd Non-life and NN Belgium portfolios which were not repaid.

The table below sets out NN Group's holdings of loans and other debt securities as at the 31 December 2019 and 2018, respectively.

Market value all loans and other debt securities (per credit rating)

	2019	2018
AAA	29,950	27,456
AA	35,014	32,758
A	27,497	25,200
BBB	16,892	16,328
BB	2,769	2,471
B	356	483
No rating available[1]	566	662
Mortgages[2]	49,472	46,075
Other Retail Loans	1,756	1,698
Total	**164,272**	**153,131**

1 This category includes limited exposure in CCC or below rated instruments and instruments with 'No Rating (NR)'.

2 Mortgages refer to all mortgages using the same criteria and is aligned with the Mortgages figure in Investment assets above.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Mortgages

The required capital for mortgages within entities under the Partial Internal Model is calculated in the credit spread risk module while the required capital for mortgages within entities under Standard Formula is calculated in the counterparty default risk module. The credit spread risk module within the Partial Internal Model captures the behaviour of Own Funds when the valuation of mortgages changes with market mortgage rates, while the counterparty default risk module within Standard Formula captures the behaviour of Own Funds as a result of unexpected loss or default of mortgages.

The Loan-to-Value (LTV) for residential mortgages (which is based on the net average loan to property indexed value) at NN Life, the Banking business and NN Non-life stood at 72%, 70% and 70% respectively at the end of December 2019. Increasing house prices resulted in a migration towards lower LTV buckets.

The inherent credit risk of mortgages is backed primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG) and other secondary covers like savings, investments and life insurance policies. Mortgages with NHG accounted for 30%, 34% and 20% at NN Life, the Banking business and NN Non-life respectively at the end of 2019. Since the change in the Dutch tax regime in 2014 with regards to mortgage interest deductibility, a shift from interest-only mortgages to annuity and linear payment type mortgages is being observed.

Loan-to-Value on mortgage loans[1]

	2019	2018
NHG	31%	31%
LTV <= 80%	47%	43%
LTV 80% – 90%	12%	13%
LTV 90% – 100%	8%	8%
LTV > 100%	2%	5%
Total NN Group	**100%**	**100%**

1 Risk figures and parameters do not include third-party originated mortgages, securitised and pooled mortgages although they are on the balance sheet of NN Group.

The mortgage portfolio is under regular review to ensure troubled assets are identified early and managed properly. The loan is categorised as a non-performing loan (NPL) if the loan is 90 days past due or the loan is classified as Unlikely To Pay (UTP) by the problem loans department. A loan is re-categorised as a performing loan again when the amount past due has been paid in full (and the UTP status is withdrawn). Provisions remained stable. The net exposure decreased because of increasing house prices and payments (contractual and prepayments) on mortgages.

Credit quality: NN Group mortgage portfolio, outstanding[1,4]

	Life business		Banking business		Other[2]	
	2019	2018	2019	2018	2019	2018
Performing mortgage loans that are not past due	23,016	21,992	18,738	17,458	4,375	3,244
Performing mortgage loans that are past due	184	261	236	237	22	26
Non-performing mortgage loans[3]	91	160	79	155	18	36
Total	**23,291**	**22,413**	**19,053**	**17,850**	**4,415**	**3,306**
Provisions for performing mortgage loans	4	3	3	3	0	1
Provisions for non-performing mortgage loans	10	14	4	7	1	1
Total	**14**	**17**	**7**	**10**	**1**	**2**

1 Risk figures and parameters do not include third-party originated mortgages, securitised and pooled mortgages although they are on the balance sheet of NN Group.
2 'Other' column includes mortgages for the Non-life entities, Belgium business and other small entities.
3 The non-performing loans include 'unlikely to pay' mortgage loans, which may not be past due.
4 The total value for Mortgages is different in this table vs. Investment Assets Table mainly because of exclusion of mortgage structure vehicles of EUR 2,713 million in 2019 and EUR 2,506 million in 2018.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Collateral on mortgage loans

	Life business		Banking business		Other[1]	
	2019	2018	2019	2018	2019	2018
Carrying value	23,291	22,414	19,053	17,850	4,415	3,306
Indexed collateral value of real estate	36,084	33,327	30,963	27,415	6,542	5,127
Savings held[2]	988	1,107	1,328	1,292	78	109
NHG guarantee value[3]	5,830	5,541	5,314	5,161	1,005	726
Total cover value + including NHG guarantee capped at carrying value[4]	23,239	22,309	19,003	17,764	4,407	3,303
Net exposure	**52**	**105**	**50**	**86**	**8**	**3**

1 Other' column includes mortgages for the Non-life entities, Belgium business and other small entities.
2 Savings held includes life policies and investment policies.
3 The NHG guarantee value follows an annuity scheme and is corrected for the 10% own risk (on the guaranteed NHG claim).
4 The cover value of the real estate does not include haircuts, which are applied in the determination of loan loss provisions.

Risk mitigation
NN Group aims to maintain a low-risk, well diversified fixed income portfolio. NN Group has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. In order to diversify the credit spread risk, NN Group increased its investments in non-listed and own-originated assets. The concentration risk on individual issuers is managed using rating-based issuer limits on one (group of related) single name(s), effectively managing the default risk of the issuers.

Risk measurement
The sensitivity of the Solvency II ratio to changes in credit spreads is monitored on a quarterly basis. The table below presents the Eligible Own Funds, SCR and Solvency II ratio sensitivities to various changes in credit spreads.

Solvency II ratio sensitivities: credit spread risk at 31 December 2019

	Own Funds impact	SCR impact	Solvency II ratio impact
Credit spread: Parallel shock for AAA-rated government bonds +50 bps	-807	-23	-9%
Credit spread: Parallel shock for AA and lower-rated government bonds +50 bps	-799	-123	-7%
Credit spread: Parallel shock corporates +50 bps	158	-136	6%

NN Group has exposure to government and corporate and financial debt, and is exposed to spread changes for these instruments. Furthermore, the Volatility Adjustment in the valuation of liabilities introduces an offset to the valuation changes on the asset side. The Solvency II sensitivities for spread changes cover three possible scenarios – spread widening for AAA rated government bonds, spread widening for non-AAA rated government bonds and loans, and spread widening for corporates including mortgages. For all scenarios, a parallel widening of the spread curves of +50bps is assumed. There is a corresponding translation of the spread widening on asset valuations on the Volatility Adjustment in each of the scenarios.

Government bond shocks are applied to the following asset classes: government bonds and loans, government-linked instruments (sub-sovereigns and supranational). Corporate spread shocks are applied to the following asset classes: corporate bonds (financials and non-financials), mortgages, covered bonds, subordinated bonds, asset-backed securities and loans.

Real estate risk
Real estate risk is defined as the possibility of having losses in Solvency II Own Funds due to adverse changes in the value of real estate. Exposure to real estate risk arises from direct or indirect positions that are sensitive to real estate prices. With the long-term nature of the liabilities of NN Group, illiquid assets such as real estate play an important role in the asset allocation.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Risk profile

NN Group's real estate exposure (excluding forward commitments) increased from EUR 8,307 million at the end of 2018 to EUR 9,257 million at the end of 2019. The real estate exposure is mainly present in the portfolios of NN Life, NN Non-life and NN Belgium Life.

NN Group has various categories of real estate: investments in real estate funds and joint-ventures, real estate directly owned and investments in buildings occupied by NN Group. Several of the real estate funds, in which NN Group participates, include leverage, and therefore the actual real estate exposure is larger than NN Group's value of participation in real estate funds. The real estate portfolio is held for the long-term and is illiquid. Furthermore, there are no hedge instruments available in the market to effectively reduce the impact of market volatility.

The table below sets out NN Group's real estate exposure per category as at 31 December 2019 and 2018, respectively.

Real estate assets per category[1]

	2019	2018
Investment Property	9,209	8,223
Mutual Funds – Property	11	13
Plant and equipment (for own use)	9	5
Property (for own use)	28	66
Total	**9,257**	**8,307**

1 Excludes real estate forward commitments, since NN Group has no price risk related to them.

As shown in the 'Market risk capital requirements' table above, the real estate risk SCR of NN Group increased from EUR 1,384 million in 2018 to EUR 1,533 million in 2019. This increase is mainly due to an increase in property investment valuations.

Risk mitigation

Exposure to real estate provides for additional diversification for the asset portfolio. The concentration risk on individual assets is mitigated under the relevant investment mandates.

Risk measurement

The sensitivity of the Solvency II ratio to changes in the value of real estate is monitored on a quarterly basis. This scenario estimates the impact of an instantaneous shock of -10% to the value of direct real estate exposures and real estate within mutual funds. The table below presents the Eligible Own Funds, SCR and Solvency II ratio sensitivity to a downward shock in the value of real estate.

Solvency II ratio sensitivities: real estate risk at 31 December 2019

	Own Funds impact	SCR impact	Solvency II ratio impact
Real estate Downward shock -10%	-724	-22	-8%

Notes to the Consolidated annual accounts continued

49 Risk management continued

Foreign exchange risk
Foreign exchange (FX) risk measures the impact of losses related to changes in currency exchange rates.

Risk profile
FX transaction risk can occur on a local entity level, while FX translation risk can occur when non-Euro entities are consolidated at the level of NN Group and show a risk in regard to NN Group's reporting currency, the Euro.

The SCR for foreign exchange risk decreased from EUR 456 million in 2018, to EUR 418 million in 2019. This is mainly due to change in exposures to currencies such as JPY, USD and GBP as well as currency rate movements.

Risk mitigation
The FX risk at the local entity level is mitigated by limiting investment to the non-local currency assets. The exceptions are NN Life Japan, where USD and EUR assets are held to diversify the portfolio and the FX risk is managed through rolling FX forward contracts.

Inflation risk
Inflation risk is defined as the risk of adverse changes in inflation that result into decrease in Solvency II Own Funds. Inflation risk is calculated for the Dutch entities applying the Partial Internal Model for the SCR calculation.

Risk profile
The SCR for inflation risk decreased from EUR 233 million in 2018, to EUR 120 million in 2019, mostly originating from a lower inflation level that led to lower inflation linked liability and modelling improvements.

Risk mitigation
The inflation risk is managed through the use of inflation swaps and investments in inflation bonds.

Basis risk
The SCR Basis risk is defined as a risk that the underlying asset or liability behaves differently than the underlying hedge instrument, which results in the loss in the Solvency II balance sheet.

Risk profile
The SCR for basis risk remained stable from EUR 104 million in 2018, to EUR 115 million in 2019.

Risk mitigation
The Basis Risk is mitigated by fund mapping of the underlying funds to risk factors, and also by constant monitoring of the fund performance compared to the benchmark.

Concentration risk
The SCR for Concentration Risk is defined as a risk of loss in the Basic Own Funds as a result of the default of an issuer in which NN Group has a concentrated investment position.

Risk profile
The SCR for Concentration Risk remained at nil in 2019.

Risk mitigation
This Concentration Risk is mitigated by concentration risk limits aiming to have a well-diversified portfolio with credit risk concentrations in any particular issuer within the NN Group risk appetite.

49 Risk management continued

Counterparty default risk

Counterparty default risk is the risk of loss due to default or deterioration in the credit standing of the counterparties and debtors (including reinsurers) of NN Group. The SCR for counterparty default risk is primarily based on the issuer's probability of default (PD) and the loss-given-default (LGD) of each individual position taking into account diversification across these positions.

The counterparty default risk module also covers any credit risk exposures which are not covered in the spread risk sub-module.

Risk profile

As shown in the 'Solvency Capital Requirements' table above, the Counterparty default risk SCR of NN Group decreased slightly from EUR 274 million at the end of 2018 to EUR 259 million at the end of 2019, due to a decrease in exposure to some counterparties. In the Partial Internal Model the mortgages does not get the capital charge under the Counterparty default risk and are under Credit Risk SCR sub module for these business units.

Risk mitigation

NN Group uses different credit risk mitigation techniques. For OTC derivatives, the exchange of collateral under the International Swaps and Derivatives Associations contracts accompanied with Credit Support Annexes is an important example of risk mitigation. Other forms of credit risk mitigation include reinsurance collateral exchange. For cash and money market funds, limits per counterparty are put in place.

Risk measurement

The Counterparty default risk module comprises two sub-modules:

- CDR Type I: applicable to exposures which might not be diversified and where the counterparty is likely to be (externally) rated, e.g. reinsurance contracts, derivatives and money market exposures. The underlying model is the Ter Berg model (which was also the basis for Standard Formula calibration under Solvency II)
- CDR Type II: applicable to exposures that are usually (well) diversified and where the counterparty is likely to be unrated, like retail loans, but also other forms of term lending not covered in Type I

The capital charges for CDR Type I and CDR Type II exposures are calculated separately and subsequently aggregated.

Market and credit risk: separate account businesses

The separate account businesses are those in which the policyholder bears the majority of the market and credit risk. NN Group's earnings from the separate account businesses are primarily driven by fee income. However, in the case of variable annuities and the guaranteed separate account pension business in the Netherlands, NN Group retains risk associated with the guarantees provided to its policyholders. Businesses in this separate account category are (i) the group pension business in the Netherlands for which guarantees are provided; (ii) the variable annuities (VA) portfolio; and (iii) other separate account business, primarily the unit-linked business. This section refers to separate account business only.

Separate account guaranteed group pension business in NN Life

Risk profile

In the Dutch separate account guaranteed group pension portfolio, investments are held in separate accounts on behalf of the sponsor employer who concluded their contract with a business unit of NN Group. Regardless of actual returns on these investments, pension benefits for the beneficiaries are guaranteed under the contract. The value of the provided guarantee is sensitive to interest rates, movements in the underlying funds and the volatility of those funds.

The Assets under Management for NN Life's portfolio increased from EUR 3.9 billion in 2018 to EUR 4.2 billion in 2019 mainly driven by interest rate changes. In general the materiality of the separate account business within NN Group has reduced in the past few years due to the runoff of the portfolio.

Risk mitigation

NN currently hedge the value of the guarantees it provided under group pension contracts in the Netherlands. For the purpose of hedging, the exposure under such guarantees is discounted at the swap curve without the extrapolation to the UFR. The hedge programme includes equity basket options, swaps and equity futures. Upon contract renewal, NN Group offers policyholders defined contribution products with investments in portfolios that NN Group can more easily hedge, thus reducing the risk to NN Group.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Variable annuity portfolio

Risk profile

From a risk management perspective, NN Group distinguishes three blocks of variable annuities, namely guaranteed minimum accumulation benefit (GMAB) products of Japan Closed Block VA, guaranteed minimum death benefit (GMDB) products of Japan Closed Block VA and VA products of Insurance Europe.

The account value for this portfolio decreased from EUR 3.5 billion in 2018 to EUR 3.2 billion in 2019, mainly driven by run-off of the Japan Closed Block VA.

Risk mitigation

NN Group has hedging programmes in place for the Japan Closed Block VA business and the European VA business. These hedging programmes target equity, interest rate and FX risks. The market risks that remain for the Japan Closed Block VA business increases with market volatility and basis risk. Basis risk is the difference in market movements between the benchmarks used for hedging and the underlying funds.

Other separate account businesses

Risk profile

The other separate account business primarily consists of unit-linked insurance policies, which provide policyholders with selected fund returns combined with an insurance cover. In a unit-linked policy, the investment risk is borne by the policyholder, although there are some unit-linked products where NN Group has provided guarantees on the performance of specific underlying funds. Unit-linked products without guarantees do not expose NN Group to market risk, except to the extent that the present value of future fees is affected by market movements of the underlying policyholder funds.

Risk mitigation

The market risks of the unit-linked and other separate account business are managed by the design of the product. Currently NN Group does not hedge the market risks related to the present value of future fee income derived from this business.

Risk measurement

NN Group determines eligible own funds for the market and credit risks of the separate account business through modelling the risks of the fee income and the guarantees including the impact of the hedge programmes.

Liquidity risk

Liquidity risk is the risk that one of NN Group's entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due. NN Group manages liquidity risk via a liquidity risk framework: ensuring that – even after shock – NN Group's businesses can meet immediate obligations. Liquidity stress events can be caused by a market-wide event or an idiosyncratic NN Group specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale.

Subsidiaries that trade derivatives are responsible for maintaining sufficient liquidity levels to meet their collateral requirements. For this purpose liquidity buffers are set to ensure sufficient liquidity is available in an adverse scenario and to ensure the liquidity thresholds are being met.

Risk profile

Liquidity risk covers three areas of attention. Operational liquidity risk, is the risk that funds are unavailable to meet financial obligations when due. Market liquidity risk, is the risk that an asset cannot be sold on short-term without significant losses. Funding risk, is the risk related to not being able to refinance maturing debt instruments and may lead to higher funding costs. The connection between market and operational liquidity risk stems from the fact that when payments are due and not enough cash is available, investment positions need to be converted into cash; if market liquidity is low or an adverse market movement took place in this situation, this could lead to a loss.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Risk mitigation
NN Group aims to match day-to-day cash in- and outflows and at the same time wants to be able to have sufficient cash in case of a liquidity stress event. Daily liquidity management is separately managed based on cash flow projections.

NN Group Liquidity Management Principles defines three levels of Liquidity Management:
- Short-term liquidity (including operational liquidity) management covers the day-to-day cash requirements under normal business conditions
- Long-term liquidity management considers business conditions, in which market liquidity risk materialises
- Stress liquidity management looks at the company's ability to respond to a potential crisis situation

Risk measurement
The Liquidity Risk Management Standard measures liquidity risk through the gap between liquidity needs and liquidity sources compared to available liquid assets for sale. This is calculated for different time horizons and different levels of liquidity sources.

Non-market risk
Within the SCR Partial Internal Model a differentiation is made for the classification of non-market risks for different NN Group entities depending on the model applied.

For the business units applying Partial Internal Model, non-market risks are split between:
- **Insurance risk:** is the risk related to the events insured by NN Group and comprise actuarial and underwriting risks like Life risk (mortality, longevity), Morbidity risk and Property & Casualty risk which result from the pricing and acceptance of insurance contracts
- **Business risks:** are the risks related to the management and development of the insurance portfolio but exclude risks directly connected to insured events. Business risk includes policyholder behaviour risks, expense risk, persistency risk and premium re-rating risk. Business risks can occur because of internal, industry, regulatory/political or wider market factors. Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by NN Group. Depending on the terms and conditions of the insurance policy, and the laws and regulations applicable to the policy, policyholders could have the option to surrender, change premiums, change investment fund selections, extend their contracts, take out policy loans, and make choices about how to continue their annuity and pension savings contracts after the accumulation phase, or even change contract details. Policyholder behaviour therefore affects the profitability of the insurance contracts. Changes in tax laws and regulations can affect policyholder behaviour, particularly when the tax treatment of their products affects the attractiveness of these products for customers

For the business units applying Standard Formula, non-market risks are split between:
- **Life risk:** the life portfolio is mainly attributed to the individual and group business in the international entities of NN Group (mainly Belgium, Spain Life, Poland) and ABN AMRO Life. This risk comprises the mortality, longevity, disability-morbidity, expense, lapse and life catastrophe risks
- **Health risk:** this covers the SLT Health portfolio risk, the NSLT Health portfolio risk and the Health Catastrophe risk. Within NN Group, the health risk stems from morbidity riders in Belgium, Czech, Poland, Slovakia and Romania, but also from the yearly renewable health insurance portfolio of Greece. This risk is split between the SLT Health risk (comprising mortality, longevity, disability-morbidity, expense and lapse risks), the NSLT Health risk (comprising premium and reserve risk and lapse risk) and the Health Catastrophe risk
- **Non-life risk:** this covers non-life portfolio mainly contributed by ABN AMRO Non-life and NN Insurance Services. This risk covers the premiums and reserve risk, non-life catastrophe risk and lapse risk

Risk profile
The table below presents the non-market risk SCR composition at the end of 2018 and at the end of 2019 respectively. The main changes in the risk profile are explained in the subsequent section of this document.

Notes to the Consolidated annual accounts continued

49 Risk management continued

Non-market risk capital requirements

	2019	2018
Insurance risk (IM entities)	5,339	4,318
Business risk (IM entities)	1,467	1,325
Life risk (SF entities)	879	866
Health risk (SF entities)	200	156
Non-life risk (SF entities)	113	104
Diversification non-market risk	-1,253	-886
Non-market risk[1]	**6,745**	**5,883**

1 For 2019, non-market sub-risks for Standard Formula units are presented on diversified basis as part of Non-market risk; in 2018 these sub-risks were presented as a simple sum.

The Insurance and Business risks for Internal Model entities increased and the Health and Non-life risk SCR for Standard Formula entities increased, mainly from lower interest rate level. Life risk SCR for standard formula entities decreased mainly due to improved diversification across SF entities, health risk has increased mainly due to the acquisition of Aegon Slovakia and Aegon Czech.

Risk mitigation
Proper pricing, underwriting, claims management and diversification are the main risk mitigating actions for insurance risks.

By expanding insurance liabilities to cover multiple geographies, product benefits, lengths of contract and both life and non-life risk, NN Group reduces the likelihood that a single risk event will have a material impact on NN Group's financial condition.

Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that NN Group underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through NN Group's underwriting standards, product design requirements, and product approval and review processes – as referred to under Risk Management Policies, Standards and Processes.

Insurance risks are diversified between business units. Risk not sufficiently mitigated by diversification is managed through concentration and exposure limits and through reinsurance: retention limits for non-life insurance risks are set by line of business for catastrophic events and individual risk.

Insurance Risk
Insurance risk is the risk that the future insurance claims and other contractual benefits cannot be covered by premiums, policy fees and/or investment income or that insurance liabilities are not sufficient because claims and benefits might differ from the assumptions used in determining the best estimate liability. Insurance risk manifests itself in the life as well as in the non-life portfolio of NN Group.

The table below presents the Partial Internal Model insurance risk SCR for the Dutch NN insurance entities of NN Group (namely NN Life, NN Non-life, NN Re and MOVIR) as at 31 December 2018 and 31 December 2019 respectively.

Risk profile
Insurance risk capital requirements

	2019	2018
Mortality (including longevity) risk	5,267	4,232
Morbidity risk	517	441
Property & Casualty risk	517	560
Diversification insurance risk	-962	-915
Insurance risk (IM entities)	**5,339**	**4,318**

Notes to the Consolidated annual accounts continued

49 Risk management continued

The SCR for insurance risk is mostly driven by longevity risk which is included in mortality risk, for the Netherlands pension business.

Mortality risk occurs when claims are higher due to higher mortality experience (for instance in relation to term insurance). Longevity risk is the risk that insured persons live longer than expected due to mortality improvements like better living conditions, improved health care and medical breakthrough. While NN Group is exposed to both longevity and mortality risks, these risks do not fully offset one another as the impact of the longevity risks in the pension business in the Netherlands is significantly larger than the mortality risk in the other businesses, which is not only due to the size of the business but also due to the current low interest rate environment. Changes in mortality tables impact the future expected benefits to be paid and the present value of these future impacts is reflected directly in measures like Own Funds.

Morbidity risk is borne primarily by the health insurance portfolio which pays out a fixed amount benefit, reimburses losses (e.g. in the case of loss of income), or pays for expenses of medical treatment related to certain illness or disability events. The main exposures to morbidity risks within NN Group are the disability insurance policies underwritten in Netherlands Non-life, and the health and accidental death covers within the Corporate Owned Life Insurance (COLI) business in Japan Life.

The Netherlands Non-life portfolio includes Property & Casualty products covering risks such as fire damage, car accidents, personal and professional liability, windstorms, hail, and third-party liabilities. The Property & Casualty (P&C) risk is primarily underwritten by Netherlands Non-life and catastrophic losses are partially reinsured to external reinsurers through NN Re.

Risk mitigation

Insurance risk is mitigated through diversification between mortality and longevity risks within NN Group business units, appropriated pricing and underwriting policies and through risk transfer via reinsurance which are used to reduce the Own Funds volatility.

In November 2017, NN Life entered into an index-based longevity hedge based on the Dutch population. The hedge partially protects NN Group against longevity risk exposure from approximately EUR 3 billion of pension liabilities. NN Group remains exposed to the risk that the mortality of its own portfolio may differ from the mortality of the Dutch population. During 2019 NN Life also entered into a reinsurance contract to hedge longevity risk of a specific pension portfolio.

The risks that are not sufficiently mitigated by diversification are managed through concentration and exposure limits and through reinsurance:
- Retention limits for life insurance risks are set per insured life and significant mortality events affecting multiple lives such as pandemics
- Retention is used to manage risk levels (such as non-life reinsurance and risk morbidity reinsurance in the COLI business in Japan Life)
- Retention limits for non-life insurance risks are set by line of business for catastrophic events and individual risk

Reinsurance creates credit risk which is managed in line with the reinsurance credit risk policy of NN Group.

Risk measurement

Insurance risk increased from EUR 4,318 million at the end of 2018 to EUR 5,339 million at the end of 2019, mainly due to a decrease of interest rates and the Volatility Adjustment. Given the long-term nature of the liability portfolio of NN Group, the capital requirements underlying insurance risk are sensitive to interest rates and Volatility Adjustment changes due to the discounting impact.

Business risk

Business risk include risks related to the management and development of the insurance portfolio risk, policyholder behaviour risks, persistency risk and expense risks. These risks occur because of internal, industry, regulatory/political, or wider market factors.

Risk profile

Business risk capital requirements

	2019	2018
Persistency risk	342	305
Premium risk	13	9
Expense risk	1,354	1,220
Diversification business risk	-242	-209
Business risk (IM entities)	**1,467**	**1,325**

Notes to the Consolidated annual accounts continued

49 Risk management continued

The main contributors to persistency risk are Netherlands Life and the Japan Closed Block VA. Persistency risk increased slightly due to the decrease of the interest rate curve and the Volatility Adjustment, as well as the portfolio changes at NN Life.

The risk that policyholders maintain their contracts longer than NN Group has assumed is specific to the variable annuity business when guarantees are higher than the value of the underlying policyholder funds, the pension business in the Netherlands, and the older, higher interest rate guaranteed savings business in Europe. The risk that policyholders hold their contracts for a shorter period than NN Group has assumed relates to the life business in Japan and the unit-linked businesses in Central and Eastern Europe.

Total administrative expenses for NN Group for 2019 were EUR 2,076 million compared with EUR 2,178 million in 2018. Parts of these expenses are variable, depending on the size of the business and sales volumes, and parts are fixed and cannot immediately be adjusted to reflect changes in the size of the business.

Expense risk relates primarily to the variable part of NN Group's expenses, and is the risk that future actual expenses exceed the expenses assumed. Expense risk mainly comprises the expense level and expense inflation risks in NN Life.

A significant portion of the expense risk is incurred in the closed block operations of Netherlands Life, where NN Group is exposed to the risk that the expenses will not decrease in line with the gradual decrease of the in-force book, leading to a per policy expense increase. Furthermore, expense risk is also driven by the Group pension business in the Netherlands which includes long-term best estimate expense assumptions, discounted over a long period of time.

Risk mitigation

Policyholder behaviour risks, such as persistency and premium risk, are managed through the product development, product approval and review processes and by ensuring that appropriate advice is given to the customer, not only at the point of sale but also during the lifetime of the product. The policyholder behaviour experience of in-force policies is assessed at least annually.

As part of its strategy, NN Group has put several programmes in place to own and improve the customer experience. These programmes improve the match between customer needs and the benefits and options provided by NN Group's products. Over time, NN Group's understanding and anticipation of the choices policyholders are likely to make, will improve, thereby decreasing the risk of a mismatch between actual and assumed policyholder behaviour.

Ongoing initiatives are in place to manage expense risk throughout NN Group, especially in the Netherlands where company targets are in place to reduce expenses, thus, lowering expense risk going forward. These initiatives seek to reduce expenses through the number of underlying contracts in place. This is particularly relevant for the Dutch individual life closed-block business that can only reduce in number of contracts.

Besides the already described mitigating actions, proper pricing, underwriting, claims management, and diversification are also risk mitigating actions for business risk.

Life Risk

Life risk includes risks arising from the underwriting of life insurance, which includes mortality risk, longevity risk, disability/morbidity risk, persistency risk, expense risk, revision risk and catastrophic risk. These risks refer to the adverse deviation from the best estimate liabilities due to the perils covered, policyholder behaviour and the processes used in the conduct of business.

Risk profile

Life risk capital requirements

	2019	2018
Mortality risk	133	130
Longevity risk	112	94
Morbidity risk	10	9
Expense risk	340	310
Lapse risk	548	575
Catastrophe risk	112	100
Diversification life risk	-376	-352
Life risk (SF entities)	**879**	**866**

Notes to the Consolidated annual accounts continued

49 Risk management continued

As shown in the table above, the life risk SCR of the business units applying Standard Formula increased from EUR 866 million in 2018 to EUR 879 million in 2019. This slight increase is mainly due to an increase in longevity and expense risk which have been offset by a decrease in lapse risk and improved diversification across standard formula entities.

Risk mitigation

The majority of life risk is comprised of lapse, expense and mortality risks (in Standard Formula entities) mainly from the international NN Group entities (Belgium, Poland, Spain) as well as ABN AMRO Life.

The NN Group Standard Formula entities manage the expense risk through detailed budgeting and monitoring the costs using activity-based costing.

Lapse risk management serves an important objective for NN Group entities. When deviations from assumed lapse rates are observed over a prolonged period of time, a product review and further management actions will be taken to address the underlying reasons.

Health Risk

Health risk arises from issuing health insurance contracts, which is divided in Similar to Life Techniques (SLT) risk, Non-Similar to Life Techniques (NSLT) risk and catastrophe risk. SLT risk is associated to health obligations pursued on a similar technical basis to that of life insurance, while NSLT risk applies to health obligations not pursued on a similar technical basis to that of life insurance. These risks refer to the adverse deviation from the best estimate liabilities due to the perils covered, policyholder behaviour and the processes used in the conduct of business.

Risk profile

Health risk capital requirements

	2019	2018
SLT	184	142
NSLT	22	20
Catastrophe risk	13	11
Diversification health risk	-19	-17
Health risk (SF entities)	**200**	**156**

As shown in the table above, the health risk SCR of the business units applying Standard Formula increased from EUR 156 million in 2018 to EUR 200 million in 2019. This increase is mainly explained by acquisition of Aegon Czech and Aegon Slovakia as well as morbidity and lapse assumption changes for some standard formula entities.

Risk mitigation

The majority of Health Risk originates from international NN Group entities (Belgium, Czech, Poland, Slovakia, Romania, Greece) and they mitigate the risks by strict acceptance policies and stringent claims-handling procedures. An acceptance policy is developed for each product line maintained by those entities. Random checks are also carried out to check whether underwriters are following the rules and regulations.

Non-life Risk

Non-life risk involves risks arising from the underwriting of non-life insurance, which includes premium and reserve risk, persistency risk and catastrophic risk. These risks refer to the adverse deviation from the best estimate liabilities due to the perils covered, policyholder behaviour and the processes used in the conduct of business.

Risk profile

Non-life risk capital requirements

	2019	2018
Premium and reserve risk	101	91
Lapse risk	19	18
Catastrophe risk	28	29
Diversification non-life risk	-35	-34
Non-life risk (SF entities)	**113**	**104**

Notes to the Consolidated annual accounts continued

49 Risk management continued

As shown in the table above, the non-life risk SCR of the business units applying Standard Formula increased from EUR 104 million in 2018 to EUR 113 million in 2019. This increase is explained mainly by slightly higher earned premiums volumes and some standard formula entities requiring higher technical provisions.

Risk mitigation

Non-life risk is mitigated through appropriate pricing and underwriting policies and through risk transfer via reinsurance. Most of the non-life risk comes from ABN AMRO Non-life and NN Insurance Services, and they manage the risk using various reinsurance contracts.

Within our non-life business, weather-related risks are managed through the use of catastrophe risk modelling in underwriting and risk assessment. We use external vendor models to estimate the impact and damage caused by large natural catastrophes such as windstorms, considered to be the main natural peril for the NN portfolio. Reinsurance covers are placed with strongly capitalised external reinsurers. Natural catastrophic losses can be made worse by climate change. Although most of our non-life business is annually renewable, to accurately price our business it is essential that we monitor and understand linkages between natural disasters and climate change. NN therefore liaises with our external vendors and participates in industry initiatives to improve our knowledge, data and models to better prepare for changing weather patterns.

Non-financial risk

- **Business operations risk:** risks related to inadequate or failed internal processes, including information technology and communication systems
- **Business continuity & security risk:** risks of accidents or external events impacting continuation or security of (people or assets in) our business operations
- **Business conduct risk:** is the risks related to unethical or irresponsible corporate behaviour, inappropriate employee behaviour and customer suitability of products

Operational risk

Business operations and continuity & security risk

Risk profile

Business operations and continuity & security risks are non-financial risks that include direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.

The business operations risk management areas covered within NN Group are:
- **Operational control risk:** the risk of not (timely) detecting adverse deviations from strategy, policies, procedures, work instructions or authorised activities
- **Operational execution risk:** the risk of human errors during (transaction) processing
- **Financial accounting risk:** the risk of human errors during general ledger/risk systems processing and subsequent financial reporting
- **Information (technology) risk (including cyber-risk):** the risk of data (information) corruption, misuse or unavailability in IT systems, either through external causes (cybercrime) or internal causes. Cybersecurity is an integral part of NN Group's risk management strategy
- **Operational change risk:** the risk that actual results of changes to the organisation (this includes changes in processes, products, IT, methods and techniques) differs adversely from the envisaged results
- **Outsourcing risk:** the risk that outsourced activities or functions perform adversely as compared to performing them in-company. This includes the risk of unclear mutual expectations as documented in the outsourcing agreement, risk of unreliable outsourcing partner (both (un)intentional), operational control, information security and continuity risk of the outsourcing partner
- **Legal risk:** the risk that emerging laws and regulations, agreements, claims, regulatory inquiries or disclosures potentially result in damage to NN Group's brand and reputation, legal or regulatory sanctions or liability resulting in financial loss
- **External fraud risk:** the risk of intended acts by a third party to defraud, misappropriate property or circumvent the law

The business continuity & security risk management areas covered within NN Group are:
- **Continuity risk:** the risk of primary business processes being discontinued for a period beyond the maximum outage time
- **Personal & physical security risk:** the risk of criminal acts or environmental threats that could endanger NN Group employees' safety, NN Group's assets (including physically stored data/information) or NN Group's offices

Notes to the Consolidated annual accounts continued

49 Risk management continued

Risk mitigation

Non-financial risk assessments are done based on historic data as well as on a forward-looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk.

Mitigation of risks can be preventive in nature (e.g. training and education of employees, preventive controls, etc.) or can be implemented upon discovery of a risk (e.g. enforcement of controls, disciplinary measures against employees). Risk mitigating actions or controls are based on a balance between the expected cost of implementation and the expected benefits.

Business operations and continuity risks are mitigated through controls. For specific areas like financial reporting, outsourcing of activities, and business continuity, specific Policies and Standards apply. In the case of outsourcing, an appropriate outsourcing agreement is required between outsourcing parties and the performance under the outsourcing agreement is required to be monitored regularly. The Chief Information Officer (CIO) function ensures Business Continuity Management, Cyber risk management and Business Information Security via standardised, internationally accepted frameworks, norms and technical guidelines as the basis to manage information technology including Cyber & Cloud risk within NN Group.

NN Group conducts regular risk and control monitoring to measure and evaluate the effectiveness of key controls. It determines whether the risks are within the norms for risk appetite and in line with the ambition levels and policies and standards. The exposure of NN Group to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each quantifiable risk is assessed as to its likelihood of occurrence as well its potential impact, should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

The business process owners are responsible for the actual execution of the controls and for assessing the adequacy of their internal controls. Operational risk management, as part of the second line of defence, is responsible for providing management with an objective assessment of the effectiveness and efficiency of NN Group risks and controls.

Business conduct risk

Risk profile

Through NN Group's retirement services, insurance, investments and banking products, NN Group is committed to help our customers secure their financial future. To fulfil this purpose, we base our work on three core values: care, clear, commit. Our values set the standard for conduct and provide a compass for decision-making. Further, NN Group is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which it operates. All employees are expected to adhere to these laws, regulations and ethical standards and management is responsible for ensuring such compliance. Compliance is therefore an essential ingredient of good corporate governance. NN Group continuously enhances its Business conduct risk management programme to ensure that NN Group complies with international standards and laws.

Risk mitigation

NN Group separates business conduct risk into three risk areas: corporate conduct (includes internal fraud), employee conduct and customer suitability. In addition to effective reporting systems, NN Group has also a whistle-blower policy and procedure which protects and encourages staff to speak up if they know of or suspect a breach of external regulations, internal policies or our values. NN Group also has policies and procedures regarding anti-money laundering, anti-terrorist financing, sanctions, anti-bribery and corruption, customer suitability, conflicts of interest and confidential and inside information, as well as a Code of Conduct for its personnel. Furthermore, NN Group designates specific countries as 'ultra-high risk' and prohibits client engagements and transactions (including payments of facilitation) involving those countries.

NN Group performs a product approval and review process when developing products and continuously invests in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception of acceptable market practices by both the public at large and governmental authorities might influence customer expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, and regulatory activity. The Compliance Function and the business work closely together with the aim to anticipate changing customers' needs.

Risk measurement

NN Group's SCR for operational risk increased from EUR 659 million as at the end of 2018 to EUR 704 million at the end of 2019 respectively. The SCR is calculated based on the Standard Formula. As it is additive to the modelled SCR, it should be considered as net of diversification with other NN Group risks. Business conduct risk is considered to be part of the Operational Risk SCR and is therefore not specifically calculated.

Notes to the Consolidated annual accounts continued

50 Capital and liquidity management

Objectives, policies and processes

Objective

The goal of NN Group's capital and liquidity management is to adequately capitalise NN Group and its operating entities at all times to meet the interests of our stakeholders, including our customers and shareholders. The balance sheet is assessed in line with our capital management framework which is based on regulatory, economic and rating agency requirements. NN Group closely monitors and manages the following metrics: Own Funds/Solvency Capital Requirement (SCR), cash capital at the holding company, financial leverage, fixed cost coverage, capital generation and liquidity.

Governance

The NN Group Capital Management and Corporate Treasury Department reports to the NN Group CFO. Activities of the department are executed on the basis of established policies, guidelines and procedures.

Capital Management is responsible for the sufficient capitalisation of NN Group entities, which involves the management, planning and allocation of capital within NN Group. Corporate Treasury is responsible for the management and execution of debt capital market transactions, term (capital) funding, cash management and risk management transactions.

Capital management and framework

The capital framework takes into account regulatory, economic and rating agency requirements:

- As a first principle, NN Group aims to capitalise its operating entities adequately at all times. Operating entities have to comply with the local statutory capital frameworks that are under supervision of local regulators. To ensure adequate capitalisation, they are managed to commercial capital target levels which are set in accordance with the risk associated with the business activities, commercial requirements and other relevant factors. The commercial capital target levels are set in local legal entity capital policies and approved by the Management Board of NN Group. Capital adequacy is ensured through the capital planning process which starts with the annual budgeting process in which a capital plan is prepared for NN Group and its operating entities with a time horizon of 3-5 years. NN Group's risk appetite statements, as further described in Note 49 'Risk Management', drive the target setting and are cascaded down to the operating entities in line with NN Group's risk management strategy. Other important factors which are considered in the capital plan are efficient capital allocation, the cost of capital and capital generation. Capital positions of operating entities are closely monitored and, if necessary, measures are taken to ensure capital adequacy. At the end of 2019, all operating entities were capitalised above their local regulatory requirements.
- In addition, cash capital is held at the holding company. The cash capital position is available to cover capital needs of the entities after a stress event and to cover financial leverage costs and holding company expenses for a period of 12 months. Stress tests are based on 1-in-20 year scenarios and specific stress scenarios that might change from time to time. The free cash flow to the holding is the cash made available to NN Group, which can be distributed to shareholders, used to reduce debt or for other corporate purposes. The free cash flow to the holding is closely monitored and forecasted on a regular basis.
- NN Group assesses its funding mix via the financial leverage and fixed-cost coverage ratio. Financial leverage measures the amount of debt that NN Group issued to capitalise its operations. Debt used for funding or liquidity needs for the operating companies is not considered financial leverage. The fixed-cost coverage ratio measures the ability of NN Group to pay its fixed financing expenses and is defined as the earnings before interest and tax of ongoing business (EBIT) adjusted for special items divided by interest before tax on financial leverage.

Liquidity management

NN Group monitors and manages its liquidity risk based on certain severe stress scenarios, thereby following a bottom-up approach. Liquidity measures are periodically reported and monitored both on an individual entity and on a consolidated basis.

Liquidity risk is measured through the Required Sales Ratio, calculated as: (i) the gap between liquidity needs and liquidity sources in certain stress scenarios, divided by (ii) the available liquid assets for sale, in some cases subject to a haircut. This ratio is calculated for different time horizons and different levels of liquidity sources. The ratios of the entities should meet the predefined tolerance levels on a standalone entity basis. At 31 December 2019, the liquidity position of all entities was adequate and within the risk tolerance.

For the Banking business, DNB requires an annual Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP) which it reviews in its annual Supervisory Review and Evaluation Process (SREP). The ICLAAP includes stress tests to verify capital and liquidity adequacy under conditions of severe but plausible stress. The ICLAAP and the SREP show that NN Bank has a robust capital and liquidity position.

Notes to the Consolidated annual accounts continued

50 Capital and liquidity management continued

Main events 2019

Significant events of 2019 are listed below in chronological order.

On 1 January 2019, the legal merger of Delta Lloyd Levensverzekering N.V. (DL Life) into Nationale-Nederlanden Levensverzekering Maatschappij N.V. (NN Life) became effective. As a result, DL Life ceased to exist as a separate legal entity and NN Life assumed all assets and liabilities of DL Life, including its subordinated notes of EUR 500 million, under universal title of succession.

On 1 January 2019, the legal merger of Delta Lloyd Schadeverzekering N.V. (DL Non-life) into Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (NN Non-life) became effective. As a result, DL Non-life ceased to exist as a separate legal entity.

On 1 January 2019, all individual disability contracts of Delta Lloyd Schadeverzekering N.V. in the Netherlands (AOV individual portfolio) have been transferred to Movir N.V.

On 8 January 2019, NN Group announced that it had completed the acquisition of Aegon's Life Insurance business in the Czech Republic and Aegon's Life Insurance and Pension businesses in Slovakia.

On 14 February 2019, NN Group announced an open market share buyback programme for an amount up to EUR 500 million over a period of 12 months commencing 1 March 2019. This share buyback was executed by financial intermediaries under an open market share buyback programme which was completed on 28 February 2020.

On 7 June 2019, NN Group and Athora announced that they reached a binding agreement with Dajia Insurance, previously known as Anbang Group Holdings Co Ltd, in respect of the acquisition of all activities of VIVAT. As part of the announced transaction, NN Non-life is to acquire 100% of the shares in VIVAT Non-life activities (VIVAT Schadeverzekeringen N.V.) for a consideration of EUR 416 million, as well as the intercompany loans that VIVAT N.V. has granted to VIVAT Non-life, for a consideration of EUR 150 million. The approvals for the acquisition are expected to be received in the first quarter of 2020. There are no impacts on 2019.

On 25 June 2019, NN Group paid a 2018 final dividend of EUR 1.24 per ordinary share, equivalent to EUR 413 million in total. To neutralise the dilutive effect of the stock dividend on earnings per share, NN Group announced the repurchase of ordinary shares for a total amount of EUR 169 million. This share buyback was executed by financial intermediaries under an open market share buyback programme which was completed on 26 August 2019.

On 11 September 2019, NN Group paid a 2019 interim dividend of EUR 0.76 per ordinary share, equivalent to EUR 250 million in total. To neutralise the dilutive effect of the stock dividend on earnings per share, NN Group announced the repurchase of ordinary shares for a total amount of EUR 106 million. This share buyback was executed by financial intermediaries under an open market share buyback programme which was completed on 20 December 2019.

On 1 October 2019, the legal merger of Aegon Pojišťovna a.s. (Aegon Czech Life) into NN Life became effective. As a result, Aegon Czech ceased to exist as separate legal entity.

On 1 January 2020, the legal merger of NN Životná poisťovňa a.s. (Aegon Slovakia Life) into NN Slovakia Life became effective. As a result, Aegon Slovakia Life ceased to exist as a separate legal entity.

On 13 February 2020, NN Group announced a new share buyback programme of EUR 250 million, anticipated to commence on 2 March 2020, which will be completed within 12 months. Going forward NN Group intends to return excess capital to shareholders, with a recurring annual share buyback of at least EUR 250 million under normal circumstances.

50 Capital and liquidity management continued

Solvency II

Solvency II is the regulatory framework for (re-)insurance undertakings and groups domiciled in the EU.

Under the Solvency II regime, required capital (Solvency Capital Requirement) is risk-based and calculated as the post-tax value-at-risk at the confidence interval of 99.5% on a one-year horizon. Available capital (Own Funds) is determined as the excess of assets over liabilities, both based on economic valuations, plus qualifying subordinated debt. The EU Solvency II directive requires that (re-)insurance undertakings and groups hold sufficient Eligible Own Funds to cover the Solvency Capital Requirement.

NN Group is the holding company of licensed insurers, asset management and banking businesses. Regulated entities which from local regulatory perspective are not subject to the Solvency II regime (e.g. pension funds in Central Europe, NN Investment Partners, BeFrank and BeFrank PPI) are included in Own Funds based on their local available capital and in SCR based on required capital defined by sectoral supervisory rules. As from March 2016 NN Group is designated by the DNB as a mixed financial holding company, also known as a Financial Conglomerate (FICO). As NN Group is designated as FICO by DNB, NN Bank is excluded from the Group Solvency. NN Life Japan is included in Own Funds and SCR based on its available and required capital determined according to the local solvency regime recognised by the European Commission as provisionally equivalent.

NN Group uses the Partial Internal Model (PIM) to calculate capital requirements under Solvency II. The group capital model is named as such due to the fact that an Internal Model is used to calculate the capital requirements for the Dutch insurance entities (namely NN Life, NN Non-Life, Movir and NN Re in the Netherlands) while the Standard Formula is used to calculate capital requirements for operational risk (across the group) and capital requirements for the international insurance entities that fall under Solvency II and for ABN AMRO Life and ABN AMRO Non-life. Under the Internal Model, the Solvency Capital Requirement is calculated as the post-tax value-at-risk at the confidence interval of 99.5% on a one-year horizon.

Further details on the NN Group capital requirements at 31 December 2019 are provided in Note 49 'Risk Management'.

The Solvency II capital ratios of NN Group and its Dutch insurance entities do not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by NN Group's insurance entities (including ABN AMRO Life) in the past, as this potential liability cannot be reliably estimated or quantified at this point. Reference is made to Note 42 'Legal proceedings' for more information.

NN Group was adequately capitalised at 31 December 2019 with a Solvency II ratio of 218% based on the Partial Internal Model.

Notes to the Consolidated annual accounts continued

50 Capital and liquidity management continued

Eligible Own Funds and Solvency Capital Requirement

	2019	2018
Shareholders' equity	30,768	22,850
Minority interest	260	234
Elimination of deferred acquisition costs and other intangible assets	-1,580	-1,441
Valuation differences on assets	2,888	833
Valuation differences on liabilities, including insurance and investment contracts	-18,577	-7,677
Deferred tax effect on valuation differences	3,622	1,571
Difference in treatment of non-Solvency II regulated entities	-1,240	-1,242
Excess assets/liabilities	**16,141**	**15,129**
Deduction of participation in Bank[1,2]	-930	-905
Qualifying subordinated debt	4,483	4,417
Foreseeable dividends and distributions	-651	-541
Basic Own Funds	**19,043**	**18,100**
Non-available Own Funds	1,252	1,373
Eligible Own Funds to cover Solvency Capital Requirements (a)	**17,792**	**16,727**
– of which Tier 1 unrestricted	11,388	10,513
– of which Tier 1 restricted	1,922	1,895
– of which Tier 2	2,474	2,433
– of which Tier 3	703	755
– of which non-Solvency II regulated entities	1,305	1,132
Solvency Capital Requirements (b)	**8,154**	**7,274**
– of which Solvency Capital Requirements calculated on the basis of consolidated data	7,612	6,767
– of which the capital requirements for investment firms, pension funds and credit institutions	249	226
– of which the capital requirements for undertakings included under the D&A method	294	281
NN Group Solvency II ratio (a/b)[3]	**218%**	**230%**

1 As from March 2016, NN Bank is excluded from the Group Solvency following the designation of NN Group as a Financial Conglomerate (FICO) by the Dutch Central Bank (DNB).
2 The Solvency II value of subordinated loans issued to NN Bank of EUR 87 million at 31 December 2019 (at 31 December 2018 EUR 89 million) is deducted from Tier 2 own funds.
3 The Solvency ratios are not final until filed with the regulators. SII ratios are based on the Partial Internal Model.

The final amount of the Solvency Capital Requirement is still subject to supervisory assessment.

The Solvency II ratio of NN Group decreased to 218% at the end of 2019 from 230% at the end of 2018. The decrease is mainly driven by capital flows to shareholders and market variance, partly offset by operating capital generation. Market variance reflects the impact of movements in credit spreads and the decrease of interest rates, partly offset by positive equity revaluations. Capital flows to shareholders reflect the 2019 interim dividend, the proposed 2019 final dividend and the EUR 500 million share buyback programme announced in February 2019.

Eligible Own Funds increased by EUR 1.1 billion from EUR 16.7 billion at 31 December 2018 to EUR 17.8 billion at 31 December 2019 mainly due to market variance and operating capital generation, partly offset by capital flows to shareholders. Market variance reflects the decrease of interest rates and positive equity revaluations, partly offset by the impact of movement in credit spreads.

Notes to the Consolidated annual accounts continued

50 Capital and liquidity management continued

The Solvency Capital Requirement increased by EUR 0.9 billion, from EUR 7.3 billion at 31 December 2018 to EUR 8.2 billion at 31 December 2019. The increase is mainly driven by market variance reflecting the decrease of interest rates, positive equity revaluations and the impact of movements in credit spreads.

Structure, amount and quality of Own Funds

Subordinated liabilities included in NN Group Own Funds

Interest rate	Issue	Year of issue	Notional	Due date	First call date	Own Funds tier	Solvency II value 2019	Solvency II value 2018
4.500%	NN Group N.V.	2014	1,000	Perpetual	15 January 2026	Tier 1	1,105	1,083
4.375%	NN Group N.V.[1]	2014	750	Perpetual	13 June 2024	Tier 1	818	812
4.625%	NN Group N.V.	2014	1,000	8 April 2044	8 April 2024	Tier 2	1,106	1,101
4.625%	NN Group N.V.	2017	850	13 January 2048	13 January 2028	Tier 2	920	883
9.000%	Nationale-Nederlanden Levensverzekering N.V.[2]	2012	500	29 August 2042	29 August 2022	Tier 2	535	538

1 These securities were originally issued by Delta Lloyd N.V. which was merged with NN Group Bidco B.V., which was merged into NN Group N.V. at the end of 2017.

2 These securities were originally issued by Delta Lloyd Levensverzekering N.V. which was merged into Nationale-Nederlanden Levensverzekering Maatschappij N.V. (NN Life) on 1 January 2019.

The perpetual subordinated notes issued in 2014 with a notional amount of EUR 1 billion have a coupon of 4.50% and are fully paid in. NN Group N.V. has the right to redeem these notes on the first call date on 15 January 2026 or on any interest payment date thereafter. The subordinated notes are classified as Restricted Tier 1 capital based on the transitional provisions (grandfathering). These subordinated notes are grandfathered for a maximum period of 10 years until 1 January 2026.

The perpetual subordinated notes (originally issued by Delta Lloyd N.V. in 2014) with a notional amount of EUR 750 million have a coupon of 4.375% are fully paid in. NN Group N.V. has the right to redeem these notes on the first call date on 13 June 2024 or on any interest payment date thereafter. The subordinated notes are classified as Restricted Tier 1 capital based on the transitional provisions (grandfathering). These notes are grandfathered for a maximum period of 10 years until 1 January 2026.

The dated subordinated notes issued in 2014 with a notional amount of EUR 1 billion have a coupon of 4.625% and maturity date on 8 April 2044 and are fully paid in. NN Group N.V. has the right to redeem these notes on the first call date on 8 April 2024 or on any interest payment date thereafter. These subordinated notes are classified as Tier 2 capital based on the transitional provisions (grandfathering). The subordinated notes are grandfathered for a maximum period of 10 years until 1 January 2026.

The dated subordinated notes issued in 2017 with a notional amount of EUR 850 million have a coupon of 4.625% with maturity date on 13 January 2048 and are fully paid in. NN Group N.V. has the right to redeem these notes on the first call date on 13 January 2028 or on any interest payment date thereafter. These subordinated notes are classified as Tier 2 capital.

The dated subordinated notes, originally issued by Delta Lloyd Levensverzekering N.V. in 2012 and assumed by Nationale-Nederlanden Levensverzekering N.V. following the legal merger effective as of 1 January 2019, has a notional amount of EUR 500 million have a coupon of 9% and maturity date on 29 August 2042 and are fully paid in. Nationale-Nederlanden Levensverzekering N.V. has the right to redeem these notes on the first call date on 29 August 2022 or on any interest payment date thereafter. The subordinated notes are classified as Tier 2 capital based on the transitional provisions (grandfathering). These notes are grandfathered for a maximum period of 10 years until 1 January 2026.

Notes to the Consolidated annual accounts continued

50 Capital and liquidity management continued

Eligible Own Funds

NN Group own funds are classified into three tiers as follows:

- The excess of assets over liabilities on the basis of consolidated accounts excluding net Deferred Tax Asset is classified as Tier 1
- The proportional share in the Own Funds of NN Investment Partners, BeFrank, BeFrank PPI and pension funds in Central Europe is classified as Tier 1
- The proportional share in the Eligible Own Funds of NN Life Japan is classified as Tier 1 (European Commission recognised the solvency regime applied to the insurance undertakings in Japan as provisionally equivalent to Solvency II (Commission Delegated Decision (EU) 2016/310 of 26 November 2015)
- Perpetual subordinated debt is classified as Tier 1 based on the transitional provisions (grandfathering)
- Dated subordinated debt is classified as Tier 2 including that based on the transitional provisions (grandfathering)
- The Net Deferred Tax Asset (Deferred tax assets and liabilities are offset only where such assets and liabilities relate to taxes levied by the same tax authority on the same taxable undertaking) is classified as Tier 3

As at 31 December 2019 and 2018, NN Group had no ancillary Own Funds.

There are a number of regulatory restrictions on the amounts classified as Restricted Tier 1, Tier 2 and Tier 3 capital. The following restrictions have to be taken into account:

- Restricted Tier 1 capital cannot exceed 20% of the total Tier 1 amount
- The proportion of Tier 1 items in the Eligible Own Funds should be higher than one third of the total amount of Eligible Own Funds
- Tier 2 and Tier 3 capital together cannot exceed 50% of the Solvency Capital Requirements
- Tier 3 capital cannot exceed 15% of the Solvency Capital Requirements
- Tier 3 capital cannot exceed one third of the total amount of Eligible Own Funds

The application of the regulatory restrictions as at 31 December 2019 is reflected in the table below.

Eligible Own Funds to cover the Solvency Capital Requirement

	Available Own Funds	Eligibility restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	**13,310**	**More than one third of total EOF**		**13,310**
Of which:				
– Unrestricted Tier 1	11,388	Not applicable		11,388
– Restricted Tier 1	1,922	Less than 20% of Tier 1		1,922
Tier 2 + Tier 3	**3,176**	**Less than 50% of SCR**		**3,176**
Tier 2	2,474			2,474
Tier 3	703	Less than 15% of SCR; Less than one third of total EOF		703
Non-Solvency II regulated entities	1,305			1,305
Total Own Funds	**17,792**			**17,792**

Transferability and fungibility of Own Funds

NN Group adjusts the group Own Funds taking into account the value of own fund items that cannot effectively be made available to cover the group SCR. These are the own fund items of related undertakings subject to legal and regulatory constraints that restrict the ability of those items to absorb all types of loss within the group and/or transferability of assets. Based on NN Group's assessment these own fund items mainly include:

- Differences between valuations of assets and liabilities based on Solvency II principles and according to principles that related undertakings use to prepare respective local annual accounts
- For NN Life Japan, own fund items according to local rules but which are not part of shareholders' equity
- The transitional measures on risk-free interest rates and technical provisions
- Legal reserves set up according to local company law
- Any minority interest in a related undertaking

These own fund items are included in NN Group Own Funds to the extent they are eligible for covering Solvency Capital Requirements of the respective related undertaking. On 31 December 2019 Excess non-available own funds amounted to EUR 1,252 million. On 31 December 2018 this amount was EUR 1,373 million.

Notes to the Consolidated annual accounts continued

50 Capital and liquidity management continued

Cash capital position at the holding company

NN Group holds a cash capital position in the holding company to cover stress events and to fund holding company expenses and interest expenses. Cash capital is defined as net current assets available at the holding company. It is NN Group's aim for the cash capital position at the holding company to be in a target range between EUR 0.5 billion and EUR 1.5 billion. Another related metric is the free cash flow at the holding which is defined as the change in the cash capital position at the holding company over the period, excluding acquisitions and capital transactions with shareholders and debtholders.

Cash capital position at the holding company

	2019	2018
Cash capital position – opening balance	2,005	1,434
Cash divestment proceeds	4	
Dividends from subsidiaries[1]	1,459	1,593
Capital injections into subsidiaries	-76	-78
Other[2]	-200	-298
Free cash flow to the holding[3]	**1,187**	**1,216**
Acquisitions	-117	
Capital flow from/to shareholders	-1,085	-645
Cash capital position – closing balance	**1,989**	**2,005**

1 Includes interest on intragroup subordinated loans provided to subsidiaries by the holding company.
2 Includes interest on subordinated loans and debt with external debtholders, holding company expenses and other cash flows.
3 Free cash flow to the holding company is defined as the change in cash capital position of the holding company over the period, excluding acquisitions and capital transactions with shareholders and debtholders.

The cash capital position at the holding company decreased to EUR 1,989 million from EUR 2,005 million at 31 December 2018 due to capital flows to shareholders and the considerations paid for acquisitions, partly offset by the free cash flow to the holding. Capital flows to shareholders of EUR 1,085 million represents the cash part of the 2018 final dividend and the 2019 interim dividend for a total amount of EUR 387 million and the shares repurchased in 2019 for an amount of EUR 698 million. Free cash flow to the holding of EUR 1,187 million represents EUR 1,459 million of remittances from all segments, partly offset by EUR 76 million capital injection into subsidiaries and EUR 200 million other movements that include holding company expenses, interest on loans and debt and other holding company cash flows.

Notes to the Consolidated annual accounts continued

50 Capital and liquidity management continued

Financial leverage

The financial leverage and fixed-cost coverage ratio are managed in accordance with a single A financial strength rating target.

Financial leverage

	2019	2018
Shareholders' equity	30,768	22,850
Adjustment for revaluation reserves	-13,397	-7,097
Minority interests	260	234
Capital base for financial leverage (a)	**17,632**	**15,988**
– Undated subordinated notes[1]	1,764	1,764
– Subordinated debt	2,409	2,445
Total subordinated debt	**4,172**	**4,209**
Debt securities issued (financial leverage)	1,992	1,990
Financial leverage (b)	**6,164**	**6,199**
Total debt	**6,164**	**6,199**
Financial leverage ratio (b/(a+b))	25.9%	27.9%
Fixed-cost coverage ratio[1,2]	12.0x	13.8x

1 The undated subordinated notes classified as equity are considered financial leverage in the calculation of the financial leverage ratio. The related interest is included on an accrual basis in the calculation of the fixed-cost coverage ratio.

2 Measures the ability of earnings before interest and tax (EBIT) of ongoing business to cover funding costs on financial leverage.

The financial leverage ratio of NN Group decreased to 25.9 % at 31 December 2019 from 27.9% at 31 December 2018. The capital base for financial leverage increased by EUR 1,644 million mainly driven by the 2019 net results of EUR 1,962 million and positive equity revaluations of EUR 800 million, partly offset by capital flows to shareholders of EUR 1,085 million.

The fixed-cost coverage ratio decreased to 12.0x at the end of 2019 from 13.8x at the end of 2018.

Proposed 2019 final dividend

At the annual general meeting on 28 May 2020, a final dividend will be proposed of EUR 1.40 per ordinary share, or approximately EUR 448 million based on the current number of outstanding shares (net of treasury shares). Together with the 2019 interim dividend of EUR 0.76 per ordinary share paid in September 2019, NN Group's total dividend over 2019 will be EUR 698 million, or EUR 2.16 per ordinary share which is equivalent to a dividend pay-out ratio of 50% of NN Group's full-year 2019 net operating result. This represents an increase of 10% compared with the total 2018 dividend. The final dividend will be paid in cash, after deduction of withholding tax if applicable, or ordinary shares from the share premium reserve at the election of the shareholder. To neutralise the dilutive effect of the stock dividend, NN Group will repurchase ordinary shares for an amount equivalent to the stock dividend. If the proposed dividend is approved by the shareholders, NN Group ordinary shares will be quoted ex-dividend on 1 June 2020. The record date for the dividend will be 2 June 2020. The election period will run from 3 June up to and including 17 June 2020. The stock fraction for the stock dividend will be based on the volume weighted average price of NN Group ordinary shares on Euronext Amsterdam for the five trading days from 11 June through 17 June 2020. The dividend will be payable on 24 June 2020. (For more information: https://www.nn-group.com/Investors).

Going forward NN Group intends to pay a progressive ordinary dividend per share. Interim dividends will continue to be calculated as 40% of the prior year full-year dividend per share. NN Group also intends to execute a recurring annual share buyback of at least EUR 250 million under normal circumstances. These share buybacks are subject to yearly reassessment and confirmation. Additional excess capital is to be returned to shareholders unless it can be used for value creating opportunities.

Notes to the Consolidated annual accounts continued

50 Capital and liquidity management continued

Share buyback
On 13 February 2020, NN Group announced that it will execute an open market share buyback programme for an amount of EUR 250 million. The programme will be executed within 12 months and is anticipated to commence on 2 March 2020. NN Group intends to cancel the shares acquired under the programme. The share buyback will be deducted in full from Solvency II Own Funds in the first half of 2020, whilst it will be deducted from IFRS shareholders' equity when the actual buyback transactions occur. In addition, NN Group intends to repurchase shares to neutralise the dilutive effect of any stock dividends.

The share buyback programme will be executed within the limitations of the existing authority granted by the General Meeting on 29 May 2019 and such authority to be granted by the General Meeting on 28 May 2020. The shares will be repurchased at a price that does not exceed the last independent trade or the highest current independent bid on the relevant trading platform. The programme will be executed by financial intermediaries and will be performed in compliance with the safe harbour provisions for share buybacks.

On 14 February 2019, NN Group announced an open market share buyback programme for an amount up to EUR 500 million over a period of 12 months, commencing 1 March 2019. This share buyback was executed by financial intermediaries under an open market share buyback programme, which was completed on 28 February 2020. These share buybacks were executed within the limitations of the existing authority granted by the General Meeting on 31 May 2018 and reinforced by the General Meeting on 29 May 2019 and was performed in compliance with the safe harbour provisions for share buybacks.

Following payment of the 2018 final dividend, NN Group announced that it would repurchase ordinary shares for a total amount of EUR 169 million, equivalent to the value of the stock dividends, to neutralise the dilutive effect. This share buyback programme was completed on 26 August 2019.

Following payment of the 2019 interim dividend, NN Group announced that it would repurchase ordinary shares for a total amount of EUR 106 million, equivalent to the value of the stock dividends, to neutralise the dilutive effect. This share buyback programme was completed on 20 December 2019.

These share buyback programmes were executed within the limitations of the existing authority granted by the General Meeting on 29 May 2019 and were performed in compliance with the safe harbour provisions for share buybacks. The shares were repurchased under these programmes at a price that did not exceed the last independent trade or the highest current independent bid on the relevant trading platform. NN Group intends to cancel all of the shares acquired under the programmes (For more information: https://www.nn-group.com/Investors).

Share capital
In 2019, a total number of 20,996,349 ordinary shares for a total amount of EUR 698 million were repurchased.

The Executive Board of NN Group has decided to cancel 23,289,558 treasury shares representing shares that NN Group repurchased as part of the share buyback programmes. This cancellation is subject to a two-month creditor opposition period which will end on 11 May 2020. Assuming no opposition is made the cancellation of shares will take effect on 12 May 2020.

On 6 March 2020, the total number of NN Group shares outstanding (net 23,953,798 of treasury shares) was 319,602,323.

Credit ratings
On 10 March 2020, Fitch revised the outlook on NN Group's 'A+' financial strength rating and 'A' credit rating to 'Positive' from 'Stable'. Fitch has simultaneously affirmed all ratings.

On 18 September 2019, Standard & Poor's affirmed NN Group's 'A' financial strength rating and 'BBB+' credit rating with a stable outlook..

Credit ratings on NN Group N.V. on 11 March 2020

	Financial Strength Rating	NN Group N.V. Counterparty Credit Rating
Standard & Poor's	A	BBB+
	Stable	Stable
Fitch	A+	A
	Positive	Positive

Authorisation of the Consolidated annual accounts

The Consolidated annual accounts of NN Group N.V. for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Executive Board on 11 March 2020. The Executive Board may decide to amend the Consolidated annual accounts as long as these are not adopted by the General Meeting.

The General Meeting may decide not to adopt the Consolidated annual accounts, but may not amend these during the meeting. The General Meeting can decide not to adopt the Consolidated annual accounts, propose amendments and then adopt the Consolidated annual accounts after a normal due process.

The Hague, 11 March 2020

The Supervisory Board
D.A. (David) Cole, chair
D.H. (Dick) Harryvan, vice-chair
H.J.G. (Heijo) Hauser
R.W. (Robert) Jenkins
R.A. (Robert) Ruijter
J.W. (Hans) Schoen
C.C.F.T. (Clara) Streit
H.M. (Hélène) Vletter-van Dort

The Executive Board
D.E. (David) Knibbe, CEO, chair
D. (Delfin) Rueda, CFO, vice-chair

Parent company balance sheet
Amounts in millions of euros, unless stated otherwise

Parent company balance sheet

As at 31 December before appropriation of result	notes	2019	2018
Assets			
Investments in group companies	2	32,234	24,194
Available-for-sale investments	3	6,238	988
Intangible assets	4	479	510
Other assets	5	4,147	5,313
Total assets		**43,098**	**31,005**
Equity	6		
Share capital		41	41
Share premium		12,572	12,572
Share of associates reserve		16,597	8,923
Retained earnings		-404	197
Unappropriated result		1,962	1,117
Shareholders' equity		**30,768**	**22,850**
Undated subordinated notes	6	1,764	1,764
Total equity		**32,532**	**24,614**
Liabilities			
Subordinated debt	7	1,832	1,829
Other liabilities	8	8,734	4,562
Total liabilities		**10,566**	**6,391**
Total equity and liabilities		**43,098**	**31,005**

References relate to the notes starting with Note 1 'Accounting policies for the Parent company annual accounts'. These form an integral part of the Parent company annual accounts.

Parent company profit and loss account

Parent company profit and loss account

For the year ended 31 December	2019	2018
Result group companies	2,105	2,228
Other income	79	85
Total income	**2,184**	**2,313**
Intangible amortisation and other impairments	32	984
Interest expenses	107	104
Operating expenses	149	166
Total expenses	**288**	**1,254**
Result before tax	**1,896**	**1,059**
Taxation	-66	-58
Net result	**1,962**	**1,117**

Parent company statement of changes in equity

Parent company statement of changes in equity (2019)

	Share capital	Share premium	Share of associates reserve	Other reserves[1]	Shareholders' equity	Undated subordinated notes	Total equity
Balance at 1 January 2019	**41**	**12,572**	**8,923**	**1,314**	**22,850**	**1,764**	**24,614**
Unrealised revaluations available-for-sale investments and other			4,541	-73	4,468		4,468
Realised gains/losses transferred to the profit and loss account			-286		-286		-286
Changes in cash flow hedge reserve			4,284		4,284		4,284
Deferred interest credited to policyholders			-1,403		-1,403		-1,403
Share of other comprehensive income of associates and joint ventures			-4		-4		-4
Exchange rate differences			53		53		53
Remeasurement of the net defined benefit asset/liability			-38		-38		-38
Unrealised revaluations property in own use			3		3		3
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**7,150**	**-73**	**7,077**	**0**	**7,077**
Net result for the period				1,962	1,962		1,962
Total comprehensive income	**0**	**0**	**7,150**	**1,889**	**9,039**	**0**	**9,039**
Transfers to/from associates			524	-524	0		0
Dividend				-387	-387		-387
Purchase/sale of treasury shares				-707	-707		-707
Employee stock option and share plans				2	2		2
Coupon on undated subordinated notes				-59	-59		-59
Changes in composition of the group and other changes				30	30		30
Balance at 31 December 2019	**41**	**12,572**	**16,597**	**1,558**	**30,768**	**1,764**	**32,532**

1 Other reserves include Retained earnings and Unappropriated result.

Parent company statement of changes in equity continued

Parent company statement of changes in equity (2018)

	Share capital	Share premium	Share of associates reserve	Other reserves[1]	Shareholders' equity	Undated subordinated notes	Total equity
Balance at 1 January 2018	**41**	**12,572**	**9,185**	**920**	**22,718**	**1,764**	**24,482**
Unrealised revaluations available-for-sale investments and other			-345	22	-323		-323
Realised gains/losses transferred to the profit and loss account			-823		-823		-823
Changes in cash flow hedge reserve			793		793		793
Deferred interest credited to policyholders			-38		-38		-38
Share of other comprehensive income of associates and joint ventures			1		1		1
Exchange rate differences			93		93		93
Unrealised revaluations property in own use			7		7		7
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-312**	**22**	**-290**	**0**	**-290**
Net result for the period				1,117	1,117		1,117
Total comprehensive income	**0**	**0**	**-312**	**1,139**	**827**	**0**	**827**
Transfers to/from associates			50	-50	0		0
Dividend				-332	-332		-332
Purchase/sale of treasury shares				-231	-231		-231
Employee stock option and share plans				2	2		2
Coupon on undated subordinated notes				-58	-58		-58
Changes in composition of the group and other changes				-76	-76		-76
Balance at 31 December 2018	**41**	**12,572**	**8,923**	**1,314**	**22,850**	**1,764**	**24,614**

1 Other reserves include Retained earnings and Unappropriated result.

Notes to the Parent company annual accounts

1 Accounting policies for the Parent company annual accounts

The parent company accounts of NN Group N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The principles of valuation and determination of results stated in connection with the Consolidated balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and loss account with the exception of investments in group companies and Associates and joint ventures which are recognised at net asset value with goodwill, if any, recorded under intangible assets.

A list containing the information referred to in Article 379 (1), Book 2 of the Dutch Civil Code has been filed with the Commercial Register of the Chamber of Commerce in Amsterdam in accordance with Article 379 (5), Book 2 of the Dutch Civil Code.

Changes in balance sheet values due to changes in the revaluation reserves of associates are reflected in the 'Share of associates reserve', which forms part of shareholders' equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with NN Group accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these associates, other than those due to changes in share capital, are included in the 'Share of associates reserve'.

A legal reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the 'Share of associates reserve'.

2 Investments in group companies

Investments in group companies

Name	Statutory seat	Interest held 2019	Balance sheet value 2019	Interest held 2018	Balance sheet value 2018
NN Insurance Eurasia N.V.	Amsterdam, The Netherlands	100%	31,148	100%	23,081
Delta Lloyd Houdstermaatschappij Verzekeringen N.V.	Amsterdam, The Netherlands	100%	3	100%	23
Nationale-Nederlanden Bank N.V.	The Hague, The Netherlands	100%	776	100%	761
Nationale-Nederlanden ABN AMRO Verzekeringen Holding B.V.	Zwolle, The Netherlands	51%	251	51%	231
NN Insurance International B.V.	The Hague, The Netherlands	100%	56	100%	63
Other					35
Investments in group companies			**32,234**		**24,194**

Changes in Investments in group companies

	2019	2018
Investments in group companies – opening balance	24,194	23,633
Disposals of group companies	-4	
Revaluations	7,108	-277
Result of group companies	2,105	2,228
Capital contributions		1,559
Dividend and repayments	-1,170	-2,971
Changes in the composition of the group and other changes	1	22
Investments in group companies – closing balance	**32,234**	**24,194**

3 Debt securities Available-for-sale

Changes in Debt securities Available-for-sale

	2019	2018
Debt securities Available-for-sale – opening balance	988	998
Additions	13,430	3,392
Disposals and redemptions	-8,180	-3,402
Debt securities Available-for-sale – closing balance	**6,238**	**988**

Notes to the Parent company annual accounts continued

4 Intangible assets

Intangible assets

	2019	2018
Goodwill	294	294
Other intangible assets	185	216
Intangible assets	**479**	**510**

For the decrease of Goodwill and the accompanying change in the line Intangible amortisation and other impairments in the Parent company profit and loss account, reference is made to Note 9 'Intangible assets' of the Consolidated annual accounts.

5 Other assets

Other assets

	2019	2018
Receivables from group companies	2,308	1,835
Cash	1,005	2,447
Other receivables	834	1,031
Other assets	**4,147**	**5,313**

As at 31 December 2019, an amount of EUR 1,790 million (2018: EUR 1,475 million) is expected to be settled after more than one year from the balance sheet date.

6 Equity

Equity

	2019	2018
Share capital	41	41
Share premium	12,572	12,572
Share of associates reserve	16,597	8,923
Retained earnings and unappropriated result	1,558	1,314
Shareholders' equity	**30,768**	**22,850**
Undated subordinated notes	1,764	1,764
Total equity	**32,532**	**24,614**

As at 31 December 2019, share premium includes an amount of EUR 6,392 million (2018: EUR 6,393 million) exempt from Dutch withholding tax.

Share capital

	Ordinary shares (in number)		Ordinary shares (amounts in millions of euros)	
	2019	2018	2019	2018
Authorised share capital	700,000,000	700,000,000	84	84
Unissued share capital	356,443,879	358,940,929	43	43
Issued share capital	**343,556,121**	**341,059,071**	**41**	**41**

For details on the changes in share capital, share premium and warrants, reference is made to Note 12 'Equity' in the Consolidated annual accounts.

Notes to the Parent company annual accounts continued

6 Equity continued

Changes in Retained earnings and unappropriated result (2019)

	Retained earnings	Unappropriated result	Total
Retained earnings and unappropriated result – opening balance	197	1,117	1,314
Net result for the period		1,962	1,962
Unrealised revaluations	-73		-73
Transfer to/from share of associates reserve	-524		-524
Transfer to/from retained earnings	1,117	-1,117	0
Dividend	-387		-387
Purchase/sale of treasury shares	-707		-707
Employee stock option and share plans	2		2
Coupon on undated subordinated notes	-59		-59
Changes in the composition of the group and other changes	30		30
Retained earnings and unappropriated result – closing balance	**-404**	**1,962**	**1,558**

Changes in Retained earnings and unappropriated result (2018)

	Retained earnings	Unappropriated result	Total
Retained earnings and unappropriated result – opening balance	-1,190	2,110	920
Net result for the period		1,117	1,117
Unrealised revaluations	22		22
Transfer to/from share of associates reserve	-50		-50
Transfer to/from retained earnings	2,110	-2,110	0
Dividend	-332		-332
Purchase/sale of treasury shares	-231		-231
Employee stock option and share plans	2		2
Coupon on undated subordinated notes	-58		-58
Changes in the composition of the group and other changes	-76		-76
Retained earnings and unappropriated result – closing balance	**197**	**1,117**	**1,314**

The total amount of Equity in the Parent company annual accounts equals Shareholders' equity (parent) in the Consolidated annual accounts. Certain components within equity are different, as a result of the following presentation differences between the Parent company accounts and Consolidated accounts:

- Unrealised revaluations within consolidated group companies, presented in the 'Revaluation reserve' in the Consolidated annual accounts, are presented in the 'Share of associates reserve' in the Parent company annual accounts
- Foreign currency translation on consolidated group companies, presented in the 'Currency translation reserve' in the Consolidated annual accounts, is presented in the 'Share of associates reserve' in the Parent company annual accounts
- Remeasurement of the net defined benefit asset/liability within consolidated group companies presented in the 'Net defined benefit asset/liability remeasurement reserve' in the Consolidated annual accounts, are presented in the 'Share of associates reserve' in the Parent company annual accounts
- Non-distributable retained earnings of associates presented in 'Other reserves' in the Consolidated annual accounts, are presented in the 'Share of associates reserve' in the Parent company annual accounts
- Revaluations on real estate investments, capitalised software and certain participations recognised in income and consequently presented in 'Retained earnings' in the Consolidated annual accounts, are presented in the 'Share of associates reserve' in the Parent company annual accounts

Notes to the Parent company annual accounts continued

6 Equity continued

Share of associates reserve

	2019	2018
Unrealised revaluations within consolidated group companies	15,269	8,198
Currency translation reserve	3	-34
Net defined benefit asset/liability remeasurement reserve	-144	-106
Reserve for non-distributable retained earnings of associates	1,271	747
Revaluations on investment property and certain participations recognised in income	198	118
Share of associates reserve	**16,597**	**8,923**

Positive components of the Share of associate reserve of EUR 16,741 million (2018: EUR 9,063 million) cannot be freely distributed. The reserve for cash flow hedges is included in the Share of associates reserve on a net basis. Retained earnings can be freely distributed, except for an amount equal to the negative balance in each of the components in the Share of associates reserve.

Distributable reserves

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

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

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

Distributable reserves based on the Dutch Civil Code

	2019	2019	2018	2018
Total shareholders' equity		30,768		22,850
Share capital	41		41	
Positive components of Share of associates reserve	16,741		9,063	
Total non-distributable part of shareholders' equity:		16,782		9,104
Distributable reserves based on the Dutch Civil Code		**13,986**		**13,746**

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

Freely distributable reserves

	2019	2019	2018	2018
Solvency requirement under the Financial Supervision Act	8,154		7,274	
Reserves available for financial supervision purposes	17,792		16,727	
Total freely distributable reserves on the basis of solvency requirements		9,638		9,453
Total freely distributable reserves on the basis of the Dutch Civil Code		13,986		13,746
Total freely distributable reserves (lower of the values above)		**9,638**		**9,453**

Reference is made to Note 50 'Capital and liquidity management' for more information on solvency requirements.

Notes to the Parent company annual accounts continued

6 Equity continued

Other restrictions

There are other restrictions to the ability of subsidiaries, associates and joint ventures to distribute reserves to NN Group as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the group companies operate. Reference is made to Note 50 'Capital and liquidity management' in the Consolidated annual accounts for the minimum capital requirements.

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

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

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

Undated subordinated notes

In July 2014, NN Group N.V. issued fixed to floating rate undated subordinated notes with a par value of EUR 1,000 million. The notes are undated, but are callable after 11.5 years and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 4.50% per annum for the first 11.5 years and will be floating thereafter. As these notes are undated and include optional deferral of interest at the discretion of NN Group, these are classified under IFRS as equity. Coupon payments are deducted from equity if and when paid or contractually due. The discount to the par value and certain issue costs were deducted from equity at issue, resulting in a balance sheet value equal to the net proceeds of EUR 986 million.

In June 2014, fixed to floating rate undated subordinated notes with a par value of EUR 750 million were originally issued by Delta Lloyd which are classified as equity under IFRS. The notes are undated, but are callable as from 13 June 2024 and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 4.375% per annum until 13 June 2024 and will be floating thereafter. Coupon payments are distributed out of equity if and when paid or contractually due. These notes were recognised upon acquisition of Delta Lloyd for an amount of EUR 778 million.

7 Subordinated debt

Subordinated debt

				Notional amount		Balance Sheet Value	
Interest rate	Year of issue	Due date	First call date	2019	2018	2019	2018
4.625%	2017	13 January 2048	13 January 2028	850	850	839	838
4.625%	2014	8 April 2044	8 April 2024	1,000	1,000	993	991
Subordinated debt						**1,832**	**1,829**

The above subordinated debt instruments have been issued to raise hybrid capital. Under IFRS-EU these debt instruments are classified as liabilities and are considered capital for regulatory purposes. All subordinated debt is euro denominated.

Notes to the Parent company annual accounts continued

8 Other liabilities

Other liabilities

	2019	2018
Debt securities issued	1,992	1,989
Amounts owed to group companies	6,524	2,440
Other amounts owed and accrued liabilities	218	133
Other liabilities	**8,734**	**4,562**

Amounts owed to group companies by remaining term

	2019	2018
Within 1 year	6,524	2,440
Amounts owed to group companies	**6,524**	**2,440**

9 Other

NN Group N.V. has issued statements of liability in connection with Article 403, Book 2 of the Dutch Civil Code and other guarantees (mainly funding and redemption guarantees) for group companies.

Reference is made to the Consolidated annual accounts for the number of employees, audit fees and remuneration of the Executive Board, the Management Board and the Supervisory Board.

Authorisation of the Parent company annual accounts

The Parent company annual accounts of NN Group N.V. for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Executive Board on 11 March 2020. The Executive Board may decide to amend the Parent company annual accounts as long as these are not adopted by the General Meeting.

The General Meeting may decide not to adopt the Parent company annual accounts, but may not amend these during the meeting. The General Meeting can decide not to adopt the Parent company annual accounts, propose amendments and then adopt the Parent company annual accounts after a normal due process.

The Hague, 11 March 2020

The Supervisory Board
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The Executive Board
D.E. (David) Knibbe, CEO, chair
D. (Delfin) Rueda, CFO, vice-chair

Independent auditor's report

Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of NN Group N.V.

Report on the audit of the 2019 annual accounts included in the Financial Report

Our opinion

In our opinion:

— the accompanying consolidated annual accounts give a true and fair view of the financial position of NN Group N.V. ('the Group' or 'NN Group') as at 31 December 2019 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 (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;

— the accompanying parent company annual accounts give a true and fair view of the financial position of NN Group N.V. as at 31 December 2019 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the 2019 annual accounts of NN Group N.V. based in Amsterdam and headquartered in The Hague, as set out on pages 40 to 178 of the Financial Report.
The annual accounts include the consolidated annual accounts and the parent company annual accounts.

The consolidated annual accounts comprise:

1. the consolidated balance sheet as at 31 December 2019;
2. the following consolidated statements for 2019: the profit and loss account, the statements of comprehensive income, cash flows and changes in equity; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:

1. the parent company balance sheet as at 31 December 2019;
2. the parent company profit and loss account for 2019;
3. the parent company statement of changes in equity; and
4. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the annual accounts' section of our report.

We are independent of NN Group N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Materiality
— IFRS materiality of EUR 140 million. This is in line with 2018.
— Based on core equity: shareholders' equity minus revaluation reserves (1%)

Group audit
— 97% of core equity
— 97% of total assets
— 89% of profit before tax

Key audit matters
— Valuation of insurance contract liabilities and Reserve Adequacy Test (RAT)
— Unit-linked exposure
— Solvency II disclosure
— IT general and cybersecurity controls

Opinion
Unqualified

Independent auditor's report continued

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 140 million (2018: EUR 140 million). The materiality is determined with reference to core equity (shareholders' equity minus revaluation reserves) and amounts to 1% (2018: 1%). We continue to consider core equity as the most appropriate benchmark based on our assessment of the general information needs of users of the annual accounts of financial institutions predominantly active in the life insurance business. We believe that core equity is a relevant metric for assessment of the financial performance of the Group. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the annual accounts for qualitative reasons.

We agreed with the Audit Committee of the Supervisory Board that misstatements in excess of EUR 7 million (2018: EUR 7 million) which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

NN Group is at the head of a group of entities ('components'). The financial information of this group is included in the consolidated annual accounts of NN Group. The Group is structured along 7 segments: Netherlands Life, Netherlands Non-Life, Insurance Europe, Japan Life, Asset Management, Bank and Other, each comprising of multiple legal entities and/or covering different countries.

Because we are ultimately responsible for the audit opinion, we are responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group entities.

Our group audit mainly focused on significant components. These significant components are either individually financially significant due to their relative size within the Group or because we assigned a significant risk of material misstatement to one or more account balances of the component. In addition, we included certain components in the scope of our group audit in order to arrive at a sufficient coverage over all relevant significant account balances.

This resulted in a full or specific scope audit for 28 components, in total covering 9 countries, and in a coverage of 97% of core equity, 97% of total assets and 89% of profit before tax. For the remaining 3% of core equity, 3% of total assets and 11% of profit before tax, procedures were performed at the group level including analytical procedures in order to corroborate our assessment that the risk of a material misstatement in the residual population is less than reasonably possible. This coverage is in line with our 2018 audit.

We sent audit instructions to all component auditors, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team. All components in scope for group reporting purposes are audited by KPMG member firms.

Independent auditor's report continued

We visited locations in the Netherlands, Japan, Poland, Hungary, Czech Republic and Slovakia, where we discussed the audit work performed with the local audit teams and performed file reviews. For all components in the scope of the group audit we held conference calls and/or physical meetings with the auditors of the components. During these visits, meetings and calls, the planning, risk assessment, procedures performed, findings and observations reported to the group auditor were discussed in more detail and any additional work deemed necessary by the group audit team was then performed.

The group audit team has set component materiality levels, which ranged from EUR 4 million to EUR 100 million, based on the mix of size and risk profile of the components within the Group.

The consolidation of the Group, the disclosures in the annual accounts and certain accounting topics that are dealt with at group level are audited by the group audit team. The accounting matters on which audit procedures are performed by the group audit team include, but are not limited to, assessment of the use of the going concern assumption, companies and businesses acquired and divested, intangible assets including goodwill, equity, staff expenses in the Netherlands, other operating expenses in the Netherlands, certain elements of the risk and capital management disclosures, corporate income tax for the Dutch fiscal unity and legal proceedings.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the Group's financial information to provide an opinion about the annual accounts.

The audit coverage as stated in the section Summary can be further specified as follows:

Core equity

45%	52%	3%
Audit of the complete reporting package	Audit of specific items	Covered by additional procedures performed at group level

Total assets

89%	8%	3%
Audit of the complete reporting package	Audit of specific items	Covered by additional procedures performed at group level

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KPMG Accountants N.V., registered with the trade register in the Netherlands under number 33263683, is a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.
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Independent auditor's report continued

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Profit before tax

77%	12%	11%
Audit of the complete reporting package	Audit of specific items	Covered by additional procedures performed at group level

Audit scope in relation to fraud

In accordance with the Dutch Standards on Auditing we are responsible for obtaining a high (but not absolute) level of assurance that the annual accounts taken as a whole are free from material misstatement, whether caused by fraud or error.

In determining the audit procedures we use the evaluation of management in relation to fraud risk management (prevention, detection and response) including ethical standards to create a culture of honesty, and to compliance with laws and regulations.

As part of our risk assessment process we have evaluated events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud ('fraud risk factors') to determine whether fraud risks are relevant to our audit. During this risk assessment we made use of our own forensic specialist. We communicated the identified fraud risk throughout our team and remained alert to any indications of fraud throughout the audit.

In accordance with the auditing standards we evaluated the following fraud risk that is relevant to our audit:

— management override of controls (presumed risk).

The presumed fraud risk related to revenue recognition is not applicable for the Group.

Our audit procedures included an evaluation of the design, implementation as well as the operating effectiveness of internal controls relevant to mitigate this risk and substantive audit procedures, including detailed testing of high risk journal entries and evaluation of management bias. We noted that Group Operational Risk Management performed more explicit oversight over the fraud risk assessments performed by the business units and we encourage management to continue to perform such assessments with sufficient scepticism and rigor.

As part of our evaluation of any instances of fraud, we inspected the incident register and follow-up by management.

Our procedures to address fraud risk did not result in the identification of a key audit matter.

We do note that our audit is based on the procedures described in line with applicable auditing standards and is not primarily designed to detect fraud.

Independent auditor's report continued

Audit scope in relation to non-compliance with laws and regulations

We have evaluated facts and circumstances in order to asses laws and regulations relevant to the Group.

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts based on our general understanding and sector experience, through discussion with management and the Audit Committee of the Supervisory Board and evaluating the policies and procedures regarding compliance with these laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the annual accounts varies considerably.

— Firstly, NN Group is subject to laws and regulations that directly impact the annual accounts, including financial reporting, Solvency II and taxation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items. For Solvency II we refer to key audit matter 3, 'Solvency II disclosures'. Our procedures related to tax included the assessment of the appropriate accounting for the changes in future tax rates in the Netherlands.

— Secondly, NN Group is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognised or disclosures provided in the annual accounts, or both, for instance through the imposition of fines or litigation.

We identified the following areas as most likely to have such an indirect effect:

— Wet financieel toezicht (wft);

— financial and economic crime (FEC) related regulation;

— data privacy regulation (GDPR).

Auditing standards limit the required audit procedures to identify non-compliance with laws and regulations that have an indirect effect to inquiry of relevant management and inspection of regulatory and legal correspondence. We have also read and discussed the reporting done by Group Compliance and Group Risk Management (ECF reports). Through these procedures, we did not identify any additional actual or suspected non-compliance, other than those previously identified by the Group in each of the above areas. We considered the effect of actual or suspected non-compliance as part of our procedures on the related annual account items.

Our procedures to address compliance with laws and regulations did not result in the identification of a key audit matter.

We do note that our audit is not primarily designed to detect non-compliance with laws and regulations and that management is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations.

Independent auditor's report continued

The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the annual accounts, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Executive Board and the Audit Committee of the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the annual accounts as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In comparison to our 2018 audit opinion, we no longer recognise a key audit matter for the integration of Delta Lloyd, given the progress of the integration and reduced risk profile compared to last year. Also we did no longer identify a key audit matter related to the valuation of Delta Lloyd goodwill, given the much lower amount of goodwill in the balance sheet. We do however identify one new key audit matter related to IT general and cybersecurity controls.

1. Valuation of insurance contract liabilities and Reserve Adequacy Test

Description

NN Group has insurance and investment contract liabilities of EUR 168 billion representing 78% of its total liabilities. The valuation of the insurance and investment contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate settlement value of long-term liabilities, both in the insurance contract liabilities as reported in the balance sheet and in the Reserve Adequacy Test (RAT).

The RAT is performed in order to confirm that the insurance contract liabilities, net of deferred acquisition costs, are adequate in the context of the expected future cash flows. Based on relative size and risk profile, the RAT for NN Life is the most important one. The RAT for NN Life in respect of the individual and group pension business requires the application of significant management judgement in setting the assumptions related to longevity, expense and reinvestment rate.

Given the financial significance and the level of judgement required, we considered this a key audit matter.

Independent auditor's report continued

Our response

Our audit approach included testing both the effectiveness of internal controls around determining insurance contract liabilities and the RAT, as well as substantive audit procedures.

Our procedures over internal controls focused on controls around the adequacy of policyholder data, the governance and controls around assumption setting and the review procedures performed on the RAT by the Group Chief Actuary. In our audit we also considered the process around the internal validation and implementation of the models used to determine the valuation of the insurance contract liabilities and the RAT.

With the assistance of our own actuarial specialists, the substantive audit procedures we performed included:

- assessment of the appropriateness of assumptions used in the valuation of the insurance contract liabilities for significant business units (in particular NN Life) by reference to company and industry data and expectations of investment returns, future longevity and expense developments;
- assessment of the appropriateness of the data, assumptions and methodologies applied in the RAT. We performed specific procedures in response to the changes in market interest rates during 2019 and the implications for RAT testing;
- analysis of developments in actuarial results and movements in reserve adequacy during the year for each of the business units and corroborative inquiries with management and the Group Chief Actuary in that regard;
- evaluation of the robustness of management's substantiation that the insurance contract liabilities are adequate as at 31 December 2019.

Our observation

Overall we found that management estimated the valuation of the insurance contract liabilities, net of deferred acquisition costs, acceptably. We refer to Notes 10 and 16 of the annual accounts.

We note that the unrealised revaluations on available for sale investments backing the insurance contract liabilities are recorded in shareholders' equity and represent a significant part of the revaluation reserve. This unrealised revaluation reserve increased significantly in 2019 as a result of market interest rate movements during the year. To the extent that available for sale investments are being sold, the excess in reserve adequacy would decrease accordingly. If these unrealised revaluations were to be fully realised, the capital gains would only be partly available to shareholders, since a significant portion of the gains would be required to strengthen the insurance contract liabilities in order to remain adequate. We refer to Note 1 of the annual accounts.

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2. Unit-linked exposure

Description

Holders of unit-linked products sold in the Netherlands, or consumer protection organisations on their behalf, have filed claims or initiated legal proceedings against NN Group and may continue to do so. A negative outcome of such claims and proceedings, settlements or any other actions to the benefit of the customers by other insurers or sector-wide measures, may affect the (legal) position of NN Group and could result in substantial financial losses for the Group relating to the compensation. Management assessed the financial consequences of these legal proceedings under both the EU-IFRS and the Solvency II reporting framework and concluded that these cannot be reliably measured, estimated or quantified at this point.

Due to the potential significance and management judgement that is required to assess the developments relevant to these claims and proceedings, we considered this a key audit matter.

Our response

Our audit procedures primarily consisted of the following:

- assessment of NN Group's governance, processes and internal controls with respect to the unit-linked exposures within its business units, in particular the Netherlands Life Segment;
- inspection of the documentation and a discussion about the unit-linked exposures with management and its internal legal advisors. These procedures took into account NN Group's specific developments as well as broader market developments in 2019;
- obtaining lawyers letters of the external lawyers that are engaged by NN Group in relation to the defence in the so-called collective cases (Woekerpolis.nl, Consumentenbond and Wakkerpolis). We assessed the professional competency, capability and objectivity of these external lawyers. We used the lawyers letters to obtain external confirmation over management's judgements in relation to the related (collective) exposures;
- assessment of the recognition and measurement requirements to establish provisions under NN Group's EU-IFRS accounting principles and the Solvency II framework for the calculation of the Solvency II ratio;
- evaluation of the unit-linked disclosure in Note 42 Legal proceedings of the annual accounts, where we focused on adequacy of the disclosure of the related risks and management's judgements.

Our observation

Overall we found that management's assessment that the financial consequences of the unit-linked exposure cannot be reliably measured and therefore the fact that no provision is recognised in the 31 December 2019 balance sheet (for both EU-IFRS and Solvency II) to be sufficiently substantiated.

We considered the disclosure of the exposure in Note 42, which describes the related risks and management judgements in compliance with the relevant accounting requirements, to be adequate.

3. Solvency II disclosure

Description

Solvency II information is considered to be an important addition to the information provided on an EU-IFRS basis. The Own Funds and Solvency Capital Requirement (SCR) are the main metrics of the Solvency II prudential reporting framework. The calculation of both metrics as well as the disclosed sensitivity of the Solvency II ratio is complex and highly judgemental and is based on assumptions which are affected by (future) economic, demographic and regulatory conditions. The assumptions used relate to risks regarding interest, mortality, longevity, morbidity, catastrophe, lapse and expense as well as the diversification between these risks. The calculations also take into consideration taxation after shock (loss absorbing capacity of deferred tax).

NN Group uses the approved Partial Internal Model (PIM) to calculate the capital requirements under Solvency II for NN Group and the insurance subsidiaries in the Netherlands. Disclosure of the determination of the metrics, changes in the model applied, assumptions and sensitivity applied (including the use of the Volatility Adjustment and Ultimate Forward Rate) are considered relevant information for understanding the Solvency II metrics.

Given the importance of this legislation for NN Group and complexity of the application and estimates to determine the Solvency II ratio, we determined the adequacy of the Solvency II disclosure to be a key audit matter.

Our response

We obtained an understanding of the Group's application and implementation of the Solvency II directive. In designing our audit approach we have set a separate materiality for the audit of the Solvency II capital position. The materiality level applied is EUR 180 million (2018: EUR 160 million).

We have assessed the design and operating effectiveness of the internal controls over the Solvency II Capital Requirement calculations, including the Group's methodology, model and assumption approval processes (including the follow up to the terms and conditions set by DNB in relation to the 2018 approval of the PIM-Major Model Change) and analytical controls.

Independent auditor's report continued

These internal controls covered, among other things:

- whether the calculations of the market value balance sheet, Own Funds and SCR were accurate and prepared in accordance with the Solvency II directive and in accordance with the PIM as approved by DNB;
- the appropriateness of assumptions used for the calculations of the market value balance sheet, Own Funds and SCR, based on market observable data, company and industry data, comparison of judgements made to current and emerging market practice;
- the adequacy of the quantitative and qualitative disclosures of the Solvency II Capital Requirements including disclosure on interpretation of legislation and related uncertainty. In this context we also tested the design and operating effectiveness of internal controls over the preparation of the Solvency II sensitivity disclosures;
- the functioning of the Solvency II key functions on risk management and actuarial function. In this context we performed corroborative inquiry with the Group Chief Actuary on the Group Actuarial Function Holder report 2019, which sets out conclusions on the reliability and adequacy of the technical provisions as at 31 December 2019 under Solvency II.

Based on the outcome of our assessment of the effectiveness of the internal controls, we performed among other things the following substantive procedures:

- verifying the accuracy of the calculations of the market value balance sheet used to determine Own Funds for selected balance sheet items, using our own actuarial specialists and alternative actuarial methods, if applicable;
- assessing the appropriateness of evidence used and judgement applied in assumption setting by NN Group for both the best estimate liability and the SCR. This included the evaluation of the substantiation of the loss absorbing capacity of deferred tax in the NN Group recoverability test. We performed detailed procedures to verify that these calculations correctly took into account changes in the Dutch tax legislation that were enacted in December 2019;
- verifying the consolidation of the Solvency II reporting by the Group's components, taking into account the Solvency II specific requirements for consolidation that deviate from EU-IFRS;
- verifying that NN Life Japan was included on an equivalence basis, meaning that the capital position is based on the local reporting framework (Japanese GAAP);
- analysing the outcome of the internally prepared calculations and analysis of the movements in the Solvency II capital position during the year and sensitivities as at 31 December 2019 and discussing the outcome with the Group's actuaries and Group Chief Actuary;

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- verifying the reconciliation between the disclosures in the annual accounts to the output of the internal reporting on Solvency II. This also includes reconciliation of input for the market value balance sheet used for Own Funds with other fair value disclosures in the annual accounts;
- verifying that the Solvency II disclosure refers to the fact that the Solvency II ratio is not final until filed with the Regulator, DNB. We refer to page 161.

Our observation

Overall we found that the calculation of the Solvency II Own Funds and SCR is in accordance with the Solvency II prudential reporting framework and is fairly presented in the capital and risk management disclosures of the annual accounts.
We refer to Notes 49 and 50 of the annual accounts.

4. IT general and cybersecurity controls

Description

NN Group is highly dependent on its IT infrastructure for the continuity of the operations. To meet clients' needs and business requirements in a digitising world, NN Group is continuously improving the efficiency (including the integration of the NN and former Delta Lloyd IT infrastructure) and effectiveness of its IT infrastructure and the reliability and continuity of its electronic data processing, including its defence against cyber-attacks.
In order to ensure the continuity and reliability of the electronic data processing, IT general and cybersecurity controls are an important cornerstone of the NN Group internal control framework. Therefore, also taking into account the increased frequency and severity of cyber incidents that are taking place in the environment in which NN Group operates and therefore societal attention for cybersecurity, we considered this a key audit matter.

Our response

- We tested IT general controls related to logical access, change management and computer operations and key application controls embedded in the IT systems that are relevant to the Group's financial reporting. As part of our risk assessment and design of the IT audit approach, we have also taken into account regulatory correspondence related to IT security risk management. We also performed test procedures to respond to specific risks such as data migrations (in particular at NN Life, NN Non-Life), implications of the progress of the decommissioning of the ex-Delta Lloyd environment and vendor management related to outsourced IT processes.

Independent auditor's report continued

— In response to the increased frequency and severity of cyber incidents and heightened concerns from regulators and other stakeholders about cybersecurity attacks and breaches, we have evaluated cybersecurity risks as part of our audit of the annual accounts. We gained an understanding of the design and effectiveness of preventive and detective cybersecurity controls and responses, we obtained an understanding of the cybersecurity self-assessments performed by the business units and we performed procedures to test the resilience of the cybersecurity controls in place. We held corroborative inquiries with the personnel at the Security Operations Center and with the Group's Chief Information Security Officer (CISO). This work was performed together with our IT auditors that specialise in cyber risk management.

Our observation

Based on the testing of IT general controls, we obtained sufficient and appropriate audit evidence to support our IT driven audit approach.

The results of the procedures performed regarding cybersecurity controls were satisfactory in relation to our audit. Based on the procedures performed we noted points for improvement that we have shared with the Management Board and Audit Committee of the Supervisory Board.

We refer to the disclosure on Risk Management in Note 49.

Report on the other information included in the Annual Report

In addition to the annual accounts and our auditor's report thereon, the Financial Report also contains other information. Additionally, other information includes the Annual Review.

Based on the following procedures performed, we conclude that the other information:

— is consistent with the annual accounts and does not contain material misstatements; and

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the annual accounts or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the annual accounts.

The Executive Board is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of NN Group on 28 May 2015, as of the audit for the year 2016 and have operated as statutory auditor since the financial year 2016.

We have been reappointed by the General Meeting of Shareholders on 29 May 2019 to continue to serve NN Group as its external auditor for the financial years 2020–2022.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the annual accounts

Responsibilities of the Executive Board and the Supervisory Board for the annual accounts

The Executive Board is responsible for the preparation and fair presentation of the annual accounts in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board is responsible for such internal control as the Executive Board determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the annual accounts, the Executive Board is responsible for assessing NN Group's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the annual accounts using the going concern basis of accounting unless the Executive Board either intends to liquidate NN Group or to cease operations, or has no realistic alternative but to do so.

The Executive Board should disclose events and circumstances that may cast significant doubt on the Group's ability to continue as a going concern in the annual accounts.

The Supervisory Board is responsible for overseeing NN Group's financial reporting process.

Our responsibilities for the audit of the annual accounts

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Independent auditor's report continued

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the annual accounts is located at the website of the Koninklijke Nederlandse Beroepsorganisatie van Accountants (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01. This description forms part of our independent auditor's report.

Amstelveen, 11 March 2020

KPMG Accountants N.V.

P.A.M. de Wit RA

Appropriation of result

Appropriation of result

The result is appropriated pursuant to Article 34 of the Articles of Association of NN Group N.V., the relevant stipulations of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Executive Board. Reference is made to Note 12 'Equity' for the proposed appropriation of result.

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For further information on NN Group's sustainability strategy, policies and performance, please visit www.nn-group.com/in-society.htm or contact us via sustainability@nn-group.com

Disclaimer
NN Group's 2019 Annual Report consists of two documents: the 2019 Annual Review and the 2019 Financial Report. More information – for example the Solvency and Financial Condition Report (SFCR) and the GRI Index Table – is available on the corporate website in the Investors/Annual Report section.

Small differences are possible in the tables due to rounding.

Certain of the statements in this 2019 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Group's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) breakup of the euro or European Union countries leaving the European Union, (4) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (5) the frequency and severity of insured loss events, (6) changes affecting mortality and morbidity levels and trends, (7) changes affecting persistency levels, (8) changes affecting interest rate levels, (9) changes affecting currency exchange rates, (10) changes in investor, customer and policyholder behaviour, (11) changes in general competitive factors, (12) changes in laws and regulations and the interpretation and application thereof, (13) changes in the policies and actions of governments and/or regulatory authorities, (14) conclusions with regard to accounting assumptions and methodologies, (15) changes in ownership that could affect the future availability to NN Group of net operating loss, net capital and built-in loss carry forwards, (16) changes in credit and financial strength ratings, (17) NN Group's ability to achieve projected operational synergies, (18) catastrophes and terrorist-related events, (19) adverse developments in legal and other proceedings and (20) the other risks and uncertainties detailed in the Risk management section and/or contained in recent public disclosures made by NN Group and/or related to NN Group.

Any forward-looking statements made by or on behalf of NN Group in this Annual Report speak only as of the date they are made, and, NN Group assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.

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