Securing financial futures

NN Group N.V.

2016 Annual Review

NN

The 2016 Annual Report consists of the 2016 Annual Review and the 2016 Financial Report. It provides an integrated review of the performance of our company.

It is in accordance with applicable Dutch law and the International Financial Reporting Standards (IFRS), which were endorsed by the European Union, as well as with the Global Reporting Initiative's G4 guidelines (GRI) and the guidelines of the International Integrated Reporting Council. It aligns relevant information about our strategy, governance systems, performance and future prospects in a way that reflects the economic, environmental and social contexts in which we operate. Read more about our approach to reporting on page 50 of the Annual Review.

As of the financial year 2016, NN Group will also publish a Solvency and Financial Condition Report (SFCR), which will include public quantitative and qualitative disclosures on Solvency II, either through a specific reference to this Annual Report or as supplemental information. The SFCR will be published later in 2017 on NN Group's corporate website in accordance with the relevant deadlines.

2016 Annual Review

The Annual Review covers NN Group's operating environment, key trends and material issues, how we create value, our business performance, our strategy, our objectives and achievements related to the social, environmental and governance aspects of our business, and the statement of our CEO. Target audiences are all NN Group stakeholders.

2016 Financial Report

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

Visit our website

Further information, including the GRI Index table and case studies, can be found online by visiting our corporate website www.nn-group.com/annual-report

What you can read in this Annual Review

About NN

Marketplace and trends

Business model and value creation

Our strategy

Governance

Facts and figures

We are an insurance and asset management company active in 18 countries, with a strong presence in Europe and Japan. Our roots lie in the Netherlands, with a rich history that stretches back 170 years.

We understand that for our customers, money is usually a means to an end. Life is about living. That is why we do our very best to help our customers achieve their dreams and overcome adversity along the way.

Through our retirement services, insurance, investments, and banking products, we are committed to helping people secure their financial futures. That is our purpose at NN.

Because what matters to you, matters to us.
You matter

With about 11,500 employees, we aim to deliver high-quality retirement services, insurance, investments, and banking products to retail, SME, large corporate and institutional customers

Our business activities are structured within seven reporting segments.

1. Netherlands Life

Focus on positioning for growth in the changing Dutch pension market

Products and services

- Group life/pension products
- Individual life/pension products
- Pension administration (AZL)
- Individual life closed block

Customers

- Small- and medium-sized enterprises (SMEs)
- Large corporate clients and their employees
- Retail customers

Financial performance

Operating result	EUR 710 million
New sales life insurance (APE)	EUR 229 million
Total administrative expenses	EUR 426 million
Total provision for insurance & investment contracts[5]	EUR 72 billion
– of which for risk policyholder[5]	EUR 15 billion
NN Life Solvency II ratio[2]	203%
Value of new business (VNB)	EUR 9 million
Net operating ROE[1]	8.1%

2. Netherlands Non-life

Focus on improving underwriting performance and customer satisfaction

Products and services

Property & casualty

- Motor insurance
- Fire insurance
- Liability insurance
- Transport insurance

Disability & accident

- Individual disability insurance (Movir)
- Group income insurance
- Accident insurance

Customers

- Small- and medium-sized enterprises (SMEs)
- Large corporate clients and their employees
- Retail customers
- Self-employed

Financial performance

Operating result	EUR 62 million
Gross premium income	EUR 1,578 million
Total administrative expenses[3]	EUR 281 million
Combined ratio[4]	103.4%
– of which Claims ratio[4]	73.7%
– of which Expense ratio[4]	29.8%
Net operating ROE[1]	14.1%

3. Insurance Europe

Focus on profitable growth through digital transformation of the businesses

Products and services

- Life insurance (all countries)
- Non-life insurance (Belgium, Spain; Poland as of 2017)
- Pensions (Bulgaria, the Czech Republic, Slovakia, Poland, Romania and Turkey)
- Health insurance (Greece, Hungary and Romania)

Customers

- Retail customers
- Self-employed
- Small- and medium-sized enterprises (SMEs)

Financial performance

Operating result	EUR 198 million
New sales life insurance (APE)	EUR 502 million
Value of new business (VNB)	EUR 85 million
Cost/income ratio	36.8%
Net operating ROE[1]	11.2%

4. Japan Life

Focus on profitable growth through product and distribution diversification

Products and services

- Corporate-owned life insurance (COLI)
- Protection life insurance

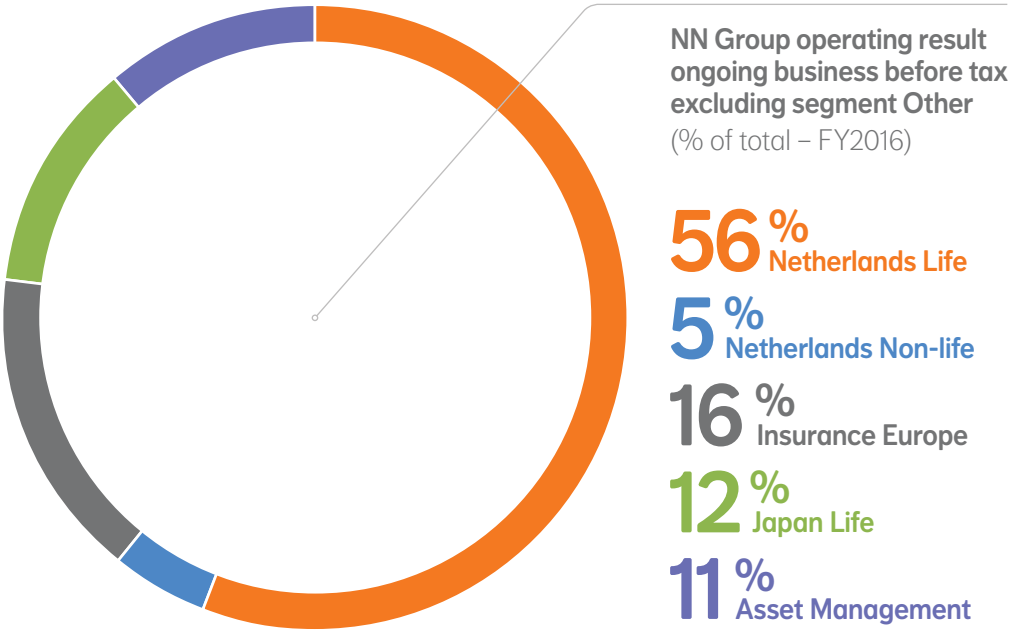
Customers

- Owners and employees of SMEs, where the company is both the policyholder and the beneficiary of the policy

Financial performance

Operating result	EUR 154 million
New sales life insurance (APE)	EUR 656 million
Value of new business (VNB)	EUR 121 million
Cost/income ratio	22.5%
Net operating ROE[1]	7.0%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by the (average) adjusted allocated equity.
2 The solvency ratios are not final until filed with the regulators. The Solvency II ratio is based on the partial internal model
3 Including Mandema & Partners, and Zicht broker businesses.
4 Excluding Mandema & Partners, and Zicht broker businesses.
5 End of period
6 AuM include the mortgage portfolio managed on behalf of NN Life and NN Non-life since 2Q14.
7 The 'NN Bank common equity Tier 1 ratio phased in' is not final until filed with the regulators.



5. Asset Management

Focus on being an active asset manager with distinct products

Products and services

- Fixed income
- Equity
- Multi-asset
- Fiduciary Management

Customers

- Institutional investors
- Wholesale distributors
- Retail investors

Financial performance

Operating result	EUR 133 million
Net inflow Assets under Management	EUR -2 billion
Assets under Management[5,6]	EUR 195 billion
Cost/income ratio	71.3%
Net operating ROE[1]	24.7%

6. Other

The segment 'Other' is part of the ongoing business

This segment comprises NN Bank, NN Re (excluding reinsurance of the Japan Closed Block VA portfolio), the holding result and other results.

NN Bank

NN Bank operates in the Netherlands and offers a range of retail banking products, e.g. mortgages and savings products.

NN Re

NN Re is NN Group's reinsurer. It primarily reinsures risks within NN Group and retrocedes or hedges risks with the market.

Financial performance

Operating result (segment 'Other')	EUR -30 million
Holding expenses	EUR -55 million
Operating result NN Bank	EUR 63 million
Total assets NN Bank[5]	EUR 15 billion
NN Bank common equity Tier 1 ratio phased in[7]	14.0%
Net operating ROE NN Bank[1]	10.0%
Operating result reinsurance business	EUR 12 million

7. Japan Closed Block VA

We expect 80% of the book to run off by the end of 2019

(measured from the end of 2016)

Japan Closed Block VA comprises NN Group's closed-block single premium variable annuity (SPVA) individual life insurance portfolio in Japan. These products were predominantly sold from 2001 to 2009. The total portfolio is reinsured by NN Re in the Netherlands.

The portfolio is actively managed and hedged on a market consistent basis and is expected to release capital as the block runs off. The exact timing and amount cannot be predicted as it is influenced by the results of the hedge programme.

Financial performance

Operating result	EUR 33 million
Account value[5]	EUR 8,201 million
Net Amount at Risk[5]	EUR 352 million
IFRS reserves[5]	EUR 674 million
Number of policies[5]	154,315

Continuing in this Annual Review, our reporting segments are grouped as follows:

- Netherlands Life, Netherlands Non-life and NN Bank are part of Netherlands Insurance
- Insurance Europe, Japan Life, Japan Closed Block VA and NN Re are part of International Insurance
- Asset Management is the asset management business of NN Group: NN Investment Partners

NN Group has a rich history that stretches back more than 170 years

Although we are a company with a long history at our core, we are relatively new in our current setup. The company we are today was only launched three years ago, with the listing of NN Group on Euronext Amsterdam on 2 July 2014.

Our journey in recent years has been instrumental in building a strong company with a solid balance sheet and a well-known brand.

This steady foundation allowed us to take an important step in preparing our company for the future, and bringing consolidation to the Dutch insurance and asset management markets.

On 23 December 2016, we announced a recommended public offer for all outstanding ordinary shares of Delta Lloyd, with the aim to combine Delta Lloyd with the Dutch and Belgian activities of NN Group.

1845-1863

In 1845, De Nederlanden van 1845 ('De Nederlanden') commences operations, specialising in fire insurance. In 1863, Nationale Levensverzekering-Bank ('Nationale') opens for business and specialises in life insurance.

1963

De Nederlanden and Nationale merge to form Nationale-Nederlanden. Nationale-Nederlanden pursues acquisitions throughout the world, and starts new operations in Europe and Asia.

1991

Nationale-Nederlanden merges with NMB Postbank Groep to form Internationale Nederlanden Groep, better known as ING. ING develops into a leading international financial services company, both through organic growth and acquisitions.

2014

NN Group lists on Euronext Amsterdam, under the ticker symbol NN.

2008-2009

During the financial crisis, ING receives aid from the Dutch state. As a condition of receiving approval from the European Commission (EC) for this support, ING is required to restructure the company, including the divestment of its global insurance and investment management businesses.

2016

ING sells its remaining stake in NN Group. NN Group continues its journey, with the ambition to build a standalone company that truly matters in the lives of its stakeholders.

2016-2017

In October 2016, NN Group shares its views on the rationale and benefits of combining Delta Lloyd and the Dutch and Belgian activities of NN Group with the Executive Board and the Supervisory Board of Delta Lloyd. In December 2016, NN Group and Delta Lloyd agree on a recommended transaction. On 2 February 2017, we officially launched the offer.

More information about our history is available on our corporate website:
www.nn-group.com/Who-we-are/Discover-our-history.htm

Our key figures

2016 was an important year for NN Group. It was a year in which we continued to deliver on the targets that we set.

Financial highlights

EUR 1,227m

Operating result ongoing business
(2015: EUR 1,435m)

Full-year 2016 operating result decreased to EUR 1,227 million from EUR 1,435 million in 2015 which benefited from higher private equity dividends and a significantly higher technical margin in Netherlands Life, while 2016 was impacted by severe storms at Netherlands Non-life.

EUR 1,189m

Net result
(2015: EUR 1,565m)

Full-year 2016 net result down to EUR 1,189 million from EUR 1,565 million in 2015, reflecting the lower operating result ongoing business, lower results at Japan Closed Block VA, and a negative result on divestments, partly compensated by higher non-operating items.

8.1%

Net operating ROE
(2015: 10.8%)

The net operating ROE of the ongoing business for the full-year 2016 was 8.1% compared with 10.8% in 2015, a year which benefited from higher private equity dividends in the Netherlands.

241%

Solvency II ratio
(2015: 239%)

We were able to maintain a strong capital position with a Solvency II ratio at 241%, making us well positioned to weather volatile markets.

EUR 1,386m

New sales life insurance (APE)
(2015: EUR 1,295m)

In 2016, total new sales amounted to EUR 1,386 million, up 2.9% compared with 2015, on a constant currency basis.

EUR 195bn

NN IP Assets under Management
(2015: EUR 187bn)

Total Assets under Management increased to EUR 195 billion from EUR 187 billion at the end of 2015 due to positive market performance, partly offset by net outflows primarily in the Other Affiliate segment.

Read more about our financial objectives and how we performed on page 45 of this Annual Review, and in our Financial Report.

Non-financial highlights

+2 pts

Net Promoter Score
(2015: +6 points)

Based on measurements in our Insurance International Life businesses.

EUR 5bn

Assets under Management in SRI funds and mandates (2015: EUR 4.5bn)

Assets under Management in SRI funds and mandates showed an increase of 12%. NN Investment Partners launched new SRI products, which contributed to this growth.

71%

Employee engagement
(2015: 73%)

Overall employee engagement remained at a stable level compared to the previous year.

EUR 1.5m

Donations to charitable organisations
(2015: EUR 1.5m)

In 2016, already 69% of our total charitable donations of EUR 1.5m went to NN Future Matters and its related target areas.

5,685

Employee volunteering hours in Future Matters focus areas (2015: 5,593)

We invest in our local communities through our charitable partners and volunteering efforts.

Neutral

NN Group was CO_2 neutral
(2015: 100% neutral)

CO_2 emissions of our direct environmental footprint showed a decrease of 18%. The remainder of our CO_2 emissions was compensated by purchasing voluntary carbon units.

Read more about our non-financial objectives and how we performed on page 45 of this Annual Review.

Our values

At NN, our purpose is to help people secure their financial futures. Our values: care, clear, commit, guide us in fulfilling this purpose.

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.

Our values are not voluntary suggestions; they apply to each and every employee. They are the foundation of our company culture and guide our employees in their day-to-day interactions with our stakeholders.

In 2014, we adopted the NN statement of Living our Values, which explains what these values mean to NN. The 'Living our Values' programme raises awareness, involves our employees and enables them to fully integrate our values into their every day work. Our senior management is expected to act as a role model when it comes to living our values, which is also reflected in our leadership profile.

Our values are reflected in our policies, standards and processes that guide our businesses in their interactions with customers and other stakeholders. Our key monitoring instruments that measure employee and consumers' perceptions include questions on how NN is truly living its values. This way our businesses are able to review their scores and generate insight into their values-related behaviour.

90%

of employees feel their team cares about customers and treats them with respect

80%

favourable employee perception on openly discussing consistency of actions with values

86%

of our employees feel that their colleagues demonstrate a high standard of integrity

Link to NN Statement of Living our Values: www.nn-group.com/Who-we-are/Corporate-governance/NN-statement-of-Living-our-Values.htm

Over the next few pages we highlight how our values are implemented across our businesses and how they support us in creating long term value for our stakeholders.

Common standards for behaviour

Our NN values set the standard for our behaviour and express what we stand for – both internally and externally – to all our stakeholders.

Code of Conduct

While our values provide us with a compass for decision-making, our NN Code of Conduct gives us more detailed guidelines for specific behaviour. The NN Code of Conduct brings together all relevant, conduct-related standards into a small set of comprehensible documents, fully aligned with our values. The renewed NN Code of Conduct came into effect on 1 September 2016.

In the same way that our values are not voluntary suggestions, our NN Code of Conduct is not optional. All employees are required to become familiar with its content, and NN Group provides clarity on what is and what is not acceptable behaviour. The Code of Conduct outlines our standards with regard to such issues as conflicts of interest, fraud, corruption and Financial Economic Crime. In addition to a general Code for all employees, a Manager annex was developed inform managers of their specific responsibilities in raising awareness and upholding the standards.

Throughout 2016, a series of workshops were organised to discuss the content of the NN Code of Conduct and to foster a dialogue on what it means to apply our values and our NN Code of Conduct in our day-to-day activities.

Based on these workshops, a casebook with real life dilemmas is being developed for learning purposes.

Organisational implementation

Our values are the foundation for our interaction with customers and other stakeholders, but they are also an integral part of our Human Resources Policies. Compliance with our values is part of our performance management and reward system.

To ensure we hire employees who fit well within our organisation, we made the values an imperative part of our employee value proposition. In 2016, a Personality/Culture matching tool was added to the recruitment websites. This self-assessment tool enables prospective candidates to assess to what extent their personality and values match the culture and values of NN. They can share their matching results as an annex to a job application if they like. For new employees, we have an onboarding programme that explains the NN values and the expectations of employees to uphold them. In the Netherlands, new employees are also required to take the Oath for Financial Institutions, which was fully integrated in the NN statement of Living our Values. The accompanying ceremonies include a dialogue between employees about the values, and a signatory moment of the values statement or Banking Code. By 1 April 2016, all employees in the Netherlands required to take the oath or promise had done so, meeting the Dutch regulatory requirements.

Read more about the additional requirements that apply for NN Bank on www.nn.nl/Over-NationaleNederlanden/NationaleNederlanden-Bank.htm

Case study: dilemma

NN's General Terms and Conditions

NN's General Terms and Conditions (GTCs) aim to fully and adequately describe each Insurance product. GTCs can be substantive and, depending on the product, fairly complicated. As a consequence, customers may find them unclear or difficult to understand.

One solution could be to shorten the GTCs and use understandable and simple language, whilst still addressing the heart of the matter. However, we must find a balance and ensure that the GTCs are complete. They must still sufficiently explain product conditions to customers.

The dilemma NN is facing, is if it is possible to have short and simple GTCs that simultaneously inform customers fully and sufficiently? Or does simplification cause a lack of clarity and transparency regarding coverage and product conditions?

Case study

Workshops on new Code of Conduct

Workshops on the new Code of Conduct were offered to our employees during 2016. For our senior management these were mandatory. During the workshops, employees discussed dilemmas they may encounter in applying the values and Code of Conduct. An eight-steps model is taught to support them in unravelling a dilemma, including a stakeholders' interest analysis and a decision-making tool.

Link to full article: www.nn-group.com/annual-report

- Q1 Who are the relevant stakeholders?
- Q2 What are their interests?
- Q3 Which interests conflict with each other?
- Q4 Do I have all relevant information?
- Q5 What are the arguments in favour of each interest?
- Q6 Can I reach a win-win situation?
- Q7 If not, which argument should prevail?
- Q8 Do I really implement this decision?

Open dialogue

With the 'Living our Values' programme, we aim to continuously raise awareness of our values, and encourage active engagement from our colleagues. Based on an evaluation conducted in 2015, it was decided to adopt a specific theme for our 2016 'Living our Values' programme, which was 'open dialogue'. It is important that we all feel we can openly share and discuss dilemmas and our different points of view, and various activities were initiated to support this. A blog series on our social collaboration intranet platform SAM (Share All that Matters), called 'Making a story together' was started in which employees could address dilemmas. In 2016, we also continued the 'serious game' called the 'NN Values challenge', which focused on learning about our values in an innovative and fun way. This game allowed our employees to apply our values in different work-related situations and stimulated discussion around the values.

For senior management a performance management pilot was started to emphasise higher frequency and higher quality of performance dialogue. This pilot consisted of workshops focused on improving coaching skills and an upward feedback survey where participants were asked about the clarity, commitment and care of their manager in performance dialogues.

'It is important that we all feel we can openly share and discuss dilemmas.'

Dorothee van Vredenburch
CCO NN Group

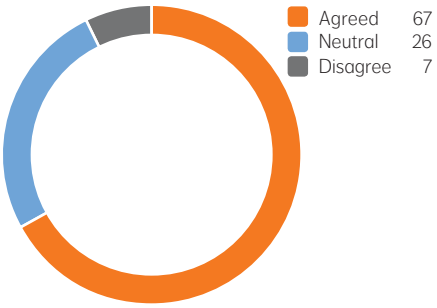
Values week

The annual NN Values week was again organised in October 2016, and offered an opportunity to reflect on our values and to pay extra attention to open dialogue. Our businesses organised their own local communication campaigns around the values during Values week. Most of them also organised their own finals of the NN Values challenge, and in nine countries our colleagues organised special values related events. In the Netherlands, 30 workshops were organised, with 450 employees participating. Examples include sessions on 'Navigating your moral compass', 'Listening with empathy' and 'Cultural intelligence'.

98%

would encourage a colleague to join the NN Values week next time

'The Values week in the Netherlands provided a good opportunity to reflect on our values'
(Netherlands Values week survey, %)



Case study

Values week in Belgium

During the 2016 Values week, NN Belgium organised a number of events. To promote the NN Values challenge, lunch dates and fun tools to challenge each other were introduced. NN Values ambassadors gave cards to selected employees to compliment them for living the NN values. During the dedicated NN Values days employees could post their personal messages on care (what do you truly care for in your work and personal life?), clear (what should be done to be open and transparent in your daily job?) and commit (what do you commit to?). On the final day of the week, the NN Values challenge finalist and their supporters joined for the grand finale.

2,244

NN Values challenge games played

Link to our Values week activities:
www.nn-group.com/annual-report

Case study

Open dialogue videos

In a series of four videos on the theme 'open dialogue', our Management Board members touched on what open dialogue means to them, and what it means for NN. Themes such as asking questions, listening, trust, and open feedback loops surfaced as common threads amongst our Board members. The first video focused on 'what is open dialogue'. For the other three videos, the MB Members were challenged to have a discussion on the following dilemmas:

- Being entrepreneurial vs Control risk
- Customer service vs Cost reduction
- Short-term profit vs Long term value creation

Link to full article:
www.nn-group.com/annual-report

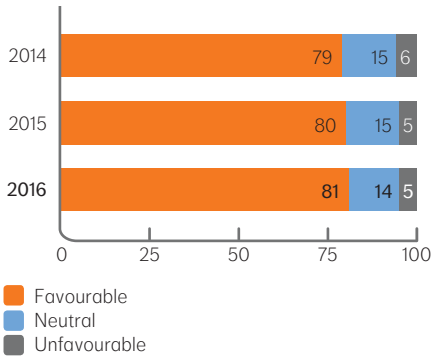
Tone at the top

The NN Group Management Board, our senior leadership and line managers play a crucial role when it comes to setting an example. As part of our Yearly Engagement Survey (YES), we asked colleagues if their managers consistently act as role models when it comes to living our values, and if they feel encouraged to act with integrity. The results on YES are displayed in the chart.

The annual performance evaluation and appraisal of our senior leaders is 50% based on the extent to which they demonstrate behaviour in line with our leadership profile, which is founded on our values. Some of the key elements in the NN Leadership profile are: demonstrating integrity, customer focus and creating a culture of clear direction and open feedback.

The Management Board members play an active role in the 'Living our Values' programme. For example in 2016 they kicked off the Values challenge, shared their views in a special interview series (see case study on page 08) and invited employees to breakfast and lunch sessions during the Values week.

'My manager consistently acts as a role model when it comes to living our values'
(Pulse and YES results, %)



Yearly Engagement Survey

Employees' perception

Through our Yearly Engagement Survey (YES) our employees can express their opinions on different topics, including the extent to which we are living our values and acting with integrity. The 2016 YES showed a slight progress in both areas.

86%

employee engagement on our brand and values

Case study

The art of a great corporate culture

As an investor and advisor on responsible investment solutions, we believe a values-driven culture is an indispensable component of a company's Environmental, Social and Governance (ESG) profile. And even more importantly, it makes good business sense. With its Mindscope publication on corporate culture, NN Investment Partners demonstrates how strong corporate culture can contribute to better company performance. It outlines important market developments and highlights good practices from companies that have corporate culture high on their agenda. The study provides guidance for investors, board directors and other players in the market to stimulate and help shape a healthy corporate culture.

Link to full article:
www.nn-group.com/annual-report

Monitoring performance

Each year, the Management Board assesses the effectiveness of the implementation of the 'Living our Values' programme and the points for improvement. This evaluation is also discussed with the Supervisory Board. We established a number of monitoring instruments to assure the effectiveness of the measures we have taken to embed our values into our corporate culture. The perception of customers and the general public on how our company is living our values, for example, is measured through the Global Brand Health Monitor (GBHM), while our employee perception is measured through our Yearly Engagement Survey (YES). If there is a decrease or stagnation in performance, this is reported to the business units so they can take the appropriate action. One of the recommendations from the 2015 evaluation was to further strengthen the ability for employees to ask questions. Therefore, in 2016 Code & Values Desks were set up in all our business units.

Looking forward

Overall employee awareness of the values continues to be very high, and much has been achieved to ensure the 'Living our Values' programme remains top of mind for all NN colleagues. We will continue the open dialogue as a global theme and a framework for local initiatives. We will further invest in the 'role model behaviour' of managers, as we believe this is a key component of success in the long term. There are a number of other actions planned for 2017 such as further embedding our values in the recruitment processes and further embedding and promoting the local Code & Values Desks with employees.

Our drive for innovation is about customer satisfaction, intuitive interaction, and efficiency

Our innovation approach

We continually look for new ways to meet our customers' needs and keep up with the changing dynamics of our markets. The fundamental need of people to protect themselves against life's uncertainties will continue to drive growth in the insurance industry over the long term, and the way we meet this need will change. We want to be the intuitive partner to help people secure their financial futures. Therefore, innovation is a strategic focus area for NN Group.

Our drive for innovation is about increasing customer satisfaction, intuitive interaction, and efficiency. We will continue to run our core activities with the same commitment as always, focusing on cost savings, generating cash flows, and profitable growth. In a complementary way, investing in innovation allows us to make our businesses stronger and to optimally prepare our company for the future.

'In 2016, all our businesses developed innovative initiatives in support of our strategy to deliver an excellent customer experience.'

Creating a new world of customer experience

Our innovative approach is not only about digitalisation, apps and online platforms. Developing products and services that anticipate new customer demands – and meet them in tailored ways – as well as finding other means of distribution, are also at the core of our innovation strategy. The examples below highlight some of our initiatives throughout 2016.

In Turkey, a Self-Service Client Portal was introduced with the purpose of improving our customer experience, using the feedback and suggestions from our customers as the basis for development. This online tool enables customers to view and manage their investments, pensions and insurance, from anywhere, using smartphones, computers and tablets.

NN Life Japan launched a one-stop intuitive service platform for agents, that will strengthen our relationships with distributors, improve the quality of advice and service to customers, improve staff productivity, and create cross-sell, upsell and retention opportunities.

During the severe storm and flooding in Belgium in 2016, an NN Mobile Office was set up to help customers settle their claims. This temporary office and the service provided were highly valued by customers.

NN Investment Partner's Dutch investment platform 'FitVermogen.nl' offers a no-nonsense, needs-based solutions investment approach. Reaching out to private individuals in close cooperation with highly valued organisations and companies impacts the customer experience in a positive way. In 2016, the platform won the CASH innovation award and the CashCow Award for best online asset manager.

Case study

The Ab doorbell concept

Ab was one of the first ideas initiated by Sparklab, the innovation lab launched by NN Non-life in the Netherlands. Ab is a home protection service that combines smart technology with preventive technology and post-burglary service and support. Collaboration between the police, fire departments, municipalities, and residents was a crucial element in developing the Ab-concept. These external partnerships support the service's technical elements, including sensors that are installed in people's homes. The Ab system is already proving beneficial, as a burglary was prevented during the pilot phase of the project.

'This Ab-concept makes me feel safer in my house.'

Paul
customer

Link to full article:
www.nn-group.com/annual-report

NN Group entered into a three-year partnership with Startupbootcamp, a growth accelerator that helps fintech start-ups expand into full-grown businesses. In addition to providing financial support, we offer professional assistance to fintech startups by providing employee mentors. Also, through internships, our employees are given the opportunity to gain insights and hands-on experience in fintech product innovation.

More examples can be found in the 'Delivering on our strategy' chapter, pages 41-44 of this Annual Review.

Investments in innovation

The most significant investment we are making in terms of innovation is allowing space for it throughout the company. NN colleagues are encouraged to experiment, explore market opportunities, and build new capabilities that support our current business and foster long term growth.

They are stimulated to adopt an innovative mindset with a focus on providing an excellent customer experience, and NN supports internal startups with budgets to bring their ideas to the market. A recent example is Brickler, a NN Bank startup in the Netherlands that drastically simplifies the process of buying a home. Its app helps users in every step of the way, from finding their dream home to finalising their mortgage online.

Supporting these goals and projects are our tangible investments in developing new business models, testing new technologies such as blockchain and artificial intelligence, and transferring our IT-infrastructure to the Cloud.

These measures allow our organisation to become more agile and responsive to customer needs and market demands.

Innovation going forward

Throughout 2016, our innovation efforts sparked a great deal of energy inside the organisation. Although not all colleagues think we are innovative enough, the majority does feel encouraged to be innovative in their jobs, and we created valuable results for our customers. Now, we are ready to take our efforts to the next level.

Internally, we are focused on further organising ourselves for innovation. Expanding our efforts outside of our current organisation gives us even more opportunities to experiment with new ideas.

Therefore, following the success of Sparklab, our first innovation centre in the Netherlands, we will create a series of similar, connected labs, both centrally and in our business units in different countries. At least seven labs, led by our businesses, will be put in place to launch country or business-specific innovation opportunities. The first new labs are already live in Rotterdam, the Netherlands, and since the beginning of February 2017 in Hungary. Others will be developed in Spain, Poland, and Japan. They are supported by a central lab in the new innovation space The Bridge, located at our headquarters in The Hague.

Expanding our current efforts, we are evaluating what the market has to offer in terms of innovative opportunities and new partnerships. Following our partnership with Startupbootcamp for the fintech and cyber security programme, we are open to further investments in fintech. Our approach to fintech investment is as a means to create strategic, mutually beneficial opportunities and connections, rather than building them ourselves.

This is how we will pave the way for innovative growth, leveraging our capabilities and market opportunities. Finally, we will continue our 'innovation journey' with our Top 50 leadership group. After evaluating more than 1,000 trends, we identified those opportunities that hold the most potential for NN Group going forward. These insights are being used to further develop our business model.

87%

of employees feel encouraged to be innovative in their jobs

57%

of employees think NN Group is innovative in its products and services

Case study

The Bridge innovation space

In October 2016, NN Group opened The Bridge, a creative location where all colleagues are encouraged and empowered to unleash their creativity and contribute to an innovation mindset within our company.

'The Bridge offers everyone to get a taste of innovation initiatives in and outside NN.'

Mariken Tannemaat
Chief Innovation Officer NN Group

Link to full article:
www.nn-group.com/annual-report

Securing financial futures

'At NN, we want to help people secure their financial futures, guided by our values: care, clear, commit.'

2016 was an eventful and important year for NN Group. It was a year in which we made considerable steps in building a sustainable business for the future.

In April, ING sold its remaining shares in NN Group, completing its divestment of our company – a process that started in July 2014, when NN Group opened for trading on the Euronext Amsterdam stock exchange. Since the earliest activities of our company in 1845, we have merged, grown and changed, but the core of who we are has remained the same. At NN, we want to help people secure their financial futures, guided by our values: care, clear, commit.

Innovating our businesses

In today's operating environment, adhering to the status quo is not an option. We continuously invest in change and innovation, with the goal of improving our customer experience, lowering our costs and shaping our business for the long term. I am proud of the progress of all our businesses, enabling us to better meet the changing needs of our customers. Let me share a few examples.

In our Non-life business in the Netherlands, we launched our innovation lab, called 'Sparklab'. Following its success, in the coming year more labs will be opened in Turkey, Hungary, Spain, Poland and Japan.

After Nationale-Nederlanden Spain successfully implemented a paperless sales process, this concept was also introduced in Poland, the Czech Republic and Slovakia. These examples show that innovation is not only about coming up with new ideas, it is also about sharing them.

Further supporting our agents in Japan, we launched IRIS – an intuitive service platform aimed at strengthening relationships with distributors and improving the quality of service.

We also look for opportunities using new technologies. NN Investment Partners is exploring digital solutions such as robo-advice, and in the Netherlands we are using robotics to facilitate straight-through and errorless processing.

Our efforts are being recognised externally, earning over 40 awards in various markets. NN in Greece was awarded the best life insurance company in the country, while NN Life Romania won the Company of the Year award. For the fourth year in a row, NN Life Japan received 3 Stars from the Help Desk Institute (HDI) for its after sales service call centre. And in the Netherlands, NN Life was recognised as 'the most recommended pension insurer' for the third time in a row.

Robust financials

Our progress is also reflected in our financial performance over 2016. It shows the resilience of our businesses in an environment which continues to be characterised by low interest rates and market volatility. Most of our businesses made steady progress in delivering on their strategic targets.

For the full year, we delivered a healthy operating result ongoing business of EUR 1,227 million and a good net result of EUR 1,189 million. We produced a higher value of new business and maintained robust Solvency II and cash capital positions – at 241% and EUR 2,489 million respectively. These results allow us to propose a final 2016 dividend of EUR 0.95 per ordinary share at our Annual General Meeting on 1 June 2017. Together with the interim dividend paid in September 2016, this brings the total 2016 dividend to EUR 1.55 per share.

This represents a pay-out ratio of around 51% of the 2016 full year net operating result of the ongoing business.

Achieving profitable growth

Our financial strength enables us to invest in value-creating opportunities, using capital generated in excess of our capital ambition. On 23 December 2016, we announced that the Boards of NN Group and Delta Lloyd reached an agreement on a recommended public offer on all outstanding ordinary shares of Delta Lloyd, with the aim to combine Delta Lloyd with the Dutch and Belgian activities of NN Group. With this transaction, we take an important step in bringing consolidation in the Dutch insurance and asset management markets while strengthening our leading position in the Netherlands and Belgium.

In line with our strategy to achieve profitable growth through multi-access distribution, in May, we acquired Dom Kredytowy Notus S.A. ('Notus'), a leading financial broker in Poland. And in Japan, we entered into a long-term collaboration with Sumitomo Life Insurance, focused on selling our Corporate-owned life insurance (COLI) products via tied agents.

Extraordinary teamwork

As a financial services company, our business centres around people and trust. I am proud to work alongside our 11,500 colleagues who are committed to serving our customers in a professional, caring and personal way. In our Yearly Engagement Survey, 90% of employees stated they feel their team cares about customers and treats them with respect. A solid result, but we will continue to work hard to further improve this. Overall, our employee engagement level was stable at 71%. As a Management Board, we would like to express our gratitude to all NN employees for contributing to our 2016 achievements.

Investing in society

Our company aims to be a positive force in people's lives, now and for generations to come. To achieve this, we will continue our corporate citizenship efforts in the areas where we believe we can have most impact: improving people's financial wellbeing and responsible investing.

Throughout 2016, we introduced new tools to help empower our customers to find their way towards a financially secure future. With our NN Future Matters programme, we reached out to more than 27,500 youths in the many communities in which we operate. This brings us closer to our goal of positively impacting the futures of 100,000 young people by 2020.

Additionally, we took steps to further drive the development of responsible investing. NN Investment Partners improved its understanding of the materiality of ESG factors for investment returns through two studies conducted with the academic institute ECCE. The results are used to strengthen the ESG integration in our investment process.

We also expanded the sustainable solutions range through the launch of innovative impact funds, both in equity and fixed income, as well as a sustainable multi-asset fund. This helped to grow our Assets under Management in SRI funds and mandates to EUR 5bn, an 12% increase compared to 2015.

We have set clear non-financial objectives to further strengthen our performance. We feel encouraged by the improvement of our position in the ranking of the Dow Jones Sustainability Index to 77 points (out of 100), which places NN Group in the top quartile of the global insurance industry.

2017 onwards

As we are proceeding with the recommended transaction with Delta Lloyd, our focus will be on further strengthening our position in the Netherlands and Belgium. We will make sure to give Delta Lloyd colleagues and customers a warm welcome, and show them that our brand promise 'You matter' defines who we are and what we do, every day. At the same time, we will continue to focus on delivering a robust performance as an international group, with a diverse business culture.

Our company has a solid foundation for the future, but more is yet to be done. In particular, we need to keep investing in becoming more efficient, agile, and innovative to optimally respond to the fast-paced environments in which we operate. In these times of change and growth, we would like to thank our customers for their continued loyalty towards our products and services, our business partners for our long term relationships, and our shareholders for their support and investment.

Our ambition going forward remains unchanged: we aim to deliver an excellent customer experience, so we can be a company customers can count on and employees can be proud of – a company that truly matters in the lives of our stakeholders.

Lard Friese
Chief Executive Officer

Case study: dilemma

Short term profit vs long term value creation

In a series of videos for the 2016 NN Values week, members of the Management Board addressed key dilemmas facing NN Group. One dilemma focused on short term profit vs long term value creation.

The Management Board members agreed that both need to be considered and balanced to achieve a future-proof organisation.

A good example is in quarterly reporting, which reflects the challenge of explaining how the company has performed financially and meeting the expectations of analysts and investors in both the short and long term. In parallel, to build an agile, future-proof organisation, NN Group must always be thinking of long term solutions and long term achievements within the businesses, also from the perspectives of all stakeholders.

Read more about the dilemma videos on page 08 of this Annual Review.

Link to full article:
www.nn-group.com/annual-report

In a fluctuating environment, we strive to drive change to meet evolving stakeholder needs

The financial services industry, which encompasses insurance and asset management companies, is continually faced with various structural changes.

Economic conditions such as low interest rates, as well as the continued ageing of populations, impact the environment in which the industry operates. Increased regulation and decisions made by industry supervisors have a large bearing on the offering of products and services. At the same time, the competitive landscape is constantly changing augmented by the rapid developments in the area of digitalisation and changing customer behaviour. Lastly, (geo)-political developments, and uncertainties surrounding them, lead to volatility in the economy and markets. As such, they both directly and indirectly impact the industry. For the sector as a whole, as well as for companies and other constituencies operating in this environment, these conditions require agility and stable, efficient, and responsible responses to challenges. This always with the interest of the customer front and centre.

The developments described on the following pages are a general assessment of the environment in which financial service providers – insurance and asset management companies in particular – have operated in 2016, including an outlook of the expected impact of these developments in 2017.

Economic and demographic developments

In the first half of 2016, economic developments in different parts of the world remained rather subdued. Towards the end of the year, some improvement in economic conditions gradually occurred. This was first seen in the US, where the state of the economy was the reason for the Federal Reserve to raise interest rates; Europe later followed suit. In 2017, long term yields are expected to increase, but gradually.

Economic indicators in several European countries, including the Netherlands, showed better-than-expected developments due to stronger consumption and investments. As a result, economic forecasts for the coming years have been adjusted slightly upwards. Japan continues to show the lowest economic growth figures and outlook on a global scale.

Modest positive signals for the global economy could be under pressure from ongoing economic, market, and political uncertainties. This may trigger corporates and the financial services industry to maintain no-regret policies, as they must be prepared for possible effects of (geo)political tensions, financial market volatility, and rapid changes in technology.

With low fertility rates and continued ageing, the working-age population (between the ages of 15 and 64) has declined over the past decade and is projected to further decline over the next years. These trends are common across the globe, and are set to increase pressure on pension and health care systems.

Regulation

2016 marked the start of the implementation of Solvency II regulation. In general, this was successfully completed, as demonstrated by the results of the recent European Insurance and Occupational Pensions Authority (EIOPA) stress tests published in December 2016. In 2018, a first part of the Solvency II regime will be evaluated. This will provide a first opportunity to assess whether the new risk-based approach and prudency built into the design of Solvency II indeed increased the protection of customers and still sufficiently allows insurers to play their role in the economy as long-term investors.

Early 2017, the new IFRS17 standards will come out for the valuation of insurance liabilities, to be implemented in 2021. Together with the already published IFRS9 standards for asset valuation, this will bring insurance IFRS to the market value world.

In the coming years, it is also expected that legislation will be enacted regarding recovery and resolution planning, both at national and European levels. In addition to regulations related to solvency and risk reporting, several consumer related legislations, like for instance the EU Insurance Distribution Directive (IDD) and the EU General Data Protection Regulation (GDPR) will become applicable. To bring more transparency on tax paid in different countries, tax regulation like Base Erosion and Profit Shifting (BEPS) will come into effect.

Competitive landscape

Various trends and developments are impacting the competitive landscape for financial service companies. Most importantly, customer behaviour is changing rapidly, with consumers increasingly asking for digital solutions.

This is most visible in the area of banking payments, but more and more in insurance and asset management as well. Particularly in the Property and Casualty (P&C) market, online sales of products are advancing quickly. Digitalisation also brings opportunities for insurance companies to broaden and deepen product offerings and increase partnerships with technological start-ups.

The outlook for life insurance and pension products differs across countries. In light of low interest rates, in some European market levels of guarantees in life products need to be addressed. In other markets the challenge lies in coming to terms with a post-guarantee operating environment which itself necessitates a new set of products and increased competition. In the Netherlands, the market for (individual) life and pension products is challenging. It has been observed by many that (life) insurers are forced to reduce costs and capacity, and to engage in consolidation wherever useful and efficient. Central and Eastern Europe remains an economic region with significant potential for the future as witnessed by rising demand for life insurance products and continued growth of the insurance sector in the region.

The asset management industry is currently facing various challenges that put pressure on margins. This is due to low interest rates, digitalisation and the move to passive investment solutions.

(Geo) political developments

Over the past few years political shocks became increasingly impactful in driving markets and economies. Political situations in many countries have changed significantly, as demonstrated by the outcome of the Brexit referendum in June 2016.

In a broader sense, there are many discussions about the consequences of globalisation, and in some major countries, including the US, measures are being proposed that tilt in the direction of protectionism. In general, European political leaders are facing the challenge of deciding on how European integration will further develop in the coming years.

In 2017, important elections are due in some of Europe's largest countries such as Germany and France, and in the Netherlands. This may impact the financial services industry as it is yet unknown whether specific new measures will be taken by newly elected governments. In the Netherlands for instance, decisions are expected regarding the future pension system and the labour market.

Also in other countries, for example Poland, currently elected governments are expected to take decisions on the pension system that may impact the activities of life insurance and pension providers in those countries.

Another country where NN is offering financial services in a volatile environment is Turkey. Further growth of the business is expected, and we are keeping a close eye on political and economic developments.

All in all, there seems to be a higher risk of uncertainty in the political space, accompanied by potentially substantial consequences on markets and the real economy.

Being prepared to drive change

What is clear from this general assessment is that the landscape of the insurance and asset management industry is changing rapidly. As in all sectors, businesses that are well-prepared to take advantage of the opportunities these changes bring will be able to create value for stakeholders in the future. Leveraging the opportunities brought with new trends, developments, and market challenges is critical for our long term, sustainable growth. Therefore, in order to further develop and refine our business strategy, it is essential to understand and anticipate the most relevant developments and issues, how these changes affect our business, and how to balance innovative growth with the risks of operating in a dynamic environment.

Weathering market volatility

In 2016, businesses were impacted by dynamic economic conditions, reducing the investment income of our insurance businesses. However, NN Group's capital position remained strong and resilient, allowing us to weather severe market volatility. In the following sections, we address the issues and trends that potentially have the most impact on our businesses, our stakeholders, and the way we are able to serve our customers.

This is done by discussing trends and issues that are considered important by NN Group and our various constituencies.

Case study

Brexit

In June 2016, the United Kingdom held a referendum that resulted in a decision to leave the European Union – 'Brexit'. With the announcement of Brexit, Europe was faced with growing uncertainty and risk in the markets, with a possibility of wide-ranging implications for the global insurance sector. NN Group has immaterial direct exposure to assets and currency in the United Kingdom. The ultimate impact for the financial sector much depends on what conditions UK companies will face to take part in the European Internal Market.

To earn trust and support, NN Group maintains an open and continuous dialogue with its stakeholders

NN considers customers, shareholders, employees, business partners and society at large (including regulators and societal organisations) important stakeholders. We seek feedback from them on different topics in order to learn which issues they consider important. We do this across all levels of the organisation.

Identifying the most relevant developments and issues within our sector, and the potential impact they have on our company is an ongoing process. We also consider these factors relevant to our annual reporting efforts. The guidelines of the Global Reporting Initiative (GRI) define material aspects that reflect an organisation's significant economic, social and environmental impacts, or that may substantially influence the assessments and decisions of our stakeholders.

This year, we further strengthened our materiality process by redefining our short-list of developments and topics that could potentially impact our company. We did this through an analysis of external research, reporting guidelines, sustainability benchmarks and peer reports. As a result, some topics were added to the list, such as innovation, responsible investment and tax practices; issues such as the use of social media and natural resources scarcity were removed.

To validate these developments and topics, an online survey was conducted amongst an enlarged group of external stakeholders, including investors, regulators, institutional clients, peers, NGOs, academics, and experts in the area of sustainability. Internally, the survey was completed by a group of more than 100 of our most senior managers, the members of our European and Dutch works councils, and representatives of NN Young, our internal network of young professionals. The results from both surveys were combined to create a materiality matrix that presents the developments and topics important to our company, and the relevance of these to our external stakeholders.

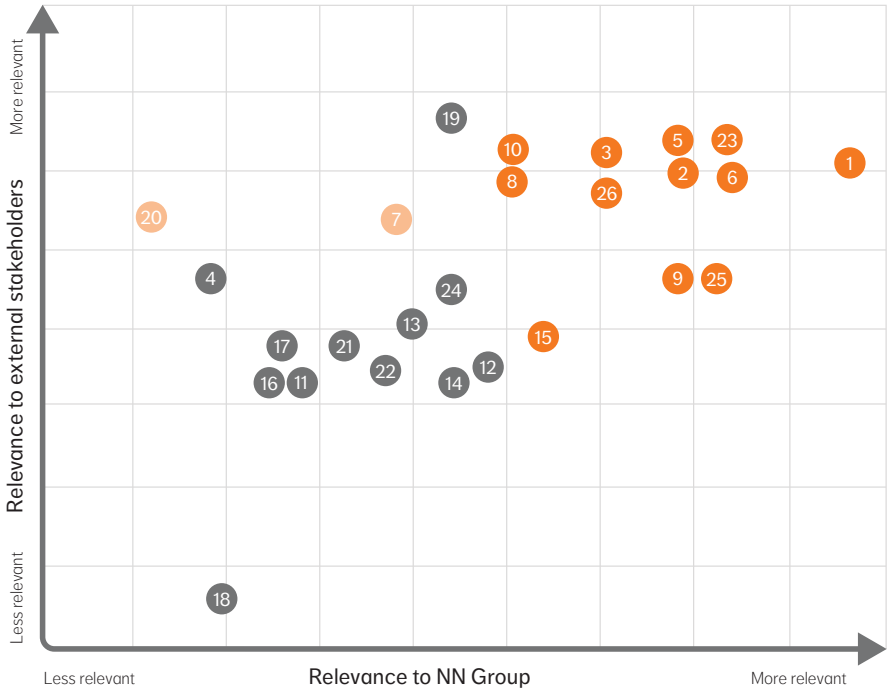
This process was supported and executed by an external agency to ensure a balanced and independent process.

The materiality matrix was discussed with NN Group's Supervisory Board, and validated and approved by the Management Board. These discussions did not affect the division of topics per quartile in the matrix. The outcome of this process is reflected in the figure below.

The most relevant trends and material topics, indicated in the upper right quarter of the matrix, and NN Group's response to them, are further described in the next chapter of this Annual Review. Although not recognised as most material items by all our stakeholders, we believe it is evident that cyber security and climate change impact our businesses, and therefore they are added to this overview.

Read more about these trends and topics and the impact on our businesses on pages 17-21.
Read more about stakeholder engagement on pages 48-49.

Trends and business concerns recognised as most material by our stakeholders



1 Economic performance
2 Regulation and capital requirements
3 Risk management
4 Responsible tax practices
5 Transparent products and services
6 Customer centricity
7 Data privacy and security
8 Sustainable products and services
9 Innovation
10 Integrity and compliance
11 Employee health and wellbeing
12 Employee engagement
13 Diversity and equal opportunities
14 Human capital development
15 Attracting and retaining talented employees
16 Environmental footprint
17 Financial inclusion and literacy
18 Community investment
19 Responsible investment
20 Climate change
21 Human rights
22 Geopolitical developments
23 Low interest rates and stability of financial markets
24 Demographic change
25 New technologies and digital transformation
26 Pension reform

Key market trends driving NN Group's strategy [1]

Other trends recognised by our stakeholders

1 Although not recognised as one of the key material issues by all our stakeholders in the materiality assessment, we believe it is evident that climate change and the (future) legislation on data privacy and security impacts our businesses..

The materiality assessment, combined with our own analysis, shows a number of key trends and topics that have the potential to impact the insurance and asset management industries.

Market trend

Customer

6

Customer centricity

Putting customers' interests first and striving to meet their needs throughout all different life stages is the key to being a customer-centric company. The fundamental need of people to protect themselves against life's uncertainties will continue to drive growth in the insurance industry over the long term. But the way people prefer that need to be met changes over time. These changing customer behaviours point to much quicker decision-making, and require our processes to be continuously adaptable.

Opportunities and risks

One of our main focus areas will be the way we engage with our customers. To become the partner for retail financial planning, we need to build our own relationships with our customer base. This requires intuitive tooling to facilitate more frequent contact, 24/7 through any means or device customers may use. We need to develop an ecosystem that facilitates direct customer contact. At the same time, it has a role for face-to-face contact with our distribution partners: agents, brokers, banks and other third party distributors. In addition to providing the right tooling, our product offering should anticipate the future needs of our customers, including different relevant social aspects and the shift towards a more sharing economy.

Our response

At NN Group, we aim to be a positive force in the lives of our customers. We want to help them secure their financial futures by empowering them to make sound financial decisions. Many people experience difficult financial situations due to unforeseen circumstances. We want to be there for our customers during these times, as well as when things are going well. As we aim to provide a positive and inclusive experience, we also reach out to people who may not have access to insurance and can benefit from additional support. By sharing their feedback with us, our customers help us improve our performance, and enable us to build a future-proof customer engagement model.

Read more about our customer-centric approach on pages 25-27 of this Annual Review.

5 8

Transparent and sustainable products and services

Customers ask for transparent products and services that are easy to understand, and not only generate good financial returns, but also have a positive impact on society and the environment. Customers are increasingly looking for transparency and clear information, enabling them to make the right choices. They also increasingly care about the way we integrate sustainability aspects into our business and product offering.

Opportunities and risks

NN provides a number of life insurance, pension, income, investment and banking products. Economic conditions, inherent product risks, a highly competitive market and the changing need of consumers, affect the sales of our products and services. Products with guarantees are often no longer affordable. Therefore, we need to transform our propositions to customers. In order to secure our market position, we need competitive products. Products that are designed bottom up, with continuous feedback from our customers. Additionally, we need to price our products according to customer expectations. The use of data analytics is crucial in this process.

Our response

We are committed to delivering products and services that are easy to understand and meet customers' lifetime needs. These are built in a standardised, modular way, with flexible features tailored to the needs of individual customers. We review our product range regularly to ensure that all products and services meet our customer, compliance, risk, capital, and profitability requirements. In order to have a competitive advantage in the market, we develop products that are both intuitive and personal. Before introducing new products and services, they go through our product approval and review processes (PARP). PARP ensures, in all our markets, that transparency and customer interest remain a top priority, aligned with our company's values. We are also increasingly paying attention to integrating sustainability aspects into our products and services, such as the offering of specialised SRI funds.

Read more about our transparent and sustainable products and services on pages 25-27, 31 and 42 of this Annual Review.

Dutch unit-linked products

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.

In recent years, NN has made significant progress in reaching out to ('activeren') individual customers who purchased unit-linked products in the past, addressing vulnerable customer groups with priority.

To date, we reached out to 100% of customers with non-accumulating policies, mortgage related policies and pension related policies (third pillar). NN will reach out to the remaining group before 1 January 2018.

From a total of almost one million individual unit-linked policies sold up to 2006, approximately 288,000 policies were still active on 31 December 2016.

In a limited number of cases (less than 500 by the end of 2016), NN has settled disputes with individual customers. These are tailor-made solutions. A limited number of individual customers have put forward their cases at the Dutch Complaints Committee Kifid or at the civil courts.

Read more on pages 110-111 of the Financial Report (Note 45).

Our operating environment

Understanding key trends and material issues continued

Key market trends driving NN Group's strategy

Market trend

Technology

9 25

Digitalisation and innovation

Technological developments continue to evolve at an exponential rate, and with it the ways in which our customers need and wish to interact with us. Technology can make products and services simpler, more direct, transparent and easier to manage. Digitalisation contributes to the optimisation of distribution and flawless processes. It creates the need to make our services accessible anytime and anywhere, while at the same time preserve our personal approach.

Opportunities and risks

New technology is also giving rise to new forms of risk, security, and business models. Customers are becoming more comfortable exploring opportunities with non-traditional 'startup' companies within the financial sector. They are willing to consider products that offer something different than traditional savings and pension models. This said, they also continue to demand transparent products and services, and prudent management of their investments. Additionally, it is essential to strike a solid balance between innovating for the future and addressing our current business needs and challenges.

Our response

Innovation is a key focus area for NN Group's businesses. Our drive for innovation is about customer satisfaction, intuitive interaction and efficiency at the same time. Developing products and services that anticipate new customer demands – and meet them in tailored ways – as well as finding other means of distribution are at the core of our innovation strategy. Most developments in this area are incorporated in our approach to customers every day.

At the same time, we are continuously replacing and improving our legacy IT systems and portfolios. In 2016, we improved our mainframe. By combining data badges and reducing handovers, our overall data-processing time decreased. Additionally, we are in the process of bringing our IT systems to the Public Cloud. Our Cloud Transformation Programme has its focus on delivering business solutions with built in security and deployment automation. This will further increase the agility of our company.

Expanding our current innovation efforts, we are evaluating what the market has to offer in terms of innovative opportunities and new partnerships. Our approach to fintech investment is a means to create strategic, mutually beneficial opportunities and connections, rather than building them ourselves.

Read more about our innovation approach on pages 10-11 of this Annual Review.

7

Data privacy and security

With the digitalisation of the insurance and asset management industry comes the increased risk and exposure to cyber crime activities. Although not recognised as one of the material issues by our stakeholders (see the materiality assessment on page 14 of this Annual Review), at NN Group we take data protection and the risk of potential information security breaches very seriously. We are aware of the potential impact of security breaches on our customers, employees, and other stakeholders, and the risk of reputational damage and loss of consumer trust it brings to our company, our brand, and the industry.

Opportunities and risks

The prevalence of cyber crime poses a real threat to our businesses and to the safety of our customers. Cyber criminals can use an array of online tools to hack into IT systems, ranging from distributing sophisticated malware to 'man in the middle' attacks that target our customers' data. The risk of cyber and data security goes beyond individual customers and businesses. It can also expose the financial industry to increased scrutiny and legal action from regulators, lawmakers, and governments.

Our response

At NN Group, we make every effort to provide optimal security and confidentiality of our customers' data and their transactions. Cyber security is an integral part of our risk management strategy. We work with well-known certification authorities, such as OpenTrust and GlobalSign. We use encryption and authentication mechanisms to secure online communication and transactions.

Security strategies are implemented at a local level through education and awareness. In order to prevent data breaches, our IT department delivers periodic instructions to all of our employees on how to manage the stored, personal data of our customers. We constantly perform security scans and we employ security guidelines which our businesses must meet to properly protect data, Examples are encryption and additional digital surveillance. We regularly review and update our privacy and security policies, as well as operating procedures, in order to comply with stringent regulatory requirements.

We have set up a Group-wide security organisation which has been implemented in all NN business units. We appointed a Chief Information Security Officer (CISO), who is responsible for the overall data and cyber security of NN Group. Central control and coordination are crucial for an effective security approach. For each business unit there are security teams, led by their own Business Information Security Officers.

Read more about how we protect our customers' data and support them in protecting their data on pages 23 and 25 of this Annual Review.

Our operating environment

Understanding key trends and material issues continued

Key market trends driving NN Group's strategy

Market trend

Talent and people

15

Attracting and retaining talented employees

Attracting and retaining qualified and skilled colleagues that share our company values and commitment is crucial for the success of any organisation. Offering ongoing development opportunities and an attractive remuneration model tailored to fit market circumstances is part of this process.

Opportunities and risk

In order to remain competitive in our industry, NN Group needs to attract high quality talent to the company. In a global marketspace in which industry sectors are increasingly blurred, as well as where new-style businesses are often deemed more attractive than traditionally operating companies, NN is in constant and increasing competition to bring in the best talent from different backgrounds. Moreover, due to rapid technological and regulatory developments, the pressure for financial companies to attract talent with experience, skills, and qualifications in areas such as risk (e.g. actuaries), IT, and customer intelligence continues to increase. It also means that companies are increasingly looking for people that thrive in a dynamic and continuously changing environment.

Our response

At NN Group, we aim to have a workforce that reflects the diversity of the communities in which we live and work. When we attract and select employees, we want to ensure there is cultural fit and that they embrace our values care, clear, commit.

Many prospective employees recognise that the insurance industry is changing rapidly. They are often attracted to NN because they want to be part of this change. As we are a company with an international footprint, employees have the opportunity to work in a different country for a few years. This creates a diverse corporate culture where differences are appreciated.

To attract and retain talented people we offer opportunities for personal and professional growth, encourage our colleagues to take responsibility, and create a work environment that values authenticity and collaboration. We feel responsible for the continuous development of our workforce. This allows our people to meet our high professional standards, and to remain employable in this rapidly changing environment.

In 2016, we specifically invested in leadership and talent development by deploying leadership curriculums and talent development programmes. These opportunities encouraged current and future leaders to live our values, demonstrate personal excellence, develop a deep understanding of the markets in which we operate, and enable others to perform at their best.

Read more about our approach to attract, retain and support our talented people on pages 32-34 of this Annual Review.

Case study

NN Group traineeship

At NN Group we want to attract and retain the best talents who share our passion and commitment. One way we do this is by offering traineeships to the next generation of talented employees and potential leaders.

Our traineeship is centred around personal development, problem solving, insurance, asset management, change management, and innovation. You can read more about how our trainees participated in this programme on our corporate website.

Link to full article:
www.nn-group.com/annual-report

Our operating environment

Understanding key trends and material issues continued

Key market trends driving NN Group's strategy

Market trend

Economic environment

23

Low interest rates

Current macroeconomic conditions and volatile markets keep interest rates low, which pose continued challenges for the financial industry. Low interest rates affect investment yields and the returns for customers, and have a negative impact on profitability. In general, this impacts consumer trust.

Opportunities and risks

Slow and fragile economic growth affects societies and industries in different ways. There is the risk that people are underinsured, and long term savings are affected, both of which jeopardise people's pensions. Political stability is one factor needed to create stability, however current increased protectionism in certain countries is decreasing the connectedness between countries, which is a complicating factor. More than ever, financial services companies can step up to re-engage people and help them to take their financial futures into their own hands.

Our response

Our strong capital position allows us to weather severe market volatility and pay a dividend in line with our dividend policy. We limit our exposure to interest rates by matching the cash flows of our assets and liabilities. We diversify our investments and invest part of our capital in bonds, stocks, and other debt instruments. We take on higher yielding assets in a prudent matter.

With our core activities in retirement services and asset management, we can fill the gap in risk protection that is a result of retracting governments. We have the required expertise and, by combining our asset management, life insurance and retirement service capabilities, we have a solid basis on which to build.

We further strengthened the cooperation between our insurance and asset management businesses. For example, in the Netherlands NN Investment Partners and Netherlands Life have a history of developing various defined contribution (DC) propositions and will continue to work close together in the future.

2

Regulation and capital requirements

In the past years, the financial services industry has been significantly impacted by regulatory changes. New regulations increase operational practices in general, and capital requirements that financial institutions should hold against their risk profiles more specifically. An important change for the insurance industry is the implementation of Solvency II. Solvency II is the regulatory framework for (re-) insurance undertakings and groups domiciled in the EU and replaced the former regulatory regime, which was based on the EU Solvency I directive, as of 1 January 2016.

Opportunities and risks

Although insurance companies are generally well positioned to adequately respond to regulatory pressure, increased levels of regulation have created a new operating reality in the financial industry. The implementation of Solvency II impacts the risk profiles of companies, the volatility of the market value balance sheet and the amount of information requirements from regulators and investors.

Our response

We recognise the importance of clear and sound regulation, as this helps to build and maintain trust in our sector and company. It is important however to achieve the right balance, and prevent regulation from severely disrupting our operations, which in turn increases costs for our customers and decreases customer engagement. NN Group strongly supports the close collaboration of policymakers and the industry to mitigate these risks.

In December 2015, NN Group received approval from the Dutch regulator, De Nederlandsche Bank (DNB), to use our Partial Internal Model (PIM) under Solvency II for NN Group and its insurance subsidiaries in the Netherlands. NN Group was well capitalised at year-end 2016, with a Solvency II ratio of 241% based on the Partial Internal Model.

Read more about our careful financial management to maintain a strong balance sheet, which enables us to weather volatile market circumstances, on pages 28-29 of this Annual Review.

Our operating environment

Understanding key trends and material issues continued

Key market trends driving NN Group's strategy

Market trend

Economic environment continued

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Pension reform

An ageing population, limited economic growth, unemployment, and budget deficits cause difficulties in the funding of pensions in different countries. With governments retracting, the responsibility to manage these difficulties is transferred to individuals. At the same time, they are confronted with increasing complexity caused by various changes in pension systems, usually resulting in low pension awareness.

Opportunities and risks

Given the geographical scope of our operations, we deal with many pension systems. Countries have their own pension schemes and their own specifics regarding retirement age, contribution rates, tax deductions, replacement rates, and funding. We need to manage this wide variety of systems and adapt our approach locally.

Our response

Although we must consider different pensions systems in different countries, we start by placing the customer at the heart of everything we do. We contribute to raising awareness about pensions, and how the changing landscape will affect people's future income. We aim to engage them early on in an active dialogue, and are focused on offering products and services that give individuals more autonomy and responsibility with regard to their own pensions. Additionally, we aim to offer them security in light of government pension reforms. We have diversified our business and adjusted our product mix by shifting towards defined contribution and investment products.

In several of the countries in which we operate we launched new services and apps, allowing customers to easily access their pension and life insurance accounts, access performance reports of their investment funds, take immediate action in case of pension deficits or just provide them with relevant information.

We support strong and clear regulation regarding pension reform, and also believe that cooperation between governments, regulators and pension providers is essential to better align the interests of the various parties in the pension sector. Customers will benefit from such a shared approach in creating pension sustainability.

Read more about how we help people secure their financial futures on pages 25-27 and 41-44 of this Annual Review.

Market trend

Climate change

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Climate change

Climate change poses a significant threat to the livelihoods and wellbeing of societies. The effects of climate change are already emerging with warmer temperatures and greater volatility in weather patterns. These changes can also pose a risk to the health of economies and financial markets, although the precise impacts and timing are difficult to predict. High uncertainty and the fact that climate change will occur over a long horizon are considered to be reasons why this issue was not indicated as most material for our company by all stakeholders. Nevertheless, NN considers climate change an issue that warrants attention.

Opportunities and risks

As a financial service provider we can be impacted by climate change risks in various ways. For example, in our non-life business, more frequent weather-related events such as wind- or hailstorms could lead to a higher claims ratio, impacting our profitability in certain product lines. Climate change could also have possible impacts on the investments of our life insurance business.
The globally agreed goal to keep the temperature rise within 2°C above pre-industrial levels will require significant policy action by governments. This is a source of investment risk as the transition to a low carbon economy may negatively affect company cash flow and profits, particularly in carbon-intensive industries.
At the same time, those companies that effectively manage the risks and opportunities may present good investments.

Our response

We aim to effectively manage our environmental footprint by reducing our use of natural resources, seeking green alternatives and compensating our carbon emissions (refer to page 35). In the non-life business, evaluating and managing the day-to-day impact of weather-related events is part of our core skills. Furthermore, a diverse range of products and a strong balance sheet help to provide resilience to these kind of risks. In managing investment portfolios, we integrate environmental, social, and governance factors in our analyses and decision making processes. Steps to address climate change also include proactive engagement with carbon-intensive companies and increasing our insights by measuring the carbon footprint of investments. Furthermore, we capture opportunities by offering clients sustainable products and solutions. We have taken note of the proposed recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and are committed to further align our disclosures to these recommendations in our future reporting. To this end, a multi-disciplined working group will regularly inform the Management Board of our progress and challenges.

Read more about our responsible investment and climate approach on pages 30-31 of this Annual Review.

Our business model

NN Group wants to be a company that truly matters in the lives of our stakeholders: customers, shareholders, employees, business partners and society at large

To create long term value we focus on understanding our stakeholders' needs and leveraging our core skills.

The inputs that enable us to do what we do

Creating products and services that allow our customers to improve their financial wellbeing

- EUR 9,424m gross premium income
- EUR 195bn assets under management

Page 25-27

Careful financial management to maintain a strong balance sheet

- EUR 22,706m shareholders' equity
- EUR 3,872m total debt

Page 28-31

Attracting, retaining and supporting our talented people

- 11,955 employees (headcount)

Page 32-34

Creating a positive impact for society and communities

- Relations with stakeholders
- 22 MWh (x1,000) electricity used

Page 35-37

Our core skills

Page 23-24

- Asset and Liability Management
- Underwriting
- Data Analytics
- Risk Management

The outputs we realised and the outcomes we aim to achieve

Improving our customers' financial wellbeing

- EUR 11.681m claims and benefits paid
- EUR 106bn total provisions for insurance and investment contracts (ongoing business)
- +2 points Net Promoter Score (NPS)

Enabling an appropriate return for our investors through our financial management

- 4.0% total shareholder return
- EUR 536m dividend paid
- 241% Solvency II ratio
- EUR 2,489m holding company cash capital

Empowering our talented people

- EUR 1.160m salaries and benefits paid
- EUR 13.7m spent on training
- 71% employee engagement

Creating a positive impact for society and communities

- EUR 1bn paid to suppliers
- EUR 197m income tax paid to governments
- EUR 5,062m assets under management in SRI funds and mandates
- EUR 1.5m donations to charitable organisations
- 22 kilotonnes CO_2 emitted, 100% compensated

This is a simplified visualisation of our business model. In developing this model we used the framework of the International Integrated Reporting Council (IIRC) that is based on financial, intellectual, human, and social and relational capital.

The primary Sustainable Development Goals (SDGs) to which we aim to contribute

Our initial selection of SDGs which was the result of an internal mapping exercise and a stakeholder dialogue:

8 DECENT WORK AND ECONOMIC GROWTH — Decent work and economic growth

12 RESPONSIBLE CONSUMPTION AND PRODUCTION — Responsible consumption and production

Read more about the Sustainable Development Goals on page 49 of this Annual Review.

Our core skills are vital to generating value within our business model.

Our core skills

Continues on page 24

Asset and Liability Management

What we do

We help people carry the risks that they cannot bear alone, and we charge a premium for accepting those risks. To pay out claims and benefits to our customers, we invest in different asset classes such as government and corporate bonds, stocks, and other types of investments.

How this helps create value

When investing our assets, our priority is to provide the best risk adjusted returns, consistent with matching our assets and liabilities. The asset and liability management process is integral in ensuring adequate liability for policyholder obligations. Additionally, we believe that value can be achieved by integrating environmental, social, and governance (ESG) factors in our investment and active ownership processes.

What we do differently

We invest most of our assets, as well as our own capital (together called proprietary assets) through our asset management business, NN Investment Partners. We match our asset portfolio to our liabilities with optimal strategic asset allocation and by limiting any mismatches to an acceptable degree. Our portfolio managers are provided with in-house research and information that helps them identify attractive investment opportunities.

Underwriting

What we do

Underwriting and product development are essential to the insurance business. Underwriting capabilities are needed in understanding, managing, and pricing risks. Our underwriters evaluate the physical and moral risk exposures of prospective businesses and clients. Together with our actuarial department, our underwriters determine the price of premiums to charge in order to insure our customers.

How this helps create value

Underwriting creates value by ensuring that NN Group accepts risk exposures within acceptable limits. This is done by improving the predictability of claims. The expertise of our underwriters also allows us to create value by finding optimal solutions for our customers by developing innovative insurance products that are priced properly and fairly.

What we do differently

We offer a comprehensive range of transparent value-for-money products than can be effectively risk managed over the expected life of the contract. Our underwriters perform a variety of roles. Their expertise allows them to be strategically involved in areas such as innovation, product development, and customer experience. This demonstrates how we are moving away from the traditional process of underwriting to a more data-driven business model.

Data Analytics

What we do

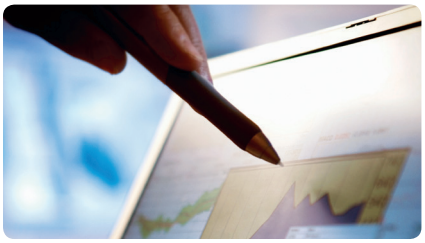
Data analytics is not only used to identify, assess, and calculate risks, but also to create personal and relevant products and services for our customers. By using it to identify our customers' needs and demands, we improve our product designs, allowing us to stay relevant in a changing and competitive industry. It increases customer satisfaction and decreases costs. Our models are only used for our own commercial and communication purposes, and we always respect the privacy of our customers.

How this helps create value

The ability to identify and respond to the unique needs of our customers directly affects how we interact with them, and in turn improves our customer experience. By analysing large data sets of customer behaviour, we can make predictive models that benefit both customers and NN Group. Besides personalising our product offerings, we can, for example, also predict the number of customers calling our call centre, which enables us to tailor our service offering.

What we do differently

To further improve our data analytics skills, we started the Advanced Analytics Lab in the Netherlands. This lab analyses opportunities and threats that can be solved using machine learning. The lab works for our Dutch business units, NN Group, NN Re and NN Investment Partners. Outside the Netherlands, we run a Customer Intelligence programme to significantly increase our data analytics capabilities.



Our core skills

Risk Management

What we do

Risk taking is integral to the business model for insurance, asset management, and banking organisations like NN Group. Through our Risk Management practices, we seek to meet our obligations to customers and creditors, manage our capital efficiently and comply with applicable laws and regulations.

How this helps create value

Risk Management is at the core of our value creation process. We protect the financial and capital value of NN Group by employing our risk activities to limit falling short on our long term business objectives. We do not try to predict the future, but rather manage potential risk. This encompasses all risks to all business objectives. We are clear and transparent throughout the organisation for the benefit of management and stakeholders alike.

What we do differently

Our risk philosophy, called 'Active Risk Management', is built around four components: strategy, assessment, control, and monitoring. We assess the effectiveness of our philosophy twice a year using Risk Culture Dashboards. We work systematically, aim for completeness and document what we do. Each risk analysis performed is communicated to relevant management.

Our Risk Profile

At NN Group, we perform a yearly risk assessment to identify and assess the top risks for our company, The 2016 process brought attention to many risks and resulted in the following top risks for NN Group (in no particular order).

Financial market exposure relates to adverse market movements and volatility. A well-diversified portfolio, a natural hedge with our liabilities, and specific hedging programmes aim to keep this risk within set limits.

Closely related is the **risk of a Eurozone/ EU break-up**. On short term, NN Group is able to withstand adversity due to the characteristics of its strong balance sheet. Exposures to certain asset classes as well as custody arrangements are frequently reviewed and action is taken where necessary.

Adapting our longer term business model in a timely manner is managed through NN Group's strategy process and related Business Planning cycle. A Chief Innovation Officer channels and supports innovation initiatives.

Closely following developments, actively managing relationships with regulators and supervisors alike, and raising any concerns in relevant forums are examples of mitigating the **risk of regulatory and political changes**.

As a pension provider, **longevity risk** is the largest quantifiable risk for which we investigate options to transfer part of the risk on short term and seek relief on the longer term by rebalancing our portfolio of Defined Benefit and Defined Contribution products.

Client and product suitability refers to the risk that products do not cover clients' interests over the full lifetime against a reasonable price. A product approval and review process ensures new products meet our criteria for products. A periodic review of existing products contributes to continuous customer care.

Just like any large organisation, we have a **risk of ineffective operations and related inefficiencies**, which can lead to slow or incorrect decision making, a cost base that is too high, and reputational damage. An effective control framework aims to mitigate these risks to acceptable levels.

Without **the right people**, the ability to effectively manage our business for sustainable success will be compromised. Good talent management is crucial in attracting, retaining and rewarding world-class talent. We invest proactively in development throughout the careers of our employees as this is the number one engagement driver.

Read more about our Risk profile and our approach to Risk Management on pages 119-151 of the Financial Report (Note 52).

Creating products and services that allow our customers to improve their financial wellbeing

In this chapter, we describe how our business model enables us to create long term value for our customers, by putting them at the heart of everything we do.

Creating value as an insurer and asset manager

The core of our business model is to help people carry risks that they cannot bear alone, providing protection for what matters most to them. As such, we offer life insurance products to protect people against the financial risk of living a long life without sufficient means of support, or dying at an early age. In some markets, we also offer non-life products to protect the assets that matter to our customers, and savings and investment products to ensure their long term income.

Our customers entrust their money to us when purchasing our products and services. We invest and manage this money actively to be able to pay out claims and benefits. We are committed to offering products and services that are easy to understand and that empower our customers with the knowledge and tools they need to make sound financial decisions. Through our multi-access distribution approach, we aim to be where our customers want us to be, supported by efficient and effective operations. This is reflected in our strategy to deliver an excellent customer experience.

Read more about our strategy on pages 38-45 of this Annual Review..

Customer suitability

We strive to meet customers' needs throughout all different stages in their lives. We want to offer them fair value for money and an experience that is straightforward, personal, and caring. This means that we need to deliver insurance products that are suitable, transparent, and contribute to the financial wellbeing of our customers. Our Customer Golden Rules express that:

- We offer fair value to customers
- We explain the risks, returns and costs of our products and services
- We regularly assess products, services and distribution practices
- We only work with professional and licensed distributors

'"You matter" is not just a slogan. It defines what we do at NN.'

Lard Friese
CEO NN Group

What matters to our customers matters to us

NN Group wants to be known as the 'You matter' company: a people-oriented, and authentic service provider in the long term financial planning industry. We want our customers to have an experience with our company that lives up to the promise we make. Therefore, 'You matter' is not just a slogan; it defines what we do at NN, influencing every department, every employee, and every interaction with our customers.

With our 'You matter approach', we wish to inspire people to think about what matters most to them, and to help instil in them the confidence and knowledge to secure their financial futures. This also means that we take an active role in helping our customers recognise what truly matters to them in life. Our campaigns, focused on understanding the deeper motivations of individuals, and sharing what makes our customers happy, play an important role in this.

In 2016, we launched our new international advertising campaign, 'It's different when it's yours', celebrating the uniqueness of our individual customers. It focuses on those moments in life we all experience, yet we all experience it differently. So even though NN is proud to help millions of families and businesses every day, we know that the family, home or business of each individual customer will matter most to him or her.

Supporting our customers in protecting their data and the risks of cyber crime

As a financial services provider, NN Group is always concerned about security. We have vast quantities of personal and financial customer data, which we treat with utmost care.

Now that digital technology is the primary means with which to process information, new forms of risk and crime are also on the rise.

At NN Group, we make every effort to provide optimal security and the confidentiality of our customers' data and transactions. We also recognise our role in supporting our customers in their own fight against cyber crime. Therefore, we have launched the Dutch Cyber Collective, an overarching alliance between suppliers and users in the cyber sector.

This initiative, officially launched in 2017, has been set up to help small- and medium-sized enterprises in the Netherlands to reduce cyber crime. Initiated by NN Group, the Dutch Cyber Collective connects associations, commercial companies, NGOs, and other parties who are committed to cyber security.

Link to full article:
www.nn-group.com/annual-report

Customer empowerment

At NN Group, we aim to be a positive force in the lives of our customers. We want to help them secure their financial futures by empowering them to make sound financial decisions. For this reason, we developed several tools to support customers in their financial planning. We also work together with several specialised partners, such as Wijzer in Geldzaken, Nibud and Viva magazine, to contribute to the increased financial awareness and resilience of our customers and society at large.

People may experience difficult financial situations due to unforeseen circumstances in their lives. We want to be there for our customers during these times, as well as when things are going well. For this reason, our business units developed policies for customers in arrears aimed at helping them better overcome these difficulties. In addition to these specific policies, we developed general practical measures for customers, such as the opportunity to receive the help of a budget or career coach.

We strive to help mortgage customers in financial distress by looking for solutions to address their financial situation. We realise that there is no 'one size fits all' solution to financial issues. This is why we try to offer assistance in various ways, based on an analysis of income and expenses of mortgage customers in arrears.

In 2016, NN Bank developed a pilot project focused on mortgage customers at risk of being in arrears. Via an early warning system, we proactively reached out to a group of customers to help them before they became behind in their payments. Measures we offer include grace periods, interest holidays, budget coaching, and job coaching.

By partnering up with initiatives of Wijzer in Geldzaken, a stakeholder platform coordinated by the Dutch Ministry of Finance, we aim to increase awareness of pensions. Nationale-Nederlanden in the Netherlands was nominated for an award from Wijzer in Geldzaken for our online service Pension Help. Pension Help starts ten years before a person's retirement date, and aims to help customers by sending them customised and relevant information step-by-step.

In Bulgaria, we have an information portal called Pensiopedia which provides information about the Bulgarian pension system in an accessible and understandable way, with NN experts available to answer questions. Additionally, in Bulgaria we provide tools which aim to improve the financial literacy of children.

In Turkey, we provide fund consultancy services. Fund consultants inform customers via telephone calls about their current funds, returns, and stock market fluctuations. In Spain, we are delivering more information to help customers make the right investment decisions, with the help of a matrix where they can see different investment options. Customers are shown which investment solution best fits their needs by linking their investor profile with the potential risks of different investments. Additionally, we created a newsletter with financial information to increase customers' knowledge of financial markets.

Financial inclusion

NN reaches out to people who may not have access to insurance and could benefit from additional support. We want to provide a positive and inclusive experience for many different groups of people by anticipating their specific needs and individual situations.

In Romania, we developed a health insurance product that offers affordable access to private care, as health care is becoming increasingly expensive to lower- and middle-income families. The core of this new proposition is extensive care for patients and less financial worry for their families. This health care product also aims to address the long term sustainability of Romanian public healthcare. In a collateral project, our Insurance Romania business unit focuses on disadvantaged children and children placed in foster care.

In Spain, we have the ForYou life insurance product with breast cancer coverage. The insurance provides special coverage in case of breast cancer and allows for a second medical opinion, home assistance, and child care services. Also in Spain, we have 'Orange points' which are sales points in small villages. In 2016, we had 121 sales points providing access to our products and services. In Japan, we launched a new life insurance product that provides a critical illness coverage in case of cancer, acute cardiac infarct and stroke. It was developed to support business owners who are unable to manage their company due to critical illness.

Case study

Survey into financial behaviour

In collaboration with the University of Tilburg, NN conducted an international survey into consumers' financial behaviour. Around 9,300 people in 14 European countries participated in the research, which focused on the degree to which people feel in control of their financial future. The results will allow us to shape our policies to better meet the needs and wishes of our customers.

Link to full article:
www.nn-group.com/annual-report

Case study

Value for money to SMEs in Japan

NN Life Japan launched a new value proposition – COLI critical illness insurance. It offers protection to business owners from the risk of deadly diseases. The product was developed to support business continuity when SME owners cannot stay at the helm of their company due to illness. We also opened a sales office in Kitakyushu. It enables us to better provide business continuity protection as well as other products related to business issues that SMEs are facing today

Link to full article:
www.nn-group.com/annual-report

NN Group is involved in the Netherlands Investment Institution (NLII). The aim of the NLII is to increase long term investment opportunities in the Netherlands by matching supply and demand. This gives institutional investors the opportunity to invest in the Dutch economy, and allows entrepreneurs and SMEs to benefit from additional financing opportunities. We also have a partnership with microfinance organisation Qredits through our membership of the Dutch Association of Insurers (Verbond van Verzekeraars). Qredits offers microfinance loans to both starting and experienced entrepreneurs, who are not able to obtain a regular bank loan.

Additionally, NN is involved with the Foundation for Sustainable Micro Pensions in Developing Countries (SDMO), through our membership of the Dutch Association of Insurers. The micro pensions programme works with a local partner – the Development of Human Action (DHAN) Foundation – which supports one million families in India. The pension is a defined contribution product with two options upon retiring: pensioners either take a higher pension which ends when they die, or they take a slightly lower pension and the remainder is paid when they die to their families.

NPS in 12 of our insurance countries
(where we measure NPS)

Country	Life (unchanged/ improved NPS-r)	Non-life (unchanged/ improved NPS-r)	Pensions (unchanged/ improved NPS-r)
1 Belgium	yes	yes	n.a.
2 Bulgaria	yes	n.a.	yes
3 Czech Republic	yes	n.a.	yes
4 Greece	yes	n.a.	n.a.
5 Hungary	yes	n.a.	n.a.
6 Japan	yes	n.a.	n.a.
7 Poland	yes	n.a.	yes
8 Romania	no	n.a.	yes
9 Slovak Republic	yes	n.a.	yes
10 Spain	yes	n.a.	yes
11 The Netherlands[1]	n.a.	yes	yes
12 Turkey	yes	n.a.	yes

1 Due to product portfolio and organisational set-up, the Dutch Life products are embedded in the Non-life and Pension results.

Measuring our brand and reputation

We measure how our customers value our products and services using – amongst others – the Net Promoter Score (NPS) methodology. With NPS we collect, evaluate, and act on a constant stream of customer feedback. This information drives improvements in our product portfolio and customer service. In 2016, all of our insurance businesses maintained or improved their Relationship NPS scores compared with the previous year, with the exception of Life in Romania. The NPS for Romania Life is still well above market average and the highest score compared of all our business units.

The NN Global Brand Health Monitor monitors how our brand is perceived externally, amongst our customers and society at large. Twice a year, we measure our main brand indicators and provide insight in the development of the brand performance. The Global Brand Health Monitor measures the brand awareness per business line per country, and whether customers feel we are living our values.

NPS is measured in all countries where we have business activities. The table shows NPS of our insurance countries. Measurement for the insurance business is conducted for all business lines covering banking, life insurance, and pensions. Our insurance business in Japan is included in a separate study. Luxembourg is also included in a separate study as their clients mostly live outside Luxembourg. Measurements for the asset management business is conducted amongst both institutional and retail investors. For institutional clients we only report the aggregate score, which was +7.

Careful financial management to maintain a strong balance sheet

In this chapter, we describe how our business model enables us to remain financially strong and competitive and create long term value for our different stakeholder groups, by closely managing our balance sheet.

Creating value as a listed company

We raise the financial capital that we need to manage our business from our shareholders and investors, as the owners of our company. They invest their money in NN Group and expect to be compensated in a responsible way. Maintaining a strong balance sheet is key to absorbing market volatility and ensuring NN Group and our operating entities are sufficiently capitalised at all times.

We regularly inform the market of strategic, financial and commercial developments at NN Group. In doing so, we constantly strive to enhance our reputation as a solid, transparent and reliable company for all our stakeholders.

Our shares are included in four stock indices: MSCI Global Standard index (since 26 November 2014), STOXX Europe 600 index and FTSEurofirst 300 index (both since 22 December 2014), and Euronext AEX index (since 23 March 2015).

Shareholder investment

NN Group strives for a strong and diversified shareholder base, as we believe this is in the interest of all our stakeholders. A diverse shareholder base allows for cost-effective access to capital and business support.

Besides the financial benefits of a broad shareholder base it also provides greater flexibility and strengthens the corporate reputation.

In April 2016, ING Group sold its remaining 14.1% stake in NN Group. This transaction was in line with ING's restructuring agreement with the European Commission to divest all of its insurance and investment management businesses, ultimately by the end of 2016. We are grateful to ING Group for their partnership and support in our journey to become a stand-alone company.

Shareholdings in Dutch listed companies of more than 3% must be notified to the Netherlands Authority for the Financial Markets (AFM).

According to the AFM register as at 14 March 2017, the following shareholders have an interest of more than 3% in NN Group on the notification date: Thornburg Investment Management (3.03% – 7 Aug 2016), Norges Bank (3.22% – 27 Jun 2016), Franklin Mutual Series Fund Inc. (3.87% – 27 May 2015), Temasek Holdings (Private) Limited, (4.27% – 2 Feb 2016), BlackRock, Inc. (5.15% – 28 Oct 2016), and RRJ Capital II Ltd. (10.13% – 30 Jun 2016).

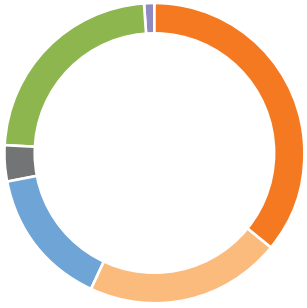
The stated percentages are the interests reported by the relevant shareholder to the AFM on the indicated dates. It is possible that the stated interests differ from the current interests of the relevant shareholder.

Relationship agreement RRJ

RRJ Capital II Ltd ('RRJ') and NN Group have entered into a relationship agreement which was signed on 3 October 2016 and has a term of four years. Prior to the expiry of this agreement, NN Group and RRJ will discuss its potential continuation in good faith. RRJ intends to be a long term shareholder in NN Group and has expressed its continuous support and confidence in NN Group's strategy and management.

Development of the NN Group share price in 2016

Diverse shareholder base
(Nasdaq shareholder analysis as at 31 January 2017 (%))



United States	36
Asia	21
United Kingdom	15
The Netherlands	4
Rest of Europe	23
Rest of the World	1

On 19 December 2016, RRJ, its owners and certain associated companies, received a Declaration of No Objection (DNO) from the Dutch Central Bank (DNB), as referred to in section 3:95 of the Dutch Financial Supervision Act (WfT), to hold an interest in NN Group not exceeding 12.5% of the issued share capital of NN Group.

On the date the DNO was issued by DNB, RRJ held an interest of 10.26% in the issued share capital of NN Group.

Shareholder returns and dividends

NN Group intends 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 from ongoing business. We intend to pay interim dividends calculated at approximately 40% of the prior year's full year dividend. Barring unforeseen circumstances, we intend to declare the interim dividend with the disclosure of our second quarter results and to propose a final dividend at the Annual General Meeting of shareholders.

Capital generated in excess of NN Group's capital ambition is expected to be returned to shareholders unless it can be used for any other appropriate corporate purposes, including investments in value creating corporate opportunities. A clear example is our intention to combine Delta Lloyd with the Dutch and Belgian activities of NN Group, by way of a public tender offer for all issued and outstanding ordinary shares of Delta Lloyd, for EUR 5.40 in cash per ordinary share.

NN Group is committed to distributing excess capital in a form that is most appropriate and efficient for shareholders. Examples are our share buybacks as part of the ING selldown in January 2016, and the share buyback programme announced in May 2016.

More information about the share buybacks is available in the Financial Report, pages 63, 146, and 151, or on our corporate website.

When proposing a dividend, NN Group will take into account, among other things, its capital position, leverage and liquidity position, regulatory requirements, and strategic considerations, as well as the expected developments thereof.

NN Group intends to pay dividends either in cash, after deduction of withholding tax if applicable, or in ordinary shares from the share premium reserve at the election of the shareholder. We intend to neutralise the dilutive effect of the stock dividend through repurchase of ordinary shares.

At the Annual General Meeting on 1 June 2017, a final dividend for 2016 will be proposed of EUR 0.95 per ordinary share. Together with the 2016 interim dividend of EUR 0.60 per ordinary share paid in September 2016, NN Group's total dividend for 2016 will be EUR 1.55 per ordinary share, which is equivalent to a dividend pay-out ratio of around 51% of NN Group's full-year 2016 net operating result of the ongoing business.

Debt instruments

NN Group is borrowing subordinated and senior debt through debt capital markets to meet long term financing requirements. In March 2015, NN Group established a Debt Issuance Programme which facilitates the issuance of debt instruments.

NN Group targets a single A financial strength rating. The financial strength rating of NN Group by both Standard & Poor's and Fitch is A+.

On 7 October 2016, Standard & Poor's announced that it had placed the credit ratings of NN Group on 'CreditWatch negative' as a result of the proposed acquisition by NN Group of Delta Lloyd. On 4 January 2017, Standard & Poor's announced that it will maintain the credit ratings of NN Group on 'CreditWatch negative' and expects to resolve or update this assessment within 90 days.

On 23 December 2016, Fitch announced that it will not take any rating action as a result of the offer that NN Group has made for Delta Lloyd.

On 10 January 2017, NN Group issued EUR 500 million of senior unsecured debt with a fixed rate coupon of 0.875% per annum and a maturity of six years. The proceeds are planned to be used to repay EUR 476 million of subordinated debt of NN Group on its first call date in May 2017. This debt does not qualify as Own Funds under Solvency II.

On the same date NN Group issued EUR 850 million of subordinated debt with a maturity of 31 years and first callable after 11 years with a fixed rate coupon of 4.625% per annum until the first call date and a floating rate coupon thereafter. This subordinated debt qualifies as Tier 2 capital under Solvency II. The proceeds have been used to repay EUR 823 million of hybrids loans outstanding with ING Group which ceased to be grandfathered as Tier 1 capital under Solvency II from 1 January 2017.

To be able to remain competitive and continue to create value for stakeholders, we closely monitor our capital position including the use of debt instruments.

More information on this programme and the debt instruments issued by NN Group is available on our corporate website.
www.nn-group.com/investors/debt-securities

Credit ratings

Credit ratings are indicators of the probability of timely and full repayment of interest and the principal amount of fixed-income securities. NN Group has been awarded credit ratings from Standard & Poor's and Fitch Ratings. The financial strength ratings of NN Group on 31 December 2016 were:

A+

Standard & Poor's
CreditWatch negative, 7 October 2016

Fitch
Stable outlook, 23 December 2016

Financial performance in EUR million

	2016	2015
Operating result ongoing business	1,227	1,435
Net result	1,189	1,565
Net operating ROE	8.1%	10.8%
Free cash flow to the holding	1,349	1,366

Strong balance sheet in EUR million

	2016	2015
Solvency II ratio	241%	239%
Total assets	168,505	162,152
Shareholders' equity	22,706	20,469
Financial leverage ratio	21.1%	21.7%

As a long term and active investor, NN Group is committed to investing responsibly

We strive to conduct our business in an environmentally and socially responsible way. This means managing our own assets, as well as those our customers entrust to us, in a responsible way. NN Group's Responsible Investment Policy Framework sets out our vision and approach on how we integrate Environmental, Social and Governance (ESG) aspects in our investment decision-making process and active ownership practices. It also addresses our investment restrictions and the offering of specialised SRI products.

Strengthening ESG integration processes and tools

To support the implementation of NN Group's Responsible Investment Policy Framework, we set out to create a series of guidance papers that address areas defined by the UN Global Compact. To help develop these papers, two workshops were organised related to human rights and the environment, involving the sector analysts of NN Investment Partners. The first paper published is on Human Rights, which can be downloaded from our website.

We continued to strengthen the integration of ESG factors in our investment processes. For example, NN Investment Partners in the Netherlands collaborated with our teams in Poland and Japan to leverage local expertise, ensuring that we make informed proxy voting decisions in the region, and strengthen the integration of ESG factors in the investment process across all our operations.

NN Group also developed responsible investment guidelines for Private Equity. These guidelines define our approach to integrate ESG factors in the selection, appointment and monitoring of our (external) private equity managers.

The full implementation of last year's introduced guidelines for Real Estate contributed to a further enhanced performance in the GRESB Real Estate assessment. In 2016, 90% of NN Group's EUR 5 billion proprietary real estate portfolio was measured in GRESB. The portfolio's (value-weighted) score in 2016 was 72 on a scale of 1 to 100, while the benchmark average (289 entities) was 59. This represented an improvement, both in absolute terms and relative to peers, from 2015 when the score was 66 versus the benchmark average of 55.

Influencing companies to take responsibility

We believe that active, engaged ownership contributes to generating long term value. It is an important part of our strategy to earn long term returns from the companies in which we invest. One of the most powerful tools of active ownership is well-informed proxy voting. Voting rights are exercised on behalf of: (i) the proprietary portfolio and (ii) the Dutch, Belgian, and Luxembourg funds with at least EUR 100 million assets under management.

As part of the information barriers (historically known as 'Chinese Walls'), there are separate voting committees for proprietary and client assets in place. During 2016, NN Investment Partners voted at 1,437 shareholder meetings (94% of total votable meetings) on 18,335 agenda items and 347 resolutions put forward by shareholders.

These resolutions focus on ESG issues. We supported shareholder resolutions related to environmental and social matters in a large number of cases. We voted against when these resolutions would not provide proportionate benefits to shareholders. Our voting record is summarised in the table on page 54.

Dialogue and engagement with companies are part of our fundamental approach to the investment process. Because of NN Investment Partners' active investment strategies, our analysts and portfolio managers are in continuous dialogue with investee companies. During company meetings, they also address ESG issues that may have a material impact for the company.

Furthermore, we have an in-house team that focuses in more detail on ESG issues that may have a material impact on our customers' holdings. The engagements they conduct are often in collaboration with other investors. For example, during 2016, we participated in two working groups of the Principles for Responsible Investment (PRI) that focused on human rights in the extractive industry, and on identifying good practices for companies' director nominations processes.

In 2016, we implemented a more detailed database which allows us to better track and report on ESG dialogues with investee companies. The chart on the next page shows the breakdown between environmental, social and governance issues as a topic of discussion during our company meetings. In total, 310 dialogues were logged by our equity analysts and ESG specialists in the database. These dialogues included 48 engagements conducted by our ESG specialists, which were often in collaboration with other institutional investors or supported by an external service provider.

Case study

ESG ratings lead to better performance

In 2016, a second study was conducted with the University of Maastricht's European Centre for Corporate Engagement (ECCE). This study aimed at understanding how ESG factors affect share price performance in emerging markets (EM) equities. The study finds that investing in EM equities with high ESG ratings leads to better performance when adjusted for country and sector factors. NN Investment Partners uses these results to improve the ESG integration in the investment process.

Link to full article:
www.nn-group.com/annual-report

NN Investment Partners reports in more detail on its proxy voting and on the progress and outcomes of engagements conducted in the Active Ownership and Responsible Investing reports, which are published on their website.

Increased focus on climate change

As long term investors, we are aware of the risks climate change presents to our investments, and as such we are committed to playing our part in addressing the issue of climate change.

By supporting the annual Climate Change Information Request that the Carbon Disclosure Project (CDP) sends to publicly listed companies worldwide, we encourage companies to adopt a long term mindset, and to provide better disclosure regarding climate change-related risks and opportunities. In 2016, we also joined CDP's Water programme, through which we will encourage companies to disclose better information about their water usage.

Climate change dominated the environmental shareholder proposals at AGMs in 2016. NN IP voted on 18 different shareholder proposals related to this topic, of which we voted in support of 17. We also continued our engagement in the utility sector focusing on ways to increase power generation from renewable energy sources and reduce their carbon footprint. These engagement activities, supported by engagement specialist GES, focus on a selection of 20 large companies worldwide.

The companies' responses to our engagement requests differ substantially as a reflection of how mature they are in addressing carbon risks. The range in responses is taken into account when future engagement efforts are calibrated to reach maximum effect.

Making a positive impact through our investments

By offering specialised SRI funds and responsible investment solutions, NN Investment Partners meets our customers' growing demand for products that generate solid financial returns and have a positive impact on society and the environment. NN Investment Partners has a long track record of managing sustainable products across asset classes. In addition to NN Investment Partners' flagship sustainable equity and credit funds, a number of new funds were introduced in 2016. This included a new sustainable balanced fund that invests in a mix of assets classes. NN Investment Partners also grew its presence in impact investment strategies through the launch of a euro green bond fund and a global impact fund focusing on listed equity. These offerings aim to generate measurable impact alongside financial return. The total assets under management in all our sustainable equity and fixed income products have grown with 12% to EUR 5,062 million at year-end 2016.

Guided by our responsible investment principles, we also consider opportunities on behalf of NN Group's proprietary assets that seek a positive impact on society whilst meeting our investment criteria. For example, we invested in green bonds, and provided debt financing for a wind park in Germany.

Advocacy on responsible investment

NN Investment Partners actively participated in the Investment committee and the Legal committee of the Dutch corporate governance network Eumedion, the Corporate governance committee of EFAMA as well as the Shareholder rights committee of the International Corporate Governance Network (ICGN).

Representatives of NN Investment Partners also spoke publicly about sustainability and corporate governance at various symposia and congresses around the world. On these occasions, they shared the results of NN Investment Partners' studies on the effect of ESG data on investment performance. For its European institutional client base, NN Investment Partners hosted several responsible investor conferences in Europe.

Read more about stakeholder engagement and international commitments on pages 48-49 of this Annual Review.

More information on NN's approach to responsible investment is available on our corporate website: www.nn-group.com/In-society/Responsible-investment

Building environmental screening tools

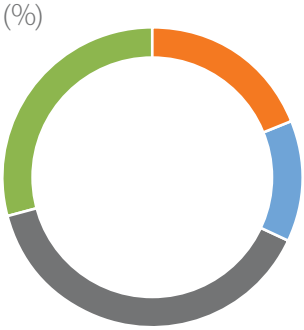
Sound investment decisions start with having the right information. To better understand investment exposure to potential environmental risks, NN Investment Partners partnered with South Pole Group, one of the leading providers of carbon, waste and water data. By building an in-house portfolio screening tool, we are able to meet current and future information requirements of clients, enabling on-demand reporting across asset classes. Among the first requests, a carbon footprint report is being prepared for NN Group's proprietary portfolio.

EUR 5bn
AuM in SRI funds and mandates

1,437
number of shareholder meetings at which we voted

310
number of ESG dialogues

Company dialogues on ESG[1]
(%)



Environmental	19
Social	13
Governance	39
ESG overlapping	29

1 This represents the number of company dialogue and engagements conducted by NN IP's equity analysts and ESG specialists.

Attracting, retaining, and supporting our people

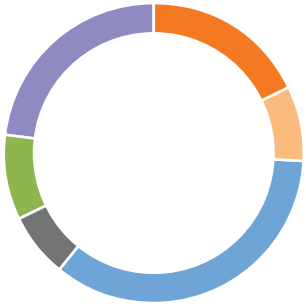
In this chapter, we describe how our business model enables us to create long term value for our 11,500 colleagues by nurturing a culture where their ideas, talents and personalities matter.

Creating value as an employer

NN is committed to maintaining a caring, healthy, and respectful workplace in which people can work and thrive. NN's ambition to become more agile, and to increasingly focus on customer-driven innovation, drives our effort to empower our people and to support a more entrepreneurial culture.

Over the past year, these goals have been advanced through efforts dedicated to developing leaders. This includes creating the right mindset for all of us to deliver on our strategy. Overall, this means stimulating a culture that balances left-brain strengths such as ratio, logic, analysis and facts, with right-brain capabilities such as outside-in orientation, creativity, empathy and an entrepreneurial mindset. It is our belief that this fosters authentic employees who wish to develop themselves and take initiative. Although we see this as a long term journey, we have already received a number of HR awards that signal we are on the right track.

Our employee distribution
(% per business unit)



Netherlands Life	18
Netherlands Non-life	8
Insurance Europe	35
Japan	7
Asset Management	9
Other	23

Building on this approach, we are gradually clarifying and focusing our employer brand in key markets. NN is enhancing its presence on online and social career platforms, and added a 'personality test' to the career site in the Netherlands to assess a cultural fit between a candidate and the company.

Our business in Spain was certified as a Top Employer, and also received a special award for Training and Development. Early 2017, our operations in Turkey and Poland achieved a Top Employer certification, where NN Greece is well under way to realising the same achievement.

Stimulating our employees to develop and grow

Continuous personal and professional development is necessary to keep up with changing customer behaviour and technological developments. In 2016, much effort was put into stimulating employee dialogue around our values and the mind-set required to be successful. In addition, focus was placed on further cultivating a climate of trust, and on supporting leaders in improving their leadership skills, including 'setting a clear direction', 'creating followership' and 'coaching and giving feedback'.

We support our employees, including management, by offering development opportunities, taking into account different learning needs and styles. Development planning is a fundamental part of our annual planning, coaching, and appraisal cycle. We offer career checks, and specific coaching by internal and external specialists. In 2016, NN spent EUR 13.7 million on training and development. Among other resources, hundreds of online learning and training modules and e-Books were made available to our employees.

In addition to training, we facilitate internships, assignments and job rotation schemes to provide employees with the chance to find out what career steps would be feasible and suitable for them in the future. We also offer students the opportunity to learn and develop by way of internships, supported by challenging assignments and personal coaching.

Leadership development

In 2016, NN specifically invested in leadership development by deploying a leadership curriculum focused on encouraging current and future leaders to live our values, demonstrate personal excellence, develop a deep understanding of the markets in which we operate, and enable others to perform at their best.

One of the most notable interventions was a three-day leadership development programme for all senior leaders. Similarly, we launched leadership development programmes for trainees, mid-career, and senior-career talents. In general, these programmes take the form of a development journey lasting between 6 and 36 months. This allows these talented colleagues to accelerate their development and grow their leadership skills in line with our NN values, leadership model, and strategic direction.

EUR 13.7m
spent on training and development

For all employees that join NN, a professional onboarding programme is offered. Employees are supported in their development through access to a rich variety of learning methods and media, such as e-learning suites, webcasts, games and simulations, as well as more traditional methods such as classroom sessions, training and coaching on the job, and peer learning.

For specific target groups, we developed training programmes for professional development on specific topics, such as Solvency II, Wet financieel Toezicht, and the Art of Insurance and Asset Management. This strengthens our learning communities, and enables knowledge sharing between professional practitioners.

Recognising performance

The performance management approach is being transformed at the senior level, from a traditional structure to one that centres on regular performance check-ins throughout the year. The new approach puts more focus on employees' motivation, development, and growth. The performance management process includes financial objectives, non-financial objectives, and behavioural objectives that when combined drive value for our stakeholders. This is done on all levels in the company and is linked to reward (either in development or other benefits). 98.4% of our employee base completed the 2015 annual appraisal cycle ending in 2016.

Equal opportunities and diversity

NN holds a strong belief in the virtues of diverse teams, and how the collective intelligence of diverse talents, personalities, and expertise leads to better decision-making. NN is engaged in a number of activities to stimulate specific aspects of diversity. Our aim is to increase female leadership, better balance our cultural diversity, bring more young talents in, and build an inclusive climate with no barriers with regards to gender, religious beliefs, sexual orientation or otherwise. At the same time we are looking for new ways to optimise how long-experienced employees contribute their knowledge and pass down their skills while working side by side with younger colleagues. As an international company, international mobility across our markets is also increasing.

NN Investment Partners is building momentum in this regard with a Female Leadership Council. The Council developed a business plan to improve gender diversity, including several actions and a governance structure going forward. The focus is on awareness and education, statistics, policies, and creating a network. We sponsor employee participation in several female professional and development networks.

In addition to these focused actions, we aim to have a higher representation of women in all leadership development programmes, such as senior and mid-career leadership programmes, mentoring, and trainee recruitment.

52/48

total male/female ratio

We also understand that diversity itself does not guarantee results in terms of cooperation and better decision-making. This is why in our development programmes we provide managers with tools to increase awareness around the reasons behind differences in behaviour and how to leverage these differences when working in teams and business units. Working for NN worldwide in 2016, 20% of our senior leaders in the so called Top 50 were female and 26% had an international background. The NN Supervisory Board is made up of seven members, two of whom are female. This shows that our continuous effort to improve diversity is bringing small visible improvements, and we look forward to better fulfilling this potential.

Employee rights and representation

The way we consult with our employees also depends on local legislation and culture. In some countries, employee consultation is a legal requirement and in many European countries, it is arranged through works councils. At NN Group level, we work with a Central Works Council and a European Works Council, within which we encourage employee participation. In the Netherlands, works councils are often actively involved at an early stage in different processes that are of relevance to the company. Social policy topics are frequently discussed in meetings with the works councils and management. Our dialogue with the works councils accommodates collective interests and facilitates the sharing of information and indirect participation by all employees.

An overview of our Central and European Works Council members can be found on page 28 of the Financial Report.

Case study

Engaging employees and building a 'start-up culture' in Poland

'How do we create a more entrepreneurial environment in which employees feel engaged and empowered to make decisions, act as owners, come up with innovative ideas and are committed to deliver results?' This was the starting point that led to an extensive engagement programme led by a dedicated group of change ambassadors from across the organisation within Nationale-Nederlanden Poland.

This resulted in a bank of initiatives that encourage employees to search for and create for new ideas for business development and improvement. Simultaneously, everyone's personal development was accelerated through 'speed-dating' events and a new training offer. Poland won an award in the Employee Engagement and Loyalty category from a leading Polish newspaper for their approach.

Link to full article:
www.nn-group.com/annual-report

In addition, the vast majority of NN Group's employees are covered by a collective labour agreement (CLA) or locally agreed policies. The first NN CLA in the Netherlands was agreed upon in 2011, followed by a new (CDC) pension plan in 2012 and an agreement on the financial independence of the ING Pension Fund in 2014. In 2016, both a new CLA and a new agreement on our Social Plan were reached where 'Investment in continuous employee development' is at the heart of these agreements. NN's process of co-creation of the CLA (with contribution of employer, employees, trade unions and works councils) has been inspiring and is seen as best practice by other companies and governmental institutions.

Vitality and wellbeing

At NN, we strive to create a healthy work environment and support a good work-life balance, which are crucial for fit and engaged employees. Work-life balance and flexibility are key themes in every country where we operate, even if they are not always the norm in every country's culture. NN strives to forward this through labour conditions that promote flexibility and a healthy way of working. We further support this ideal with office ergonomics, more inspiring workplaces, mindfulness training and different health and vitality programmes.

The 'Your Health matters' programme in the Netherlands offers energy workshops and sports clinics as well as tools and information on work-related stress and mental wellbeing. This is so employees can discuss their perceived workload with their managers and make appropriate agreements. We provide information and support on volunteer care duties and how to deal with these circumstances.

We integrate our vitality tools and workshops in the employability programme, so people are able to meet the constantly changing requirements of their jobs and have enough energy and vitality to remain productive in their work. The international running sponsorship platform and several other society related activities provide additional opportunities for employees to engage in a healthy lifestyle.

Restructuring

In line with our medium term strategic focus area to become more efficient and agile, we worked on improving our operating model. The aim is to further stimulate a culture of entrepreneurship and accountability within NN Group. As of 2017, our new operating model will be implemented.

To further optimise the efficiency of our businesses, several restructurings were announced or implemented in 2016. Two examples are NN Bank and NN Life in the Netherlands.

In the second half of 2016, NN Bank prepared a Request for Advice to significantly change its organisational structure and governance. The main goal of this reorganisation is to become a more agile organisation. Furthermore, it enables NN Bank to further reduce the cost/income ratio in future years. The new organisation became effective as of 1 January 2017.

NN Life continued to improve the customer experience combined with cost reduction. For the individual life closed book segment, a strategic partnership with a leading outsourcing company was established for the outsourcing of business processes and IT. Combined with the migrations of portfolios to cost efficient IT platforms, the closed book organisation set the course to realise future efficiencies.

These restructurings lead to organisational changes and redundancies. NN remains committed to supporting those employees who are directly affected by these organisational changes. To guide and help our people through these challenging times, we introduced various initiatives to provide employees with training, coaching and advice. In addition, NN stimulates and enables ongoing development, with a view to improve and strengthen the employability of all our employees.

Stable engagement levels

At NN, we believe that engaged employees are at the heart of a successful organisation. To understand how our employees feel about our company and to get an understanding of their engagement levels, we ask their opinion and get their views through an annual employee survey. The response rates this year – 86% of all employees completing the survey – was high, showing the commitment of our employees to have their voice heard and make our company an even better place to work. Despite ongoing restructuring, overall employee survey results show engagement levels that remain fairly stable at 71%. Furthermore, survey results show our continued focus on our customer, the need to continue to invest in collaboration and innovation, and reflect that colleagues feel all of us truly live our values – care, clear, commit – on a day-to-day basis throughout NN.

Case study

Enhancing leadership self-awareness

Strong, empathetic and inspiring leadership is crucial for achieving our ambitions. In 2016, every senior NN leader was trained in giving coaching and feedback to unlock the full potential of their employees. Each senior leader also joined a three-day day leadership development programme.

In this programme, leaders receive a bird's-eye-view of an NN-like business, with trade-offs, experiencing external and internal events similar to events occurring in our current context. It provided a rich context in which critical leadership behaviours can be practiced, observed and coached.

Topics included: 'sense making in a dynamic context', 'understanding how entrepreneurial thinking, innovation and customer centricity translate into managerial decision making' and 'how to more effectively leverage the collective intelligence'.

Management Board members took an active interest by joining debrief sessions at the end of each programme, focused on how to use the insights that were gained.

Link to full article:
www.nn-group.com/annual-report

71%
employee engagement

Creating a positive impact for society and communities

In this chapter, we describe how our business model enables us to create long term value for the societies and communities in which we operate, by using our resources to help them achieve long term, sustainable prosperity.

Creating value as a corporate citizen

We contribute to the society and the communities in which we live and work in various ways. For example, we generate economic activity by purchasing products and services from local suppliers, in addition to regional and global suppliers. To provide revenue to fund public services, we pay taxes to the governments in the markets where we operate. To ensure we do this in a responsible way, we have adopted a set of tax principles. Furthermore, we invest in our local communities through our charitable partners and volunteering efforts.

Sustainable supplier management

With an annual spend of around EUR 1 billion, our procurement activities support our business strategy. A substantial part of this investment goes towards real estate, professional services, IT and facility management.

Our relationship with suppliers is based on our NN values, and we aim to work together in a mutually beneficial way. We have the supplier qualification process and governance in place for managing sustainability – related to social, environmental and financial aspects – which is improving every year.

Managing our environmental footprint

In 2016, we continued to effectively manage our direct environmental footprint by efficiently using natural resources; by identifying and implementing green alternatives; and ultimately by compensating for the remainder of our carbon footprint.

Our sustainability initiatives continue to focus on energy and business travel efficiency and paper use reduction. We also encourage the recycling of materials inside our office buildings. NN Group's facility management teams are committed to improving the energy efficiency of our buildings, especially in countries where renewable energy is difficult to purchase. In 2016, we realised a decrease of 33% of energy use. This was partially caused by a reduction of office space in the Netherlands.

NN Group encouraged employees to drive cleaner by introducing more electric cars in the NN car pool, and installing additional charging stations at our offices in the Netherlands.

We offset the remainder of our CO_2 emissions through the purchase of Voluntary Carbon Units (VCUs), Gold standard. As a result, we achieved 100% carbon neutrality over 2016. The carbon credits that we acquired come from a windmill park in Manisa, Turkey. The park exists of 23 modern wind turbines with a total capacity of 57.5 MW. The park provides renewable electricity to around 20,000 households. The project ensures that less greenhouse gas emissions will be emitted as fossil fuels are replaced by wind energy.

Case study

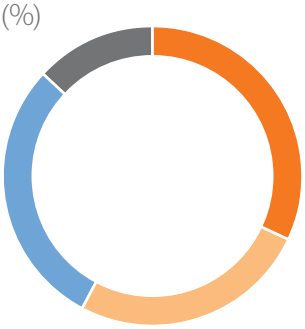
Scan business travel

NN Group asked Climate Neutral Group in 2016 to make an analysis of our air travel. Climate Neutral Group identified four areas for reduction of CO_2 emissions: reducing business class flights, using the train for short trips, booking more efficient flights and replacing trips with video conferencing.

Link to full article:
www.nn-group.com/annual-report

Energy consumption

(%)



Electricity	32
Renewable electricity	26
Natural gas	29
District heating	13

Tax strategy and policy

We believe that being a responsible tax payer means that in our tax planning we take due account of long term considerations and carefully weigh the long term interest of our stakeholders. We have a set of tax principles to which we adhere as well as communicate to the public on our website.

One of NN's key principles is that we only structure our tax affairs based on business rationale. This means that we do not make use of aggressive tax planning or use 'tax havens' to reduce our corporate income tax. Furthermore, due consideration is given to NN's legitimate interests, reputation, brand, corporate social responsibility when considering tax initiatives. Another key principle is that we strive to be transparent and disclose all relevant facts and circumstances to local authorities. In the Netherlands this is embedded in a 'horizontal monitoring' approach where we aim to achieve clarity and upfront certainty around tax matters.

NN Group reports various tax elements on a country-by-country basis. We expect the impact of such reporting to be low as it reflects our policy that transactions must have a business rationale. Besides the public disclosure, we also report country-by-country information to the tax authorities in line with the BEPS initiatives.

To raise internal awareness of the standards and policies we have in place that are relevant for all managers to know and act upon, we included these principles in the Manager annex of NN's Code of Conduct, which became applicable in September 2016.

Furthermore, one of the permanent education sessions that NN Group organised for the Supervisory Board last year focused on the topic of tax transparency.

Financial tax disclosures

The income tax charge of EUR 273 million in 2016 represents an effective tax rate of 18.7% (2015: 9.4%). The effective tax rate in 2016 was lower than the weighted average statutory tax rate of 25.4% due to tax exempt income, partly set off by prior year adjustments. More information on the effective tax rate can be found on pages 91-93 of the Financial Report (Note 35).

The income tax paid is reflected in the consolidated statement of cash flows in the Financial Report and amounted to EUR 197 million in 2016 (2015: EUR 39 million).

The lower income tax paid in relation to the income tax charge reflects differences between accounting and tax rules as well as loss carryforwards.

We further provide details of both the tax charge as well as the tax paid per reporting segment and per country. A full country-by-country report is included on pages 87-90 of the Financial Report (Note 34).

Case study

Junior Achievement Innovation Camp Spain

In addition to the Social Innovation Relay, in Spain, JA and NN together also organised an Innovation Camp to promote social integration of people with intellectual disabilities. Students from High School, Baccalaureate, Vocational Schools together with Aprocor, a social foundation with more than 25 years of experience supporting students with intellectual disabilities to achieve social inclusion, worked together to create social innovations.

'This experience always has a huge positive impact on the students and on us, both professionally and personally.'

NN volunteer

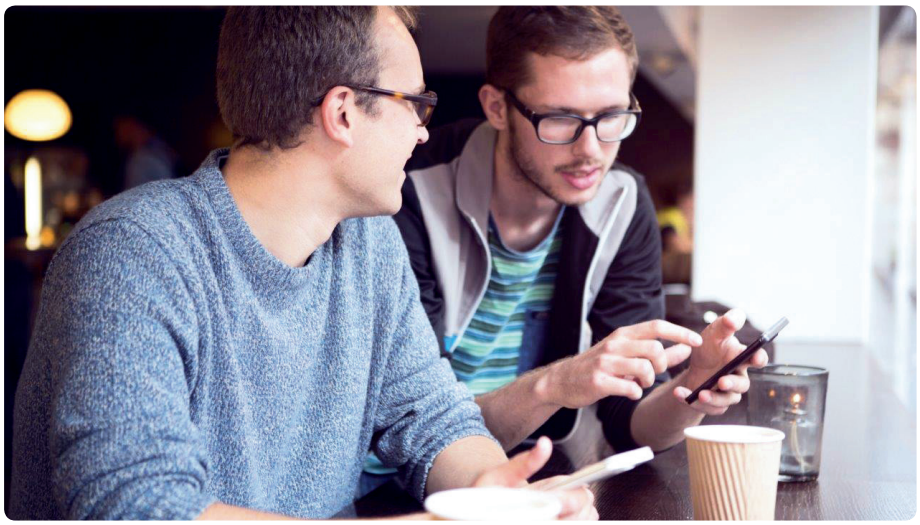
Link to full article:
www.nn-group.com/annual-report

Case study

Circular mobile phones

NN Group reduced its mobile footprint through collaboration with the organisation Closing the Loop and its 'One for One' programme. For every mobile phone we replaced, Closing the Loop bought a broken mobile phone in Africa and thereby prevented phones from ending up in landfills. Together, we created new value for discarded mobile phones and contributed to the circular economy.

Link to full article:
www.nn-group.com/annual-report



Community investment

The community investment programme of NN Group is called Future Matters. Its goal is to empower people in the markets where we operate to improve their financial wellbeing. The programme specifically targets 10 to 25 year-olds and underserved groups. In 2016, we reached out to more than 27,500 youths in the many communities in which we operate.

We aim to gradually target our overall charitable giving more towards the Future Matters focus areas. In 2016, 69% of our total charitable donations of EUR 1.5 million went to NN Future Matters and its related target areas.

We focus our efforts on three complementary target areas: promoting financial empowerment, creating economic opportunities, and alleviating financial distress. With international and local partners involved, the programme is both globally consistent and locally relevant.

Promoting financial empowerment

By supporting people in their development of financial knowledge, we help them foster a secure and stable financial future. Responsible financial behaviour is often best developed at an early age, so many of our initiatives are focused on young people. During the 2016 Money Week in the Netherlands, NN employees gave in total 162 guest lectures in primary schools, teaching 3,700 children about money and financial risk scenarios.

Creating economic opportunities

By helping young people prepare for the future, we believe we add value by increasing their opportunities in the labour market. Our colleagues provide job training to young people who may lack specific skills or role models. This is in cooperation with JINC, a Dutch not-for-profit organisation focused on helping young people become better prepared for the labour market.

Another way of creating economic opportunities is by encouraging entrepreneurship. In 2016, the Social Innovation Relay (SIR) again took place as the flagship programme of the NN Group and Junior Achievement Europe partnership. The SIR is a global competition that challenges secondary school students to develop an innovative business concept that addresses a social need. Together with Impact Centre Erasmus (ICE) we are conducting an impact study that researches whether participation in the SIR indeed leads to expertise development and skills improvement.

The main questions addressed are if the participating students improve their skills and expertise, and do they show a more innovative, entrepreneurial and socially responsible attitude that they can use in their future career. A total of 12,631 students participated in ten countries.

In Japan, NN Life continued their partnership with the Social Entrepreneurship School (ETIC). Two young entrepreneurs grew their business by receiving mentoring and advice from various NN experts and senior social entrepreneurs.

Alleviating financial distress

Even in prosperous societies, formal social support services are sometimes unable to reach out to the disadvantaged and underserved of society. Through fundraising and partnerships with local charities, NN aims to support families with children that grow up in financially challenging circumstances.

For example in the Netherlands, we partner with the LINDA.foundation, a charity that helps families in financial distress. In 2016, we organised several initiatives to raise funds, such as an employee winter fair. In addition, volunteers helped assemble packages with gift vouchers for the families concerned. Our customers are also involved in the LINDA.foundation through our special credit card that donates ten eurocents for each transaction to the LINDA.foundation.

As part of the promotion of the NN Rotterdam Marathon event, we partnered with the Jeugdsportfonds, a charity that helps children from families without the financial means, to become members of a sports association of their choice. In Bulgarian NN running events, our colleagues ran for one of our local charity partners SOS Children's Village.

To celebrate the second anniversary of NN Future Matters, and to provide the various NN countries with the opportunity to further strengthen their structural partnerships with local charities in line with Future Matters, in 2016, we made extra donations that totalled EUR 127,500 to local charities in 12 of the markets where we operate.

Other good causes

In addition to the global community investment target areas under the NN Future Matters umbrella, our businesses and corporate foundations support other local initiatives, within the areas of health and environmental care that are close to our employees' hearts. With these activities, we connect with our employees, customers, and business partners, and aim to address societal needs together.

Case study

Future Matters scholarship programme

The NN Future Matters scholarship programme is a collaboration between NN and EP-Nuffic and gives students the opportunity to complete a Master's programme while gaining the experience of studying abroad. These scholarships are intended for students from selected countries wishing to complete a Master's programme in the Netherlands, with a particular focus on those who are the first in their families to go on to higher education. The students are matched to an NN mentor, who supports them during the year.

Link to full article:
www.nn-group.com/annual-report

'To help young people grow their economic opportunities what better than to provide talented and ambitious students a scholarship to take their future into their own hands.'

Delfin Rueda
CFO and NN Future Matters mentor

27,529
young people reached through NN Future Matters programme

69%
of total charitable donations to NN Future Matters and its related target areas

Our strategy is to deliver an excellent customer experience, based on strong products and services, and long term relationships

Even though the landscape of insurance and asset management is constantly changing, the role we play in supporting people to build and protect their assets and cover their risks has not changed. Therefore our strategy has remained consistent over the past three years: it supports us in fulfilling our purpose and in creating long term value for our company and our stakeholders, as defined in our value creation model.

NN Group strategy

Our purpose

We help people secure their financial futures

Our values

We care

We are clear

We commit

Read more on pages 06-09

Our strategy

To deliver an excellent customer experience

Transparent products and services

To serve our customers' lifetime needs

Read more on page 42

Multi-access distribution

We are there, where our customers want us to be

Read more on page 43

Efficient and effective operations

To deliver excellent customer service

Read more on page 44

Excellent balance sheet management

Disciplined capital and risk management to keep customers' money safe

Our brand 'You matter'

Underpinning our core strategic objectives are four medium term focus areas

To capture opportunities for our businesses, we need to keep improving our customer service, increase efficiency and manage the assets entrusted to us – as well as our own assets – in a responsible way. To realise this, we defined four focus areas for the medium term.

Innovate our customer experience

We want to be the intuitive partner to help people secure their financial futures. Our drive for innovation is about enhancing customer satisfaction, intuitive interaction and efficiency at the same time. In order to do that, we will focus on:

- Transforming our customer engagement, building up relationships with customers and developing intuitive tooling with 24/7 access
- Transforming our propositions, designing easy-to-understand products with continuous interactions with and feedback from customers
- Transforming our cost base, bringing our costs further down and adjusting our pricing to customer expectations

Read more about our innovation efforts and achievements on pages 10-11 of this Annual Review.

Develop an efficient and agile operating model

To secure long term growth, we continually invest in making our organisation more efficient and agile. In 2016, NN Group further improved its operating model based on the following principles:

- Clear accountabilities: have a clear overview of who is responsible for what
- Streamlined decision making: decrease the number of approval committees and increase our speed of decision making
- Simplified governance: outline the specific roles for the business units, head office and Management Board in an updated governance manual

As of 2017, our new operating model will be implemented, based on a balance between 'responsible freedom' of our business units and control at Group level. It aims to further stimulate a culture of entrepreneurship and accountability within NN Group.

Leverage our asset management capabilities

The fundamental need of people to protect themselves against life's uncertainties will not disappear and will therefore continue to drive growth in the insurance industry over the long term. With the combination of our asset management, life insurance and retirement service capabilities, we differentiate ourselves in the market. In this context, asset management needs to be even more integral to the core of NN Group.
With regard to our portfolio, we are involved in banking, non-life and health on an opportunistic basis, where we have clear chances to succeed or where it helps us build the needed scale.

A good example is the cooperation between our pension administrator AZL and NN Investment Partners in setting up De Nationale Algemeen Pensioen Fonds (APF), Read more about the APF on page 41 of this Annual Review. Also, NN Investment Partners and Netherlands Life have a history of developing various defined contribution propositions and will continue to work closely together in the future.

Make clear capital allocation choices

Capital generated in excess of NN Group's capital ambition is expected to be returned to shareholders, unless it can be used for other appropriate corporate purposes, including investments in value-creating opportunities. We continuously perform a strategic assessment of NN Group's portfolio.
During the year, we announced several transactions.

On 18 May 2016, we acquired 100% of the shares of Dom Kredytowy Notus S.A. (Notus), a leading financial broker in Poland.

On 18 July 2016 we announced the sale of Mandema & Partners to Van Lanschot Chabot in the Netherlands.

On 4 October 2016, our wholly-owned reinsurance entity in Ireland, NN Re (Ireland) Ltd., signed a portfolio transfer agreement with Canada Life International Re Limited.

On 5 October 2016, we announced the intention to make an offer for all outstanding ordinary shares of Delta Lloyd, aiming to combine Delta Lloyd with the Dutch and Belgian activities of NN Group, which resulted in a recommended offer on 23 December 2016.

Also on 5 October 2016, we entered into a long term collaboration agreement with Sumitomo Life Insurance in Japan.

Business strategy going forward

Our medium term focus areas are translated by the different businesses into local strategies, responding to their own market characteristics.

Netherlands Insurance

Personal, digital, and relevant

Embracing the main trends of individualisation and digitalisation, our Dutch business units continue to invest in innovating our customer experience by offering personal service in a digital and relevant way. It is a personal approach, with products and services relevant to the customer delivered through their preferred channel.

Whereas the focus in 2016 was mainly on increasing digitalisation and getting the basics right, going forward the ambition is set to increase our efforts to become more personal and relevant to our customers. Another clear goal is to increase pension awareness. This is paramount in the Netherlands, as its pension system is expected to change considerably over the next five years. NN actively contributes to the discussions on the direction of these changes. At the same time, cost savings remain a priority in the Netherlands. After NN Group announced the sale of Mandema & Partners on 18 July 2016, the target to achieve an annual administrative expense base for the Netherlands was reduced from EUR 700 million to EUR 685 million by the end of 2018.

International Insurance

Strategic focus on profitable growth

In order to drive profitable growth while innovating our customer experience, a first priority for the international insurance businesses is to focus on disciplined capital allocation at portfolio and proposition levels. This enables the business to improve return on equity of the overall portfolio and also improve the value of new business written as we focus on innovating customer propositions that fit the low interest rate environment.

Secondly, we aim to further leverage high-quality distribution by accelerating the roll out of digital capabilities to tied agency networks. This brings improved productivity as well as an enhanced customer experience. Opportunities also exist to significantly grow in bancassurance partnerships. In 2016, we added partnerships with six new bancassurance players.

A third priority is to drive growth through innovative product development mainly in the areas of protection and long term savings. Finally, we want to differentiate through excellent customer experience by continuously digitalising and innovating the customer touchpoints and leveraging customer intelligence and data analytics. Successfully implementing a digital strategy is critical to firstly meet and progressively beat our customer expectations.

Asset Management

Sharpening strategic focus

NN Investment Partners, our asset management business, continues to sharpen its strategic focus on creating relevant solutions for both institutional and private investors. NN Investment Partners aims to develop close partnerships and explore new opportunities to accelerate growth across its third party client base. The main focus therefore lies on segments where distinct investment skills meet strong or growing client demand.

To capture a greater part of today's market and to broaden recognition of its skills, NN Investment Partners continues to invest in products in selected areas. This includes Multi-Asset (such as MA total return strategies and MA factor Investing), Liability Driven Investments, Income (such as Credit and Convertible Bonds), Emerging Markets and Private Debt, while continuing to serve clients in other – more traditional – areas as well.

Furthermore, NN Investment Partners continues to invest in its sustainable solutions range through new fund offerings while further strengthening Environmental, Social and Governance (ESG) considerations across its entire investment process. Our 'skill-based boutiques' setup, combined with an overarching approach to responsible investing, supports this.

NN Investment Partners will also focus on delivering operational efficiencies, especially in IT processes, and further enhance its cooperation with the businesses of NN Group.

Possible impact Delta Lloyd acquisition

The conditional agreement between the Boards of NN Group and Delta Lloyd to combine Delta Lloyd with the Dutch and Belgian activities of NN Group builds on our strategy to deliver an excellent customer experience and generate shareholder return.

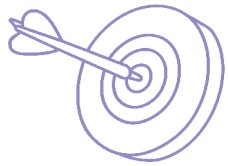
Delta Lloyd shareholders have until 7 April 2017 to offer their shares, unless extended.

The combination of the activities of both companies will result in an organisation better placed to capture innovative opportunities and facilitate continuous improvement in our products, distribution, and customer service. It will provide increased possibilities for knowledge sharing, strengthening capabilities and talent development. And, it will bring growth perspective and lead to opportunities for employees of both NN Group and Delta Lloyd.

The transaction will create a well-diversified leader in the Dutch pensions, life and non-life insurance and banking sectors, with a strong asset management platform, attractive international presence, ample growth opportunities, and appealing customer propositions. It creates consolidation in the insurance sector, and as such brings additional stability in the markets, and will generate materially higher cash return to our shareholders over time through benefits of scale.

Read more on page 118 of the Financial Report (Note 51).

With our strategy to deliver an excellent customer experience, we put the customer at the heart of everything we do



48,000

In a bid to increase the access of insurance products to underserved groups, NN Poland has insured over 48,000 SMEs.

95%

95% of our businesses using NPS, compared to 2015 remains unchanged or improved.

'After an intense selection process we choose with strong conviction for NN Investment Partners.'

Arno Reekers, Chairman of the Board of Telegraaf Pension Fund

'Good insurer: clear, transparent, with a vision!'

Els Riseeuw from IAK about NL Non-life Group Disability

2016

All our businesses delivered on this strategy

30-55

The 'Vrouwenplan 2016' campaign targets 30-55 year old Dutch women by encouraging them to plan for their financial futures.

3 stars

For the fourth year in a row NN Life Japan has been awarded 3 Stars for its after sales call centre from the Help Desk Institute (HDI).

40 awards

In 2016 we received over 40 awards. For example NN Greece was awarded the best life insurance company in Greece, while NN Life Romania won Company of the Year.

25

Sigorta Cini operates in 25 insurance shops across the country; it is the second most visited online aggregator in Turkey.

EUR 5bn

Assets under Management in SRI funds and mandates, an increase of 12% compared to 2015.

Transparent products and services

NN Group is committed to delivering products and services that are easy to understand and meet customers' lifetime needs. They are built in a standardised, modular way, with flexible features tailored to the needs of individual customers. We review our product range regularly to ensure that all products and services meet customer, compliance, risk, capital and profitability requirements. Here, we highlight several examples.

Netherlands Insurance

NN Life launched a roll-over pension product and a pension service which provide (non-)customers insight in their pensions and opportunities to take action in case of deficits.

They also launched Retirement Support, which guides employees who will retire in ten years' time, in small steps with relevant information about their individual pension.

NN Non-life improved their Employers Package and extended the coverage. By managing absenteeism, the customer (the employer) affects the premiums that have to be paid: lower absenteeism leads to lower premiums.

NN Bank introduced 'Managed Investments', a new discretionary online investment management product developed for customers who want to increase their wealth but have little or no knowledge of investments. In this way, NN Bank's investment experts help customers to take steps in securing their financial futures.

International Insurance

NN Turkey launched a cancer care product and a multi critical illness product that covers 17 diseases including cancer. This product insures customers for critical illness risks and provides financial security in their recovery period.

NN Poland received a licence to sell non-life insurance, an important step as it broadens our value proposition to Polish customers and may strengthen our position in bancassurance.

NN Romania launched private health insurance, a flexible one-year renewable health insurance with direct reimbursement for inpatient services and direct access to outpatient services.

NN Greece introduced three outpatient health products which can be used for check-ups and diagnostics in an approved medical centre.

NN Hungary launched a new accident insurance product that offers financial support and medical and assistance services after customers are involved in any accident.

Asset Management

NN Investment Partners launched new funds designed to expand clients options in the current low-yield environment. Examples are additions to multi-asset funds, our environmental, social and governance (ESG) offering, and a mortgage fund. This is in line with NN Investment Partners' focus on products in selected growth areas.

The product offering continues to be further tailored towards client needs, with a focus on selected growth areas: more illiquid and higher margin products.

NN Investment Partners continues developing digital solutions for its clients, such as digital factsheets and apps, as well as joint propositions with NN Insurance, for instance via robo advice.

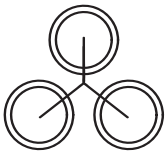
Case study

Discontinued products

General examples of managing discontinued products are the individual life closed block in the Netherlands and the Japan Closed Block VA. Examples of products ceased in 2016 are the individual pension plans in Turkey, due to legislation change, and For You in Czech Republic, as it was not commercially attractive anymore.

'We look at the market position of each product – both present and projected.'

Link to full article:
www.nn-group.com/annual-report



Multi-access distribution

NN Group strives to be available to customers wherever they require us to be. We operate via agents, brokers, banks, and direct servicing, which allow customers to choose how and when they interact with us. In all our countries, we continue to optimise our distribution channels to be there were our customers want us to be. Here we highlight several examples.

Netherlands Insurance

More products have become available in the NN mobile app and the 'MyNN' portal, such as pension savings, investment products, personal loan and revolving credit.

To track the progress and status of new mortgage applications, an online mortgage application service for customers was launched by NN Bank. More than 50% of the applicants already uses this new service.

To increase pension awareness, Netherlands Life makes an effort to reach their customers through a variety of channels. For example, with the popular Dutch women's magazine Libelle they developed an online pension course for women.

Non-life implemented intermediary segmentation, for example based on portfolio and growth potential, and on intermediary needs, ultimately resulting in improved servicing to customers. It also offers specific product information via nn.nl and My NN.

International Insurance

NN Japan entered into a collaboration agreement with Sumitomo Life Insurance, which will sell our corporate-owned life insurance through their nationwide network. It also opened a sales branch to cover the Kitakyushu city and Yamaguchi prefecture, increasing our distribution reach.

NN Poland acquired Notus, a leading financial broker in Poland, further strengthening our distribution network with over 350 Notus agents and franchises giving access to 600 financial advisors.

NN Spain has opened 121 Orange Points since 2012 – a network of tied agents to reach customers and prospects in smaller cities that are not covered by NN Spain's branch network.

NN Greece has started to sell health insurance to customers online and through a call centre network. The product is tailored for this channel and reflects the needs of our customers.

Asset Management

De Nationale Algemeen Pensioen Fonds (APF), an organisation set up by our pension administrator AZL and NN Investment Partners, received a licence from the Dutch regulator. An APF enables pension funds from different companies to merge in a pooled vehicle, offering them lower costs through economies-of-scale. It also relieves them from the governance burden of running a pension fund, which has become increasingly more complex. AZL and NN Investment Partners are the service providers for pension administration, communication and fiduciary management.

Case study

Be where our customers want us to be

Sigorta Cini, our insurance retail broker in Turkey, continues to grow fast. The company is reachable through 25 insurance shops as well as a 24/7-accessible call centre, and a website that allows for online comparison of products from different providers.

'With this platform, Sigorta Cini contributes to NN Group's focus on multi-distribution.'

Link to full article:
www.nn-group.com/annual-report

Efficient and effective operations

NN Group aims to make processes as efficient and effective as possible in order to deliver value to our customers. As well as implementing a new operating model with more standardised processes, we are simplifying and improving our IT infrastructure. We are also developing our customer intelligence skills so that we can adopt a more holistic way of servicing our customers and, ultimately, provide them with even better service. More on our data analytic skills can be found on page 21 of this Annual Review. Here, we highlight several examples.

Netherlands Insurance

In our individual-life closed book, the first product portfolios were transferred to a new IT system, leading to better service and lower costs.

Our pension company decreased service lead times in call centres, improving the speed of service to our customers.

In the property & casualty SME domain we digitalised over 800,000 documents. As a result, response times decreased for phone calls and written communication.

Non-life's Employers Package runs on SAP, with a high degree of straight through processing (STP). In 2016, we transferred most of the policies from two legacy systems to SAP.

NN Bank significantly improved the mortgage interest rate renewal process and introduced new online options, such as automated quotations and mortgage rate averaging tooling, resulting in faster handling times and less failures. Also, the migration of the retail investment products to a new platform provided better online options for customers as well as increased operational efficiency.

International Insurance

Following the example from NN Spain, the NN business units in Poland, Czech Republic, and Slovakia launched a paperless sales process.

NN Poland developed an outbound call centre automation which facilitates outbound sales and services for customers.

NN Turkey initiated a Deployment of Claims Handling Module which enables claims handling officers to track and measure claims on a daily basis.

NN Belgium optimised their process for dealing with pledged contracts at maturity for their life products. As a result customers receive payments quicker.

NN Romania ran a wide process automation project for pensions products that included enrolment digitalisation and implementation of a new asset management software that highly improves reporting, trading, investment risk monitoring, and NAV calculations.

Asset Management

NN Investment Partners introduced robotics to enhance straight through processing and reduce manual errors, especially in the reporting domain, for the purpose of increasing efficiency.

A more agile way of working was introduced in NN Investment Partners' Operations & IT and HR departments. This method enables short-cycled change adapted from outcomes, increases entrepreneurship by moving decision power to the level of knowledge, and encourages a bottom-up flow of ideas.

NN Investment Partners trained staff to ensure that continuous process improvement is part of our 'business as usual' whilst maintaining positive client satisfaction scores and decreasing time-to-market.

Case study

Policies issued in minutes instead of days

NN Spain operates with a paperless sales process. In just three clicks on an app agents and customers are serviced anytime, anywhere, any place. From purchase to post-sales transactions, customers can manage their policy themselves.

'This initiative simplified the sales process radically, resulting in better service.'

Link to full article:
www.nn-group.com/annual-report

Financial and non-financial objectives

In assessing the success of our strategy, we measure our performance in a disciplined way with clear objectives and ambitions we strive for to guide our business. We measure the success of our company both in terms of financial and non-financial performance.

Financial objectives

Annual growth rate on average of 5–7% of operating result before tax of the ongoing business, in the medium term.

Reduce administrative expenses by approximately 15% to achieve a cost base of EUR 685 million by 2018 for Netherlands Life, Netherlands Non-life and Corporate/Holding. The reduction of administrative expenses in Netherlands Life, Netherlands Non-life and holding entities by EUR 200 million, compared to 2013, was completed in 2015.

Increase the net operating return on equity (ROE) of the ongoing business in the medium term, measured against pro-forma 7.1% in 2013.

Over time generate free cash available to shareholders in a range around the net operating result of the ongoing business, assuming normal markets, the current regulatory framework and no material special items.

How we performed

Measuring for the period 2013 to 2016, we delivered on the targets we set. Firstly, we have achieved a compound annual growth rate of 11% of the operating result before tax of the ongoing business.

We reduced the administrative expense base of our Netherlands units by almost 25% to EUR 761 million. We are well on our way to reaching our current target of EUR 685 million by the end of 2018. Thirdly, we increased the net operating return on equity of the ongoing business to 8.1% for 2016.

Aligned with these three targets, we generated a total free cash flow of EUR 3.2 billion and a total net operating result of EUR 2.9 billion in the period 2014-2016, in line with our target. We will be proposing a total 2016 dividend of EUR 1.55 per share, representing a pay-out ratio of around 51% of the net operating results of the ongoing business. This is slightly above the envisaged 40-50% pay-out ratio in our dividend policy. It is also in line with our aim to pay sustainable and predictable dividends. The proposed dividend will be voted on at our annual general meeting of shareholders in June 2017. Including this dividend, we have returned more than EUR 2.1 billion to shareholders in the form of dividends and share buybacks since the IPO in 2014. This demonstrates our commitment to return excess capital to shareholders, unless it can be used for any other appropriate corporate purposes, including investments in value creating corporate opportunities.

Non-financial objectives

Optimise the customer experience by creating transparent, easy to understand products.

- Provide tools to improve our customers' financial decision making
- Be recognised as the 'You matter' company and improve NPS score

Invest in a responsible manner by integrating environmental, social and governance factors into the investment processes.

- Further develop Responsible Investment Policy Framework
- Continue to grow Assets under Management in SRI funds and mandates and expand product offering

Empower our employees by fostering an open, inclusive and stimulating working environment.

- Strive for 30% women in senior management positions by 2020
- Continue to strengthen employee engagement

Create positive change in the communities where we operate by supporting people to improve their financial wellbeing and help them overcome adversity.

- Reach out to at least 100,000 young people by 2020
- 70% of total charitable giving towards NN Future Matters related areas through time and charitable donations by 2020

Minimise our environmental footprint by reducing the use of natural resources and seeking green alternatives. Making responsible choices in procurement contributes to this.

- Reduce CO_2 emissions with 30% in 2020 compared to 2005 (Dutch operations)
- Embed the mapping of ESG risks and opportunities across different procurement categories into the procurement strategy by 2020

How we performed

- All insurance countries offer (online) tools; Increase of NPS score with 2 points
- Implementation of Responsible Investment Policy Framework strengthened by a guidance paper for investors on Human Rights; Assets under Management in SRI funds and mandates increased with 12%; new SRI products were launched
- Slight increase of women in senior management positions (+2 pts); Employee engagement stable, high participation rate of 86%
- Strong increase in young people reached through NN Future Matters, 37% of 2020 target achieved; Charitable giving towards NN Future Matters is 69% of total giving
- Decrease of our direct CO_2 emissions with 18%; mainly caused by a reduction of energy use

NN Group operates under a two-tier board system

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

The interests of NN Group and its stakeholders

In performing its duties, the Boards must carefully consider and act in accordance with the interests of NN Group and its associated business, taking into consideration the interests of all stakeholders of NN Group. The organisation, duties and working methods of the Executive Board, Management Board and Supervisory Board are detailed in charters of these Boards. These charters are available for download on the NN Group corporate website.

For more specific information on the governance relating to our corporate citizenship approach, read more at www.nn-group.com/In-society/Governance-memberships-and-endorsements.htm

Supervisory Board

The Supervisory Board is responsible for advising and supervising the Executive Board, the general course of affairs of NN Group and the businesses connected with it.

For more information, refer to the Report of the Supervisory Board, pages 07-13 of the Financial Report.

Executive Board

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

Management Board

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

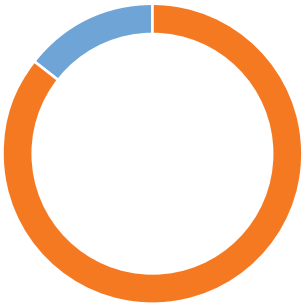
For more information about Corporate Governance, refer to the Corporate Governance chapter, pages 14-23 of the Financial Report.

22 years

average experience in the financial services industry of an NN Group Management Board member

Management Board diversity

(#)



Male	6
Female	1

Compliance with relevant codes

Dutch Corporate Governance Code

As a Dutch listed company NN Group must adhere to the Dutch Corporate Governance Code. NN Group endorses the Code and strongly supports its principles for sound and responsible corporate governance. NN Group considers the principles and best practices of the Code a useful and efficient guide that contributes to NN Group's effort to carefully take into account the interests of its stakeholders. The Code also supports transparency in decision-making and helps strengthen the principles of good governance. NN Group annually publishes a booklet on its application of the Code. The booklet is available for download on the NN Group corporate website.

Read more
www.nn-group.com/who-we-are/corporate-governance

NN Group Compliance Charter & Framework

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 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 aspect of good corporate governance. The purpose of the NN Group Compliance Charter & Framework, which was renewed in June 2015, is to help businesses to effectively manage their compliance risks. This document is available for download on the NN Group corporate website.

Read more
www.nn-group.com/who-we-are/corporate-governance

Our Management Board

The Management Board is entrusted with the day-to-day management and overall strategic direction of NN Group. Its members have, on average, 22 years' experience gained from significant and varied roles in the financial services industry.

We would like to thank our cultural partner, the Mauritshuis Museum in The Hague, The Netherlands, for allowing us to take this group photo in their iconic entrance.

Executive Board

1. Lard Friese (1962)
Chief Executive Officer

Appointed: 2014 Nationality: Dutch

Lard Friese was appointed as member and vice-chair of the Executive Board on 1 March 2014 and as Chief Executive Officer (CEO) and chair of the Management Board and Executive Board on 7 July 2014. Previously he was appointed to the Management Board of ING Insurance as from 3 November 2011. Lard is responsible for the strategy, performance and day-to-day operations of NN. He has been employed by ING/NN since 2008 and brings 27 years' experience in the financial services industry, most recently with NN Insurance Eurasia and Nationale-Nederlanden.

2. Delfin Rueda (1964)
Chief Financial Officer

Appointed: 2014 Nationality: Spanish

Delfin Rueda was appointed to the Executive Board as Chief Financial Officer on 1 March 2014 and as member of the Management Board on 7 July 2014. Previous to that he was CFO and member of the Management Board ING Insurance Eurasia N.V. since 2012. Delfin is responsible for NN's finance departments and investor relations. He brings 23 years of experience in the financial services industry. Prior to joining ING in 2012, he was Chief Financial and Risk Officer and member of the Management Board at Atradius. He also held leadership positions at J.P. Morgan, UBS and Andersen Consulting.

Management Board

3. David Knibbe (1971)
Chief Executive Officer Netherlands Insurance

Appointed: 2014 Nationality: Dutch

David Knibbe was appointed to the Management Board on 7 July 2014. From 1 September 2014, he was appointed Chief Executive Officer of Netherlands Insurance. In this role, David is responsible for NN's insurance and banking business in the Netherlands. He is also responsible for IT globally. He brings 19 years' experience in the financial services industry and held management positions at ING Bank, ING Piraeus in Greece, NN Investment Partners and Nationale-Nederlanden. David Knibbe is chair of the Dutch Association of Insurers.

4. Robin Spencer (1970)
Chief Executive Officer International Insurance

Appointed: 2015 Nationality: British

Robin Spencer was appointed to the Management Board on 1 August 2014, and as Chief Executive Officer International Insurance on 1 September 2014. He is responsible for NN's Insurance Europe, Japan Life, Japan Closed Block VA and NN Re businesses. Robin was previously Chief Executive Officer of Aviva UK & Ireland General Insurance. He has over 20 years' experience in the insurance industry across life, non-life and asset management in the UK and internationally.

5. Dorothee van Vredenburch (1964)
Chief Change and Organisation

Appointed: 2014 Nationality: Dutch

Dorothee van Vredenburch was appointed to the Management Board as Chief Change and Organisation (CCO) on 7 July 2014. Dorothee is responsible for NN's human resources, communications and sustainability. She joined ING/NN in 2009 as managing director of Corporate Communications and Affairs of ING Group. She brings 27 years' experience in the financial services industry starting as an investment banker, and held leadership positions at amongst others Citigate First Financial.

6. Stan Beckers (1952)
Chief Executive Officer NN Investment Partners

Appointed: 2014 Nationality: Belgian

Stan Beckers was appointed to the Management Board as Chief Executive Officer NN Investment Partners on 7 July 2014. Stan is responsible for NN's asset management business. Over the past 26 years, he has also been a member of the Investment Committees at several pension funds and of the Supervisory Board at KAS Bank, Robeco, Econowealth and St Lawrence Trading Inc. Stan is also a visiting professor at KU Leuven. As announced on 16 February 2017, Stan is retiring on 1 April 2017 and will be succeeded by Satish Bapat, currently CEO of NN Life Japan.

7. Jan-Hendrik Erasmus (1980)
Chief Risk Officer

Appointed: 2016

Nationality: South African and British

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. Previously, he was a Partner in Oliver Wyman's Financial Services business, Head of the UK Insurance Practice and a member of the European Leadership Team. He joined Oliver Wyman in 2009, before which he held leadership positions in Lucida plc and Prudential plc. Jan-Hendrik has more than 14 years of financial services experience across insurance, risk and investment management in the UK and internationally.

Doug Caldwell (1969)
Chief Risk Officer

Nationality: American

Stepped down 1 October 2016

After more than 17 years with ING and NN, Doug Caldwell stepped down from his position as Chief Risk Officer and member of the Management Board of NN Group as of 1 October 2016 to pursue his career outside of the company. He joined ING in 1999 and was Chief Risk Officer and member of the Management Board since 1 December 2012.

Governance

Stakeholder engagement and our international commitments

To earn trust and support, NN Group maintains an open and continuous dialogue with its stakeholders about various topics and issues, including our products and services, our business performance, and our role in society. We do this across all levels of the organisation, from NN Group to business unit levels.

NN Group identifies stakeholders based on their relevance to NN Group. Parties are regarded as stakeholders when they have a significant impact on our business, or who are impacted by our business. We consider customers, shareholders, employees, business partners and society at large (including regulators and societal organisations) important stakeholders. We seek feedback from them on different topics in order to learn which issues they consider important.

This input is used in defining our strategy and in our decision-making processes, and tells us how we can best align the interests of our business with the needs and expectations of our various stakeholder groups.

The instruments to conduct this dialogue include regular interactions and feedback sessions for customers on our products and services; roundtable sessions with policymakers, academics and peers; works council meetings with employee representatives and continued dialogue with our employees; frequent bilateral contact with regulatory and government authorities and societal organisations (including non-governmental organisations, labour unions and industry associations); and briefing sessions and roadshows for journalists, analysts, and investors.

In 2016, we were confronted with various developments, issues, and challenges. These were brought to our attention by, or discussed with, different stakeholders. Below we provide a snapshot of the key developments and dilemmas.

Stakeholder and topic

ICSR sector covenant

Following its policy paper 'CSR Pays Off' and a sector risk analysis by KPMG presented in 2014, the Dutch government is supporting the development of sector-based covenants with Dutch sector associations.

The covenants are intended to be the product of multi-stakeholder dialogue between sector associations, member companies, government, trade unions and civil society organisations. Through these covenants, sector associations can identify leading International Corporate Social Responsibility (ICSR) risks facing their sector and develop collaborative approaches to address them. This work is being undertaken in close collaboration with the Social and Economic Council of the Netherlands (SER), the advisory and consultative body of employers' representatives, union representatives, and independent experts that have been fostering sustainable supply chain management among Dutch industry. In 2016, the Dutch insurance sector has expressed its commitment to working on the development of an ICSR sector covenant. Within a reasonable period of time parties aim to come to agreements related to risks in the area of human rights, labour situations and the environment for the investment activities of Dutch insurers.

Stakeholder and topic

Ratings and benchmarks

NN Group participates in various ratings and benchmarks.

This often includes a dialogue to improve our understanding of stakeholder expectations. In 2016, we were invited for a dialogue session organised by the Dutch Association of Investors for Sustainable Development and PwC in honour of the 2016 Tax Transparency Benchmark. The report acknowledged the large improvement NN made compared to 2015. We shared our experience and how the benchmark was used as a practical guide to take several steps in the area of tax transparency. We expressed that the benchmark remains valuable, but that it is important that the method remains stable. In another example, NN representatives attended a meeting organised by the Fair Guide, a Dutch NGO initiative, to discuss their revised annual sustainability assessment. We expressed our concerns on the overly detailed policy expectations. Furthermore, the methodology is focused on exclusion of sectors and activities from investment, which is not in line with our approach. NN's policy is aimed at the integration of Environmental, Social and Governance (ESG) issues into our investment decision-making process. An important principle is to encourage businesses to positive change through engaging in a dialogue with them. By publishing our policies and guidance papers, we hope to provide our stakeholders with a better understanding of our approach.

Stakeholder and topic: dilemma

Climate change

Prior to and at our Annual General Meeting of Shareholders, a Polish NGO asked us to divest from coal companies.

The burning of coal to produce energy is carbon intensive, contributing to climate change. That is why it is an increasing societal concern, and the focus of increasing regulatory policy tightening. Coal-based business models are of particular concern, also to long-term investors. We clarified that NN's own exposure to coal companies is limited. We have no investments in mining companies deriving more than 25% of revenues from thermal coal; we have invested around 1% of NN's proprietary assets in utilities, and these companies derive a part of their power-generation capacity from coal. As a long term investor, there are different ways to address potential climate change risks. One of which is by excluding entire sectors. We question however whether this is the most effective way to support the transition towards a low carbon economy. At NN, we prefer active engagement. In 2016, our asset manager started a 2-year engagement with utility companies (refer to pages 30-31 of this Annual Review). If we consider there is not enough progress against engagement goals set, NN may decide to divest. We are further working on a carbon footprint of our proprietary assets, which will contribute to more insights prioritising companies with which to engage.

International commitments and endorsements

As a company based in the Netherlands, we adhere to Dutch law and the Dutch Corporate Governance Code (read more on page 44). We observe the laws and regulations in the markets where we operate.

We adhere to international standards and guidelines, including the UN Global Compact and Guidelines for Multinational Enterprises of the Organisation for Economic Cooperation and Development (OECD).

To underline our ambition, NN Group and/or its respective businesses, endorsed various international initiatives, such as:

- Principles for Sustainable Insurance
- Principles for Responsible Investment
- Carbon Disclosure Project

Furthermore, we are a member of various (inter)national network organisations, including:

- UN Global Compact
- United Nations Environmental Programme Finance Initiative (UNEP FI)
- International Corporate Governance Network (ICGN)
- MVO Nederland

For an overview of all endorsements and memberships go to our website: www.nn-group.com/in-society

Sustainable Development Goals

We support the Sustainable Development Goals (SDGs). The SDGs were adopted by world leaders and came into force in January 2016 and relate to climate, poverty, health care, education, and other societal challenges. The SDGs are set for 2030 and in addition to government action, institutional and private investment capital will be needed to help achieve these goals.

NN Group, together with 17 other Dutch financial institutions, contributed to a report called 'Building Highways to SDG Investing'. In November, the report was presented to the Dutch Minister for Foreign Trade and Development Cooperation at the Global Impact Investing Network (GIIN)'s conference. With this report the group of financial institutions invite the Dutch government and Central Bank to continue to make a concerted effort with them in support of the SDGs. NN joined this initiative as we believe it is important to collaborate on this topic, and because we acknowledge that considering the largest societal challenges is important in our work and investments.

Early 2017, we invited a group of 20 stakeholders to engage in a conversation on our potential impact on the SDGs, and how these relate to our strategy and our key objective; creating long-term value for all stakeholders. Government representatives, regulators, investors, NGOs, academics and peers were present, and the dialogue was hosted by Dorothee van Vredenburch, member of our Management Board.

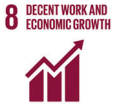
As an insurance and asset management company with a purpose to help people secure their financial futures, we learned that SDG 8 (Decent work and economic growth) and SDG 12 (Responsible consumption and production) resonate most with our core activities. Regarding our investment activities, we discussed that different investment instruments, such as ESG integration, dialogue and engagement, and impact investing, might be linked to additional SDGs. More specifically, SDG 3 (Good health and well-being), SDG 7 (Affordable and clean energy) and SDG 9 (Industry, innovation and infrastructure) were mentioned as potential goals. The outcomes of this stakeholder dialogue will be used to strengthen our strategy going forward.

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 interactions with stakeholders. The principles make a clear reference to internationally accepted standards, such as the UN Declaration of Human Rights.

Through various policies and related due diligence, NN Group seeks to meet its responsibility to respect human rights in our role towards employees, suppliers, clients, investments and the communities in which we operate. Examples of such internal policies are our Human Capital policy, Procurement policy and our Responsible Investment Policy Framework. To provide our stakeholders, including investors and NGOs, with more insight and to guide our analysts in their assessment, we published an Investor Guidance paper on Human Rights in July 2016. In addition to these policies, we developed an overarching corporate Human Rights Statement in 2016. This statement, endorsed by the Management Board, underlines our commitment to human rights and was published early 2017.

The primary SDGs to which we aim to contribute



Decent work and economic growth
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Responsible consumption and production
Ensure sustainable consumption and production patterns

Our approach to reporting

We take a holistic approach to reporting. Our Annual Report consists of two components: this Annual Review and the Financial Report.

In the Annual Review, we aim to provide a concise, accurate and balanced account of NN Group's performance over the past year. In-depth information, particularly regarding our financial performance, can be found in the Financial Report. NN Group N.V. is referred to in this document as 'NN Group' or 'NN'.

In this year's Annual Report, we made a next step towards integrated reporting. Elements such as our materiality matrix, and a description of how our business model creates values for our stakeholders, are again included in the Annual Review. The performance data regarding responsible investment, human capital, community investment and environmental footprint that were in the Sustainability Supplement last year are now included in the Annual Review. It aligns relevant information about our strategy, governance systems, performance, and future prospects in a way that reflects the economic, environmental and social contexts in which we operate.

As of the financial year 2016, NN Group will also publish a Solvency and Financial Condition Report (SFCR), which will include public quantitative and qualitative disclosures on Solvency II, either through a specific reference to this Annual Report or as supplemental information. The SFCR will be published later in 2017 on NN Group's corporate website in accordance with the relevant deadlines.

We believe that this reporting strategy enables us to tailor our reporting for different stakeholders, many of whom require different depths of information.

The online versions of the Annual Review and the Financial Report contain a number of links. Links to sources on the NN Group website are also included.

Reporting profile

This is NN Group's third standalone Annual Report, after our separation from ING Group and becoming a publicly listed company on 2 July 2014. It is published on 16 March 2017. We report annually, on a calendar year basis (1 January – 31 December).

Reporting process

Relevant topics were selected for the 2016 Annual Report, more specifically the Annual Review, through a materiality assessment using internal and external research and other sources. In addition, a survey was conducted amongst external and internal stakeholders to help steer our focus.

For more information, see page 16 of this Annual Review.

Information in this review is based on extensive reporting from our countries, businesses and functions. All information is reviewed by NN Group's Disclosure Committee and is subject to approval of our Executive Board and Supervisory Board before publication.

We aim to provide transparency and enhance the reliability of the reported content for our stakeholders. Therefore, our external auditor KPMG provided limited assurance on the Annual Review. We provide evidence to our external auditor to support the statements we make in this report. The non-financial information in scope of the assurance engagement of KPMG is defined as related to the material topics: transparent products and services, customer centricity, sustainable products and services, innovation, employee health, wellbeing and employee engagement, diversity and equal opportunities, human capital development, attracting and retaining talented employees, environmental footprint, financial inclusion and literacy, community investment, responsible investment, climate change and human rights. The non-financial information is included on the following pages of the Annual Review: About NN (pages 05-11), Marketplace and trends (pages 16-17, 19, 21), Our business model (pages 22, 25-27, 30-37), Our strategy (page 45), Governance (pages 48-50), Facts and figures (pages 53-56). Please see page 57 of this Annual Review for their assurance report.

Boundary and scope of the reported data

The boundaries of this report are defined by the topics included in the materiality assessment and the results that are presented in the materiality matrix.

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

The scope for community investment and environmental data is all businesses with more than 100 FTE. NN Group used an online system, Credit360, for gathering the information and data for community investment and environmental footprint. We have tried to limit any uncertainties in the reported data through our internal validation process, including application of validation rules in Credit360.

We have sourced the HR data directly from the HR data analytics department. The financial data reported in this review has been fully sourced and aligned with NN Group's 2016 Financial Report.

In the reporting year 2016, no significant changes occurred regarding our corporate citizenship strategy, definitions and reported data. Also, no acquisitions or divestments occurred that impacted our scope (see page 39 of this Annual Review), therefore no changes occurred regarding our reporting approach.

Reporting guidelines

The information and data in the NN Group Annual Review is in accordance with the G4 guidelines (Core) from the Global Reporting Initiative (GRI). It aims to make information available in a manner that is understandable and accessible to stakeholders using the report and reflects different aspects of the organisation's performance to enable a reasoned assessment of overall performance.

The GRI Index table states the indicators NN Group is reporting on, including where to find the respective information, either in this Annual Review, Financial Report and/or the NN Group website. The index table can be found on www.nn-group.com/annual-report. In this document you can also find the Progress reports for the UN Principles for Sustainable Insurance and the UN Global Compact.

Going forward

Going forward, we will continue to tailor our reporting to serve different stakeholder groups. This includes further integration of financial and non-financial information and indicators to provide stakeholders with a complete picture of how we create long term value for our company and stakeholders.

Facts and figures

Consolidated balance sheet

As at 31 December

Amounts in millions of euros, unless stated otherwise	notes	2016	2015
Assets			
Cash and cash equivalents	2	8,634	7,436
Financial assets at fair value through profit or loss:	3		
– trading assets			
– investments for risk of policyholders		30,711	35,154
– non-trading derivatives		4,421	4,656
– designated as at fair value through profit or loss		873	443
Available-for-sale investments	4	79,767	74,393
Loans	5	33,920	31,013
Reinsurance contracts	17	231	236
Associates and joint ventures	6	2,698	2,197
Real estate investments	7	2,028	1,564
Property and equipment	8	86	86
Intangible assets	9	342	351
Deferred acquisition costs	10	1,636	1,531
Assets held for sale	11	6	
Other assets	12	3,152	3,092
Total assets		**168,505**	**162,152**
Equity			
Shareholders' equity (parent)		22,706	20,469
Minority interests		12	9
Undated subordinated notes		986	986
Total equity	13	**23,704**	**21,464**
Liabilities			
Subordinated debt	14	2,288	2,290
Debt securities issued	15	598	597
Other borrowed funds	16	7,646	6,785
Insurance and investment contracts	17	115,699	115,984
Customer deposits and other funds on deposit	18	10,224	8,034
Financial liabilities at fair value through profit or loss:	19		
– non-trading derivatives		2,008	1,701
Liabilities held for sale	11	2	
Other liabilities	20	6,336	5,297
Total liabilities		**144,801**	**140,688**
Total equity and liabilities		**168,505**	**162,152**

References related to the notes starting on page 39 of the Financial Report. These form an integral part of the Consolidated annual accounts.

Consolidated profit and loss account
For the year ended 31 December

	notes		2016		2015
Continuing operations					
Gross premium income	21		9,424		9,205
Investment income	22		4,123		4,058
Result on disposals of group companies			-114		14
– fee and commission expenses		936		1,015	
– gross fee and commission income		-340		-371	
Net fee and commission income:	23		596		644
Valuation results on non-trading derivatives	24		-55		-313
Foreign currency results and net trading income	25		-90		120
Share of result from associates and joint ventures	6		377		221
Other income			60		46
Total income			**14,321**		**13,995**
– gross underwriting expenditure		11,590		10,843	
– investment result for risk of policyholders		-1,156		-1,099	
– reinsurance recoveries		-116		-81	
Underwriting expenditure:	26		10,318		9,663
Intangible amortisation and other impairments	27		19		9
Staff expenses	28		1,174		1,172
Interest expenses	29		598		614
Other operating expenses	30		749		776
Total expenses			**12,858**		**12,234**
Result before tax			**1,463**		**1,761**
Taxation	35		273		166
Net result			**1,190**		**1,595**

Facts and figures

Key financial and non-financial indicators

Financial indicators (in EUR million)

	2016	2015	Change	2014
Operating result ongoing business	1,227	1,435	-14.5%	1,086
Net result	1,189	1,565	-24.0%	588
Net Operating ROE	8.1%	10.8%		8.6%
Solvency II ratio	241%	239%		
Value of new business	214	202	6.4%	178
Assets under Management (end of period, in EUR billion)	195	187	4.2%	195
Dividend proposal (per ordinary share, in EUR)	1.55	1.51		0.57
NN Group share price (COB 31 December 2016, in EUR)	32.20	32.55		24.85

Key non-financial indicators

	2016	2015	Change	2014
Customer satisfaction and loyalty				
– Insurance business units using NPS	100%	100%		85%
– Insurance business units scoring on/above level previous year	95%	n.a.		n.a.
– Insurance business units scoring on/above market average	n.a.	95%		70%
Countries/business units offering tools improving financial decision-making (#)	13	13	0%	13
Assets under Management in SRI funds or mandates (end of period – in EUR million)	5,062	4,509	12.3%	4,052
– as part of the total Assets under Management	2.6%	2.4%		2.2%
Employee engagement score	71%	73%		66%
– Participation in the engagement survey	86%	84%		62%
Total donations to charitable organisations (x EUR 1,000)[1]	1,500	1,500	0%	1,100

1 Includes cash donations to charitable causes, corporate foundations and partnerships.

Sustainability ratings

	2016	2015	Change	2014
Sustainalytics (position/# insurance companies)	13/151 (Outperformer)	13/149 (Outperformer)		11/93 (Outperformer)
Oekom	C (Prime)	C (Prime)		n.a.
Carbon Disclosure Project	B	95C		n.a.
Dow Jones Sustainability Index (out of 100)	77	68		n.a.
FTSE4Good	Included	Included		n.a.
Dutch Transparency Benchmark (out of 200)	176	157		n.a.

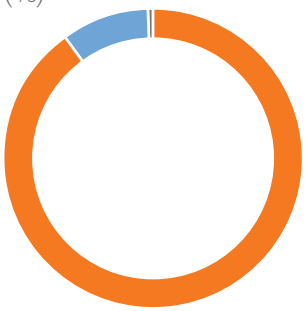
Customer-related indicators (in EUR million)

	2016	2015	Change	2014
Total claims and benefits paid	11,681	14,225	-17.9%	11,982
New sales life insurance (APE)	1,386	1,295	7.0%	1,315
Gross premium income	9,424	9,205	2.4%	9,340

Responsible investment indicators (in EUR million)

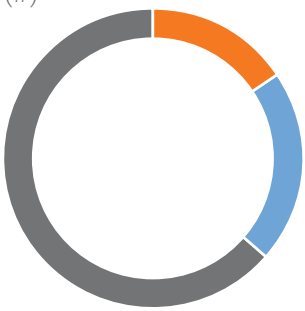
	2016	2015	Change	2014
Assets under Management in SRI funds and mandates (end of period)	5,062	4,509	12.3%	4,052
– as part of total Assets under Management NN Investment Partners	2.6%	2.4%		2.2%
Funds				
– NN Duurzaam Aandelen Fonds	679	682	-0.4%	539
– NN (L) European Sustainable Equity Fund	91	148	-38.5%	128
– NN (L) Global Sustainable Equity Fund	673	544	23.7%	268
– NN Global Sustainable Opportunities Fund	265			
– NN (L) Euro Sustainable Credit (excluding Financials)	587	471	24.6%	457
– NN (L) Euro Sustainable Credit (including Financials)	96	85	12.9%	31
– NN (L) Euro Green Bond Fund	61			
– NN (L) Patrimonial Balanced European Sustainable	102			
Subtotal	2,554	1,930	32.3%	1,423
Mandates				
– Sustainable Fixed Income Mandates	1,038	1,548	-32.9%	1,706
– European Sustainable Equity Mandates	349	333	4.8%	286
– Global Sustainable Equity Mandates	1,121	699	60.4%	637
Subtotal	2,508	2,580	-2.8%	2,629
Total	5,062	4,509	12.3%	4,052
Shareholders meetings where we voted (#)	1,437	2,013	-28.6%	1,699
– as % of total votable meetings	94%	96%		93%
Agenda items on which we voted (#)	18,335	26,580	-31.0%	20,005
Countries where we voted (#)	51	52	-1.9%	53

How we voted on agenda items
(%)



For	90.1
Against	9.6
Abstain	0.3

Shareholder resolutions on which we voted by topic
(#)



Environmental	54
Social	73
Governance	220

Human capital indicators

	2016	2015	Change	2014
Workforce (end of year)				
Total full-time equivalents (FTEs)	11,545	11,643	-0.8%	11,890
Total number of employees (headcount)	11,995	12,105	-0.9%	12,420
– Netherlands Life	2,162	2,183	-1.0%	2,222
– Netherlands Non-life	935	901	3.8%	918
– Insurance Europe	4,254	4,228	0.6%	4,242
– Japan	775	697	11.2%	706
– Asset Management	1,098	1,191	-7.8%	1,188
– Other	2,771	2,905	-4.6%	3,144
Part-time employees	15.8%	16.1%		17.2%
Temporary employees	5.9%	5.8%		5.2%
Male/female ratio (%)	52/48	53/47		54/46
Male/female managers (%)	66/34	66/34		65/35
Male/female ratio Top 50 (%)	80/20	82/18		80/20
Wellbeing and engagement				
Sick leave[1]	2.4%	2.8%		2.6%
Engagement score	71%	73%		66%
Participation in engagement survey	86%	84%		62%
Employee participation				
Employees covered by collective labour agreement (CLA)	70.1%	70.9%		71.1%
Complaints				
Grievances on labour practices (#)[2]	12	5	140%	7
Talent development				
Total spending on training and development (in EUR million)	13.7	13.0	5.4%	13.6
Spending/average FTE	1,111	1,094	1.6%	1,047
Employees with completed standard performance process (2015/2016)	98.4%	87%		90%
Employee turnover rate	10.2%	10.4%		7,55%
Voluntary employee turnover rate	5.8%	5.2%		
% of open positions filled by internal candidates	29.2%	25.4%		43.2%
Employee compensation				
Total employee wages and benefits (in EUR million)	1,160	1,159	0.1%	1,100

1 Dutch business units only; this counts for more than 50% of the total organisation
2 Five grievances in 2016 refer to the same subject

Facts and figures

Key financial and non-financial indicators continued

Community investment indicators

	2016	2015	Change	2014
Total donations to charitable organisations (x EUR 1,000)[1]	1,500	1,500	0%	1,072
Of which donations from corporate foundations (country/name)				
The Netherlands/Together for Society	182	293	-37.9%	264
Hungary/NN Foundation for Children's Health	9	33	-72.7%	26
Romania/Foundation for Life	29	137	-78.8%	142
Total hours of volunteering work (in Future Matters focus areas)	5,685	5,593	1.6%	3,034
Total number of young people reached through NN Future Matters programme[2]	27,529	9,069	203.6%	

1 Includes cash donations to charitable causes, corporate foundations and partnerships.

2 Numbers reached include partnership with Junior Achievement, main Dutch programmes and for 2016 also the impact numbers of the Future Matters anniversary donations.

Environmental indicators

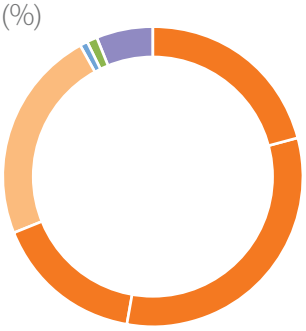
	2016	2016/CO_2	2015	2015/CO_2	Change	2014	2014/CO_2
Total CO_2 emissions (kilotonne)	22	22	27	27	-17.5%	25	25
CO_2 emissions/FTE (kilotonne)	1.9		2.3			2.1	
Business travel – air travel (km x 1 million)	24	4	25	6	-0.5%	23	4
Business travel – car travel (km x 1 million)[1]	45	9	45	8	1.4%	46	9
Total energy consumption (MWH x 1,000)	37	9	55	12	-33.0%	65	12
Electricity	12	6	12	6	-4.7%	11	6
Renewable electricity	10		19		-49.3%	24	
Natural gas	11	2	13	3	-16.6%	18	4
District heating[2]	5	1	11	3	-56.0%	12	2
Total paper use (kg)	830,409		872,996		-4.9%	803,444	
– Sustainable paper (i.e FSC) (kg)	693,580		730,277		-5.0%	527,624	
Total waste (kg)	471,162		573,875		-17.9%	906,965	
– Recycled waste (kg)	215,325		152,053		41.6%	131,691	
Water use (liter)	97,875		n.a.			n.a.	

1 The comparative figures for 2015 and 2014 have been restated according to new data

2 Decrease in 2016 mainly caused by a reduction of office space in The Netherlands

Charitable donations by theme[1]

(%)



NN Future Matters	69
– Promoting financial empowerment	21
– Creating economic opportunities	32
– Alleviating financial distress	16
Health	23
Nature and animals	1
Disaster relief	0
Arts & Culture[2]	1
Other	6

1 Includes cash donations to charitable causes, corporate foundations and partnerships.

2 Cultural partnerships and sponsorships are not included. Refer to www.nn-group.com for more information on how we support arts and culture.

Assurance report of the independent auditor

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

Report on the assurance engagement of the 2016 non-financial information

Our conclusion

We have reviewed the non-financial information - as defined in the chapter Our approach to reporting on page 50 - in the Annual Review 2016 (hereafter: the non-financial information) of NN Group N.V. (hereafter 'the Group' or 'NN Group') officially based in Amsterdam and headquartered in The Hague.

Based on our review, nothing has come to our attention to indicate that the non-financial information in the Annual Review is not presented, in all material respects, in accordance with the GRI Sustainability Reporting Guidelines version G4 and the internally developed criteria as described in Our approach to reporting on page 50.

Limitations in our scope

The report includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherently the actual future results may differ from these and are therefore uncertain. We do not provide any assurance on the assumptions and achievability of prospective information.

Basis for our conclusion

We have performed our review on the Annual Report in accordance with Dutch law, including the Dutch Standard 3000:"Assurance engagements other than Audits or Reviews of Historical Financial Information".

This review engagement is aimed to obtain limited assurance. Our responsibilities under this standard are further described in the 'Our responsibilities for the review of the non-financial information' section in our report.

We are independent of NN Group 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.

Our key review matters

Key review matters are those matters that, in our professional judgement, were of most significance in our review of the non-financial information. We have communicated the key review matters to the Executive Board and the Supervisory Board. The key review matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our review of the information within the scope of our engagement as a whole and in forming our conclusion thereon, and we do not provide a separate conclusion on these matters.

Materiality of topics
Description NN Group performed a materiality assessment to determine the non-financial topics of material significance for inclusion in the 2016 Annual Review. Aspects of material significance are defined as aspects of which omission could substantially influence the stakeholders' decisions. They are defined by prioritising the aspects based on shown interests by stakeholders and the impact NN Group has on the aspect and vice versa. The pre-selection of material aspects is subject to significant management judgement and was therefore identified as a significant area for our review.
Our response We reviewed the process that NN Group executed to identify and prioritise the (non-financial) topics to be reported in the 2016 Annual Review. We also conducted a media search and a peer benchmark to assess potential other material aspects to be included and compared these with NN Group's materiality analysis. We assessed the (non-financial) topics as included in the Annual Review against the results from the materiality analysis.

KPMG

Materiality of topics
Our observation We have assessed the materiality assessment process that NN Group executed during 2016 to be sufficiently solid to identify material topics for inclusion in the 2016 Annual Review. We have also observed that the material topics as identified in the process have been reflected in the Annual Review.

Balanced reporting
Description It is required that the Annual Review provides an unbiased and clear picture of NN Group's (non-financial) performance to its stakeholders. For a reasoned assessment of the overall performance of NN Group the Annual Review has to reflect both positive and negative aspects of the organisation's performance as applicable. This area was significant to our review as the assessment of the right balance is inherently subject to a qualitative evaluation of the information gathered and judgment about the extent to which specific information needs to be included in the Annual Review.
Our response Our assurance procedures included, amongst others, obtaining an understanding of the principles that NN Group applied to collect and document information as the basis for preparing the Annual Review. We interviewed relevant staff responsible for preparing the Annual Review and assessed proper inclusion of their insights. Finally, we performed an overall assessment of the Annual Review based on our knowledge of the company and evidence obtained to determine that the Annual Review presents a balanced overall picture of NN Group's (non-financial) performance over the year.
Our observation Based on our procedures performed it appears that the Annual Review sufficiently reflects both positive and negative aspects of NN Group's performance over the year.

Responsible investment
Description Responsible Investment is considered as a material topic for NN Group. In this context NN Group reported in the 2016 Annual Review on its assets under management in Socially Responsible Investing (SRI) funds and mandates. Since generally recognised definitions and guidelines for sustainable assets / investments are not available and this is a critical indicator to assess NN Group's progress regarding responsible investing, we identified the assets under management in SRI funds and mandates as an important indicator for our review.
Our response On the basis of our sector knowledge and expert judgement we assessed the applicability and clarity of the definitions for assets under management in SRI funds and mandates. In addition, we reviewed on a limited sample basis whether the mandates of the SRI funds are in line with the definitions for assets under management in SRI funds and mandates of NN Group. Finally we reviewed whether the explanation on the topic in the 2016 Annual Review provides a clear and proper reflection of NN Group's progress regarding responsible investing.
Our observation We have observed that the definitions as applied by NN Group are sufficiently clear and based on our procedures performed it appears that these definitions have been properly applied.

Report on the non-financial information included in other parts of the annual review

The sections: Introduction, What we do and how we are structured, and the CEO statement contain (references to) other non-financial information.

Based on the following procedures performed, we conclude that the non-financial information included in the sections listed above is consistent with the other sections of the Annual Review and does not contain material misstatements.

We have read the other parts of the Annual Review. Based on our knowledge and understanding obtained through our review of the non-financial information we have considered whether the non-financial information included in other parts of the Annual Review contains material misstatements.

The scope of the procedures performed is substantially less than the scope of those performed in our review of the non-financial information.

KPMG

The Executive Board is responsible for the preparation of the non-financial information included in other parts of the Annual Review.

Description of the responsibilities for the non-financial information

Responsibilities of the Executive Board and 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 Sustainability Reporting Guidelines version G4 and the internally developed criteria as described in Our approach to reporting on page 50. 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 are free from material misstatement, whether due to fraud or error.

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

Our responsibilities for the review of the non-financial information

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

A review is aimed to obtain a limited level of assurance. Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information. The procedures performed consisted primarily of making inquiries of staff within the entity and applying analytical procedures on the information in the Annual Review. The level of assurance obtained in review engagements is therefore substantially less than the level of assurance obtained in an audit engagement.

We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA)' (Regulations for Audit Firms Regarding Assurance Engagements) 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.

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 have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3000, ethical requirements and independence requirements.

Our procedures consisted primarily of:

- Performing an analysis of the external environment, obtaining an understanding of relevant social trends and issues, and of the organisation's business.
- Evaluating the appropriateness of the reporting criteria and its consistent application, including the evaluation of the reasonableness of management's estimates.
- Evaluating the design and implementation of the reporting systems and processes related to the non-financial information.
- Interviewing relevant staff at corporate level responsible for the sustainability strategy and policy.
- Interviewing relevant staff responsible for providing the non-financial information, carrying out internal control procedures on the data and consolidating the data in the Annual Review related to the indicators.
- An analytical review of the data and trends submitted for consolidation at group level.
- Reviewing relevant data and evaluating internal and external documentation, based on limited sampling, to assess the accuracy of the non-financial information.

Amstelveen, 15 March 2017

KPMG Accountants N.V.

P.A.M. de Wit RA

Glossary

AR Annual Review
FR Financial Report

App	An application; typically a small, specialised programme downloaded onto mobile devices to support NN Group's ability to provide a quick, easy, confidential customer experience across digital channels.	AR p. 10, 21, 42
Assets under Management in SRI funds and mandates	Assets under Management in SRI funds and mandates are assets that are managed with a specific focus on sustainability. This includes our Socially Responsible Investing (SRI) funds and mandates.	AR p. 5, 31, 45
Brand awareness	The extent to which consumers are familiar with the distinctive qualities or image of NN; the recognisability of the NN Brand in the general public.	AR p. 27
Carbon footprint	The total amount of greenhouse gases produced to directly and indirectly support ongoing activities, usually expressed in equivalent tonnes of carbon dioxide (CO_2).	AR p. 21, 31
Carbon neutrality	Achieving net zero carbon emissions by balancing a measured amount of carbon released with an equivalent amount sequestered or offset, or buying enough carbon credits to make up the difference.	AR p. 35
CDP	Carbon Disclosure Project – global disclosure system for companies, cities, states and regions to manage their environmental impacts and for investors or purchasers to access environmental information for use in financial decisions.	?? p. 31
Central Works Council	The Central Works Council (CWC) is an entity required by the Dutch Works Council Act of 2013. It is a standing works council formed by representatives from eight Dutch work councils. The CWC is informed or consulted about important NN Group developments in the Netherlands and international developments to the extent that Dutch interests are influenced.	AR p. 33 FR p.10, 28
COLI	Corporate owned life insurance	AR p. 2
Community investment	Activities that are focused on making a positive contribution to communities, including investments in education programmes and partnerships that aim to bring sustainable developments.	AR p. 36, 37
Corporate governance	The way in which a company is governed and how it deals with the various interests of its customers, shareholders, employees, business partners and society at large.	AR p. 31, 46
Credit rating	Credit ratings, as assigned by rating agencies (such as Standard & Poor's and Fitch), are indicators of the likelihood of timely and complete repayment of interest and instalments of fixed income securities.	AR p. 29
Data privacy	Data privacy, also called data protection or information privacy, is the aspect of information technology that deals with the ability of NN Group to protect the personal data of its customers and other stakeholders.	AR p. 16, 18
DHAN	Development of Human Action Foundation – The Foundation works to make significant changes in the livelihoods of the poor through innovative themes and institutions.	AR p. 27
Diversity and inclusion	NN Groups approach to diversity includes hiring people of various race, ethnicity, gender, age, sexual orientation, physical abilities and personal philosophies, as well as creating an inclusive culture and diversity of thought – one that welcomes, acknowledges, respects, challenges and benefits from our differences.	AR p. 33

Glossary
Continued

AR Annual Review
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ECCE	European Centre for Corporate Engagement – the world's leading research institute on sustainable finance and responsible investing located in Maastricht, The Netherlands.	AR p. 30
EFAMA	European Fund and Asset Management Association – the representative association for the European investment management industry. EFAMA represents 28 member associations and 61 corporate members.	AR p. 31
Emerging (market) economies	An emerging market economy describes a nation's economy that is progressing toward becoming more advanced, usually by means of rapid growth and industrialisation. These countries experience an expanding role both in the world economy and on the political frontier.	AR p. 30
Employee engagement	Employee engagement is a property of the relationship between an organisation and its employees, measured by NN Group through such means as the Pulse and YES employee surveys.	AR p. 33, 34, 45
Employee Value Proposition	The Employee Value Proposition (EVP) represents what our employees experience and benefit of during their employment period within NN and what we expect from them. It is the rational and emotional articulation of the tangible benefits employees receive as a result of working for the NN Group. The EVP highlights the attractive factors in NN for the labour market.	AR p. 7
Environmental footprint	The effect that NN Group has on the environment, for example the amount of natural resources used and the amount of waste produced in direct operations.	AR p. 16, 21, 35, 45, 50
Environmental, social and governance (ESG) factors	ESG factors are a subset of non-financial performance indicators which include sustainable, ethical and corporate governance issues such as managing the company's carbon footprint and ensuring there are systems in place to ensure accountability.	AR p. 23, 30
Eumedion	Eumedion represents institutional investors' interests in the field of corporate governance and related sustainability performance.	AR p. 31
Euronext Amsterdam	A conglomerate of the former entities: Amsterdam Stock Exchange, Brussels Stock Exchange and Paris Stock Exchange. Located in Amsterdam, the Netherlands.	AR p. 4
European Works Council	The European Works Council (EWC) is a standing works council body as required by the 2009 European Works Council Directive 2009/38 of the European Commission. The EWC is formed by chosen employee representatives of all eleven European countries where NN Group is active. EWC-members are informed about 'transnational' matters twice a year.	AR p. 33 FR p. 28
Financial sector oath or promise	Ethics 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. The oath or promise applies not only to employees of banks but also to employees of other financial enterprises, including insurance companies, investment firms and financial service providers. By taking the oath or promise, employees proclaim that they are bound by the Code of conduct attached to the oath or promise for the ethical and careful practice of their profession.	AR p. 7
FinTech	A line of business based on using software to provide financial services. Financial technology companies are generally providers of new solutions which demonstrate an incremental or radical innovation development of applications, processes, products or business models in the financial services industry.	AR p. 11, 18
GIIN	Global Impact Investing Network – current campaign explores the role of impact investing in achieving the United Nations Sustainable Development Goals, and calls for impact investors to take action.	AR p. 49

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Continued

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Global Real Estate Sustainability Benchmark (GRESB)	GRESB is 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.	AR p. 30
Global Reporting Initiative (GRI)	The Global Reporting Initiative is an international independent standards organisation that helps businesses, governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption.	AR p. 16
Green alternatives	Choices that NN Group makes with regards to energy, resource use and waste management that serve to protect the environment more so than traditional options.	AR p. 21, 35, 45
ICE	Impact Centre Erasmus – A centre for scientific knowledge and skills aimed at gaining traction with a diverse group of organisations on the realisation of their social ambitions. (paraphrased from Dutch from their website)	AR p. 37
ICGN	International Corporate Governance Network – in place to influence policy by providing a reliable source of investor opinion on governance and stewardship.	AR p. 31
ICSR	International Corporate Social Responsibility	AR p. 48
Information barriers	The ethical barriers between different divisions of a financial (or other) institution to avoid conflict of interest. Also historically known as 'Chinese Walls'.	AR p. 30
Institutional investors	Entities which pool money to purchase securities, real property and other investment assets or originate loans. Institutional investors include banks, insurance companies, pension funds, hedge funds, investment advisors and endowments.	AR p. 27
Integrated reporting	A process founded on integrated thinking that results in a periodic integrated report by NN Group about value creation over time and related communications regarding aspects of value creation.	AR p. 50
International Integrated Reporting Council (IIRC)	A global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition is promoting communication about value creation as the next step in the evolution of corporate reporting.	AR p. 22
Junior Achievement Europe	Junior Achievement Europe is Europe's largest provider of education programmes for entrepreneurship, work readiness and financial literacy, reaching 3.5 million students in 39 countries in 2016.	AR p. 37
KiFiD	The Dutch institute for consumer complaints about the financial services industry (Klachteninstituut Financiële Dienstverlening). It mediates in disputes between consumers and banks, insurers, brokers and other financial service providers. Mediaton occurs by the public advocate (Ombudsman) or through a (usually) binding advice of the Disputes Committee or the Appeals Committee.	AR p. 17 FR p. 110
Longevity	Length or duration of life.	AR p. 24
Materiality matrix	The materiality matrix presents the developments and topics which are important to our business and the relevance of these to our external stakeholders.	AR p. 16, 50
Net Promoter Score	A management tool that can be used to gauge the loyalty of a firm's customer relationships. It serves as an alternative to traditional customer satisfaction research.	AR p. 5, 27
NGO (Non-Governmental Organisation)	An organisation that is neither a 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 persons.	AR p. 48, 49
NL II	Netherlands Investment Institution – established to enable institutional investors such as pension funds and insurers to invest directly in the Dutch economy.	AR p. 27

Glossary
Continued

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NN Future Matters	Future Matters is the global community investment programme for NN Group. It aims to empower people in the markets where we operate to improve their financial wellbeing, and to support them in growing their economic opportunities, so they can realise their dreams and overcome adversity.	AR p. 37, 45
NN Group Compliance Charter & Framework	A policy set in place by NN Group to help businesses to effectively manage their compliance risks.	AR p. 46
No-regret Policy	Policy adopted with the objective of gaining capability to cope with forthcoming adversity, including having the optionality to reverse measures if changed circumstances require.	AR p. 14
Ordinary share	An equity instrument that is subordinated to all other classes of equity instruments. Ordinary shares participate in the net profit for the financial year after other types of shares such as preference shares.	AR p. 29
Partial Internal Model	A method of calculating the Solvency Capital Requirement (SCR) that combines a standard formula and an approved, internally developed internal model. NN Group's Partial Internal Model was approved by the Dutch regulator (DNB) in December 2015.	AR p. 3, 20
Product Approval and Redesign Process (PARP)	The Product Approval and Redesign Process (PARP) refers to the assessment of a product in relation to its customer suitability, financial and non-financial risks and profitability. The PARP is conducted when NN Group introduces a new product, changes the characteristics of an existing product or reviews a product. This is to ensure that our products are acceptable for our company, our customers and our society in general.	AR p. 17
Pulse survey	A short version of the yearly YES survey, NN Group's yearly employee engagement survey. It was last conducted internally by NN Group in May 2014 with the goal of evaluating how our strategy, values and brand were impacting people throughout the organisation.	AR p. 9
Qredits	Qredits – A microfinancing organisation assisting entrepreneurs with loans, mentoring and e-learning	AR p. 27
Remuneration	Reward to NN Group's employees in the form of salary or compensation, either fixed or variable, including benefits.	AR p. 7, 19 FR p. 23-27
Report of the Executive Board	The NN Group N.V. 2016 Report of the Executive Board (Bestuursverslag), as referred to in section 2:391 of the Dutch Civil Code. Specific chapters to be mentioned in this matter are the Annual Review and the following chapters in the Financial Report: the Financial Developments, the Report of the Supervisory Board, Corporate Governance, the Remuneration Report and the Report of the Executive Board on internal control over financial reporting.	FR p. 29
Responsible Investment (RI) Policy Framework	The Responsible Investment (RI) Policy Framework sets out NN Group's vision, approach and key principles on responsible investment. NN Group defines RI as the systematic integration of relevant ESG factors into its investment decision-making and active ownership practices.	AR p. 29, 30, 45, 49
Retail investors	An individual who purchases securities for his or her own personal account rather than for an organisation.	AR p. 3, 27
Robo-advice	The use of automation and digital techniques to build and manage portfolios of exchange-traded funds (ETFs) and other instruments for investors.	AR p. 42

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SDMO	Sustainable Micro Pensions in Developing Countries organisation – joint initiative of the Association of Insurers and the Pension Federation in the Netherlands with support of the Dutch Ministry of Foreign Affairs.	AR p. 28
SER	Social and Economic Council of the Netherlands advises the Dutch Government and Parliament on key points of social and economic policy. It also undertakes activities arising from governance tasks and self-regulatory matters, and functions as a platform for discussions of social and economic issues. The Council consists of independent Crown-appointed members, employers, and employees.	AR p. 48
Settlement date	The date on which a trade must be settled and the buyer must make payment. 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. Settlement date of the offering was 7 July 2014.	FR p. 14-19, 21
Social Innovation Relay	The Social Innovation Relay is an initiative of Junior Achievement supported by NN Group. It works to inspire secondary school students to develop innovative business concepts that address social challenges.	AR p. 37
Socially Responsible Investment (SRI) funds	Socially Responsible Investment (SRI) funds are specialised sustainable investment products which cater to the increasing demand for products that not only generate good financial returns, but are also good for society and the environment.	AR p. 5, 17, 31, 45
Solvency II ratio	Measurement of NN Group's capital position, calculated as the ratio of Own Funds (OF) to the Solvency Capital Requirement (SCR) based on NN Group's approved Partial Internal Model.	AR p. 2, 3, 5, 14, 20, 22, 29, 33
SPVA	Single premium variable annuity	AR p. 3
Stakeholders	The groups and individuals who, directly or indirectly, influence – or are influenced by – the attainment of the company's objectives, such as shareholders and other lenders, employees, suppliers, customers and civil society.	AR p. 4, 6, 7, 14-16, 18, 21, 22, 24, 28, 29, 33, 36, 38, 46, 48-50
UN Global Compact	The United Nations Global Compact is an initiative of the United Nations to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. It is a principle- based framework for business, stating ten principles in the areas of human rights, labour, environment and anti-corruption.	AR p. 30, 49, 50
Value creation model	An operating model which focuses on how NN Group can create revenue which exceeds expenses which results in a profit, or value, to the stakeholders.	AR p. 22, 38
YES	The Yearly Engagement Survey (YES) is designed as a questionnaire measuring how NN Group's brand and values are experienced by our employees, how our leaders live up to the high standards we set and how we fulfil our employee value proposition as an organisation. The results reflect employee engagement expressed as a percentage score.	AR p. 9

Contact and legal information

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

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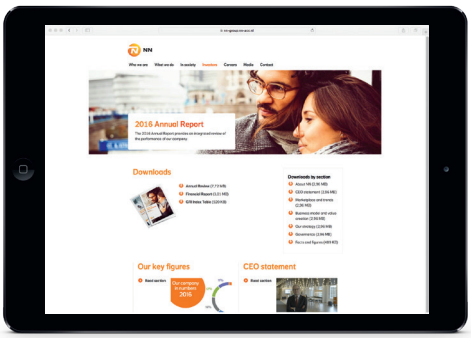
For further information on NN Group's sustainability strategy, policies and performance, please visit www.nn-group.com/in-society.htm or contact us via sustainability@nn-group.com

Visit our website



Further information can be found online by visiting our website
www.nn-group.com/annual-report

Disclaimer

NN Group's 2016 Annual Report consists of two documents: the 2016 Annual Review and the 2016 Financial Report. More information – for example the GRI Index Table and the case studies – is available on the corporate website in the Investors/Annual report section. Later in 2017, in accordance with the relevant deadlines, the SFCR will be published on the corporate website as well.

Certain of the statements in this 2016 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 eurozone, (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, (13) changes in the policies 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 us 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 and (18) the other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by NN Group and/or related to NN Group.

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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Securing financial futures

NN Group N.V.

2016 Financial Report

NN

The 2016 Annual Report consists of the 2016 Annual Review and the 2016 Financial Report. It provides an integrated review of the performance of our company.

It is in accordance with applicable Dutch law and the International Financial Reporting Standards (IFRS), which were endorsed by the European Union, as well as with the Global Reporting Initiative's G4 guidelines (GRI) and guidelines of the International Integrated Reporting Council. It aligns relevant information about our strategy, governance systems, performance and future prospects in a way that reflects the economic, environmental and social contexts in which we operate. Read more about our approach to reporting on page 50 of the Annual Review.

As of the financial year 2016, NN Group will also publish a Solvency and Financial Condition Report (SFCR), which will include public quantitative and qualitative disclosures on Solvency II, either through a specific reference to this Annual Report or as supplemental information. The SFCR will be published later in 2017 on NN Group's corporate website in accordance with the relevant deadlines.

2016 Annual Review

The Annual Review covers NN Group's operating environment, key trends and material issues, how we create value, our business performance, our strategy, our objectives and achievements related to the social, environmental and governance aspects of our business, and the statement of our CEO. Target audiences are all NN Group stakeholders..

2016 Financial Report

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

Visit our website

Further information, including the GRI Index table and case studies, can be found online by visiting our corporate website www.nn-group.com/annual-report

What you can read in this Financial Report

We are an insurance and asset management company active in 18 countries, with a strong presence in Europe and Japan. Our roots lie in the Netherlands, with a rich history that stretches back 170 years.

We understand that for our customers, money is usually a means to an end. Life is about living. That is why we do our very best to help our customers achieve their dreams and overcome adversity along the way.

Through our retirement services, insurance, investments, and banking products, we are committed to helping people secure their financial futures. That is our purpose at NN.

Because what matters to you, matters to us.
You matter

Financial developments

NN Group

Analysis of result

amounts in millions of euros	2016	2015
– Netherlands Life	710	906
– Netherlands Non-life	62	122
– Insurance Europe	198	197
– Japan Life	154	160
– Asset Management	133	129
– Other	-30	-79
Operating result ongoing business	**1,227**	**1,435**
Non-operating items ongoing business	555	393
– of which gains/losses and impairments	279	356
– of which revaluations	296	122
– of which market & other impacts	-19	-85
Japan Closed Block VA	-99	20
Special items before tax	-107	-100
Result on divestments	-114	14
Result before tax	**1,463**	**1,761**
Taxation	273	166
Minority interests	1	30
Net result	**1,189**	**1,565**

Key figures

amounts in millions of euros	2016	2015
New sales life insurance (APE)	1,386	1,295
Value of new business (VNB)	214	202
Total administrative expenses	1,734	1,758
Net operating ROE[1]	8.1%	10.8%
Solvency II ratio[2]	241%	239%

1 Net operating ROE is calculated as the (annualised) net operating result of the ongoing business, adjusted to reflect the deduction of the accrued coupon on undated subordinated notes classified in equity, divided by (average) adjusted allocated equity of ongoing business.

2 The solvency ratios are not final until filed with the regulators. The Solvency II ratio is based on the partial internal model.

Note: Operating result and Adjusted allocated equity (as used in the calculation of Net operating ROE) are Alternative Performance Measures. These measures are derived from figures according to IFRS-EU. The operating result is derived by adjusting the reported result before tax to exclude the impact of result on divestments, discontinued operations and special items, gains/losses and impairments, revaluations and market & other impacts. The adjusted allocated equity is derived by adjusting the reported total equity to exclude revaluation reserves and the undated subordinated notes classified as equity. Alternative Performance Measures are non-IFRS-EU measures that have a relevant IFRS-EU equivalent. For definitions and explanations of the Alternative Performance Measures reference is made to Note 33 'Segments' in the Annual accounts.

Net result

The net result of NN Group decreased to EUR 1,189 million in 2016 compared with EUR 1.565 million in 2015 which benefited from higher private equity dividends and a significantly higher technical margin in Netherlands Life, while 2016 was impacted by severe storms at Netherlands Non-life. The decrease in the net result also reflects lower results at Japan Closed Block VA and a negative result on divestments, partly compensated by higher non-operating items.

Operating result

The full-year 2016 operating result of the ongoing business decreased to EUR 1,227 million from EUR 1,435 million in 2015, which benefited from significantly higher private equity dividends of EUR 221 million compared with EUR 72 million in 2016 (including an exceptional dividend of EUR 30 million from an indirect stake in ING Life Korea). The technical margin in 2016 was negatively impacted by a EUR 22 million addition to the unit-linked guarantee provision due to a decrease in interest rates as well as lower morbidity results, while 2015 was supported by a total of EUR 52 million of benefits following updates to certain technical provisions in Netherlands Life. In addition, 2016 was impacted by EUR 31 million of claims due to severe storms at Netherlands Non-life. These items were partly compensated by lower administrative expenses in the Netherlands and a higher result at NN Bank.

Result before tax

The full-year result before tax of 2016 decreased to EUR 1,463 million from EUR 1,761 million in 2015, largely reflecting the lower operating result of the ongoing business, lower results at Japan Closed Block VA and a negative result on divestments, partly compensated by higher non-operating items.

Sales and Value of New Business

In 2016, total new sales amounted to EUR 1,386 million, up 2.9% compared with 2015, on a constant currency basis, reflecting higher sales at Japan Life (7.1%) and Insurance Europe (4.0%). APE for Netherlands Life decreased 9.6% as 2015 included a EUR 420 million single premium relating to the buy-out of a large company pension fund.

The value of new business (VNB) for 2016 amounted to EUR 214 million, up 6.4% from EUR 202 million in 2015. The increase reflects higher VNB at Japan Life driven by higher sales and a shift to a more profitable product mix, partially offset by lower VNB at Insurance Europe due to lower interest rates and the impact of the tax on assets in Poland.

Net operating Return On Equity (ROE)

The net operating ROE of the ongoing business for the full-year 2016 was 8.1% compared with 10.8% in 2015, which benefited from higher private equity dividends in the Netherlands.

Financial developments
continued

Netherlands Life

Analysis of result

amounts in millions of euros	2016	2015
Investment margin	745	825
Fees and premium-based revenues	336	354
Technical margin	93	207
Operating income	**1,175**	**1,385**
Administrative expenses	426	431
DAC amortisation and trail commissions	39	48
Expenses	**465**	**479**
Operating result	**710**	**906**
Non-operating items	451	325
– of which gains/losses and impairments	179	280
– of which revaluations	282	130
– of which market & other impacts	-10	-85
Special items before tax	-14	-11
Result on divestments		2
Result before tax	**1,147**	**1,222**
Taxation	178	112
Minority interests	1	27
Net result	**968**	**1,083**

Key figures

amounts in millions of euros	2016	2015
New sales life insurance (APE)	229	253
Value of new business (VNB)	9	6
Total administrative expenses	426	431
Net operating ROE[1]	8.1%	11.5%
NN Life Solvency II ratio[2]	203%	216%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity. Adjusted allocated equity is an Alternative Performance Measure.

2 The solvency ratios are not final until filed with the regulators. The Solvency II ratio is based on the partial internal model.

Netherlands Life's full-year 2016 operating result declined to EUR 710 million from EUR 906 million in 2015, which benefited from EUR 195 million private equity dividends compared with EUR 72 million in 2016 (including an exceptional dividend of EUR 30 million from an indirect stake in ING Life Korea). Fees and premium-based revenues decreased due to the individual life closed book run-off and lower fees in the pension business. The technical margin in 2015 included EUR 52 million of benefits following updates to certain technical provisions, while 2016 reflects a EUR 22 million addition to the unit-linked guarantee provision due to a decrease in interest rates, as well as lower morbidity results.

The result before tax for the full year 2016 was EUR 1,147 million compared with EUR 1,222 million in 2015 as the lower operating result was partly offset by higher non-operating items.

New sales (APE) decreased to EUR 229 million in 2016 from EUR 253 million in 2015, which included a EUR 420 million single premium relating to the buy-out of a large company pension fund. Excluding the impact of this buy-out, APE increased 8.4% mainly driven by higher group pension renewals.

The value of new business (VNB) for 2016 was EUR 9 million versus EUR 6 million in 2015.

Netherlands Non-life

Analysis of result

amounts in millions of euros	2016	2015
Earned premiums	1,555	1,503
Investment income	109	139
Other income	1	4
Operating income	**1,665**	**1,646**
Claims incurred, net of reinsurance	**1,145**	**1,065**
Acquisition costs	244	239
Administrative expenses	219	223
Acquisition costs and administrative expenses	**463**	**461**
Expenditure	**1,608**	**1,526**
Operating result insurance businesses	**57**	**119**
Operating result broker businesses	5	2
Total operating result	**62**	**122**
Non-operating items	50	22
– of which gains/losses and impairments	23	19
– of which revaluations	27	3
Special items before tax	-7	-6
Result before tax	**104**	**138**
Taxation	17	16
Net result	**87**	**122**

Key figures

amounts in millions of euros	2016	2015
Gross premium income	1,578	1,534
Total administrative expenses[1]	281	292
Combined ratio[2]	103.4%	101.5%
– of which Claims ratio[2]	73.7%	70.8%
– of which Expense ratio[2]	29.8%	30.7%
Net operating ROE[3]	14.1%	24.4%

1 Including Mandema & Partners and Zicht broker businesses

2 Excluding Mandema & Partners and Zicht broker businesses.

3 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity. Adjusted allocated equity is an Alternative Performance Measure.

The full-year 2016 operating result of Netherlands Non-life decreased to EUR 62 million from EUR 122 million in 2015. The result in 2016 includes the impact of the severe storms in Motor and Fire in the second quarter of 2016 for a total amount of EUR 31 million, whereas 2015 benefited from EUR 26 million of private equity dividends. The combined ratio for full-year 2016 was 103.4% compared with 101.5% for full-year 2015. The D&A combined ratio for full-year 2016 remained broadly stable at 98.1%, while the P&C combined ratio increased to 108.0% from 104.8% in 2015.

The full-year 2016 result before tax declined to EUR 104 million from EUR 138 million in 2015 reflecting the lower operating result partly compensated by higher private equity revaluations.

Insurance Europe

Analysis of result

amounts in millions of euros	2016	2015
Investment margin	72	80
Fees and premium-based revenues	548	536
Technical margin	201	194
Operating income non-modelled business	3	4
Operating income Life Insurance	**824**	**814**
Administrative expenses	320	306
DAC amortisation and trail commissions	310	315
Expenses Life Insurance	**629**	**621**
Operating result Life Insurance	**195**	**193**
Operating result Non-life	4	4
Operating result	**198**	**197**
Non-operating items	69	21
– of which gains/losses and impairments	73	17
– of which revaluations	6	5
– of which market & other impacts	-9	
Special items before tax	-44	-50
Result before tax	**224**	**168**
Taxation	66	19
Minority interests		3
Net result	**158**	**146**

Key figures

amounts in millions of euros	2016	2015
New sales life insurance (APE)	502	494
Value of new business (VNB)	85	96
Total administrative expenses (Life & Non-life)	333	322
Net operating ROE[1]	11.2%	10.0%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity. Adjusted allocated equity is an Alternative Performance Measure.

The full-year 2016 operating result of Insurance Europe was EUR 198 million compared with EUR 197 million in 2015 due to higher fees and premium-based revenues and more favourable mortality results, offset by a lower investment margin and higher administrative expenses.

The result before tax for the full-year of 2016 increased to EUR 224 million from EUR 168 million in 2015 mainly driven by capital gains following the sale of Belgian government bonds and lower special items.

Full-year 2016 new sales (APE) increased to EUR 502 million from EUR 494 million in 2015 mainly driven by higher life sales in Greece, Romania and Poland partly offset by lower pension sales across the region.

The value of new business (VNB) for 2016 decreased to EUR 85 million from EUR 96 million in 2015, mainly due to lower interest rates and the impact of the tax on assets in Poland.

Japan Life

Analysis of result

amounts in millions of euros	2016	2015
Investment margin	-21	-15
Fees and premium-based revenues	589	503
Technical margin	-33	-15
Operating income	**535**	**473**
Administrative expenses	120	107
DAC amortisation and trail commissions	260	206
Expenses	**381**	**313**
Operating result	**154**	**160**
Non-operating items	-7	-9
– of which gains/losses and impairments		6
– of which revaluations	-8	-14
Special items before tax	-5	-10
Result before tax	**141**	**141**
Taxation	31	26
Net result	**111**	**116**

Key figures

amounts in millions of euros	2016	2015
New sales life insurance (APE)	656	549
Value of new business (VNB)	121	100
Total administrative expenses	120	107
Net operating ROE[1]	7.0%	8.6%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity. Adjusted allocated equity is an Alternative Performance Measure.

The full-year 2016 operating result of Japan Life was EUR 154 million, down 13.2% compared with 2015, excluding currency effects. Higher fees and premium based revenues due to higher in-force volumes were more than offset by a lower investment margin and lower mortality results, as well as higher DAC amortisation and trail commissions.

The result before tax for full year 2016 was EUR 141 million, down 9.7% from 2015 at constant currencies, due to the lower operating result, partly offset by lower special items related to rebranding activities.

New sales (APE) were EUR 656 million, up 7.1% from 2015 at constant currencies, due to higher protection sales and the launch of a COLI critical illness product in July 2016.

The value of new business (VNB) for 2016 increased to EUR 121 million, up 8.1% from 2015 excluding currency effects, as higher sales and a shift to a more profitable product mix more than offset the impact of lower interest rates.

Asset Management

Analysis of result

amounts in millions of euros	2016	2015
Fees	463	496
Operating income	**463**	**496**
Administrative expenses	330	367
Operating result	**133**	**129**
Non-operating items	-1	
– of which gains/losses and impairments	-1	
Special items before tax	-6	-23
Result before tax	**126**	**106**
Taxation	32	24
Net result	**94**	**82**

Key figures

amounts in millions of euros	2016	2015
Total administrative expenses	330	367
Net inflow Assets under Management (in EUR billion)	-2	-9
Assets under Management (in EUR billion)[1]	195	187
Net operating ROE[2]	24.7%	25.3%

1 AuM include the mortgage portfolio managed on behalf of NN Life and NN Non-life since 2Q14.

2 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity. Adjusted allocated equity is an Alternative Performance Measure.

The full-year 2016 operating result was EUR 133 million, up from EUR 129 million in 2015. Administrative expenses decreased 10.0% due to lower volume driven expenses and cost containment, as well as a EUR 17 million restructuring provision included in 2015. This was partly offset by lower fees as a result of lower average AuM as well as a shift towards lower margin AuM.

The result before tax for 2016 was EUR 126 million, compared with EUR 106 million for 2015, reflecting the higher operating result and lower special items related to rebranding activities.

Other

Analysis of result

amounts in millions of euros	2016	2015
Interest on hybrids and debt	-103	-104
Investment income and fees	55	61
Holding expenses	-55	-73
Amortisation of intangible assets	-6	-6
Holding result	**-109**	**-122**
Operating result reinsurance business	12	11
Operating result NN Bank	63	37
Other results	4	-4
Operating result	**-30**	**-79**
Non-operating items	-6	34
– of which gains/losses and impairments	5	35
– of which revaluations	-12	
Special items before tax	-30	
Result on divestments	-114	11
Result before tax	**-181**	**-33**
Taxation	-27	-20
Net result	**-153**	**-13**

Key figures

amounts in millions of euros	2016	2015
Total administrative expenses	244	240
– of which reinsurance business	15	11
– of which NN Bank	174	149
– of which corporate/holding	55	80
NN Bank common equity Tier1 ratio phased in[1]	14.0%	14.0%
Total assets NN Bank (in EUR billion)[2]	15	12
Net operating ROE NN Bank[3]	10.0%	6.9%

1 The 'NN Bank common equity Tier 1 ratio phased in' is not final until filed with the regulators.

2 End of period.

3 Net operating ROE is calculated as the (annualised) net operating result of NN Bank, divided by (average) adjusted allocated equity.

The operating result of the segment Other for full-year 2016 improved to EUR –30 million from EUR –79 million in 2015, mainly driven by the higher operating result of NN Bank and lower holding expenses.

NN Bank's operating result for full-year 2016 increased to EUR 63 million from EUR 37 million in 2015, driven by a higher interest margin due to the expansion of its mortgage and customer savings activities and supported by lower risk costs, partly offset by higher administrative expenses supporting the bank's growth including an EUR 8 million restructuring provision.

The result before tax for full-year 2016 decreased to EUR –181 million compared with EUR –33 million in 2015. The result for 2016 reflects a negative result on divestments related to the transaction result on the portfolio transfer agreement that NN Re (Ireland) Ltd. signed with Canada Life International Re Ltd. in October 2016 and a provision following the outcome of arbitration proceedings in respect to NN Group's former insurance subsidiary ING Life Korea. The lower result for 2016 also reflects lower non-operating items, and higher special items for restructuring expenses in the holding company, partly compensated by the improved operating result.

Financial developments
continued

Japan Closed Block VA

Analysis of result

amounts in millions of euros	2016	2015
Investment margin	-2	-1
Fees and premium-based revenues	57	95
Operating income	**55**	**94**
Administrative expenses	15	19
DAC amortisation and trail commissions	7	10
Expenses	**22**	**29**
Operating result	**33**	**64**
Non-operating items	-132	-44
– of which market & other impacts	-132	-44
Result before tax	**-99**	**20**
Taxation	-24	-11
Net result	**-75**	**31**

Key figures[1]

amounts in millions of euros	2016	2015
Account value	8,201	10,028
Net Amount at Risk	352	203
IFRS Reserves	674	514
Number of policies	154,315	202,192

1 End of period.

The full-year 2016 operating result was EUR 133 million, up from EUR 129 million in 2015. Administrative expenses decreased 10.0% due to lower volume driven expenses and cost containment, as well as a EUR 17 million restructuring provision included in 2015. This was partly offset by lower fees as a result of lower average AuM as well as a shift towards lower margin AuM.

The result before tax for 2016 was EUR 126 million, compared with EUR 106 million for 2015, reflecting the higher operating result and lower special items related to rebranding activities.

Report of the Supervisory Board

Introduction

As the chair of the Supervisory Board of NN Group, I am pleased to present this 2016 Annual Report. 2016 was an eventful year for NN Group, and in turn the Supervisory Board.

A key event that set the stage for the year, and our future, was that NN Group saw the final divestment of shares by ING Group early in 2016. Since then, NN Group has been successfully moving forward as a truly standalone company.

As the Supervisory Board, we take into account the interests of all NN Group's stakeholders when overseeing and advising the Executive and Management Boards and when monitoring the overall functioning of NN Group.

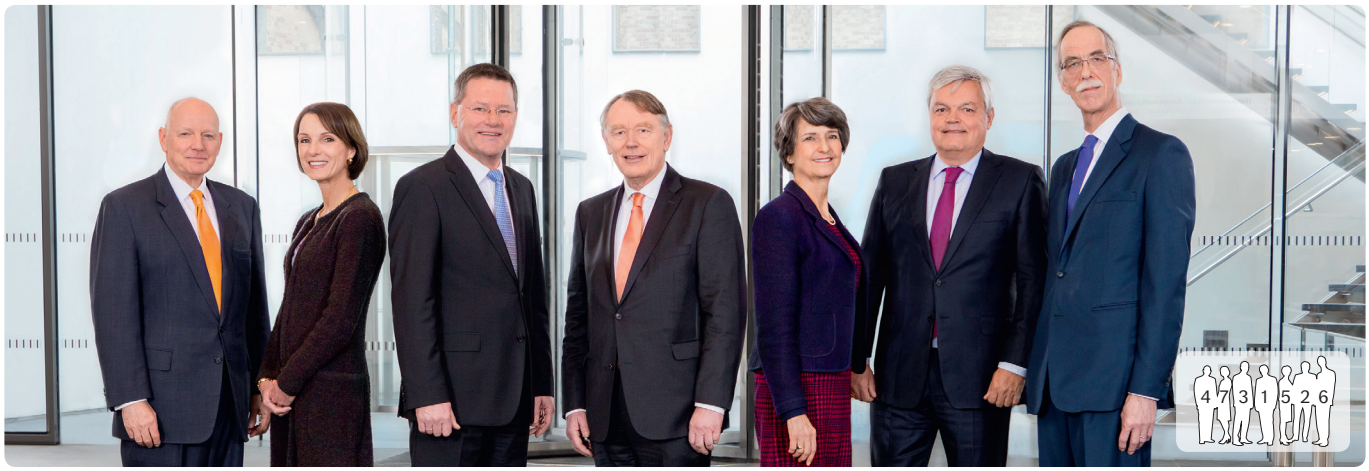
Each member's roles on the Supervisory Board, and within the committees on which they serve, contribute to NN Group's successful operations. The foundation on which we work incorporates our governing laws and regulations; upholds the company values care, clear, commit and the Code of Conduct; supports the implementation of the strategy to deliver an excellent customer experience; and provides a platform on which to create long term value for the future.

With these aspects in mind, 2016 engaged the Supervisory Board on numerous levels; many positive, cooperative – as well as challenging – scenarios presented opportunities to foster the sustainable growth of NN Group. As we looked at our potential moving forward, balancing our focus on innovation with the need to address current business opportunities and challenges was at the forefront.

Our involvement first in the intended offer for Delta Lloyd, and in turn the recommended offer, necessitated exercising the Supervisory Board's collective expertise, and provided a forum for constructive, balanced decision making with NN Group's Executive and Management Boards. Imperative to our role in all of these situations was to consistently uphold the NN Group values and Code of Conduct for all involved. More details follow in the report below.

Speaking on behalf of my fellow Supervisory Board members, we are proud of what we helped NN Group achieve in 2016, and look forward to what is yet to come. I invite you to read our collective input, actions, and involvement outlined in the report to follow.

Jan Holsboer
Chair Supervisory Board NN Group



1. Jan Holsboer (1946)
Chair

Appointed: 2014 **Nationality:** Dutch

Jan Holsboer was appointed to the Supervisory Board on 1 March 2014 and was re-appointed chair of the Supervisory Board on 2 June 2016. He is a member of the Nomination and Corporate Governance Committee, Remuneration Committee and Audit Committee.

2. Dick Harryvan (1953)
Vice-chair

Appointed: 2016 **Nationality:** Dutch

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

3. Heijo Hauser (1955)
Member

Appointed: 2014 **Nationality:** German

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

4. Robert Jenkins (1951)
Member

Appointed: 2016 **Nationality:** American

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

5. Yvonne van Rooij (1951)
Member

Appointed: 2014 **Nationality:** Dutch

Yvonne van Rooij was appointed to the Supervisory Board on recommendation by the Works Council on 1 March 2014 and re-appointed to the NN Group N.V. Supervisory Board on 2 June 2016. She chairs the Remuneration Committee and is a member of the Nomination and Corporate Governance Committee.

6. Hans Schoen (1954)
Member

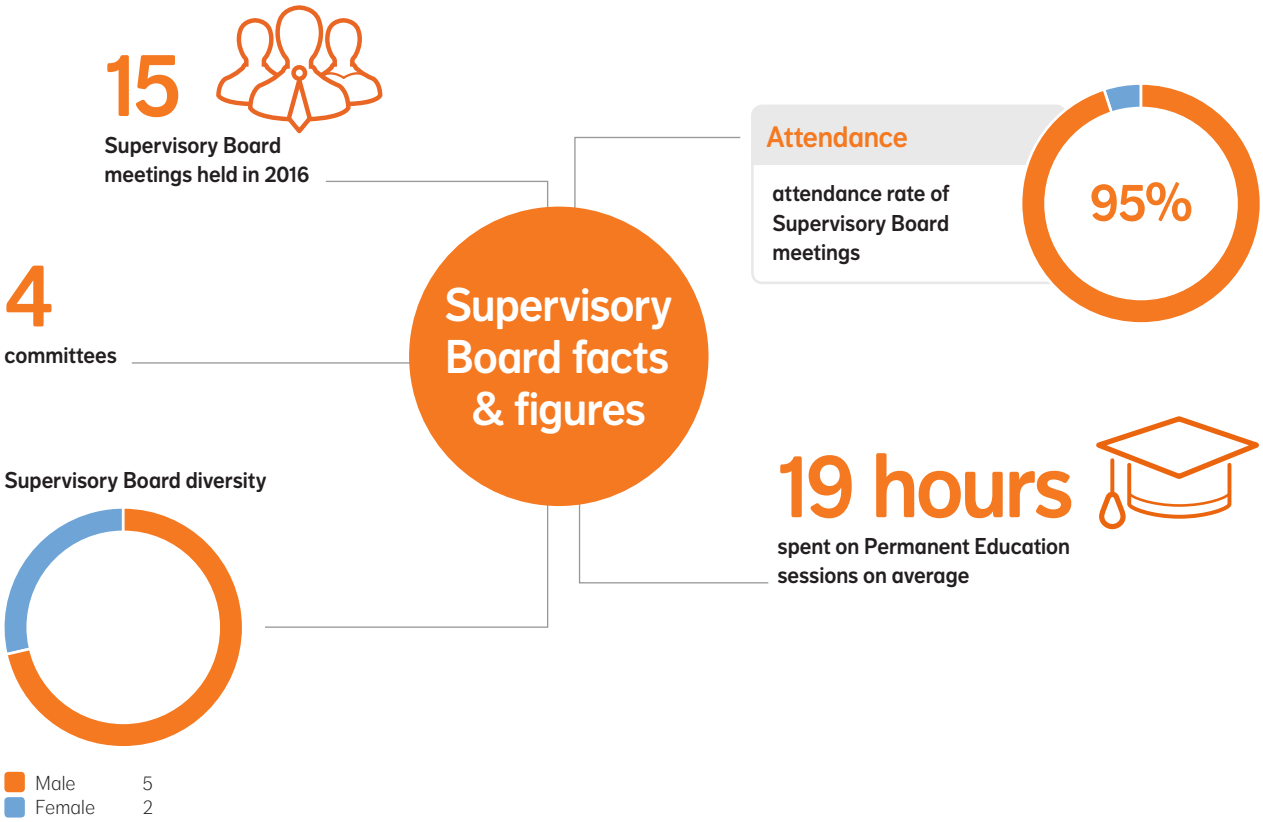
Appointed: 2014 **Nationality:** Dutch

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

7. Hélène Vletter-van Dort (1964)
Member

Appointed: 2015 **Nationality:** Dutch

Hélène Vletter-van Dort was appointed to the Supervisory Board on recommendation by the Works Council on 6 October 2015. She chairs the Nomination and Corporate Governance Committee and is a member of the Risk Committee.



This Report of the Supervisory Board should be read in conjunction with the section on Corporate Governance (pages 14-22) and the Remuneration Report (pages 23-27), which are deemed to be incorporated by reference in this report. The Supervisory Board of NN Group (Supervisory Board) is responsible for supervising the management of NN Group's Executive Board and the general course of affairs of NN Group and its businesses. The Supervisory Board advises the members of NN Group's Executive and Management Boards on how to perform their duties, in accordance with the best interests of NN Group, its businesses, and all relevant stakeholders. In 2016, the Supervisory Board focused on several key topics related to long term value creation for all stakeholders.

Balancing operational functioning, entrepreneurship, and innovation

In our current markets and evolving technological environment, innovation has become a primary focus for NN Group. Similar to many of our peers, NN Group must support operational excellence within its current infrastructure, while at the same time keep up with our fast-changing environment to ensure we remain a competitive company in the future. Throughout 2016, the Supervisory Board advised and supervised the Executive and Management Boards on decisions that prioritised resources and maintained a balance between addressing current needs and adequately preparing for the future. To do so, the Supervisory Board was kept up to date on the current operational functioning of the company as well as the latest innovative initiatives coming from within, for example by attending innovation workshops facilitated by NN Group's Chief Innovation Officer.

Delta Lloyd transaction

In the second half of 2016 NN Group announced its intention to purchase the outstanding, ordinary shares of Delta Lloyd with the aim to combine Delta Lloyd with the Dutch and Belgian activities of NN Group. The Supervisory Board and NN Group's Executive and Management Boards held discussions over a prolonged period of time in the lead-up to this decision. The Supervisory Board ensured a rigid decision-making process, and offered support, guidance and experience throughout. Our focus was on maintaining the operational integrity of NN Group during an 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. In all of our decision-making processes, the Supervisory Board considers the different perspectives of NN Group stakeholders. Specifically, the Supervisory Board reviewed the transaction from the perspective of customers, employees, shareholders, regulators, and other key stakeholders. The Supervisory Board considered the transaction to be in the best interests of all stakeholders, and engaged an independent legal counsel to advise on these matters to ensure objectivity. Our full support followed from the strong strategic and financial rationale behind the decision. We all agreed that the current Dutch Insurance and Asset Management market requires consolidation, and that NN Group is in a prime position to initiate this step.

Living our values

Over the course of 2016 the Supervisory Board engaged in ongoing discussions with NN Group on the implementation and effectiveness of the Living our Values programme. Also discussed were the tools used to measure the programme's effectiveness, such as the values-related questions in the employee Yearly Engagement Survey (YES) and questions to customers in the Global Brand Health Monitor.

The Supervisory Board was also introduced to the NN Values challenge (a serious game) and additional actions that will be taken to further embed the values into the NN Group corporate culture. The Supervisory Board welcomed the initiatives to prioritise NN Group's values, and will continue to work with NN Group to assess what is working and address areas of improvement.

Composition

The composition of the Supervisory Board is such that members act critically and independently from each other, the Executive and Management Boards, and any one particular interest.

The knowledge, expertise, and background of each member are considered in the context of the Supervisory Board as a whole. The Supervisory Board aims to have a strong representation of diversity in terms of experience, age, career stage and nationality, with a focus on enhancing gender diversity. The selection of Supervisory Board members aims to fulfil this diversity and create a robust body able to effectively oversee the activities of NN Group and its businesses. Up to 2 February 2016, the Supervisory Board was comprised of the following five members: Mr Holsboer, Mr Hauser, Mr Schoen, Ms van Rooij, and Ms Vletter-van Dort.

On 2 February 2016, Mr Harryvan's and Mr Jenkins' appointment to the Supervisory Board became effective. This followed from their appointment to the Supervisory Board on 6 October 2015, with their appointment becoming effective as soon as ING Group's stake in NN Group fell below fifteen per cent (15%). This, and the accompanying termination of the Relationship Agreement[1] between NN Group and ING Group, occurred on 2 February 2016. Up until that moment, both participated in Supervisory Board-related activities as observers.

All members of the Supervisory Board are independent as defined by Best Practice Provision III.2.1 of the 2009 Dutch Corporate Governance Code.

Lifelong learning

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

Following their conditional appointments on 6 October 2015 and until their appointments became effective on 2 February 2016, Mr Harryvan and Mr Jenkins participated in the Onboarding Programme, in which they became familiar with NN Group, its history, its values, its strategic roadmap, operations, governance, businesses and NN's (historical) financial and operational performance, including risks and challenges. Additionally, each of them was informed of their specific responsibilities as well as the key legal and compliance obligations that apply to Supervisory Board members.

The members of the Supervisory Board followed the 2016 Permanent Education Programme, which was developed on the basis of input received from the 2015 annual Supervisory Board self-assessment and requests from the Supervisory Board members, NN Group's Executive and Management Boards, and staff. On average, the Supervisory Board spent approximately 19 hours attending permanent education sessions arranged by NN Group.

In order to have a robust outlook on long term value creation, the Supervisory Board regularly discusses corporate responsibility issues relevant to the company.

This year, as part of their permanent education programme, a meeting was held to discuss the materiality assessment that was performed to identify and prioritise the corporate responsibility topics that matter most to NN Group. This assessment was based on the outcome of a survey held with a balanced group of internal and external stakeholders which identified and prioritised topics of highest interest to our stakeholders, and those that may potentially impact our business. The Supervisory Board members discussed the outcome of this survey and lent their expertise on the topics stemming from the assessment. For example, they advised that the topic of climate change was relevant to address in the annual report, although not specifically indicated as such in the survey.

The final materiality matrix can be found on page 16 of the Annual Review.

Other permanent education sessions topics included cloud computing, Solvency II, changes in financial accounting and reporting (IFRS 9 and 17), developments in the insurance industry, customer centricity, longevity risk, ethical dilemmas and values, tax transparency, and innovation. Aside from the Permanent Education Programme, the members of the Supervisory Board also met with NN Group colleagues and teams of NN Investment Partners and NN Bank, NN Life and NN Non-life in the Netherlands, as well as some of the heads of group support functions to learn more about NN Group's businesses and activities. The members of the Supervisory Board also participated in a number of educational and knowledge sessions organised by external organisations.

Self-assessment

Annually, the Supervisory Board assesses its functioning in order to evaluate its performance and identify opportunities for individual and shared growth. In January 2017, this evaluation was carried out for the financial year 2016. The Supervisory Board looked at the functioning of the Supervisory Board as a whole, the functioning of the Supervisory Board committees and their respective chairs, and of the individual Supervisory Board members. Following this evaluation, the chair of the Supervisory Board met with each Supervisory Board member individually to provide direct feedback. This feedback was based on the input received from the self-assessment and individuals within NN Group and following a review of outside positions and permanent education sessions.

Conflicts of interest

In accordance with the rotation plan of the Supervisory Board, the term of appointment of Mr Holsboer and Ms van Rooij would end on 2 June 2016, the date of NN Group's 2016 annual general meeting (AGM). Mr Holsboer and Ms van Rooij were both reappointed at NN Group's 2016 AGM. Proposed reappointments of Supervisory Board members are addressed by the Nomination and Corporate Governance Committee and the Supervisory Board. Mr Holsboer and Ms van Rooij each are a member of both the Nomination and Corporate Governance Committee and the Supervisory Board and abstained from discussions and voting with respect to their own proposed re-appointments. In relation to the above, Best Practice Provisions III.6.1, III.6.2, and III.6.3 of the 2009 Dutch Corporate Governance Code were complied with. Apart from the transactions mentioned above there were no other apparent conflicts of interest of material significance in 2016.

1 The Relationship Agreement is an agreement made between NN Group and ING Group regarding their ongoing relationship after NN Group's IPO in July 2014, which was – with the exception of certain specific provisions – terminated on 2 February 2016 when ING Group's shareholding in NN Group fell below fifteen per cent (15%).

Key discussion topics and activities

Supervisory Board Meetings

The Supervisory Board held 15 Supervisory Board meetings in 2016, one of which was held in Japan as part of the Supervisory Board's visit to NN Group's business units NN Life Japan and NNIP Japan. The average attendance rate for scheduled meetings was 95%. None of the Supervisory Board members was frequently absent at these meetings and in all meetings there was sufficient presence to constitute a valid quorum.

In addition to the formal meetings, the chair of the Supervisory Board maintained regular contact with NN Group's Chief Executive Officer and other members of the NN Group's Executive and Management Boards. In these meetings, topical issues as well as the general affairs of NN Group and its businesses were discussed. Also, the Supervisory Board had contact with regulators, and the chair of the Supervisory Board and the Works Council-nominated members met with (representatives of) the Central Works Council.

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

The Supervisory Board discussed and approved several items, such as the financial results of NN Group (and related press releases and disclosures) and proposed transactions, such as NN Group's proposed interim and final dividend, and NN Bank's debt issuance programme, in line with NN Group's governance structure.

With regards to governance, the Supervisory Board discussed the current governance structure of NN Group and related documents, such as the application of the 2009 Dutch Corporate Governance Code and the impact of the revised Dutch Corporate Governance Code dated 8 December 2016 as well as the applications of NN Group's charters of the Executive Board, Management Board, and Supervisory Board.

Additional key topics discussed by the Supervisory Board were:

Political and regulatory environments

The Supervisory Board was kept abreast of developments around the world having a (potential) impact on NN Group's businesses. Special attention was given to 'Brexit', the U.S. presidential elections, the attempted coup in Turkey, and other unrest, as well as insurance and pension reforms underway in a number of countries.

IT security and controls

NN Group frequently provided updates to the Supervisory Board on the implementation of (IT) controls.

Culture

Culture and governance are important elements in ensuring that all NN Group businesses seamlessly continue their evolution. Management's aim to enhance accountability and ownership throughout NN's businesses will help the company further on this path. The way in which NN Group conducts its business, and the way in which NN Group colleagues approach their daily work, must comply with NN Group's values care, clear, commit, and overarching Code of Conduct. The Supervisory Board holds the responsibility of ensuring that all of NN Group's activities uphold the rules, guidelines, and expectations encompassed in our values and Code of Conduct.

Capital allocation

The Supervisory Board discussed potential capital deployment options with the Executive and Management Boards, including the Delta Lloyd transaction.

The focus of these discussions was supervising the Executive and Management Boards for adherence to NN Group's Capital Policy, and monitoring that the proposed options had been considered against each other. Additionally, the Supervisory Board supervised that attention continued on NN Group's business as usual activities and key performance indicators.

Delivering on NN Group objectives and strategy

Throughout 2016, the Supervisory Board was regularly updated on how NN Group was delivering on its objectives and strategy. The Supervisory Board attended a full-day workshop on NN Group's strategy and long term planning in January 2016. There, NN Group's Executive and Management Boards outlined NN Group's strategic objectives and business plan 2016-2018, which outlined the Executive and Management Boards' roadmap for NN Group to be a respected company that creates significant shareholder value. Discussion points included the development of an operating model that supports delivery of outperformance, driving innovation in NN Group's businesses, clear capital allocation choices, and leveraging NN Group's asset management capabilities.

Risk management and control systems

As part of the ongoing transformation of NN Group, the Executive and Management Boards initiated a project to boost entrepreneurship within local business units. This resulted in the delegation of certain responsibilities from head office to local management boards. Furthermore, NN Group started a governance review to further increase operational effectiveness and strengthening group oversight, while at the same time seeking cost savings by streamlining certain support functions at the head office. The Supervisory Board's aim is to help steer NN Group towards its vision in the most efficient and successful way.

Following NN Group's approval from the Dutch Central Bank to use its Partial Internal Model for calculating NN Group's Solvency II ratio, NN Group focused on enhancing its internal processes and controls and the Supervisory Board was kept apprised of the outcomes of reviews and testing performed on these controls. The Supervisory Board also prioritised operational excellence with the company, focusing on management's assessment of the adequacy and effectiveness of NN Group's risk management and control systems for both financial and non-financial risks. The Supervisory Board was regularly updated on the enhancement of NN Group businesses' operational processes and controls and how NN Group's businesses were performing as compared to peer and customer expectations. Periodically the Supervisory Board received a briefing from senior management regarding the businesses.

Shareholder base

The Supervisory Board was regularly updated on the activities of NN Group's investor relations team with respect to NN Group's shareholder base and on the share price performance. Information relating to the composition of and developments within NN Group's shareholder base is used as input to maintain good relationships with investors. More information about our shareholder base can be found on page 28 of the Annual Review.

Legislative and regulatory developments

The regulatory environment in which NN Group operates continues to evolve, requiring businesses to quickly adapt to these changes. The Supervisory Board was regularly informed of developments in and outside the Netherlands. The Supervisory Board stressed the importance of NN Group's continued attention and adherence to rapidly developing laws and regulations. Furthermore, the Supervisory Board was kept up-to-date on supervisory developments impacting NN Group's businesses.

Supervisory Board Committees

There are four committees that support the Supervisory Board: the Audit Committee, the Risk Committee, the Remuneration Committee, and the Nomination and Corporate Governance Committee.

The committees are responsible for preparing items delegated to them on which the chair of each committee verbally reports the main points of discussion and resulting recommendations to the Supervisory Board. This enables the Supervisory Board as a whole to make a decision on these items. The key inputs and underlying considerations leading to a recommendation are recorded for each committee.

Audit Committee

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

The Audit Committee met five times in 2016 with an average attendance rate of 90%. None of the Audit Committee members was frequently absent at these meetings and in all meetings there was sufficient presence to constitute a valid quorum. The members of the Audit Committee are Mr Schoen (chair), Mr Hauser, Mr Harryvan, and Mr Holsboer.

Composition of the Audit Committee

- Mr Schoen, a financial expert, chaired the Audit Committee for the full financial year 2016
- Mr Hauser was a member of the Audit Committee in the full financial year 2016
- Ms Vletter-van Dort temporarily joined the Audit Committee on the date of her appointment to the Supervisory Board on 6 October 2015 until her appointment to the Risk Committee on 24 February 2016
- On 6 October 2015, Mr Harryvan joined the Audit Committee as an observer until he became a member of the Audit Committee on 2 February 2016, the date his Supervisory Board membership became effective
- Mr Holsboer was appointed as a member of the Audit Committee on 24 February 2016

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

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

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

The internal and external auditors attended each of the Audit Committee meetings in 2016. The Audit Committee encouraged them to share their insights and findings at the general Audit Committee meetings and in the five closed sessions that took place afterwards, where the Audit Committee met with the internal and external auditors without other attendees.

Discussion topics

The Audit Committee discussed periodic financial reports and related press releases as well as supporting documentation, such as actuarial analyses, reports on internal control on financial reporting, and in general periodic reports from the internal and external auditors. Specific attention was given to the IFRS Reserve Adequacy test (RAT), upcoming accounting changes for insurers (IFRS 9 and IFRS 17), interim and final dividend payments to shareholders, as well as specific financial transactions.

The Audit Committee also discussed the audit scope, materiality and key audit matters, and reviewed the external auditors' independence and fees every quarter. The Audit Committee worked closely together with the Risk Committee on specific topics such as Solvency II, operational excellence and reliability and continuity of electronic data processing and the internal non-financial risk management and control systems. The main discussion topics of the Audit Committee were:

Tax

As a responsible taxpayer, NN Group takes into account long term considerations and carefully weighs the interest of all stakeholders. Given the increasing number of initiatives at harmonising tax reporting across jurisdictions and to increase transparency, the Audit Committee paid special attention to this topic. Additionally, the Audit Committee received an annual update from NN Group's Finance and Tax departments on NN Group's tax strategy and principles as well as tax developments internally and externally.

Solvency II

NN Group achieved an important milestone at the end of 2015 with the approval by the Dutch Central Bank (DNB) of its partial internal model. The Audit Committee discussed the internal control environment for financial reporting, including Solvency II. In the course of the year, the internal control environment for Solvency II was further strengthened and the processing accuracy increased. The Audit Committee regularly received reports on the status of the development and implementation of these controls.

Legal proceedings

The Audit Committee was regularly updated on developments with regards to legal proceedings, amongst which the developments regarding Dutch unit-linked products. The Audit Committee's input was used to consider if and to what extent these developments may impact NN Group's disclosures.

Validation of the insurance contract liabilities

The Audit Committee was frequently informed of the adequacy levels of NN Group's reporting segments, including changes thereto and the reasoning behind them. The Audit Committee also addressed the methodologies and controls applied by the business units. Furthermore, the Audit Committee discussed and reviewed potential changes to the RAT methodology.

Reliability and continuity of electronic data processing

The Audit Committee also addressed information technology within NN Group and was informed of and discussed the status and developments with respect to the reliability and continuity of electronic data processing across NN Group's businesses.

Particular attention was given to identity and access management with management outlining the planning to enhance the controls in these areas. The Audit Committee was pleased to learn of the appointment of a Chief Information Security Officer to oversee many aspects of management's planning.

Financial reporting risk

The Audit Committee discussed on a quarterly basis the financial reporting topics and related processes and controls. In this discussion, the Audit Committee evaluated the above discussion topics and other considerations on internal controls in the financial reporting process for their potential impact on the quarterly reporting. The Audit Committee assessed 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 as presented in the 'Report of the Executive Board on internal control over financial reporting'.

External auditor

KPMG became the external auditor for NN Group on 1 January 2016 and shared with the Audit Committee and Supervisory Board its initial observations about NN Group's control environment. The Audit Committee maintained its close contact with the external auditor with the chair of the Audit Committee having regularly scheduled meetings with the audit partners.

Risk Committee

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

The Risk Committee met four times in 2016 with a 100% attendance rate. The members of the Risk Committee are Mr Hauser (chair), Mr Schoen, Mr Jenkins, and Ms Vletter-van Dort. All meetings were also attended by the chair of the Supervisory Board, Mr Holsboer.

- On 6 October 2015, Mr Jenkins joined the Risk Committee as an observer until he became a member of the Risk Committee on 2 February 2016, the date his Supervisory Board membership became effective
- Mr Holsboer became a member of the Risk Committee on 2 February 2016, and later joined the Risk Committee on 24 February 2016 as an observer, the date that Ms Vletter-van Dort became a member of the Risk Committee

Other attendees at the Risk Committee meetings were the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer of NN Group, the internal and external auditors, the General Counsel & Head of Compliance and the Head of Enterprise Risk Management. During the year, the chair of the Risk Committee regularly liaised with the Chief Risk Officer of NN Group and also held regular meetings with the external auditors, NN Group's Chief Compliance Officer and relevant subject matter experts.

In its meetings, the Risk Committee discussed NN Group's periodic 'Enterprise Risk Management Report' on key financial and non-financial risks. Specific attention was given to risk positions versus risk appetite and risk limits; asset and liability management and investments; and emerging and strategic risks, in particular related to the political environment and to the potential acquisition of Delta Lloyd. Additionally, the Risk Committee regularly discussed IT and control risks and NN Group's progress and plans for further strengthening the risk management environment.

The Risk Committee discussed NN Group's key risks in its Own Risk and Solvency Assessment (ORSA) Report and endorsed NN Group's 2016 Risk Appetite statement and identified mitigating actions for top risks.

The Risk Committee also discussed and endorsed risk management policies in line with NN Group's governance requirements, such as NN Group's Recovery Plan, General Principles of Risk Management and Personal Account Dealing policy.

Additionally, the Risk Committee addressed the following topics:

Risk organisation and governance

The Risk Committee was regularly informed about the risk organisation, and the tools employed to strengthen risk management in NN Group and its businesses. The Risk Committee had the opportunity to learn of the key areas of focus and priorities of the new Chief Risk Officer, Mr Erasmus, following his appointment.

Effective control environment

In support of NN Group's ongoing transformation with increased delegation of responsibilities to local management boards, management also enhanced its control environment. The Risk Committee discussed operational risks in this context and as part of NN Group's 'Enterprise Risk Management Report'. Of particular focus was NN Group's approach to managing continuity of business and IT (security) risks.

Financial risks

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

Legal, compliance, and integrity

Integrity and values are an important aspect of running any business, particularly ensuring the right 'tone at the top'. The Risk Committee closely monitored internal and external developments in these areas.

Remuneration committee

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

The Remuneration Committee met seven times in 2016 and had an average attendance rate of 97%. The members of the Remuneration Committee are Ms van Rooij (chair), Mr Holsboer, Mr Harryvan, and Mr Jenkins, the latter two became members of the Remuneration Committee on 2 February 2016, the date their appointments to the Supervisory Board became effective.

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

The Remuneration Committee used the services of Willis Towers Watson to benchmark the remuneration of the Supervisory Board, the Executive Board and the Management Board with comparable companies in the external market.

The topics of discussion included:

Review NN Group remuneration

The Remuneration Committee addressed the remuneration policies of NN Group. Matters that were covered in 2016 included review and endorsement of NN Group's remuneration policy, including policies for board members, and endorsement to propose a change to the Supervisory Board remuneration to NN Group's General Meeting. This proposal will be presented for approval at the 2017 Annual General Meeting (AGM). More information on the proposed remuneration of the Supervisory Board members can be found in the Remuneration Report on pages 23-27 of this Financial Report.

Performance management and compensation packages Executive Board

The Remuneration Committee also discussed the performance assessment on performance year 2015 and recommended the variable remuneration proposals for the Executive Board. The Remuneration Committee discussed and endorsed the objectives for the Executive Board for performance year 2016.

Other topics discussed

The Remuneration Committee also discussed the performance management programme for NN Group. The Remuneration Committee approved the NN Group Remuneration Framework, and the list of Identified Staff for NN Group. Furthermore, Identified Staff and Executive and Management Boards related remuneration matters were reviewed and approved in line with the NN Group Remuneration Framework, including the variable remuneration proposals for Identified Staff, Executive and Management Boards for performance year 2015, and potential cases for holdback of deferred variable remuneration by way of malus. The renewed Collective Labour Agreement between NN Group and the Trade Unions was presented and the Remuneration Committee also reviewed the Remuneration Committee Charter, included in the Supervisory Board Charter.

Nomination and Corporate Governance Committee

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

The Nomination and Corporate Governance Committee met five times in 2016 and had an attendance rate of 100%. The members of the Nomination and Corporate Governance Committee are Ms Vletter-van Dort (chair), Ms van Rooij, Mr Holsboer, and Mr Harryvan, who became a member when his appointment to the Supervisory Board became effective on 2 February 2016.

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

Some of the key activities of the Nomination and Corporate Governance Committee included the evaluation process of the Supervisory Board, the review and endorsement of the implementation of the Dutch Corporate Governance Code, and amendment of the Supervisory Board charter.

The Nomination and Corporate Governance Committee recommended that the Supervisory Board approve the updated 'NN Group Decision Structure'.

The succession plan for the (members of the) Executive Board, Management Board and other key staff, as well as NN Group's talent management programme, were also discussed and evaluated.

The Nomination and Corporate Governance Committee and the Supervisory Board was consulted during the process for identifying a successor for NN Group's Chief Risk Officer and provided positive advice to the Executive Board on the eventual appointment of Mr Erasmus as NN Group's Chief Risk Officer. The Nomination and Corporate Governance Committee also discussed the rotation plan for the Supervisory Board.

The Nomination and Corporate Governance Committee evaluated, discussed and recommended to the Supervisory Board the composition of the Supervisory Board, its committees and individual Supervisory Board competencies and skills. It also outlined key actions to address matters raised. In this context the Nomination and Corporate Governance Committee also prepared the discussion for the proposed reappointments of Mr Holsboer and Ms Van Rooij and the appointment of Mr Harryvan as vice-chair.

Also, the Nomination and Corporate Governance Committee assessed the functioning of the Executive Board members. Individual meetings with the Executive and Management Boards formed part of the assessment.

Annual accounts and dividend

The Executive Board prepared the 2016 Annual Accounts and discussed these with the Supervisory Board. The 2016 Annual Accounts will be submitted for adoption by the General Meeting at the 2017 AGM as part of the Financial Report.

NN Group will propose to pay a final dividend of EUR 0.95 per ordinary share, or EUR 307 million in total, based on the number of outstanding shares at the date of this Financial Report, excluding the shares held by NN Group in its own capital in treasury.

Appreciation

NN Group showed a strong performance in 2016 in light of the challenging market environment and political environment by ensuring attention to day-to-day business activities. The announcement on 23 December 2016 that NN Group and Delta Lloyd reached a conditional agreement on a recommended all-cash public offer, and the subsequent public offer made on 2 February 2017 were important milestones. The continuous open dialogue and cooperation between NN Group's Executive and Management Boards and the Supervisory Board was very much appreciated by the Supervisory Board and we look forward to the next steps. We are proud of our ability to together bring the company to progressive outcomes.

The Supervisory Board wishes to express our gratitude to the members of the Executive Board and the Management Board, and our appreciation to Doug Caldwell for his contribution to the IPO and obtaining approval of the Solvency II Partial Internal Model, thereby giving NN Group a strong position in the market. We thank all employees of NN Group and its businesses for their dedication to maintaining and building on this momentum, and for their continued commitment to build a company that truly matters in the lives of all stakeholders of NN Group.

The Hague, 15 March 2017
The Supervisory Board

Corporate governance

General

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

NN Group was incorporated on 29 March 2011 under the name ING Insurance Topholding N.V. On 28 February 2014, NN Group entered into a legal merger with its wholly-owned subsidiary ING Verzekeringen N.V. (ING Verzekeringen), at that time a public limited liability company incorporated under the laws of the Netherlands. On 1 March 2014, the legal merger became effective. As a result of this merger, ING Verzekeringen ceased to exist, NN Group acquired all assets and liabilities of ING Verzekeringen under universal title of succession and was renamed NN Group N.V. At that time NN Group had one shareholder: ING Groep N.V. (ING Group), a public limited liability company incorporated under the laws of the Netherlands. On 2 July 2014, ING Group offered part of its shares in the share capital of NN Group to the public and the shares in the capital of NN Group were listed on Euronext Amsterdam (IPO). After settlement of the offering on 7 July 2014 (Settlement Date), ING Group still held a majority of the shares in the share capital of NN Group. As required under the restructuring plan developed by ING Group as a condition to receiving approval from the European Commission for the Dutch State aid it received in 2008 and 2009 and approved by the European Commission, ING Group divested more than 50% of its shareholding in NN Group before 31 December 2015. On 31 December 2015 ING Group held 25.8% of the issued and outstanding ordinary shares in the share capital of NN Group. ING Group was obliged to divest its remaining interest before 31 December 2016 and fulfilled this obligation by completing its divestment of NN Group on 19 April 2016. On 10 June 2014, NN Group and ING Group entered into an agreement containing certain arrangements regarding the continuing relationship between NN Group and ING Group (Relationship Agreement). The Relationship Agreement, with the exception of certain specific provisions, terminated on 2 February 2016, the date on which ING Group's holding of ordinary shares in the share capital of NN Group fell below 15% of the issued and outstanding ordinary shares. The full text of the Relationship Agreement is available on the NN Group website.

In accordance with the Relationship Agreement, as in force until 2 February 2016, NN Group applied the full large company regime (volledig structuurregime) as of 5 October 2015.

As per 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.

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 2016 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 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.

The profile of the Executive Board is available on the NN Group website. NN Group aims to have an adequate and balanced composition of the Executive Board. Since the Executive Board consists of two members and several relevant selection criteria need to be balanced when composing the Executive Board, the composition of the Executive Board did not meet the gender balance of having at least 30% men and at least 30% women amongst the members of the Executive Board in 2016. NN Group will continue to strive for an adequate and balanced composition of the Executive Board in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large listed companies, and experience in the political and social environment.

As at 31 December 2016 the Executive Board consisted of the following persons:

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

1 Terms of appointment will end at the close of the annual general meeting of NN Group N.V. in 2017 and 2018 respectively.

Lard Friese was appointed as member and vice-chair of the Executive Board on 1 March 2014 and chair and chief executive officer as from the Settlement Date. From 1 October 2013 until the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, he was a member and vice-chair of the management board of ING Verzekeringen. Mr Friese is responsible for the business strategy, performance and day-to-day operations of NN Group. Mr Friese has been employed by ING since 2008 in various positions. He was appointed chief executive officer of Nationale-Nederlanden and chair of the Dutch Intermediary Division (Nationale-Nederlanden, Movir, Westland Utrecht Bank) on 1 September 2008. In 2009, he became chief executive officer of ING Insurance Benelux responsible for the whole of ING Insurance's operations in the Netherlands, Belgium and Luxembourg. He was appointed to the management board of ING Verzekeringen with responsibility for the Insurance operations in the Netherlands, Belgium and Luxembourg, Central and Rest of Europe and Asia/Pacific on 1 January 2011 until 3 November 2011. From 30 March 2011 until the Settlement Date he was appointed to the management board of ING Insurance Eurasia N.V., a direct subsidiary of NN Group (ING Insurance Eurasia) with the same responsibilities. As of 1 July 2013 he also assumed responsibility for Investment Management in the management board of ING Insurance Eurasia and, as from the end of 2013, also for the insurance business in Japan. From 2006 to 2008 Mr Friese was employed by Ceska Pojistovna a.s. (Prague, Czech Republic) as chief executive officer and vice-chair of the board of directors and was a member of the executive committee of Generali PPF Holding (Prague, Czech Republic). From 2003 to 2006 Mr Friese was employed by VNU/ACNielsen (Brussels, Belgium) as senior vice-president and chief retail services officer Europe and he was a member of the European board. Before that, from 1993 to 2003, he worked at Aegon N.V. as a member of the board of directors of Aegon Levensverzekering N.V. (life insurance) in The Hague, the Netherlands and as senior vice-president of Aegon the Netherlands in Tokyo, Japan. Between 1988 and 1993 Mr Friese held various positions at insurance company NOG Verzekeringen (Amsterdam, the Netherlands). Mr Friese began his career in 1986 as a (junior) tax consultant at Kammer Luhrmann Van Dien & Co (now PwC) in Utrecht and Arnhem, the Netherlands. Mr Friese holds a Master of Law degree from Utrecht University (the Netherlands). Besides being a member of the Executive Board, Mr Friese is a member of the board of representatives of Foundation VUmc CCA and a member of the Geneva Association.

Delfin Rueda was appointed to the Executive Board as chief financial officer on 1 March 2014. From 1 October 2013 until the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, he was a member of the management board and chief financial officer of ING Verzekeringen. Mr Rueda has served as chief financial officer and as a member of the management board of ING Insurance Eurasia from 1 November 2012 until the Settlement Date.

Mr Rueda is responsible for NN Group's finance departments and investor relations. Prior to joining ING in November 2012, Mr Rueda served as chief financial and risk officer and as a member of the management board at Atradius (2005-2012). From 2000 to 2005, Mr Rueda served as senior vice-president of the Financial Institutions Group, Corporate Finance at J.P. Morgan. Prior to that, from 1993 to 2000, he was executive director of the Financial Institutions Group, Corporate Finance at UBS. Mr Rueda began his career with Andersen Consulting, which later became Accenture, where he undertook different advisory assignments in information systems and strategic management services from 1987 to 1991. Mr Rueda has a degree in Economic Analysis and Quantitative Economics from the Complutense University of Madrid (Spain) and an MBA with a Finance major from the Wharton School, University of Pennsylvania (U.S.). Besides being a member of the Executive Board, Mr Rueda is appointed supervisory board member and head of the audit committee of the supervisory board of Adyen B.V. as per 20 January 2017.

Remuneration

Information on the remuneration policy for members of the Executive Board and on their individual remuneration can be found in the Remuneration Report, on pages 23–27.

Management Board

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 towards the Executive Board and within the Management Board for the specific tasks as assigned. The organisation, duties and working methods of the Management Board are detailed in the charter of the Management Board. This charter is available on the 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.

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 2016 the Management Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment
Lard Friese	Chair, Chief executive officer (CEO)	26 November 1962	male	Dutch	7 July 2014
Delfin Rueda	Vice-chair, Chief financial officer (CFO)	8 April 1964	male	Spanish	7 July 2014
Stan Beckers	Chief executive officer NN Investment Partners	22 March 1952	male	Belgian	7 July 2014
Jan-Hendrik Erasmus	Chief risk officer (CRO) (as of 1 October 2016)	27 July 1980	male	British and South African	1 September 2016
David Knibbe	Chief executive officer Netherlands Insurance and Global IT	15 March 1971	male	Dutch	7 July 2014
Robin Spencer	Chief executive officer International Insurance	30 January 1970	male	British	1 August 2014
Dorothee van Vredenburch	Chief change and organisation (CCO)	10 September 1964	female	Dutch	7 July 2014

Doug Caldwell, who was appointed to the Management Board as Chief Risk Officer as from the Settlement Date, stepped down as chief risk officer and Management Board member on 1 October 2016.

Information with respect to the members of the Management Board who are also members of the Executive Board, Lard Friese and Delfin Rueda, can be found under 'Executive Board – Composition' on page 14.

Stan Beckers was appointed to the Management Board as chief executive officer NN Investment Partners as from the Settlement Date. From 1 July 2013 until the Settlement Date, he was a member of the management board and chief executive officer of ING Investment Management International. Mr Beckers is responsible for NN's asset management business. Prior to joining ING in 2013, Mr Beckers held various positions in Barclays Global Investors which was later acquired by Blackrock. Mr Beckers served as co-head of Blackrock Solutions EMEA (2010-2013), he was chief investment officer of Barclays Global Investors Europe Active Equity Group (2008-2010) and he served as chief executive officer and chief investment officer of Alpha Management Group of Barclays Global Investors (2004-2007). From 2003 to 2004, Mr Beckers served as chief investment officer of Kedge Capital. From 2000 to 2003, Mr Beckers served as chief investment officer of WestLB Asset Management. Prior to that, from 1982 to 2000, he held various functions, the last one being chief executive officer of Barra Institutional Analytics. Mr Beckers started his career in 1979 as a professor of Finance at KU Leuven, Belgium. Over the past 25 years, Mr Beckers has also been a member of the Investment Committees at several pension funds and of the supervisory board at KAS Bank, Robeco, Econowealth and St Lawrence Trading Inc. He has a PhD in Business Administration from the University of California, Berkeley (U.S.) and has an engineering degree in Quantitative Methods and Computer Sciences from KU Leuven (Belgium). Besides being a member of the Management Board, Mr Beckers is a visiting professor at KU Leuven. As announced on 16 February 2017, Stan is retiring on 1 April 2017 and will be succeeded by Mr Bapat, currently CEO of NN Life Japan.

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 is responsible for NN Group's overall risk framework with direct responsibility for the risk management departments. 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. He 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 B.Com (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.

David Knibbe was appointed to the Management Board as from the Settlement Date. From 1 January 2011 until 1 September 2014, he served as chief executive officer of ING Insurance Europe. From 1 September 2014, Mr Knibbe was appointed chief executive officer of Netherlands Insurance. In this role as chief executive officer Netherlands Insurance, Mr Knibbe is responsible for NN's insurance and banking business in the Netherlands. He is also responsible for IT globally. During the year 2010, Mr Knibbe was chief executive officer Insurance Corporate Clients in the Netherlands. From 2007 to 2008, Mr Knibbe was general manager of Nationale-Nederlanden Individual Life (retail life and individual pensions), which then became Intermediary Pensions and Retail Life with the addition of the SME pensions business in 2008. In 2009, Mr Knibbe became general manager Pensions with the addition of corporate pensions and removal of retail life from his area of responsibility. Prior to that, from 2004 to 2007, Mr Knibbe was director Disability and Accident Insurance of Nationale-Nederlanden. From 2002 to 2004, he was managing director of ING's life insurance and employee benefits joint venture with Piraeus Bank in Greece. Mr Knibbe was head of Investments of Central-Holland of ING Bank from 2000 to 2002. Mr Knibbe started his professional career in 1997 when he joined ING, serving in various positions in investment management and banking. Mr Knibbe has a degree in Monetary Economics from the Erasmus University in Rotterdam (the Netherlands). Besides being a member of the Management Board, Mr Knibbe is chair of the board of the Dutch Association of Insurers (Verbond van Verzekeraars) and member of the board of the Confederation of Netherlands Industry and Employers (VNO-NCW).

Robin Spencer was appointed to the Management Board on 1 August 2014 and as chief executive officer International Insurance on 1 September 2014. He is responsible for all NN Group's international insurance businesses as well as reinsurance globally. He has over 20 years' experience in the insurance industry across life, non-life and asset management in the UK and internationally.

Mr Spencer was previously chief executive officer of Aviva UK & Ireland General Insurance and member of Aviva's executive committee. From 2010 to 2012, Mr Spencer was chief risk officer of Aviva and was chair of the European CRO Forum in 2012.

Mr Spencer was chief executive officer of Aviva Canada from 2007 to 2010 having previously been the chief financial officer of Aviva Canada from 2005 to 2007. While in Canada, Mr Spencer was on the board and, in 2009, chair of the Canadian Property and Casualty Insurance Compensation Corporation. Mr Spencer started his career as a financial analyst with Procter & Gamble and is a qualified accountant (ACMA). He holds an MA in Economics from Aberdeen University (UK).

Dorothee van Vredenburch was appointed to the Management Board as chief change and organisation as from the Settlement Date. From 1 October 2013 until the Settlement Date, she first was a member of the management board of ING Verzekeringen and, after the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, of NN Group. Ms Van Vredenburch has also been a member of the management board of ING Insurance Eurasia since 1 November 2012. Ms Van Vredenburch is responsible for NN Group's HR, communications and sustainability. Ms Van Vredenburch joined ING in 2009 as managing director of Corporate Communications and Affairs of ING Group and, from 2010, also of ING Insurance Eurasia. Prior to joining ING in 2009, Ms Van Vredenburch served as managing director and chair of the board for Citigate Europe (from 2001 to 2005) and in 2007 she founded RedZebra Group, a Netherlands-based consulting firm. Ms Van Vredenburch started her career in 1987 as investment analyst at Amro International Services (London) and had similar roles at Swiss Bank Corporation and at Carnegie International Securities Ltd. in London until 1992. In 1993, she founded First Financial Communications B.V., a financial communications firm that later became part of the global marketing and communications Incepta Group (Citigate), which merged with Huntsworth Plc. Ms Van Vredenburch holds a BTEC HND degree in Business and Finance from CCAT in Cambridge (UK). Besides being a member of the Management Board, Ms Van Vredenburch is a member of the board of Junior Achievement Europe and member of the board of Stichting Koninklijk Concertgebouworkest.

Supervisory Board

Duties

The Supervisory Board is responsible for supervising the management of the Executive Board and the general course of affairs of NN Group and its businesses. The Supervisory Board may, on its own initiative, provide the Executive Board with advice and may request any information from the Executive Board that it deems appropriate. In performing its duties, the Supervisory Board must carefully consider and act in accordance with the interests of NN Group and the business connected with it, taking into consideration the relevant interests of all the stakeholders of NN Group. The organisation, duties and working methods of the Supervisory Board are detailed in the charter of the Supervisory Board. This charter is available on the 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 of NN Group (Works Council) may recommend candidates for nomination to the Supervisory Board. The Supervisory Board must simultaneously inform the General Meeting and the Works Council of the nomination. The nomination must state the reasons on which it is based.

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

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

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

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

Composition

The Supervisory Board must consist of three or more members, with the total number of members of the Supervisory Board determined by the Supervisory Board. As at 31 December 2016 the Supervisory Board consisted of seven members, who are all independent within the meaning of best practice provision III.2.2. of the Dutch Corporate Governance Code 2008.

Until 2 February 2016, the date on which ING Group's holding of ordinary shares in the share capital of NN Group fell below 15% of the issued and outstanding ordinary shares, ING Group had a right to nominate two members of the Supervisory Board (ING Group Nominees) and to nominate and propose replacements for these members.

The profile of the Supervisory Board is available on the NN Group website. NN Group aims to have an adequate and balanced composition of the Supervisory Board, including a gender balance by having at least 30% men and at least 30% women amongst its members. However, because of the fact that several relevant selection criteria need to be balanced when composing the Supervisory Board, the composition of the Supervisory Board did not meet the above-mentioned gender balance in 2016.

Corporate governance
continued

NN Group will continue to strive for an adequate and balanced composition of the Supervisory Board in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large listed companies and experience in the political and social environment.

As at 31 December 2016 the Supervisory Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment	Termination/ reappointment
Jan Holsboer	Chair	8 May 1946	male	Dutch	1 March 2014	2020
Dick Harryvan	Vice – chair (as of 24 February 2016)	10 May 1953	male	Dutch	2 February 2016	2020
Heijo Hauser	Member	23 June 1955	male	German	7 July 2014	2018
Robert Jenkins	Member	17 January 1951	male	American	2 February 2016	2020
Yvonne van Rooij	Member (recommended by Works Council)	4 June 1951	female	Dutch	1 March 2014	2020
Hans Schoen	Member	2 August 1954	male	Dutch	7 July 2014	2018
Hélène Vletter – van Dort	Member (recommended by Works Council)	15 October 1964	female	Dutch	6 October 2015	2019

Jan Holsboer was appointed to the Supervisory Board on 1 March 2014. He was appointed chair on 7 July 2014. On 2 June 2016, Mr Holsboer was reappointed to the Supervisory Board. On the same date, he was also reappointed chair. From 14 May 2012 until the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, he was a member of the supervisory board of ING Verzekeringen. From 14 May 2012 until the Settlement Date, Mr Holsboer was also a member of the supervisory boards of ING Group, ING Bank N.V. (ING Bank) and ING Insurance Eurasia. Previously, Mr Holsboer was a member of the executive board of Univar N.V. and from 1990 until 1999 he was a member of the executive boards of Nationale-Nederlanden and ING Group. Besides being a member of the Supervisory Board, Mr Holsboer is, among others, chair of the supervisory board of TD Bank N.V., non-executive director of YAFA S.p.A. (Turin, Italy) and a member of the supervisory board of YAM Invest N.V.

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

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

Yvonne van Rooij was appointed to the Supervisory Board on 1 March 2014 and reappointed on 2 June 2016. From 14 May 2012 until the legal merger between NN Group and ING Verzekeringen became effective on 1 March 2014, she was a member of the supervisory board of ING Verzekeringen. From 14 May 2012 until the Settlement Date, Ms Van Rooij was also a member of the supervisory boards of ING Group, ING Bank and ING Insurance Eurasia. In addition to being a member of the Supervisory Board, Ms Van Rooij is member of the supervisory board of Holding PricewaterhouseCoopers Nederland B.V., chair of Nederlandse Vereniging van Ziekenhuizen (Dutch association of hospitals), chair of the supervisory board of Philips Electronics Nederland B.V., a member of the board of Stichting Administratiekantoor Koninklijke Brill N.V., a member of the board of Stichting Instituut GAK, a member of the advisory board of Stichting Nationaal Fonds Kunstbezit and a member of the supervisory board of Stichting Gemeentemuseum Den Haag. Ms. Van Rooij is a member of the Board of the Confederation of Netherlands Industry and Employers (VNO-NCW). Ms Van Rooij's previous positions include, among others, Minister of Foreign Trade, member of the Dutch Parliament and member of the European Parliament.

Hans Schoen was appointed to the Supervisory Board as from the Settlement Date. From September 1977 until October 2008, Mr Schoen worked at KPMG Accountants and was a partner from January 1989 onwards. He specialised in providing audit and advisory services to domestic and foreign insurance companies. Other former significant positions of Mr Schoen include member and chair of several insurance industry committees of the NIVRA and the Dutch Accounting 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). 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). Until 27 April 2016, Mr Schoen served as chair of the EFRAG Insurance Accounting Working Group.

Hélène Vletter – van Dort was appointed to the Supervisory Board on 6 October 2015. In addition to being a member of the Supervisory Board Ms Vletter- van Dort is, among others, Professor of Financial Law & Governance at the Erasmus School of Law, member of the Monitoring Committee Corporate Governance Code, chair of the supervisory board of Intertrust N.V., arbitrator with the Netherlands Arbitration Institute. Ms Vletter-van Dort is a former member of the supervisory board of the Dutch Central Bank and former chair of its committee on supervisory policy. Other previous positions include, among others, visiting research professor at New York University, 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. and chair of the Appeal Panel of the Single Resolution Board.

More information on the composition of the Supervisory Board can be found in the Supervisory Board Report, on pages 7-13.

Remuneration

Information on the remuneration of the members of the Supervisory Board can be found in the Remuneration Report, on pages 23–27.

Committees of the Supervisory Board

From its members, the Supervisory Board has established four committees: the Audit Committee, the Risk Committee, the Remuneration Committee, and the Nomination and Corporate Governance Committee. The function of these committees is to prepare the discussions and decision-making undertaken by the Supervisory Board. 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 be found in the Supervisory Board Report on pages 7–13.

General Meeting

Frequency, notice and agenda

Each year, not later than in the month of June, a general meeting is held. Its general purpose is to discuss the management report; adopt the financial statements; release the members of the Executive Board and the members of the Supervisory Board from liability for their respective duties; appoint and reappoint members of the 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 42 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 must be received by the chair of the Executive Board or the chair of the Supervisory Board in writing at least 60 days before the date of the general meeting.

Admission to the general 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 twenty-eighth 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 financial 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, upon a proposal of the Supervisory Board, and the remuneration of the members of the Supervisory Board

- Dispose the profit remaining after the payment of dividend on any outstanding preference shares and after a decision has been taken on the addition of all or part of the profits to the reserves, upon a proposal of the Executive Board which has been approved by the Supervisory Board
- Amend the Articles of Association, upon a proposal of the Executive Board which has been approved by the Supervisory Board

Shares and share capital

Classes of shares and NN Group Continuity Foundation

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

Currently, only ordinary shares are issued, while a call option to acquire preference shares is granted to the foundation (stichting): Stichting Continuiteit NN Group (NN Group Continuity Foundation). The 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. This is in such way that the interest of NN Group and those businesses and all persons involved therein are protected to the best of its abilities, and by making every effort to prevent anything which may affect the independence and/or the continuity and/or the identity of NN Group and of those businesses in violation of the interests referred above. NN Group Continuity Foundation shall pursue its objects, inter alia, by acquiring and holding preference shares in the share capital of NN Group and by enforcing the rights, in particular the voting rights, attached to those preference shares. To this end, NN Group Continuity Foundation has been granted a call option by NN Group. According to the call option agreement concluded between NN Group and NN Group Continuity Foundation, NN Group Continuity Foundation has the right to subscribe for preference shares in the share capital of NN Group, consisting of the right to subscribe for such preference shares repeatedly. 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.

As at 31 December 2016, the board of NN Continuity Foundation consisted of three members who are independent from NN Group: Marc van Gelder (chair), Hessel Lindenbergh (treasurer) and Steven Perrick (secretary).

Issuance of shares

The General Meeting may resolve to issue shares in the share capital of NN Group, or grant rights to subscribe for such shares, upon a proposal of the Executive Board which has been approved by the Supervisory Board. 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.

On 2 June 2016, the General Meeting designated the Executive Board for a term of 18 months, starting on 2 June 2016 and thus ending on 2 December 2017, as the competent body to resolve, subject to the approval of the Supervisory Board, on the issuance of ordinary shares in the share capital of NN Group and on the granting of rights to subscribe for such shares. The authority of the Executive Board is limited to a maximum of 10% of the issued share capital of NN Group per 2 June 2016, plus a further 10% of the issued share capital of NN Group per 2 June 2016 in case of a merger or acquisition or, if necessary in the opinion of the Executive Board and the Supervisory Board, to safeguard or conserve the capital position of NN Group.

Pre-emptive rights

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

Upon a proposal of the Executive Board which has been approved by the Supervisory Board, the General Meeting may resolve to limit or exclude the pre-emptive rights. According to the Articles of Association, the General Meeting may designate the Executive Board as the competent body to do so upon a proposal of the Executive Board which has been approved by the Supervisory Board. Both resolutions require a majority of at least two-thirds of the votes cast, if less than one-half of the issued share capital is represented at the general meeting. The designation to the Executive Board to resolve to limit or exclude the pre-emptive rights may be granted for a specified period of time of not more than five years and only if the Executive Board has also been designated or is simultaneously designated the authority to resolve to issue shares. A resolution of the Executive Board to limit or exclude the pre-emptive rights requires the approval of the Supervisory Board.

On 2 June 2016, the General Meeting designated the Executive Board for a term of 18 months, starting on 2 June 2016 and thus ending on 2 December 2017, as the competent body to resolve, subject to the approval of the Supervisory Board, to limit or exclude the pre-emptive rights of existing shareholders.

Acquisition of own shares

NN Group may acquire fully paid-up shares in its own share capital for no consideration (om niet) or if: (a) NN Group's 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 2 June 2016, the General Meeting authorised the Executive Board for a term of 18 months, starting on 2 June 2016 and thus ending on 2 December 2017, to acquire in the name of NN Group, subject to the approval of the Supervisory Board, fully paid-up ordinary shares in the share capital of NN Group. This authorisation is subject to the condition that following the acquisition the par value of the ordinary shares in the share capital of NN Group which are held or held as pledge by NN Group, or held by its subsidiaries for their own account, shall not exceed 10% of the issued share capital of NN Group on 2 June 2016. 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.

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 28 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.

Transactions between NN Group and any legal or natural person who holds at least 10% of the shares in NN Group will be agreed on terms that are customary in the sector concerned. An overview of related party transactions can be found on page 114 and is deemed to be incorporated by reference herein.

Warrant Agreement

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

Dutch Corporate Governance Code

NN Group is subject to the Dutch Corporate Governance Code. The application of the Dutch Corporate Governance Code 2008. NN Group is described in the publication 'NN Group implementation of the Dutch Corporate Governance Code', dated March 2017, which is available on the website of NN Group. This publication is to be read in conjunction with this chapter and is deemed to be incorporated by reference herein. The Dutch Corporate Governance Code is available on the website of the Dutch Corporate Governance Code Monitoring Committee (www.commissiecorporategovernance.nl).

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.

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 art. 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 section 5:70 of the Dutch Financial Supervision Act. Severance payments to the members of the Executive Board are limited to a maximum of one year's fixed salary, in line with the Corporate Governance Code and the Dutch Financial Supervision Act.

External auditor

The external auditor is appointed by the general meeting upon nomination of the Supervisory Board. On 28 May 2015, the General Meeting appointed KPMG Accountants N.V. as the external auditor of NN Group for the financial years 2016 through 2019.

The external auditor may be questioned at the General Meeting in relation to its audit opinion on the financial statements. The external auditor will therefore attend and be entitled to address this meeting. The external auditor attended the meetings of the Audit Committee and the Risk Committee in 2016.

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

Financial reporting

A description of the main characteristics of the risk management and control systems with regard to the process of financial reporting of NN Group and its group companies can be found in on pages 119-125 of this Financial Report (Note 52), which is deemed to be incorporated by reference herein.

Corporate Governance Statement

This chapter, including parts of this Annual Report incorporated by reference, together with the separate publication 'NN Group implementation of the Dutch Corporate Governance Code', dated March 2017, which is available on the NN Group website, also serves as the corporate governance statement referred to in section 2a of the Decree with respect to the contents of the management report (Vaststellingsbesluit nadere voorschriften inhoud bestuursverslag).

Remuneration Report

Introduction

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

I. Remuneration in general

II. Remuneration of the Executive Board

III. Remuneration of the Supervisory Board

Reference is made to Note 49 '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.

I. Remuneration in general

NN Group has an overall remuneration policy described in the NN Group Remuneration Framework, which provides for reward guidelines and principles for all country and business unit remuneration policies within NN Group. NN Group aims to apply a clear and transparent remuneration policy that is adequate to attract and retain expert leaders, senior staff and other highly qualified employees. The remuneration policy is also designed to support NN Group's employees to act with integrity and to carefully balance the interests of our stakeholders, including the future of our clients 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 (where data is available) with relevant national and international peers, both within the financial sector and outside the financial sector. Clear performance objectives are set and assessed which are aligned with the overall strategy of NN Group, both on 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 clients by ensuring that there is careful management of risk and that staff are not encouraged, via remuneration, to take excessive risk. In addition, the remuneration policy ensures that NN Group complies with all the relevant (inter) national regulations on remuneration, such as the Dutch Central Bank's Regulation for Sound Remuneration (Regeling Beheerst Beloningsbeleid Wft 2014) and the Act on the Remuneration Policies of Financial Undertakings (Wet beloningsbeleid financiële ondernemingen), as relevant to our business. The remuneration disclosure based on art. 25 Dutch Central Bank's Regulation for Sound Remuneration (Regeling Beheerst Beloningsbeleid Wft 2014) is published on the website of NN Group.

With respect to performance year 2016, the total amount of variable remuneration approved is EUR 77.4 million. The amounts will be processed in March or April 2017. The total number of staff of NN Group eligible for variable remuneration is 10,519.

II. Remuneration of the Executive Board

The Executive Board members were appointed to the Executive Board on 1 March 2014. The Executive Board members have an engagement contract (in Dutch: overeenkomst van opdracht) with NN Group N.V. and have been appointed to the Executive Board for a period of three years (CEO) and four years (CFO), which terms of appointment will end at the close of the annual general meeting of NN Group N.V. in 2017 and 2018 respectively. Their contracts allow for re-appointment to the Executive Board for consecutive periods of up to four years.

Only in the event the contract is terminated upon initiative of the company, the Executive Board members are entitled to a gross severance payment of one year base salary, except if the contract was terminated for cause; or if payment would be deemed reward for failure at the sole discretion of the Supervisory Board.

The remuneration policy of the Executive Board was approved by the General Meeting on 28 May 2015 and effective with retroactive effect as per 1 January 2015. This remuneration policy has not been amended since its effective date and was also applicable in 2016. The data presented in this report relates to remuneration awarded to the members of the Executive Board in respect of the whole of 2016.

Similar to 2015, the 2016 remuneration of the Executive Board members consisted of a combination of fixed remuneration (base salary (of which 80% is paid in cash and 20% in shares) and base salary allowances, variable remuneration, pension arrangements and other emoluments as described below. The total compensation of the Executive Board is benchmarked annually against market data that includes peers both inside and outside the financial sector in the Netherlands and abroad. The peers are selected with reference to asset base, market capitalisation, revenue and number of employees. In line with the remuneration policy as adopted at the General Meeting of 28 May 2015, the Supervisory Board aims to set the remuneration levels slightly below market median. If, based on the annual benchmark the remuneration level is not in line with the approved policy, appropriate measures will be considered.

Executive Board base salary

As announced in the General Meeting of 2 June 2016, the Supervisory Board has decided to increase Mr Friese's base salary by 10%, as of 1 January 2016. A comparative survey of remuneration within the peer group shows that Mr Friese's remuneration was considerably below the median. Even after this rise, Mr Friese's remuneration remains under the median. Mr Rueda received the same base salary in 2016 as in 2015.

Executive Board variable remuneration

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

The maximum variable remuneration of the Executive Board members for performance year 2015 onwards has been capped at 20% of the base salary and the on target level of the annual variable remuneration has been set at 16% of the base salary.

Additionally, the short-term component of variable remuneration (the so called 'Upfront Portion') is 40% of the total variable remuneration and is equally divided between an award in cash and an award in stock. The other 60% of the variable remuneration (the so called 'Deferred Portion') is also equally divided between an award in deferred cash and an award in deferred stock. Both the deferred cash and the deferred stock awards are subject to a tiered vesting on the first, second and third anniversary of the grant date (one third per annum). A retention period of five years starting from the date of award is applicable to all stock awards (both upfront and deferred), with the exception that part of the stock will be withheld at the relevant date of vesting to cover any income tax liability arising from the vested share award (withhold-to-cover). In addition to the general principles described above, more specific details on the 2016 variable remuneration of the Executive Board are provided below.

The performance targets of the Executive Board were set by the Supervisory Board of NN Group at the start of the 2016 performance year. In 2016 the financial and non-financial performance objectives include the following:

Performance objectives Executive Board[1]

2016 Financial performance objectives Executive Board	2016 Non-financial performance objectives Executive Board
Free cash flow at holding, operating result before tax ongoing business, cost reduction in the Netherlands, Value New Business	Organisation & people, including focus on employee engagement, development of leadership and talent and driving organisational agility
	Strategically position NN Group for a sustainable future in the median to long term, including: – Execute medium/long term Corporate Strategy – Improve finance management and internal control capability
	Customer & society measures, including improving the customer experience and suitability and improving results of the net promoter score[2]

1 for the CEO the financial performance objectives have a weight of 45%; the non-financial performance objectives have a weight of 55%. For the CFO the financial performance objectives have a weight of 25%; the non-financial performance objectives have a weight of 75%.

2 the customer experience and suitability objectives have a weight of 15% of the total performance objectives of the Executive Board.

In 2016 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 arrangements of the Executive Board comprise a collective defined contribution (CDC) plan up to the annual tax limit (EUR 101,519 as per 1 January 2016) and a taxable individual savings allowance on pensionable fixed remuneration exceeding the tax limit. This pension arrangement for the Executive Board is the same as the pension arrangement that is applicable to all staff of NN Group in the Netherlands. It was approved by the General Meeting on 28 May 2015 and is effective as per 1 January 2015.

The table below provides details on the amount of contribution that was paid by NN Group to the pension arrangement of the members of the Executive Board.

Executive Board other emoluments

Members of the Executive Board were eligible for a range of other emoluments, such as health care insurance, lifecycle saving schemes and expat allowances (CFO only). Executive Board members were also able to obtain banking and insurance services from NN Group in the ordinary course of business and on terms that apply to all employees of NN Group in the Netherlands. As per 31 December 2016, the members of the Executive Board have no loans outstanding with NN and no guarantees or advanced payments were granted to members of the Executive Board. The table below provides details on the amount of emoluments that was paid by NN Group to the benefit of the Executive Board.

Remuneration of the Executive Board

Remuneration of the Executive Board

	Lard Friese		Delfin Rueda	
In EUR 1000 and gross	2016	2015	2016	2015
Base salary in cash	1,038	944	820	820
Base salary in shares	260	236	205	205
Total base salary	**1,298**	**1,180**	**1,025**	**1,025**
Variable remuneration	260	214	205	185
Total direct remuneration	**1,558**	**1,394**	**1,230**	**1,210**
Employer contribution to pension fund	26	25	26	25
Individual savings allowance	331	295	256	253
Other emoluments	56	42	156	155

2016 Variable remuneration of the Executive Board

In EUR 1000 and gross	Upfront cash paid	Upfront shares granted	Deferred cash granted	Deferred shares granted	Total
Lard Friese	52	52	78	78	260
Delfin Rueda	41	41	62	62	205

Long term incentives awarded in previous years and in 2016 to the Executive Board

Members of the Executive Board receive share awards under NN Group's Aligned Remuneration Plan (ARP). The ARP only provides for cash-based and share-based awards.

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

As per the IPO in 2014, no more awards were made to the Executive Board members under the LSPP. The awards that were made under the LSPP to the Executive Board members will vest ultimately on 14 May 2017. The table below provides an overview of the holdings of the Executive Board members under the LSPP plan and the shares awarded and vested under the ARP.

For the Executive Board the following numbers of NN shares have been awarded and vested during 2016.

Overview of number of NN shares awarded and vested for the Executive Board during 2016

	Plan	Award Date	Balance per 1 January 2016	Awarded during 2016	Vested during 2016	Balance per 31 December 2016	Vesting price in euros
Lard Friese	Deferred Shares Plan	15 May 2013	1,982		1,982	0	28.89
	Deferred Shares Plan	14 May 2014	6,295		3,147	3,148	28.89
	Deferred Shares Plan	1 June 2015	10,320		3,440	6,880	29.94
	Deferred Shares Plan	29 March 2016		2,242		2,242	
	Upfront Shares Plan	29 March 2016		1,495	1,495	0	29.34
Delfin Rueda	Deferred Shares Plan	14 May 2014	4,936		2,467	2,469	28.89
	Deferred Shares Plan	1 June 2015	8,499		2,833	5,666	29.94
	Deferred Shares Plan	29 March 2016		1,943		1,943	
	Upfront Shares Plan	29 March 2016		1,296	1,296	0	29,34

The table below shows an overview of the NN shares held by the members of the Executive Board as per 31 December 2016 and 31 December 2015.

	31 December 2016	31 December 2015
Lard Friese	27,090	17,019
Delfin Rueda	23,859	16,585

III. Remuneration of the Supervisory Board

The Supervisory Board was comprised of the following seven members in 2016:

- Mr Holsboer, Mr Hauser, Mr Schoen, Ms van Rooij, and Ms Vletter-Van Dort (all appointed prior to 1 January 2016).
- Mr Jenkins and Mr Harryvan, who were appointed in the Extraordinary General Meeting of 6 October 2015 as members of the Supervisory Board, which appointments became effective on 2 February 2016, the date when ING Group's shareholding in NN Group fell below fifteen percent (15%).

More information on the composition of the Supervisory Board and its Committees can be found in the Report of the Supervisory Board, on pages 07-13.

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

NN Group does not grant variable remuneration, shares or options to the Supervisory Board. Supervisory Board members may obtain banking and insurance services from NN Group in the ordinary course of business and on terms that are customary in the sector. As per 31 December 2016, the members of the Supervisory Board have EUR 426,890 loans outstanding with NN Group. No guarantees or advanced payments were granted to members of the Supervisory Board.

In line with market practice, a distinction is made between chair, vice-chair and other members. A fixed gross expense allowance of EUR 500 per Supervisory Board meeting is payable to cover all out-of-pocket expenses, and thus expenses for Supervisory Board meetings will not be reimbursed separately. Travel and lodging expenses in relation to meetings are paid by NN Group. An additional fee is payable for the additional time commitments when intercontinental or international travel is required for attending meetings.

Annual fees SB NN Group (in EUR)

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

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

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

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

	Fees		Total fixed gross expense allowance		Total international attendance fees		VAT	
In EUR and gross	2016	2015	2016	2015	2016	2015	2016	2015
J.H. (Jan) Holsboer (Chair)	120,797	124,125	7,500	6,500	3,500	2,500	27,677	27,956
H.J. (Heijo) Hauser	79,125	81,117	7,000	6,000	26,000	14,000	23,546	21,235
J.W. (Hans) Schoen	80,125	81,828	7,000	6,500	3,500	2,500	19,031	19,074
Y.C.M.T. (Yvonne) van Rooij	76,736	82,875	7,000	6,500	3,500	2,500	18,320	19,294
H.M. (Hélène) Vletter-Van Dort[2]	75,977	25,908	7,500	2,500	3,500		18,265	5,966
D.H. (Dick) Harryvan[3]	99,314		7,000		3,500		23,061	
R.W. (Robert) Jenkins[3]	67,327		5,500		21,000		19,704	
R.A.J.G. (Ralph) Hamers[4,5]		46,498		3,500				5,425
P.G. (Patrick) Flynn[4,5]		82,592		4,000				11,205
W.F. (Wilfred) Nagel[4,5]		62,861		5,500				8,458

1 This table shows the fixed fees, expense allowances and international attendance fees for the members of the Supervisory Board for 2016 and 2015.

2 Ms Vletter-Van Dort was appointed as per 6 October 2015. The table shows the amount of fees and allowances she received as from 6 October 2015 until 31 December 2015, and as from 1 January until 31 December 2016.

3 The appointments of Mr Jenkins and Mr Harryvan on 6 October 2015 became effective on 2 February 2016. Fees and allowances they received as from 2 February 2016 are shown.

4 Mr Hamers resigned as per 6 October 2015, and Mr Flynn and Mr Nagel resigned as per 14 December 2015. Fees and allowances for Mr Hamers, Mr Flynn and Mr Nagel are shown up to their respective resigning dates in 2015.

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

Proposal to adjust the remuneration for the Supervisory Board

It is proposed to amend the current remuneration for the Supervisory Board members to allow 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 amount of Supervisory Board (Committee) meetings per calendar year. Following the proposed remuneration for the Supervisory Board members, as from the eleventh Supervisory Board meeting within the same calendar year, a fixed fee of EUR 3,000 is due for each such 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 due for each such additional meeting of that Supervisory Board Committee. A fixed annual expense allowance will be paid to cover all out of pocket expenses. Other expenses – except for travel and lodging – will not be reimbursed. Lastly, the fixed intercontinental (non-EU) and international (EU) fee is proposed to be replaced by a fixed international attendance fee payable when a Supervisory Board meeting takes place in a country other than the country of residence of the Supervisory Board member.

The remuneration for the members of the Supervisory Board is proposed to be as follows (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 separately by the company)	9,000	6,500	6,500
International attendance fee	4,000	4,000	4,000

These proposed amendments to the level of remuneration of the Supervisory Board will be put forward for adoption by the NN shareholders at the General Meeting on 1 June 2017. If adopted, the amended remuneration will become effective as per 1 January 2017.

Work Councils

Central works council 2016

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

European works council 2016

The Netherlands	R.B. (Reinoud) Rijpkema	Chair
	R.R.A. (Robert) Coleridge	
	A. (Alexander) ter Haar	
Belgium	R. (René) de Meij	Secretary
Bulgaria	V.T. (Vasil) Tsanov	
Czech Republic	V.K. (Vladimir) Koudela	
Greece	N.P. (Nikolas) Ploumis	
Hungary	C. (Csilla) Dobos	
Luxembourg	C. (Christophe) Guissart	
Poland	A.B. (Agnieszka) Brodzik	
Romania	C.R. (Corina) Radu	
Slovakia	N.M. (Nikoleta) Molnarova	Vice chair
Spain	A.O. (Angel) Otero Martinez	

Report of the Executive Board on internal control over financial reporting

The Executive Board is responsible for establishing and maintaining adequate internal control over financial reporting.

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

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

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets.
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles (International Financial Reporting Standards as endorsed by the European Union and Part 9 of Book 2 of the Dutch Civil Code) and that our receipts and expenditures are being made only in accordance with authorisations of our management and directors.
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of our assets that could have a material effect on our financial statements.

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

The Executive Board of NN Group N.V. assessed the effectiveness of our internal control over financial reporting during 2016. In making this assessment, the Executive Board performed tests based on the criteria of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013 framework).

Based on the Executive Board's assessment, those criteria and with reference to the Best Practice provision II.1.5 of the Dutch Corporate Governance Code, the Executive Board concluded that risk management and control systems worked properly in the year under review and that it provides a reasonable assurance that the financial reporting does not contain any errors of material importance.
The Executive Board declares that, to the best of its knowledge, the Company's internal control over financial reporting has been effective during 2016.

The Hague, 15 March 2017

Lard Friese
CEO, Chair of the Executive Board

Delfin Rueda
CFO, Vice-chair of the Executive Board

Conformity statement

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

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

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. 2016 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. 2016 annual report, 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, the development and performance of the business during the financial year 2016 of NN Group N.V. and the enterprises included in the consolidation taken as a whole, together with a description of the principal risks NN Group N.V. is being confronted with.

The Hague, 15 March 2017

Lard Friese
CEO, Chair of the Executive Board

Delfin Rueda
CFO, Vice-chair of the Executive Board

Consolidated annual accounts

Annual accounts contents

Consolidated balance sheet

Amounts in millions of euros, unless stated otherwise

Consolidated balance sheet

As at 31 December	notes	2016	2015
Assets			
Cash and cash equivalents	2	8,634	7,436
Financial assets at fair value through profit or loss:	3		
– investments for risk of policyholders		30,711	35,154
– non-trading derivatives		4,421	4,656
– designated as at fair value through profit or loss		873	443
Available-for-sale investments	4	79,767	74,393
Loans	5	33,920	31,013
Reinsurance contracts	17	231	236
Associates and joint ventures	6	2,698	2,197
Real estate investments	7	2,028	1,564
Property and equipment	8	86	86
Intangible assets	9	342	351
Deferred acquisition costs	10	1,636	1,531
Assets held for sale	11	6	
Other assets	12	3,152	3,092
Total assets		**168,505**	**162,152**
Equity			
Shareholders' equity (parent)		22,706	20,469
Minority interests		12	9
Undated subordinated notes		986	986
Total equity	13	**23,704**	**21,464**
Liabilities			
Subordinated debt	14	2,288	2,290
Debt securities issued	15	598	597
Other borrowed funds	16	7,646	6,785
Insurance and investment contracts	17	115,699	115,984
Customer deposits and other funds on deposit	18	10,224	8,034
Financial liabilities at fair value through profit or loss:	19		
– non-trading derivatives		2,008	1,701
Liabilities held for sale	11	2	
Other liabilities	20	6,336	5,297
Total liabilities		**144,801**	**140,688**
Total equity and liabilities		**168,505**	**162,152**

References relate to the notes starting on page 39. 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		2016		2015
Gross premium income	21		9,424		9,205
Investment income	22		4,123		4,058
Result on disposals of group companies			-114		14
– gross fee and commission income		936		1,015	
– fee and commission expenses		-340		-371	
Net fee and commission income:	23		596		644
Valuation results on non-trading derivatives	24		-55		-313
Foreign currency results and net trading income	25		-90		120
Share of result from associates and joint ventures	6		377		221
Other income			60		46
Total income			**14,321**		**13,995**
– gross underwriting expenditure		11,590		10,843	
– investment result for risk of policyholders		-1,156		-1,099	
– reinsurance recoveries		-116		-81	
Underwriting expenditure:	26		10,318		9,663
Intangible amortisation and other impairments	27		19		9
Staff expenses	28		1,174		1,172
Interest expenses	29		598		614
Other operating expenses	30		749		776
Total expenses			**12,858**		**12,234**
Result before tax			**1,463**		**1,761**
Taxation	35		273		166
Net result			**1,190**		**1,595**

Net result

	2016	2015
Net result attributable to		
Shareholders of the parent	1,189	1,565
Minority interests	1	30
Net result	**1,190**	**1,595**

Earnings per ordinary share

amounts in euros	2016	2015
Earnings per ordinary share		
Basic earnings per ordinary share	3.55	4.51
Diluted earnings per ordinary share	**3.54**	**4.49**

Reference is made to Note 31 '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		2016		2015
Net result		**1,190**		**1,595**
– unrealised revaluations available-for-sale investments and other	2,425		-708	
– realised gains/losses transferred to the profit and loss account	-230		-345	
– changes in cash flow hedge reserve	406		-435	
– deferred interest credited to policyholders	-689		644	
– share of other comprehensive income of associates and joint ventures	3		9	
– exchange rate difference	-5		188	
Items that may be reclassified subsequently to the profit and loss account:		1,910		-647
– remeasurement of the net defined benefit asset/liability	-13		28	
– unrealised revaluations property in own use	-2		-3	
Items that will not be reclassified to the profit and loss account:		-15		25
Total other comprehensive income		**1,895**		**-622**
Total comprehensive income		**3,085**		**973**
Comprehensive income attributable to:				
Shareholders of the parent		3,082		943
Minority interests		3		30
Total comprehensive income		**3,085**		**973**

Reference is made to Note 35 '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	2016	2015
Result before tax		1,463	1,761
Adjusted for:			
– depreciation		44	48
– deferred acquisition costs and value of business acquired		-49	-45
– underwriting expenditure (change in insurance liabilities)		-1,603	-4,103
– other		-697	-203
Taxation paid		-197	-39
Changes in:			
– trading assets			628
– non-trading derivatives		1,132	698
– other financial assets at fair value through profit or loss		-459	73
– loans		-2,194	-3,837
– other assets		-28	340
– customer deposits and other funds on deposit		2,190	1,052
– financial liabilities at fair value through profit or loss – non-trading derivatives		-10	-502
– other liabilities		-1,722	-2,676
Net cash flow from operating activities		**-2,130**	**-6,805**
Investments and advances:			
– group companies		-6	-31
– associates and joint ventures	6	-313	-90
– available-for-sale investments	4	-10,154	-8,574
– real estate investments	7	-400	-369
– property and equipment	8	-25	-41
– investments for risk of policyholders		-5,789	-5,668
– other investments		-693	-32
Disposals and redemptions:			
– group companies			3
– associates and joint ventures	6	355	277
– available-for-sale investments	4	7,180	6,282
– property and equipment	8		2
– investments for risk of policyholders		12,384	13,877
– other investments			499
Net cash flow from investing activities		**2,539**	**6,135**
Proceeds from other borrowed funds		13,452	13,100
Repayments of other borrowed funds		-11,708	-12,194
Proceeds from debt securities issued			597
Capital contribution			57
Dividend paid	13	-298	-271
Purchase/sale of treasury shares	13	-503	-597
Coupon on undated subordinated notes		-45	-45
Net cash flow from financing activities		**898**	**647**
Net cash flow		**1,307**	**-23**

Reference is made to Note 32 'Interest and dividend included in net cash flow' for the classification of interest and dividend included in net cash flow.

Consolidated statement of cash flows
continued

Cash and cash equivalents

For the year ended 31 December	notes	2016	2015
Cash and cash equivalents at beginning of the period	2	7,436	7,530
Net cash flow		1,307	-23
Effect of exchange rate changes on cash and cash equivalents		-108	-71
Cash and cash equivalents at end of the period		**8,635**	**7,436**
Cash and cash equivalents comprises the following items:			
Cash and cash equivalents	2	8,634	7,436
Cash and cash equivalents classified as assets held for sale	2	1	
Cash and cash equivalents at end of the period		**8,635**	**7,436**

Consolidated statement of changes in equity

Consolidated statement of changes in equity (2016)

	Share capital	Share premium	Reserves	Total Shareholders' equity (parent)	Minority interest	Undated subordinated notes	Total equity
Balance as at 1 January	**40**	**12,153**	**8,276**	**20,469**	**9**	**986**	**21,464**
Unrealised revaluations available-for-sale investments and other			2,425	2,425			2,425
Realised gains/losses transferred to the profit and loss account			-230	-230			-230
Changes in cash flow hedge reserve			406	406			406
Deferred interest credited to policyholders			-689	-689			-689
Share of other comprehensive income of associates and joint ventures			3	3			3
Exchange rate differences			-7	-7	2		-5
Remeasurement of the net defined benefit asset/liability			-13	-13			-13
Unrealised revaluations property in own use			-2	-2			-2
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**1,893**	**1,893**	**2**	**0**	**1,895**
Net result for the period			1,189	1,189	1		1,190
Total comprehensive income	**0**	**0**	**3,082**	**3,082**	**3**	**0**	**3,085**
Dividend			-298	-298			-298
Purchase/sale of treasury shares			-503	-503			-503
Employee stock option and share plans			-10	-10			-10
Coupon on undated subordinated notes			-34	-34			-34
Balance as at 31 December	**40**	**12,153**	**10,513**	**22,706**	**12**	**986**	**23,704**

Consolidated statement of changes in equity
continued

Consolidated statement of changes in equity (2015)

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

Notes to the Consolidated annual accounts

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

1 Accounting policies

NN Group prepares its Consolidated annual accounts in accordance with International Financial Reporting Standards as 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.

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

Upcoming changes in IFRS-EU

In 2016, no changes to IFRS-EU became effective that had an impact on the Consolidated annual accounts of NN Group. Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2016 and are relevant to NN Group mainly relate to IFRS 9 'Financial Instruments'.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014. IFRS 9 replaces most of the current IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

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. NN Group will have the option to continue applying IAS 39 for hedge accounting.

NN Group is currently assessing the impact of the new requirements. The implementation of IFRS 9 may have a significant impact on shareholders' equity, net result and/or other comprehensive income.

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 (expected) effective dates of IFRS 9 and the upcoming new standard on accounting for insurance contracts. The Amendment allows applying a temporary exemption from implementing IFRS 9 until the earlier of the effective date of the upcoming new standard on accounting for insurance contract and 1 January 2021. This exemption is only available to entities whose activities are predominantly connected with insurance (measured at a 31 December 2015 reference date). NN Group's activities are predominantly connected with insurance as defined in this Amendment and, therefore, NN Group qualifies for this deferred effective date of IFRS 9. The Amendment is not yet endorsed by the EU. NN Group expects to apply the temporary exemption and, therefore, NN Group expects to implement IFRS 9 in 2021.

Other

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective as of 1 January 2018. IFRS 15 provides more specific guidance on recognising revenue other than arising from insurance contracts and financial instruments. The implementation of IFRS 15 is not expected to have a significant impact on the Consolidated annual accounts of NN Group.

IFRS 16 'Leases'

IFRS 16 is effective as of 1 January 2019, subject to endorsement by the EU. IFRS 16 contains a new accounting model for lessees. The implementation of IFRS 16, if and when endorsed by the EU, is not expected to have a significant impact on shareholders' equity and net result of NN Group.

Other upcoming changes in accounting policies

Reserve Adequacy Test (RAT)

As of 1 January 2017, NN Group changed its accounting policy for the Reserve Adequacy Test. The policy that is applied until 2016 is set out below in the section 'Accounting policies for specific items – Insurance and investment contracts, reinsurance contracts – Adequacy test'. As of 1 January 2017, the following policy will apply:

'The adequacy of the insurance liabilities, net of DAC and VOBA (the net insurance liabilities), is evaluated at each reporting period by each business unit for the business originated in that business unit. The test involves comparing the established 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.'

The differences between the new policy and the policy applied until 2016 are:

- In the new policy, the adequacy is assessed by comparing the balance sheet liability to a best estimate liability; in the policy applied until 2016 it is compared to a liability with a 50% and 90% confidence level
- In the new policy, the adequacy is assessed at the level of individual business units; in the policy applied until 2016 aggregation at the segment and Group levels applies

The new policy aligns better to current market practice. The change represents a change in accounting policy under IFRS and will be implemented retrospectively. The change will not have significant impact on shareholders' equity and/or net result.

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, 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 52 'Risk management' for a sensitivity analysis of certain assumptions as listed below.

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

Fair value of real estate

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

Reference is made to Note 37 '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.

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 36 '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 (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 on 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. 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 34 '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 euro, which is NN Group's functional and presentation currency.

Transactions and balances

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

Exchange rate differences on non-monetary items, measured at fair value through profit or loss, are reported as part of the 'Fair value gain or loss'. Exchange rate differences on non-monetary items measured at fair value through other comprehensive income (equity) are included in the 'Revaluation reserve' in equity.

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

Group companies

The results and financial positions of all group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities included in each balance sheet are translated at the closing rate at the date of that balance sheet
- Income and expenses included in each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions)
- All resulting exchange rate differences are recognised in a separate component of equity in '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 36 '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.

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 44 '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 52 'Risk management'.

Leases

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

Taxation

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

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'.

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 19)

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.

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.

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.

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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 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 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. 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.

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.

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'.

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.

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 existed at the time the company was acquired. It represents the difference between the fair value of insurance liabilities and their carrying value. VOBA is amortised in a similar manner to the amortisation of deferred acquisition costs as described in the section 'Deferred acquisition costs'.

Other intangible assets

Other intangible assets are stated at cost less amortisation and any impairment losses. The expected useful life is generally between three and ten 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. 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 is evaluated for recoverability at issue. Subsequently it is tested on a regular basis together with the life insurance liabilities and VOBA. The test for recoverability is described in the section 'Insurance and investment contracts, reinsurance contracts'.

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

Assets and liabilities held for sale (Note 11)

Assets and liabilities of a business are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is only the case when the sale is highly probable, the business is available for immediate sale in its present condition and management is committed to the sale, which is expected to occur within one year from the date of classification as held for sale. Classification into or out of held for sale does not result in restating comparative amounts in the balance sheet.

Subordinated debt, debt securities issued and other borrowed funds (Notes 14, 15 and 16)

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.

Insurance and investment contracts, reinsurance contracts (Note 17)

Insurance liabilities are established in accordance with IFRS 4 'Insurance Contracts'. Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS-EU in 2005, NN Group decided to continue the then existing accounting principles for insurance contracts under IFRS-EU. NN Group operates in many different countries and the accounting principles for insurance contracts follow local practice in these countries. For NN Group's businesses in the Netherlands, NN Group applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its insurance contracts. Changes in those local accounting standards (including Dutch GAAP) subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policies under IFRS-EU.

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

Insurance contracts

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

Life insurance liabilities

The life insurance liabilities 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.

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 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).

Liabilities for life insurance for risk of policyholders

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

Reinsurance contracts

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

Adequacy test

The adequacy of the insurance liabilities, net of DAC and VOBA (the net insurance liabilities), is evaluated at each reporting period by each business unit for the business originated in that business unit. The test involves comparing the established insurance liability with a liability based on current best estimate actuarial assumptions and a risk margin. The assumed investment returns are a combination of the run-off of current portfolio yields on existing assets and reinvestment rates in relation to maturing assets and anticipated new premiums; 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, it is determined using a best estimate (50%) confidence level, that a shortfall exists and there are no offsetting amounts within other business units in the same segment, the shortfall is recognised immediately in the profit and loss account.

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

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

Investment contracts

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

Other liabilities (Note 20)

Provisions

Other liabilities include reorganisation 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 21)

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 23)

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 31)

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

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

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

Segments and Principal subsidiaries and geographical information (Notes 33 and 34)

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

	2016	2015
Cash and bank balances	4,045	3,077
Money market funds	3,346	2,944
Short-term deposits	1,243	1,415
Cash and cash equivalents	**8,634**	**7,436**
Cash and cash equivalents classified as Assets held for sale	1	
Total cash and cash equivalents at the end of the year	**8,635**	**7,436**

NN Group held EUR 1,555 million (2015: EUR 474 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

	2016	2015
Investments for risk of policyholders	30,711	35,154
Non-trading derivatives	4,421	4,656
Designated as at fair value through profit or loss	873	443
Financial assets at fair value through profit or loss	**36,005**	**40,253**

Investments for risk of policyholders

	2016	2015
Equity securities	28,231	32,740
Debt securities	1,352	1,369
Loans and receivables	1,128	1,045
Investments for risk of policyholders	**30,711**	**35,154**

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

Non-trading derivatives

	2016	2015
Derivatives used in:		
– fair value hedges	91	11
– cash flow hedges	2,398	2,756
– hedges of net investments in foreign operations	10	
Other non-trading derivatives	1,922	1,889
Non-trading derivatives	**4,421**	**4,656**

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

Designated as at fair value through profit or loss

	2016	2015
Equity securities	125	239
Debt securities	241	204
Money market funds	507	
Designated as at fair value through profit or loss	**873**	**443**

4 Available-for-sale investments

Available-for-sale investments

	2016	2015
Equity securities:		
– shares in NN Group managed investment funds	1,989	2,094
– shares in third-party managed investment funds	1,711	1,539
– other	3,288	3,207
Equity securities	**6,988**	**6,840**
Debt securities	72,779	67,553
Available-for-sale investments	**79,767**	**74,393**

Changes in available-for-sale investments

	Equity securities		Debt securities		Total	
	2016	2015	2016	2015	2016	2015
Available-for-sale investments – opening balance	6,840	6,286	67,553	65,991	74,393	72,277
Additions	944	1,453	9,210	7,121	10,154	8,574
Amortisation			-156	-140	-156	-140
Transfers and reclassifications	-366		3		-363	0
Changes in unrealised revaluations	274	605	2,823	-1,602	3,097	-997
Impairments	-92	-170	-4		-96	-170
Disposals and redemptions	-598	-1,272	-6,582	-5,010	-7,180	-6,282
Changes in the composition of the group and other changes		-102	-725		-725	-102
Exchange rate differences	-14	40	657	1,193	643	1,233
Available-for-sale investments – closing balance	**6,988**	**6,840**	**72,779**	**67,553**	**79,767**	**74,393**

Transfers and reclassifications in 2016 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.

Changes in the composition of the group and other changes in 2016 relates to the portfolio transfer between NN Re (Ireland) Limited and Canada Life International Re Limited. Reference is made to Note 46 'Companies and businesses acquired and divested'.

Reference is made to Note 22 'Investment income' for details per segment on impairments.

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

Total exposure to debt securities

	2016	2015
Available-for-sale investments	72,779	67,553
Loans	1,935	2,620
Available-for-sale investments and loans	**74,714**	**70,173**
Investments for risk of policyholders	1,352	1,369
Designated as at fair value through profit or loss	241	204
Financial assets at fair value through profit or loss	**1,593**	**1,573**
Total exposure to debt securities	**76,307**	**71,746**

NN Group's total exposure to debt securities included in 'Available-for-sale investments' and 'Loans' is specified as follows by type of exposure:

Debt securities by type

	Available-for-sale investments		Loans		Total	
	2016	2015	2016	2015	2016	2015
Government bonds	56,042	53,936			56,042	53,936
Covered bonds	320	450			320	450
Corporate bonds	10,409	8,817			10,409	8,817
Financial institution bonds	4,863	3,602			4,863	3,602
Bond portfolio (excluding ABS)	**71,634**	**66,805**	**0**	**0**	**71,634**	**66,805**
US RMBS	233	192			233	192
Non-US RMBS	784	385	1,487	1,866	2,271	2,251
CDO/CLO	35	36	4	22	39	58
Other ABS	93	132	444	732	537	864
CMBS		3			0	3
ABS portfolio	**1,145**	**748**	**1,935**	**2,620**	**3,080**	**3,368**
Debt securities – available-for-sale investments and loans	**72,779**	**67,553**	**1,935**	**2,620**	**74,714**	**70,173**

Available-for-sale equity securities

	2016	2015
Listed	4,833	4,447
Unlisted	2,155	2,393
Available-for-sale equity securities	**6,988**	**6,840**

Reclassifications to loans (2009)

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

Years after reclassification	2016	2015	2014	2013	2012	2011	2010	2009
Carrying value	404	533	809	1,098	1,694	3,057	4,465	5,550
Fair value	526	676	984	1,108	1,667	2,883	4,594	5,871
Unrealised fair value gains/losses in shareholders' equity (before tax)	-171	-203	-213	-111	-186	-307	-491	-734
Effect on shareholders' equity (before tax) if reclassification had not been made	122	143	175	10	-27	-174	129	321
Effect on result (before tax) if reclassification had not been made	nil	nil	nil	nil	nil	nil	nil	nil
Effect on result (before tax) after the reclassification (mainly interest income)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	121
Effect on result (before tax) for the year (interest income and sales results)	0	1	-2	-10	-47	90	89	n.a.
Impairments (before tax)	nil	nil	nil	nil	nil	nil	nil	nil
Provisions for credit losses (before tax)	nil	nil	nil	nil	nil	nil	nil	nil

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

5 Loans

Loans

	2016	2015
Loans secured by mortgages	25,699	22,398
Unsecured loans	4,936	4,438
Asset-backed securities	1,935	2,620
Deposits	1,097	432
Policy loans	259	236
Other	74	976
Loans-before loan loss provisions	**34,000**	**31,100**
Loan loss provisions	-80	-87
Loans	**33,920**	**31,013**

Changes in Loans secured by mortgages

	2016	2015
Loans secured by mortgages – opening balance	22,398	18,175
Additions/origination	5,438	5,776
Redemption	-2,125	-1,394
Amortisation	-49	-42
Transfers to/from other assets/liabilities		-90
Impairments and write-offs	-14	-13
Fair value changes recognised on hedged items	51	-14
Loans secured by mortgages – closing balance	**25,699**	**22,398**

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 47 'Structured entities'.

Changes in Loan loss provisions

	2016	2015
Loan loss provisions – opening balance	87	75
Write-offs	-18	-14
Increase in loan loss provisions	14	39
Changes in the composition of the group and other changes	-3	-13
Loan loss provisions – closing balance	**80**	**87**

6 Associates and joint ventures

Associates and joint ventures (2016)

	Interest held	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
CBRE Dutch Office Fund FGR	26%	320	1,511	268	196	47
CBRE Retail Property Fund Iberica L.P.	33%	218	1,401	741	225	40
Parcom Investment Fund II B.V.	100%	205	205		41	
Parcom Investment Fund III B.V.	100%	192	215	23	120	10
CBRE Dutch Retail Fund FGR	18%	178	1,509	505	69	51
CBRE UK Property Fund L.P.	10%	169	1,728		23	12
CBRE Property Fund Central Europe L.P.	25%	132	894	365	52	6
Parcom Buy Out Fund IV B.V.	100%	126	145	19	6	3
Allee center Kft	50%	111	238	16	33	8
CBRE European Industrial Fund C.V.	18%	101	751	201	48	20
Fiumaranuova s.r.l.	50%	95	219	29	42	8
DPE Deutschland II B GmbH & Co KG	34%	91	295	11	40	12
Parquest Capital B FPCI	40%	84	226	2	42	6
CBRE Dutch Retail Fund II FGR	10%	80	808	10	41	17
Boccaccio – Closed-end Real Estate Mutual Investment Fund	50%	68	137			
Le Havre LaFayette SNC	50%	59	143	25	16	4
CBRE Property Fund Central and Eastern Europe FGR	21%	51	575	327	29	48
Delta Mainlog Holding GmbH & Co. KG	50%	51	103	1	14	1
Other		367				
Associates and joint ventures		**2,698**				

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

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

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

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 (2015)

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

Changes in Associates and joint ventures

	2016	2015
Associates and joint ventures – opening balance	2,197	1,617
Additions	313	90
Transfers to/from available-for-sale investments	312	
Share in changes in equity (Revaluations)	3	9
Share of result	377	221
Dividends received	-117	-49
Disposals	-355	-277
Changes in the composition of the group and other changes		572
Exchange rate differences	-32	14
Associates and joint ventures – closing balance	**2,698**	**2,197**

Transfers to/ from available-for-sale investments in 2016 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.

Changes in the composition of the group and other changes in 2015 mainly relate to the investments in private equity funds recognised as associates following the sale of Parcom Capital Management. Reference is made to Note 46 'Companies and businesses acquired and divested'.

Disposals in 2016 and 2015 mainly relate to the sale of investments in real estate funds.

7 Real estate investments

Changes in Real estate investments

	2016	2015
Real estate investments – opening balance	1,564	1,104
Additions	400	369
Transfers to/from property in own use		63
Transfers to/from other assets	5	3
Fair value gains/losses	59	25
Real estate investments – closing balance	**2,028**	**1,564**

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2016 is EUR 133 million (2015: EUR 110 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 2016 is EUR 40 million (2015: EUR 31 million).

Real estate investments by year of most recent appraisal

	2016	2015
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

	2016	2015
Real estate investments	2,028	1,564
Available-for-sale investments	1,020	1,054
Associates and joint ventures	1,861	1,457
Property and equipment – property in own use	41	42
Other assets – property obtained from foreclosures	1	4
Real estate exposure	**4,951**	**4,121**

Furthermore, the exposure is impacted by third-party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 6,558 million (2015: EUR 5,080 million). Reference is made to Note 52 'Risk management'.

8 Property and equipment

Property and equipment

	2016	2015
Property in own use	41	42
Equipment	45	44
Property and equipment	**86**	**86**

Changes in Property in own use

	2016	2015
Property in own use – opening balance	42	88
Additions	5	25
Transfers to/from real estate investments		-63
Revaluations	-4	-4
Impairments	-1	-2
Depreciation	-1	-2
Property in own use – closing balance	**41**	**42**
Gross carrying value	86	81
Accumulated depreciation, revaluations and impairments	-45	-39
Net carrying value	**41**	**42**
Revaluation surplus – opening balance	6	10
Revaluation in year	-3	-1
Released in year		-3
Revaluation surplus – closing balance	**3**	**6**

Changes in Equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2016	2015	2016	2015	2016	2015
Equipment – opening balance	16	19	28	32	44	51
Additions	10	8	10	8	20	16
Changes in the composition of the group and other changes			-1		-1	0
Disposals		-1		-1	0	-2
Depreciation	-10	-10	-8	-11	-18	-21
Equipment – closing balance	**16**	**16**	**29**	**28**	**45**	**44**
Gross carrying value	93	83	125	116	218	199
Accumulated depreciation	-77	-67	-96	-88	-173	-155
Net carrying value	**16**	**16**	**29**	**28**	**45**	**44**

9 Intangible assets

Intangible assets (2016)

	Value of business acquired	Goodwill	Software	Other	Total
Intangible assets – opening balance	14	260	59	18	351
Additions			29	1	30
Capitalised expenses			2		2
Amortisation and unlocking	-3		-18	-7	-28
Impairments			-11		-11
Changes in the composition of the group and other changes				6	6
Exchange rate differences		-7		-1	-8
Intangible assets – closing balance	**11**	**253**	**61**	**17**	**342**
Gross carrying value	41	374	745	124	1,284
Accumulated amortisation	-30		-624	-61	-715
Accumulated impairments		-121	-60	-46	-227
Net carrying value	**11**	**253**	**61**	**17**	**342**

Intangible assets (2015)

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

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

Goodwill by cash generating unit (reporting unit)

	2016	2015
Insurance Europe	90	97
Asset Management	163	163
Goodwill	**253**	**260**

Goodwill impairment testing

Goodwill is tested for impairment at the lowest level at which it is monitored for internal management purposes. This level is defined as the 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. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount.

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

As a first step of the impairment test, the best estimate of the recoverable amount of cash generating units (reporting units) to which goodwill is allocated is determined separately for each relevant cash generating unit (reporting unit) based on Price-to-Earnings, Price-to-Book and Price-to-Assets under management ratios. The main assumptions in this valuation are the multiples for Price-to-Earnings, Price-to-Book and Price-to-Assets under management; these are derived from or corroborated against market information that is related to observable transactions in the market for comparable businesses. In addition, for life insurance business, the market value surplus is used. Earnings and carrying values are equal to or derived from the relevant measure under IFRS-EU.

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

In both 2016 and 2015, the first step as described above indicated that there is a significant excess of recoverable amount over book value for both cash generating units (reporting units) to which goodwill is allocated. As a result, a second step was not necessary and there is no significant exposure of goodwill impairment for sensitivities in the underlying assumptions.

10 Deferred acquisition costs

Changes in Deferred acquisition costs

	Life insurance		Non-life insurance		Total	
	2016	2015	2016	2015	2016	2015
Deferred acquisition costs – opening balance	1,486	1,361	45	42	1,531	1,403
Capitalised	399	360	228	224	627	584
Amortisation and unlocking	-349	-315	-226	-221	-575	-536
Exchange rate differences	53	80			53	80
Deferred acquisition costs – closing balance	**1,589**	**1,486**	**47**	**45**	**1,636**	**1,531**

11 Assets and liabilities held for sale

As at 31 December 2016 assets and liabilities held for sale relate to Mandema & Partners. Mandema & Partners is presented in the segment 'Netherlands Non-life'. Classification as held for sale does not impact the comparative figures in the balance sheet. As Mandema & Partners does not qualify as discontinued operations, there is no impact on the presentation of the profit and loss account. For more information on the agreed sale of Mandema & Partners, reference is made to Note 46 'Companies and businesses acquired and divested'.

12 Other assets

Other assets

	2016	2015
Insurance and reinsurance receivables	431	391
Deferred tax assets	35	44
Property obtained from foreclosures	1	4
Income tax receivable	137	58
Accrued interest and rents	1,503	1,620
Other accrued assets	492	542
Other	553	433
Other assets	**3,152**	**3,092**

For disclosures in respect of 'Deferred tax assets' reference is made to Note 35 'Taxation'.

Insurance and reinsurance receivables

	2016	2015
Receivables on account of direct insurance from:		
– policyholders	310	240
– intermediaries	34	40
Reinsurance receivables	87	111
Insurance and reinsurance receivables	**431**	**391**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 28 million as at 31 December 2016 (2015: EUR 33 million). The receivable is presented net of this allowance.

13 Equity

Total equity

	2016	2015
Share capital	40	40
Share premium	12,153	12,153
Revaluation reserve	10,227	8,321
Currency translation reserve	10	-24
Net defined benefit asset/liability remeasurement reserve	-103	-90
Other reserves	379	69
Shareholders' equity (parent)	**22,706**	**20,469**
Minority interests	12	9
Undated subordinated notes	986	986
Total equity	**23,704**	**21,464**

Changes in equity (2016)

	Share capital	Share premium	Reserves	Total shareholders' equity (parent)
Equity – opening balance	40	12,153	8,276	20,469
Net result for the period			1,189	1,189
Total amount recognised directly in equity (Other comprehensive income)			1,893	1,893
Dividend			-298	-298
Purchase/sale of treasury shares			-503	-503
Employee stock option and share plans			-10	-10
Coupon on undated subordinated notes			-34	-34
Equity – closing balance	**40**	**12,153**	**10,513**	**22,706**

Purchase/sale of treasury shares (2016)

On 8 January 2016, NN Group repurchased 8,064,516 ordinary shares in NN Group (Treasury shares) from ING Groep N.V. at a price of EUR 31.00 per share for an aggregate amount of EUR 250 million.

On 26 May 2016, 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 June 2016. The share buyback is deducted from IFRS shareholders' equity when actual buyback transactions occur. Following NN Group's intended offer for Delta Lloyd as announced on 5 October 2016, this share buyback programme was suspended. Up until the date of the suspension, share buybacks under this programme were executed for an amount of EUR 167 million. In addition, to neutralise the dilutive effect of the final and interim stock dividend, NN Group repurchased ordinary shares for an amount of EUR 98 million. During 2016, 10,075,267 ordinary shares for a total amount of EUR 265 million were repurchased under this programme.

The above mentioned repurchases of EUR 250 million and EUR 265 million together with the sale of EUR 12 million Treasury shares related to Employee share plans, resulted in EUR 503 million purchase of Treasury shares.

The repurchased shares are held by NN Group and the amount has been deducted from Other reserves (Purchase/sale of treasury shares). In June 2016, NN Group cancelled 7,808,135 Treasury shares.

As at 31 December 2016, 10,800,817 (2015: 956,295) Treasury shares were held by NN Group.

Coupon paid on undated subordinated notes (2016)

The undated subordinated notes have an optional annual coupon payment on 15 July. The annual coupon resulted in a deduction of EUR 34 million (net of tax) from equity.

Changes in equity (2015)

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

Capital contributions (2015)

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

Purchase/sale of treasury shares (2015)

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

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

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

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

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

Coupon paid on undated subordinated notes (2015)

The undated subordinated notes have an optional annual coupon payment on 15 July. The annual coupon resulted in a deduction of EUR 34 million (net of tax) from equity.

Shareholders' equity (parent)

Share capital

	Shares (in number)		Ordinary shares (Amounts in millions of euros)	
	2016	2015	2016	2015
Authorised share capital	700,000,000	700,000,000	84	84
Unissued share capital	365,148,629	366,447,128	44	44
Issued share capital	**334,851,371**	**333,552,872**	**40**	**40**

Ordinary shares

The authorised ordinary share capital consists of 700,000,000 ordinary shares with a par value of EUR 0.12 per share. The issued and fully paid ordinary share capital consists of 334,851,371 ordinary shares with a par value of EUR 0.12 per share.

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

	2016		2015	
Total shareholders' equity		22,706		20,469
– share capital	40		40	
– revaluation reserve	10,227		8,321	
– currency translation reserve	10		n.a.	
– share of associates reserve	555		313	
– other non-distributable reserves	54		26	
Total non-distributable part of shareholders' equity:		**10,886**		**8,700**
Distributable reserves based on the Dutch Civil Code		**11,820**		**11,769**

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

	2016		2015	
Solvency requirement under the Financial Supervision Act	5,459		4,663	
Reserves available for financial supervision purposes	13,149		14,914	
Total freely distributable reserves on the basis of solvency requirements		7,690		10,251
Total freely distributable reserves on the basis of the Dutch Civil Code		11,820		11,769
Total freely distributable reserves (lower of the values above)		**7,690**		**10,251**

Reference is made to Note 53 'Capital and liquidity management' for more information on solvency requirements and the 2016 change from Solvency I to Solvency II capital requirement.

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 53 'Capital and liquidity management' for the minimum capital requirements.

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

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

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

Preference shares

As at 31 December 2016, none of the preference shares have been issued. The authorised preference share capital is 700,000,000.

Warrants

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

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

Changes in Share premium

	2016	2015
Share premium – opening balance	12,153	12,098
Change in share capital		-2
Capital contribution		57
Share premium – closing balance	**12,153**	**12,153**

In 2015, ING Groep N.V. contributed EUR 57 million of share premium.

Changes in Revaluation reserve (2016)

	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – opening balance	4	4,288	4,029	8,321
Unrealised revaluations	-2	2,421		2,419
Realised gains/losses transferred to the profit and loss account		-230		-230
Changes in cash flow hedge reserve			406	406
Deferred interest credited to policyholders		-689		-689
Revaluation reserve – closing balance	**2**	**5,790**	**4,435**	**10,227**

Changes in Revaluation reserve (2015)

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

Deferred interest credited to policyholders reflects the change in the deferred profit sharing liabilities (net of deferred tax). Reference is made to Note 17 'Insurance and investment contracts, reinsurance contracts'.

Changes in Currency translation reserve

	2016	2015
Currency translation reserve – opening balance	-24	-198
Unrealised revaluations after taxation	41	-14
Exchange rate differences transferred to the profit and loss account	-78	
Exchange rate differences for the period	71	188
Currency translation reserve – closing balance	**10**	**-24**

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

Changes in Other reserves (2016)

	Retained earnings	Share of associates reserve	Total
Other reserves – opening balance	-244	313	69
Net result for the period	1,189		1,189
Transfers to/from share of associates reserve	-242	242	0
Dividend	-298		-298
Purchase/sale of treasury shares	-503		-503
Employee stock option and share plans	-10		-10
Coupon on subordinated notes	-34		-34
Changes in the composition of the group and other changes	-34		-34
Other reserves – closing balance	**-176**	**555**	**379**

Changes in Other reserves (2015)

	Retained earnings	Share of associates reserve	Total
Other reserves – opening balance	-794	222	-572
Net result for the period	1,565		1,565
Transfers to/from share of associates reserve	-91	91	0
Dividend	-251		-251
Purchase/sale of treasury shares	-597		-597
Employee stock option and share plans	5		5
Transfer to/from net defined benefit asset/liability remeasurement reserve	-34		-34
Changes in the composition of the group and other changes	-47		-47
Other reserves – closing balance	**-244**	**313**	**69**

Dividends

	2016	2015
Dividend distributed from Other reserves:		
Dividend paid in cash (interim current year)	113	111
Dividend paid in cash (final previous year)	185	140
Stock dividend (interim current year)	82	45
Stock dividend (final previous year)	156	53
Total dividend	**536**	**349**

Dividend 2015

On 2 June 2016, the General Meeting of Shareholders adopted the proposed 2015 final dividend of EUR 1.05 per ordinary share, which represents a total amount of EUR 341 million. This dividend was paid on 28 June 2016 either in cash or in ordinary shares at the election of the shareholder. As a result, an amount of EUR 185 million was distributed out of other reserves (cash dividend) and 6,020,620 ordinary shares, with a par value of EUR 0.12 per share, were issued (EUR 156 million stock dividend). On 7 September 2015, an interim dividend of EUR 0.46 per ordinary share was paid, resulting in a total dividend for 2015 of EUR 1.51 per ordinary share.

Interim dividend 2016

In September 2016 NN Group paid a 2016 interim dividend of EUR 0.60 per ordinary share, which represents a total amount of EUR 195 million. The 2016 interim dividend was paid on 9 September 2016 either in cash or in ordinary shares at the election of the shareholder. As a result, an amount of EUR 113 million was distributed out of other reserves (cash dividend) and 3,086,014 ordinary shares, with a par value of EUR 0.12 per share were issued (EUR 82 million stock dividend).

To neutralise the dilutive effect of the final and interim stock dividend, NN Group will repurchase ordinary shares for an amount equivalent to the stock dividend.

Proposed final dividend 2016

At the Annual General Meeting on 1 June 2017, a final dividend will be proposed of EUR 0.95 per ordinary share, or approximately EUR 307 million in total based on the current number of outstanding shares (net of treasury shares). Together with the 2016 interim dividend of EUR 0.60 per ordinary share paid in September 2016, NN Group's total dividend for 2016 will be EUR 502 million, or EUR 1.55 per ordinary share which is equivalent to a dividend pay-out ratio of around 51% of NN Group's full-year 2016 net operating result of ongoing business. 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 5 June 2017. The record date for the dividend will be 6 June 2017. The election period will run from 5 June up to and including 19 June 2017. 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 13 June through 19 June 2017. The dividend will be payable on 26 June 2017. The cash dividend will be distributed out of other reserves.

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 2016 net result of EUR 1,189 million minus the (interim and final) cash dividends to the retained earnings.

Undated subordinated notes

In July 2014, NN Group N.V. issued fixed to floating rate undated subordinated notes with a par value of EUR 1 billion. The notes are undated, but are callable after 11.5 years and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 4.5% 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.

14 Subordinated debt

Subordinated debt

				Notional amount		Balance sheet value	
Interest rate	**Year of issue**	**Due date**	**First call date**	**2016**	**2015**	**2016**	**2015**
4.625%	2014	8 April 2044	8 April 2024	1,000	1,000	988	986
6.375%	2002	7 May 2027	7 May 2017	476	476	477	481
Variable	2007	Perpetual	Redeemed January 2017	506	506	506	506
Variable	2005	Perpetual	Redeemed January 2017	169	169	169	169
Variable	2005	Perpetual	Redeemed January 2017	148	148	148	148
Subordinated debt						**2,288**	**2,290**

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 except for the Subordinated debt with a Notional amount of EUR 476 million. All subordinated debt is euro denominated.

Reference is made to Note 51 'Other events' for more disclosure on the Subordinated debt.

15 Debt securities issued

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

Reference is made to Note 51 'Other events' for more disclosure on the Debt securities.

16 Other borrowed funds

Other borrowed funds

	2016	2015
Credit institutions	3,305	3,787
Other	4,341	2,998
Other borrowed funds	**7,646**	**6,785**

For the change in 'Other borrowed funds-Other', reference is made to Note 17 'Insurance and investment contracts, reinsurance contracts– Changes in Investment contracts'.

Other borrowed funds includes collateral received on derivatives and the funding of the consolidated securitisation programmes as disclosed in Note 47 'Structured entities'.

17 Insurance and investment contracts, reinsurance contracts

Insurance and investment contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance and investment contracts	
	2016	2015	2016	2015	2016	2015
Non-participating life policy liabilities	21,088	19,155	20	19	21,108	19,174
Participating life policy liabilities	51,773	49,705	94	95	51,867	49,800
Liabilities for (deferred) profit sharing and rebates	7,720	6,853			7,720	6,853
Life insurance liabilities excluding liabilities for risk of policyholders	**80,581**	**75,713**	**114**	**114**	**80,695**	**75,827**
Liabilities for life insurance for risk of policyholders	29,111	33,580	46	47	29,157	33,627
Life insurance liabilities	**109,692**	**109,293**	**160**	**161**	**109,852**	**109,454**
Liabilities for unearned premiums and unexpired risks	**248**	**263**	**3**	**2**	**251**	**265**
Reported claims liabilities	2,573	2,539	64	69	2,637	2,608
Claims incurred but not reported (IBNR)	644	632	4	4	648	636
Claims liabilities	**3,217**	**3,171**	**68**	**73**	**3,285**	**3,244**
Insurance liabilities	**113,157**	**112,727**	**231**	**236**	**113,388**	**112,963**
Investment contracts for risk of company	696	1,436			696	1,436
Investment contracts for risk of policyholders	1,615	1,585			1,615	1,585
Investment contracts liabilities	**2,311**	**3,021**	**0**	**0**	**2,311**	**3,021**
Insurance and investment contracts, reinsurance contracts	**115,468**	**115,748**	**231**	**236**	**115,699**	**115,984**

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 7,468 million as at 31 December 2016 (2015: EUR 6,560 million).

Changes in Life insurance liabilities (2016)

	Net life insurance liabilities[1]	Net liabilities for risk of policyholders[2]	Reinsurance contracts	Life insurance liabilities
Life insurance liabilities – opening balance	75,713	33,580	161	109,454
Deferred interest credited to policyholders	907			907
Current year liabilities	4,703	1,142	6	5,851
Prior years liabilities:				
– benefit payments to policyholders	-6,633	-4,638	-9	-11,280
– interest accrual and changes in fair value of liabilities	3,044		1	3,045
– valuation changes for risk of policyholders		1,163		1,163
– effect of changes in other assumptions	-5	-6	-2	-13
Changes in the composition of the group and other changes	2,093	-2,756	2	-661
Exchange rate differences	759	626	1	1,386
Life insurance liabilities – closing balance	**80,581**	**29,111**	**160**	**109,852**

1 Net of reinsurance and liabilities for risk of policyholders.

2 Net of reinsurance.

Changes in Life insurance liabilities (2015)

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

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

Where discounting is used in the calculation of life insurance liabilities, the rate is within the range of 1.3% to 3.7% (2015: 1.4% to 3.6%).

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 2016, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in 'Other assets') amounts to EUR 318 million (2015: EUR 347 million).

Changes in the composition of the group and other changes includes insurance contracts for risk of policyholders with guarantees that were extended as general account contracts and the transfer of certain insurance contracts.

Changes in Liabilities for unearned premiums and unexpired risks

	Liabilities net of reinsurance		Reinsurance contracts		Liabilities for unearned premiums and unexpired risk	
	2016	2015	2016	2015	2016	2015
Liabilities for unearned premiums and unexpired risks – opening balance	263	264	2	3	265	267
Premiums written	1,633	1,590	35	33	1,668	1,623
Premiums earned during the year	-1,646	-1,592	-35	-33	-1,681	-1,625
Changes in the composition of the group and other changes	-2	1	1	-1	-1	0
Liabilities for unearned premiums and unexpired risks – closing balance	**248**	**263**	**3**	**2**	**251**	**265**

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2016	2015	2016	2015	2016	2015
Claims liabilities – opening balance	3,171	3,195	73	78	3,244	3,273
Additions:						
– for the current year	1,158	1,109	3	2	1,161	1,111
– for prior years	-48	-89	-6	-1	-54	-90
– interest accrual of liabilities	60	65			60	65
Additions	**1,170**	**1,085**	**-3**	**1**	**1,167**	**1,086**
Claim settlements and claim settlement costs:						
– for the current year	-470	-457			-470	-457
– for prior years	-655	-649	-2	-6	-657	-655
Claim settlements and claim settlement cost	**-1,125**	**-1,106**	**-2**	**-6**	**-1,127**	**-1,112**
Changes in the composition of the group and other changes		-6			0	-6
Exchange rate differences	1	3			1	3
Claims liabilities – closing balance	**3,217**	**3,171**	**68**	**73**	**3,285**	**3,244**

Where discounting is used in the calculation of the claims liabilities the rate is within the range of 2.0% to 4.0% (2015: 2.0% to 4.0%).

Changes in Investment contracts

	2016	2015
Investment contracts – opening balance	3,021	3,029
Current year liabilities	183	192
Prior years liabilities:		
– payments to contract holders	-298	-320
– interest accrual	21	
– valuation changes investments	42	40
Changes in the composition of the group and other changes	-660	
Exchange rate differences	2	80
Investment contracts – closing balance	**2,311**	**3,021**

The changes in the composition of the group in 2016 mainly relate to the portfolio transfer agreement between NN Re (Ireland) Limited, and Canada Life International Re Limited. Reference is made to Note 46 'Companies and businesses acquired and divested'.

In 2015, NN Group entered into a retrocession agreement for an existing investment contract. As a result of the retrocession agreement, a retrocession asset was recognised in Loans – Other. Under the terms of the agreement, certain Available-for-sale investments were transferred to the counterparty of the retrocession agreement but were not derecognised from the balance sheet; therefore a related liability was recognised in Other borrowed funds. In 2016, the related portfolio was transferred to Canada Life International Re Limited. As a result of this transfer, all the related assets and liabilities (including the retrocession asset and the liability in Other borrowed funds) were derecognised. Reference is made to Note 46 'Companies and businesses acquired and divested'.

Gross claims development table

	Accident year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims											
At the end of accident year	1,023	1,075	1,164	1,165	1,201	1,232	1,217	1,168	1,177	1,225	
1 year later	925	1,059	1,176	1,195	1,244	1,182	1,230	1,191	1,141		
2 years later	861	1,031	1,118	1,159	1,191	1,164	1,203	1,151			
3 years later	863	1,031	1,134	1,157	1,187	1,147	1,202				
4 years later	843	1,024	1,118	1,145	1,167	1,146					
5 years later	837	1,041	1,111	1,134	1,169						
6 years later	849	1,033	1,101	1,128							
7 years later	839	1,023	1,097								
8 years later	831	1,007									
9 years later	832										
Estimate of cumulative claims	**832**	**1,007**	**1,097**	**1,128**	**1,169**	**1,146**	**1,202**	**1,151**	**1,141**	**1,225**	**11,098**
Cumulative payments	-724	-886	-943	-960	-940	-882	-858	-774	-690	-470	-8,127
	108	**121**	**154**	**168**	**229**	**264**	**344**	**377**	**451**	**755**	**2,971**
Effect of discounting	-14	-16	-19	-22	-34	-42	-44	-38	-38	-41	-308
Liabilities recognised	**94**	**105**	**135**	**146**	**195**	**222**	**300**	**339**	**413**	**714**	**2,663**
Liabilities relating to accident years prior to 2007											622
Gross claims											**3,285**

18 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit

	2016	2015
Savings	10,224	8,034
Customer deposits and other funds on deposit	**10,224**	**8,034**

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

	2016	2015
Customer deposits and other funds on deposit – opening balance	8,034	6,982
Deposits received	4,773	3,466
Withdrawals	-2,583	-2,414
Customer deposits and other funds on deposit – closing balance	**10,224**	**8,034**

19 Financial liabilities at fair value through profit or loss

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

Non-trading derivatives

	2016	2015
Derivatives used in:		
– fair value hedges	145	107
– cash flow hedges	371	115
– hedges of net investments in foreign operations	1	3
Other non-trading derivatives	1,491	1,476
Non-trading derivatives	**2,008**	**1,701**

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

20 Other liabilities

Other liabilities

	2016	2015
Deferred tax liabilities	2,982	2,101
Income tax payable	7	11
Net defined benefit liability	116	96
Other post-employment benefits	23	36
Other staff-related liabilities	135	140
Other taxation and social security contributions	126	144
Deposits from reinsurers	87	102
Accrued interest	331	519
Costs payable	174	187
Amounts payable to policyholders	737	564
Provisions	189	123
Amounts to be settled	1,118	813
Other	311	461
Other liabilities	**6,336**	**5,297**

Net defined benefit asset/liability

	2016	2015
Fair value of plan assets	10	9
Defined benefit obligation	126	105
Net defined benefit asset/liability recognised in the balance sheet (funded status)	**116**	**96**
Presented as:		
– Other liabilities	116	96
Net defined benefit asset/liability	**116**	**96**

For disclosures in respect of deferred tax liabilities reference is made to Note 35 'Taxation'.

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

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

Changes in provisions

	2016	2015
Provisions – opening balance	123	198
Additions	140	55
Releases	-5	-14
Charges	-68	-118
Exchange rate differences	-1	2
Provisions – closing balance	**189**	**123**

Provisions relate to reorganisation provisions, litigation provisions and other provisions. Reorganisation provisions were recognised for operations in the Netherlands for the cost of workforce reductions. Additions to the reorganisation provision were recognised in 2016 and 2015 due to additional initiatives announced during the year. During 2016 EUR 57 million was charged to the reorganisation provision for the cost of workforce reductions (2015: EUR 72 million). The remaining reorganisation provision at the balance sheet date represents the best estimate of the expected future redundancy costs for the next years and is expected to be sufficient to cover the remaining costs of the restructuring programme. For litigation provisions reference is made to Note 45 'Legal proceedings'.

21 Gross premium income

Gross premium income

	2016	2015
Gross premium income from life insurance policies	7,756	7,582
Gross premium income from non-life insurance policies	1,668	1,623
Gross premium income	**9,424**	**9,205**

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	
	2016	2015	2016	2015	2016	2015
Direct gross premiums written	7,738	7,566	1,661	1,615	9,399	9,181
Reinsurance assumed gross premiums written	18	16	7	8	25	24
Gross premiums written	**7,756**	**7,582**	**1,668**	**1,623**	**9,424**	**9,205**
Reinsurance ceded	-143	-123	-35	-33	-178	-156
Premiums written net of reinsurance	**7,613**	**7,459**	**1,633**	**1,590**	**9,246**	**9,049**

Non-life premiums earned – net of reinsurance

	2016	2015
Direct gross premiums earned	1,674	1,617
Reinsurance assumed gross premiums earned	7	8
Gross premiums earned	**1,681**	**1,625**
Reinsurance ceded	-35	-33
Non-life premiums earned – net of reinsurance	**1,646**	**1,592**

Reinsurance ceded is included in Underwriting expenditure. Reference is made to Note 26 'Underwriting expenditure'.

22 Investment income

Investment income

	2016	2015
Interest income from investments in debt securities	1,689	1,737
Interest income from loans:		
– unsecured loans	155	132
– mortgage loans	1,023	918
– policy loans	7	8
– other	51	100
Interest income from investments in debt securities and loans	**2,925**	**2,895**
Realised gains/losses on disposal of available-for-sale debt securities	277	171
Impairments of available-for-sale debt securities	-4	
Realised gains/losses and impairments of available-for-sale debt securities	**273**	**171**
Realised gains/losses on disposal of available-for-sale equity securities	101	376
Impairments of available-for-sale equity securities	-92	-170
Realised gains/losses and impairments of available-for-sale equity securities	**9**	**206**
Interest income on non-trading derivatives	524	516
Increase in loan loss provisions	-14	-39
Income from real estate investments	93	79
Dividend income	254	205
Change in fair value of real estate investments	59	25
Investment income	**4,123**	**4,058**

Impairments on investments by segment

	2016	2015
Netherlands Life	-72	-145
Netherlands Non-life	-3	-3
Insurance Europe	-13	-8
Japan Life	-3	-11
Asset management	-1	
Other	-4	-3
Impairments on investments	**-96**	**-170**

23 Net fee and commission income

Net fee and commission income

	2016	2015
Asset management fees	717	774
Insurance brokerage and advisory fees	81	86
Other	138	155
Gross fee and commission income	**936**	**1,015**
Trailer fees	230	257
Asset management fees	36	30
Commission expenses and other	74	84
Fee and commission expenses	**340**	**371**
Net fee and commission income	**596**	**644**

24 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2016	2015
Change in fair value of derivatives relating to:		
– fair value hedges	69	11
– cash flow hedges (ineffective portion)	39	-25
– other non-trading derivatives	-104	-303
Net result on non-trading derivatives	**4**	**-317**
Change in fair value of assets and liabilities (hedged items)	-78	-6
Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)	19	10
Valuation results on non-trading derivatives	**-55**	**-313**

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 26 'Underwriting expenditure'.

25 Foreign currency results and net trading income

Foreign currency results and net trading income

	2016	2015
Foreign currency results	-90	-88
Net trading income		208
Foreign currency results and net trading income	**-90**	**120**

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

26 Underwriting expenditure

Underwriting expenditure

	2016	2015
Gross underwriting expenditure:		
– before effect of investment result for risk of policyholder	10,434	9,744
– effect of investment result for risk of policyholder	1,156	1,099
Gross underwriting expenditure	**11,590**	**10,843**
Investment result for risk of policyholders	-1,156	-1,099
Reinsurance recoveries	-116	-81
Underwriting expenditure	**10,318**	**9,663**

The investment income and valuation results regarding investments for risk of policyholders is EUR 1,156 million (2015: EUR 1,099 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.

Underwriting expenditure by class

	2016	2015
Expenditure from life underwriting:		
– reinsurance and retrocession premiums	143	123
– gross benefits	10,527	13,102
– reinsurance recoveries	-92	-59
– change in life insurance liabilities	-2,351	-5,464
– costs of acquiring insurance business	493	466
– other underwriting expenditure	86	82
– profit sharing and rebates	32	40
Expenditure from life underwriting	**8,838**	**8,290**
Expenditure from non-life underwriting:		
– reinsurance and retrocession premiums	35	33
– gross claims	1,154	1,123
– reinsurance recoveries	-24	-22
– changes in the liabilities for unearned premiums	-13	-2
– changes in claims liabilities	46	-16
– costs of acquiring insurance business	259	256
– other underwriting expenditure	2	
Expenditure from non-life underwriting	**1,459**	**1,372**
Expenditure from investment contracts:		
– costs of acquiring investment contracts		1
– other changes in investment contract liabilities	21	
Expenditure from investment contracts	**21**	**1**
Underwriting expenditure	**10,318**	**9,663**

Profit sharing and rebates

	2016	2015
Distributions on account of interest or underwriting results	-26	-40
Bonuses added to policies	58	80
Profit sharing and rebates	**32**	**40**

The total costs of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 752 million (2015: EUR 723 million). This includes amortisation and unlocking of DAC of EUR 575 million (2015: EUR 536 million) and the net amount of commissions paid of EUR 804 million (2015: EUR 770 million) and commissions capitalised in DAC of EUR 627 million (2015: EUR 584 million).

The total amount of commission paid and commission payable amounted to EUR 881 million (2015: EUR 846 million). This includes the commissions recognised in 'costs of acquiring insurance business' of EUR 804 million (2015: EUR 770 million) referred to above and commissions recognised in 'other underwriting expenditure' of EUR 77 million (2015: EUR 76 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 15 million (2015: EUR 16 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 24 'Valuation results on non-trading derivatives', the valuation results on non-trading derivatives include the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. For insurance operations, these derivatives hedge exposures in Insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates. The change in fair value of the derivatives is largely offset by changes in insurance contract liabilities, which are included in 'Underwriting expenditure'.

27 Intangible amortisation and other impairments

Intangible amortisation and other impairments

	2016	2015
Property and equipment	1	2
Other intangible assets	11	
Other impairments and reversals of other impairments	12	2
Amortisation of other intangible assets	7	7
Intangible amortisation and other impairments	**19**	**9**

Impairment on debt securities, equity securities and loans are included in 'Investment income'.

28 Staff expenses

Staff expenses

	2016	2015
Salaries	643	640
Variable salaries	72	71
Pension costs	102	101
Social security costs	98	94
Share-based compensation arrangements	15	19
External staff costs	205	202
Education	14	13
Other staff costs	25	32
Staff expenses	**1,174**	**1,172**

Pension costs

	2016	2015
Current service cost	5	4
Past service cost		-1
Net interest cost	1	-1
Effect of curtailment or settlement	-1	
Defined benefit plans	**5**	**2**
Defined contribution plans	97	99
Pension costs	**102**	**101**

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 34 'Principal subsidiaries and geographical information' for information on the number of employees.

Remuneration of Executive Board, Management Board and Supervisory Board

Reference is made to Note 49 '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 (5 years for Management Board and 1 year for Identified Staff).

Share awards

Changes in Share awards outstanding

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2016	2015	2016	2015
Share awards outstanding – opening balance	1,164,708	1,611,655	19.54	14.41
Granted	410,156	594,191	29.50	26.00
Performance effect	144,168	103,989	14.48	16.43
Vested	-822,252	-1,088,956	18.09	15.00
Forfeited	-62,265	-56,171	20.06	14.96
Share awards outstanding – closing balance	**834,515**	**1,164,708**	**25.23**	**19.54**

In 2016, 63,311 share awards on NN Group shares (2015: 68,218) were granted to the members of the Executive and Management Board. To senior management and other employees 346,845 share awards on NN Group shares (2015: 525,973) were granted.

As at 31 December 2016 the share awards on NN Group shares consist of 816,135 (2015: 1,151,364) share awards relating to equity-settled share-based payment arrangements and 18,380 (2015: 13,344) 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 2016 total unrecognised compensation costs related to share awards amount to EUR 8 million (2015: EUR 9 million). These costs are expected to be recognised over a weighted average period of 1.4 years (2015: 1.4 years).

Sharesave Plan

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

At the start, 3,526 employees participated in the Sharesave plan. The number of participants is 2,955 as at 31 December 2016 (2015: 3,186).

The plan is accounted for as a cash-settled share-based payment plan. The liability in the balance sheet as at 31 December 2016 is EUR 21 million (2015: EUR 11 million), of which EUR 13 million (2015: EUR 8 million) was contributed by the participating employees. The liability is included in 'Other staff-related liabilities' in other liabilities. Reference is made to Note 20 'Other liabilities'.

29 Interest expenses

Interest expenses

	2016	2015
Interest expenses on non-trading derivatives	264	281
Other interest expenses	334	333
Interest expenses	**598**	**614**

In 2016, total interest income and total interest expenses for items not valued at fair value through profit or loss were EUR 2,925 million (2015: EUR 2,895 million) and EUR 334 million (2015: EUR 333 million) respectively.

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

Total net interest income

	2016	2015
Investment income	3,449	3,411
Interest expenses on non-trading derivatives	-264	-281
Other interest expenses	-334	-333
Total net interest income	**2,851**	**2,797**

30 Other operating expenses

Other operating expenses

	2016	2015
Depreciation of property and equipment	19	23
Amortisation of software	18	19
Computer costs	208	204
Office expenses	101	114
Travel and accommodation expenses	15	16
Advertising and public relations	86	112
External advisory fees	94	111
Addition/(releases) of provisions for reorganisation and relocations	56	45
Other	152	132
Other operating expenses	**749**	**776**

Other operating expenses includes lease and sublease payments for office buildings of EUR 40 million (2015: EUR 52 million) and lease and sublease payments for cars and other equipment of EUR 11 million (2015: EUR 10 million). These expenses are in respect of operating leases in which NN Group is the lessee.

31 Earnings per ordinary share

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

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

Earnings per ordinary share

	Amount (in millions of euros)		Weighted average number of ordinary shares (in millions)		Per ordinary share (in euros)	
	2016	2015	2016	2015	2016	2015
Net result	1,189	1,565				
Coupon on undated subordinated notes	-34	-34				
Basic earnings per ordinary share	**1,155**	**1,531**	**325.3**	**339.6**	**3.55**	**4.51**
Dilutive instruments:						
Warrants			0.0	0.0		
Share plans			0.8	1.2		
			0.8	**1.2**		
Diluted earnings per ordinary share	**1,155**	**1,531**	**326.1**	**340.8**	**3.54**	**4.49**

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

32 Interest and dividend included in net cash flow

Interest and dividend received or paid in cash

	2016	2015
Interest received	3,618	3,576
Interest paid	-640	-611
Dividend received	371	254
Dividend paid	-298	-271

Interest received, interest paid and dividend received are included in 'Operating activities' in the Consolidated statement of cash flows. Dividend paid is included in 'Financing activities' in the Consolidated statement of cash flows.

33 Segments

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

- Netherlands Life (Group life and individual life insurance products in the Netherlands)
- Netherlands Non-life (Non-life insurance in the Netherlands including disability and accident, fire, motor and transport insurance)
- Insurance Europe (Life insurance, pension products and to a small extent non-life insurance and retirement services in Central and Rest of Europe)
- Japan Life (Life insurance primarily Corporate Owned Life Insurance (COLI) business)
- Asset Management (Asset management activities)
- Other (operating segments that have been aggregated due to their respective size; including banking activities in the Netherlands, reinsurance and items related to capital management and the corporate head office)
- Japan Closed Block VA (Closed block single premium variable annuity individual life insurance portfolio in Japan, including the internally reinsured minimum guarantee risk, which has been closed to new business and which is being managed in run-off)

The Executive Board and the Management Board set the performance targets and approve and monitor the budgets prepared by the reporting segments. The segments formulate strategic, commercial and financial policies in conformity with the strategy and performance targets set by the Executive Board and the Management Board.

The accounting policies of the segments are the same as those described in Note 1 'Accounting policies'. Transfer prices for inter-segment transactions are set at arm's length. Corporate expenses are allocated to segments based on time spent by head office personnel, the relative number of staff, or on the basis of income and/or assets of the segment. Intercompany loans that qualify as equity instruments under IFRS-EU are presented in the segment reporting as debt; related coupon payments are presented as income and expenses in the respective segments.

Operating result (before tax) is used by NN Group to evaluate the financial performance of its segments.

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 (2016)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset management	Other	Japan Closed Block VA	Total
Investment margin	745		72	-21			-2	793
Fees and premium-based revenues	336		548	589	463		57	1,993
Technical margin	93		201	-33				261
Operating income non-modelled life business			3					3
Operating income	**1,175**	**0**	**824**	**535**	**463**	**0**	**55**	**3,051**
Administrative expenses	426		320	120	330		15	1,211
DAC amortisation and trail commissions	39		310	260			7	615
Expenses	**465**	**0**	**629**	**381**	**330**	**0**	**22**	**1,826**
Non-life operating result		62	4					66
Operating result other						-30		-30
Operating result	**710**	**62**	**198**	**154**	**133**	**-30**	**33**	**1,260**
Non-operating items:								
– gains/losses and impairments	179	23	73		-1	5		279
– revaluations	282	27	6	-8		-12		296
– market & other impacts	-10		-9				-132	-151
Special items before tax	-14	-7	-44	-5	-6	-30		-107
Result on divestments						-114		-114
Result before tax	**1,147**	**104**	**224**	**141**	**126**	**-181**	**-99**	**1,463**
Taxation	178	17	66	31	32	-27	-24	273
Minority interests	1							1
Net result	**968**	**87**	**158**	**111**	**94**	**-153**	**-75**	**1,189**

Special items in 2016 reflect restructuring expenses related to the target to reduce the administrative expense base of Netherlands Life, Netherlands Non-life and corporate/holding entities, rebranding expenses and the disentanglement-related IT expenses in Belgium.

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

Segments (2015)

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

Special items in 2015 reflect expenses related to the rebranding of NN Group's subsidiaries and restructuring expenses related to the target to reduce the administrative expense base in the Netherlands.

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

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

Gross premium income and investment income by segment (2016)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset management	Other and eliminations	Japan Closed Block VA	Total segments
Gross premium income	2,231	1,578	2,360	3,230		21	4	9,424
Investment income	2,545	140	476	165		429	368	4,123

Gross premium income and investment income by segment (2015)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset management	Other and eliminations	Japan Closed Block VA	Total segments
Gross premium income	2,689	1,534	2,276	2,678		20	8	9,205
Investment income	2,601	164	470	152		370	301	4,058

Interest income and interest expenses by segment (2016)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset management	Other and eliminations	Japan Closed Block VA	Total
Interest income	2,015	104	387	149		426	368	3,449
Interest expenses	-124	-1		-2		-209	-262	-598
Interest income and interest expenses	**1,891**	**103**	**387**	**147**	**0**	**217**	**106**	**2,851**

Interest income and interest expenses by segment (2015)

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

Total assets and Total liabilities by segment

	Total assets 2016	Total liabilities 2016	Total assets 2015	Total liabilities 2015
Netherlands Life	95,743	79,205	92,263	77,874
Netherlands Non-life	4,309	3,614	4,368	3,621
Insurance Europe	20,717	18,875	21,065	19,175
Japan Life	15,957	13,661	13,318	11,401
Asset management	618	220	580	189
Other	49,743	25,901	45,950	24,343
Japan Closed Block VA	11,189	10,606	13,297	12,351
Total segments	**198,276**	**152,082**	**190,841**	**148,954**
Eliminations	-29,771	-7,281	-28,689	-8,266
Total assets and Total liabilities	**168,505**	**144,801**	**162,152**	**140,688**

Alternative Performance Measures (Non-GAAP measures)

NN Group uses two Alternative Performance Measures (APMs, also referred to as Non-GAAP measures) in its external financial reporting: Operating result and Adjusted allocated equity.

Operating result

Operating result is used by NN Group to evaluate the financial performance of NN Group and its segments. NN Group uses Operating result as it reflects how management assesses the performance of the businesses. Operating result excludes gains and losses that are primarily driven by market fluctuations, arise from events or transactions that are clearly distinct from the ordinary business activities and/or are not expected to recur frequently or regularly. Operating result is calculated by adjusting the reported result for the following items:

- Non-operating items: related to (general account) investments that are held for own risk (net of policyholder profit sharing):
  - Capital gains/losses and impairments: realised gains and losses as well as impairments on financial assets that are classified as Available-for-sale and debt securities that are classified as loans. These investments include debt and equity securities (including fixed income and equity funds), private equity (< 20% ownership), real estate funds and loans quoted in active markets.
  - Revaluations: revaluations on assets marked-to-market through the Consolidated profit and loss account. These investments include private equity (associates), real estate (property and associates), derivatives unrelated to product hedging programmes (i.e. interest rate swaps, foreign exchange hedges) and direct equity hedges.
  - Market & other impacts: these impacts mainly comprise the change in the liability for guarantees on separate account pension contracts (net of hedging) in the Netherlands, the equity related and other deferred acquisition costs unlocking for Japan Closed Block VA as well as the accounting volatility related to the reinsurance of minimum guaranteed benefits of Japan Closed Block VA.
- Result on divestments: result before tax related to divested operations.
- Special items before tax: items of income or expense that are significant and arise from events or transactions that are clearly distinct from the ordinary business activities and therefore are not expected to recur frequently or regularly. This includes for example restructuring expenses, rebranding costs, goodwill impairments, results related to early redemption of debt, and gains/losses from employee pension plan amendments or curtailments.

Net operating result of NN Group is the Net operating result of the ongoing business, adjusted to reflect the deduction of the accrued coupon on undated subordinated notes classified in equity. 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 is an Alternative Performance 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. A reconciliation between Operating result and IFRS result is included above.

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 for ongoing segments in the numerator and average Adjusted allocated equity for ongoing segments in the denominator. Adjusted allocated equity is derived from IFRS equity by adjusting for:

- Revaluation reserves
- Undated subordinated notes classified as equity under IFRS

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

	2016	2015
IFRS Total equity	23,704	21,464
Undated subordinated notes	-986	-986
Revaluation reserves	-10,243	-8,338
Equity of Japan Closed Block VA	-582	-946
Adjusted allocated equity ongoing business	**11,893**	**11,194**

In addition NN Group discloses Value of New Business (VNB) and Annual Premium Equivalent (APE).

VNB is the additional value to shareholders created through the activity of writing new business. VNB represents the post-tax market value of liabilities at issue an instant before any cash flow transaction. VNB reflects the economic view of the liability being sold corresponding to NN Group's internal view.

Annual Premium Equivalent (APE) is defined as the total of the IFRS annual recurring premiums and 10% of the IFRS single premiums received in a given period.

34 Principal subsidiaries and geographical information

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

Principal subsidiaries and geographical information (2016)

Country/Name of principal subsidiaries[1]	Main activity	Average number of employees[2]	Total income[3]	Total assets[3]	Result before tax	Taxation[4]	Income tax paid[5]
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	Life insurance						
Nationale-Nederlanden Bank N.V.	Banking						
NN Investment Partners Holdings N.V.	Asset management						
REI Investment I B.V.	Real estate						
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	General insurance						
NN Re (Netherlands) N.V.	Reinsurance						
Movir N.V.	General insurance						
Private Equity Investments II B.V.	Private equity						
The Netherlands		**6,316**	**7,279**	**119,285**	**981**	**153**	**71**
NN Life Insurance Company, Ltd.	Life insurance						
NN Investment Partners (Japan) Co., Ltd.	Asset management						
Japan		**787**	**3,482**	**26,422**	**46**	**9**	**63**
NN Insurance Belgium nv	Life insurance						
NN Investment Partners Belgium S.A.	Asset management						
NN Insurance Services Belgium nv	General insurance						
Belgium		**361**	**809**	**6,267**	**115**	**38**	**17**
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		**446**	**626**	**4,905**	**52**	**14**	**5**
NN Life Luxembourg S.A.	Life insurance						
NN Investment Partners Luxembourg S.A.	Asset management						
Luxembourg		**102**	**348**	**2,553**	**27**	**4**	**6**
Nationale-Nederlanden Towarzystwo Ubezpieczeń na Życie S.A.	Life insurance						
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	Pensions						
Poland		**801**	**427**	**2,118**	**86**	**19**	**12**
NN Biztosító Zártkörûen Mûködõ Részvénytársaság	Life insurance						
Hungary		**359**	**271**	**1,298**	**11**	**5**	**2**
NN Hellenic Life Insurance Co. S.A.	Life insurance						
Greece		**452**	**430**	**1,375**	**-17**	**5**	**-3**
NN Životní pojišťovna N.V. (pobočka pro Českou republiku)	Life insurance						
Czech Republic		**444**	**187**	**1,186**	**30**	**7**	**5**
NN Asigurari de Viata S.A.	Life insurance						
Romania		**491**	**188**	**841**	**30**	**4**	**3**

Principal subsidiaries and geographical information (2016) continued

Country/Name of principal subsidiaries[1]	Main activity	Average number of employees[2]	Total income[3]	Total assets[3]	Result before tax	Taxation[4]	Income tax paid[5]
NN Životná poisťovna, a.s.	Life insurance						
Slovak Republic		**251**	**96**	**528**	**10**	**3**	**1**
NN Hayat ve Emeklilik A.S.	Life insurance						
Turkey		**439**	**50**	**121**	**-16**	**-2**	
NN Pensionno-Osigoritelno Druzestvo EAD	Pensions						
Bulgaria		**126**	**21**	**68**	**1**		
Germany		**12**	**52**	**586**	**53**	**10**	**6**
France		**8**	**28**	**568**	**20**	**-1**	**5**
Italy			**20**	**238**	**20**	**2**	
Denmark			**3**	**106**	**2**		
Other		**68**	**5**	**40**	**12**	**3**	**4**
Total		**11,463**	**14,321**	**168,505**	**1,463**	**273**	**197**

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

Principal subsidiaries and geographical information (2015)

Country/Name of principal subsidiaries[1]	Main activity	Average number of employees[2]	Total income[3]	Total assets[3]	Result before tax	Taxation[4]	Income tax paid[5]
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	Life insurance						
Nationale-Nederlanden Bank N.V.	Banking						
NN Investment Partners Holdings N.V.	Asset management						
REI Investment I B.V.	Real estate						
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	General insurance						
NN Re (Netherlands) N.V.	Reinsurance						
Movir N.V.	General insurance						
Parcom Capital B.V.	Private equity						
Nationale-Nederlanden Services N.V.	Life insurance						
The Netherlands		**6,463**	**7,703**	**113,848**	**1,181**	**91**	**28**
NN Life Insurance Company, Ltd.	Life insurance						
NN Investment Partners (Japan) Co., Ltd.	Asset management						
Japan		**757**	**2,782**	**25,702**	**176**	**19**	**-47**
NN Insurance Belgium nv	Life insurance						
NN Investment Partners Belgium S.A.	Asset management						
NN Insurance Services Belgium nv	General insurance						
Belgium		**382**	**710**	**6,801**	**51**	**13**	**8**
Nationale Nederlanden Vida, Compania de Seguros y Reaseguros. S.A.	Life insurance						
Nationale Nederlanden Generales, Compania de Seguros y Reaseguros, S.A.	General insurance						
Spain		**451**	**610**	**4,646**	**32**	**3**	**1**
NN Life Luxembourg S.A.	Life insurance						
NN Investment Partners Luxembourg S.A.	Asset management						
Luxembourg		**101**	**384**	**2,622**	**39**	**2**	
Nationale-Nederlanden Towarzystwo Ubezpieczeń na Życie S.A.	Life insurance						
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	Pensions						
Poland		**778**	**468**	**2,060**	**96**	**19**	**33**
NN Biztosító Zártkörûen Mûködõ Részvénytársaság	Life insurance						
Hungary		**369**	**288**	**1,268**	**16**	**3**	
NN Hellenic Life Insurance Co. S.A.	Life insurance						
Greece		**421**	**374**	**1,259**		**-16**	**1**
NN Životní pojišťovna N.V. (pobočka pro Českou republiku)	Life insurance						
Czech Republic		**481**	**214**	**1,254**	**32**	**5**	**5**
NN Asigurari de Viata S.A.	Life insurance						
Romania		**471**	**174**	**787**	**15**	**3**	**2**

Principal subsidiaries and geographical information (2015) continued

Country/Name of principal subsidiaries[1]	Main activity	Average number of employees[2]	Total income[3]	Total assets[3]	Result before tax	Taxation[4]	Income tax paid[5]
NN Životná poisťovna, a.s.	Life insurance						
Slovak Republic		**252**	**98**	**542**	**9**	**3**	
NN Hayat ve Emeklilik A.S.	Life insurance						
Turkey		**415**	**38**	**138**	**-24**	**-1**	
NN Pensionno-Osigoritelno Druzestvo EAD	Pensions						
Bulgaria		**128**	**20**	**56**			
Germany		**12**	**34**	**568**	**43**	**6**	**3**
France		**9**	**36**	**313**	**28**	**8**	**1**
Italy		**4**	**25**	**227**	**26**	**3**	
Denmark			**1**	**17**	**1**		
Other		**67**	**36**	**44**	**40**	**6**	**5**
Total		**11,561**	**13,995**	**162,152**	**1,761**	**166**	**39**

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

35 Taxation

Deferred tax (2016)

	Net liability 2015	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2016
Investments	2,761	714		-65	26	3,436
Real estate investments	138		14	79		231
Financial assets and liabilities at fair value through profit or loss	14		8			22
Deferred acquisition costs and VOBA	357		4	-1	15	375
Depreciation	-5		2	1		-2
Insurance liabilities	-2,037	-219	-18	7	1	-2,266
Cash flow hedges	1,347	134				1,481
Pension and post-employment benefits	17	-4	3		-2	14
Other provisions	-21	1	-8			-28
Receivables	-26		-7		2	-31
Loans	-27		-2	30		1
Unused tax losses carried forward	-546		170	7	-2	-371
Other	85	15	21	-40	4	85
Deferred tax	**2,057**	**641**	**187**	**18**	**44**	**2,947**
Presented in the balance sheet as:						
Deferred tax liabilities	2,101					2,982
Deferred tax assets	-44					-35
Deferred tax	**2,057**					**2,947**

The changes through net result in 'Unused tax losses carried forward' are mainly a result of the utilise of tax losses against taxable profits in The Netherlands.

Deferred tax (2015)

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

Deferred tax on unused tax losses carried forward

	2016	2015
Total unused tax losses carried forward	1,723	2,370
Unused tax losses carried forward not recognised as a deferred tax asset	-249	-227
Unused tax losses carried forward recognised as a deferred tax asset	**1,474**	**2,143**
Average tax rate	25.2%	25.5%
Deferred tax asset	**371**	**546**

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	
	2016	2015	2016	2015
Within 1 year	29	16	16	42
More than 1 year but less than 5 years	95	104	498	107
More than 5 years but less than 10 years	41	34	312	1,342
Unlimited	84	73	648	652
Total unused tax losses carried forward	**249**	**227**	**1,474**	**2,143**

Deferred tax assets are recognised for temporary deductible differences, for tax losses carried forward and unused tax credits only to the extent that realisation of the related tax benefit is probable.

As at 31 December 2016 and 31 December 2015, NN Group had no significant temporary differences associated with the parent company's investments in subsidiaries, branches and associates and interest in joint ventures as any economic benefit from those investments will not be taxable at parent company level.

Reference is made to Note 34 'Principal subsidiaries and geographical information' for more information on the taxation per country.

Taxation on result

	2016	2015
Current tax	86	43
Deferred tax	187	123
Taxation on result	**273**	**166**

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.

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

	2016	2015
Result before tax	1,463	1,761
Weighted average statutory tax rate	25.4%	25.2%
Weighted average statutory tax amount	**372**	**444**
Associates exemption	-70	-208
Other income not subject to tax	-44	-23
Expenses not deductible for tax purposes	4	7
Impact on deferred tax from change in tax rates	-9	-18
Deferred tax benefit from previously unrecognised amounts		-33
Tax for non-recognised losses	2	
Current tax benefit from previously unrecognised amounts	7	
Write-off/reversal of deferred tax assets		4
Adjustments to prior periods	11	-7
Effective tax amount	**273**	**166**
Effective tax rate	**18.7%**	**9.4%**

The weighted average statutory tax rate for 2016 did not change significantly from that of 2015.

The effective tax rate in 2016 of 18.7% was lower than the weighted average statutory tax rate of 25.4% in 2016, due to tax exempt income, partly offset by prior year adjustments in 2016. The effective tax rate of 18.7% in 2016 was significantly higher than the effective tax rate of 9.4% in 2015, which included significantly higher tax exempt income.

Taxation on components of other comprehensive income

	2016	2015
Unrealised revaluations available-for-sale investments and other	-778	412
Realised gains/losses transferred to the profit and loss account	52	32
Changes in cash flow hedge reserve	-134	147
Deferred interest credited to policyholders	219	-228
Remeasurement of the net defined benefit asset/liability	4	-9
Income tax	**-637**	**354**

36 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	
	2016	2015	2016	2015
Financial assets				
Cash and cash equivalents	8,634	7,436	8,634	7,436
Financial assets at fair value through profit or loss:				
– investments for risk of policyholders	30,711	35,154	30,711	35,154
– non-trading derivatives	4,421	4,656	4,421	4,656
– designated as at fair value through profit or loss	873	443	873	443
Available-for-sale investments	79,767	74,393	79,767	74,393
Loans	36,470	33,787	33,920	31,013
Financial assets	**160,876**	**155,869**	**158,326**	**153,095**
Financial liabilities				
Subordinated debt	2,366	2,383	2,288	2,290
Debt securities issued	614	589	598	597
Other borrowed funds	7,757	6,793	7,646	6,785
Investment contracts for risk of company	741	1,757	696	1,436
Investment contracts for risk of policyholders	1,615	1,585	1,615	1,585
Customer deposits and other funds on deposit	10,671	8,469	10,224	8,034
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	2,008	1,701	2,008	1,701
Financial liabilities	**25,772**	**23,277**	**25,075**	**22,428**

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.

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.

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 (2016)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	28,947	941	823	30,711
Non-trading derivatives	17	4,185	219	4,421
Financial assets designated as at fair value through profit or loss	619	254		873
Available-for-sale investments	59,128	19,432	1,207	79,767
Financial assets	**88,711**	**24,812**	**2,249**	**115,772**
Financial liabilities				
Investment contracts (for contracts at fair value)	1,599	16		1,615
Non-trading derivatives	64	1,726	218	2,008
Financial liabilities	**1,663**	**1,742**	**218**	**3,623**

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

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

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.

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 (2016)

	Trading assets	Investments for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit or loss	Available-for-sale investments	Total
Level 3 Financial assets – opening balance		813	208	2	1,587	2,610
Amounts recognised in the profit and loss account		-1			-6	-7
Revaluations recognised in other comprehensive income (equity)					15	15
Purchase		26	11		400	437
Sale		-15		-2	-10	-27
Maturity/settlement					-149	-149
Other transfers and reclassifications					-312	-312
Transfers out of Level 3					-286	-286
Exchange rate differences					-32	-32
Level 3 Financial assets – closing balance	**0**	**823**	**219**	**0**	**1,207**	**2,249**

Transfers out of Level 3 and reclassification (2016)

Reclassification in 2016 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 6 'Associates and joint ventures' for more information.

Transfers out of Level 3 reflect certain asset backed securities for which market liquidity has improved and as a result are classified as Level 2 in 2016.

Changes in Level 3 Financial assets (2015)

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

Transfers into Level 3 (2015)

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

Changes in Level 3 Financial liabilities (2016)

	Non-trading derivatives
Level 3 Financial liabilities – opening balance	207
Amounts recognised in the profit and loss account	1
Purchase	16
Sale	-6
Level 3 Financial liabilities – closing balance	**218**

Changes in Level 3 Financial liabilities (2015)

	Non-trading derivatives
Level 3 Financial liabilities – opening balance	0
Purchase	167
Transfers into Level 3	40
Level 3 Financial liabilities – closing balance	**207**

Level 3 – Amounts recognised in the profit and loss account during the year (2016)

	Held at balance sheet date	Derecognised during the period	Total
Financial assets			
Investments for risk of policyholders	-1		-1
Available-for-sale investments	-6		-6
Financial assets	**-7**	**0**	**-7**
Financial liabilities			
Non-trading derivatives	1		1
Financial liabilities	**1**	**0**	**1**

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

	Held at balance sheet date	Derecognised during the period	Total
Financial assets			
Trading assets		-22	-22
Investments for risk of policyholders	-7		-7
Non-trading derivatives	-3		-3
Available-for-sale investments	-7	18	11
Financial assets	**-17**	**-4**	**-21**

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2016 of EUR 115,772 million (2015: EUR 114,646 million) include an amount of EUR 2,249 million (1.9%) that is classified as Level 3 (2015: EUR 2,610 million (2.3%)). Changes in Level 3 are disclosed above in the table 'Level 3 Financial assets'.

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

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

- Those relating to trading assets are included in 'Net trading income'
- Those relating to investments for risk of policyholders are included in 'Underwriting expenditure'
- Those relating to non-trading derivatives are included in 'Valuation results on non-trading derivatives'
- Those relating to financial assets designated as at fair value through profit or loss are included in 'Valuation results on non-trading derivatives – Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)'

Unrealised gains and losses that relate to available-for-sale investments are recognised in other comprehensive income (equity) and included in reserves in '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 823 million as at 31 December 2016 (2015: EUR 813 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 219 million as at 31 December 2016 (2015: EUR 208 million).

Available-for-sale

The available-for-sale investments of EUR 1,207 million classified as 'Level 3 Financial assets' as at 31 December 2016 (2015: EUR 1,587 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 120 million (2015: EUR 160 million), being approximately 0.5% (before tax) (2015: 0.8% (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 2016 of EUR 218 million (2015: EUR 207 million) relates to non-trading derivative positions. These derivatives are used to hedge the interest rate risk associated with the funding position of NN Bank.

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 (2016)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	8,634			8,634
Loans	1,135	4,507	30,828	36,470
Financial assets	**9,769**	**4,507**	**30,828**	**45,104**
Financial liabilities				
Subordinated debt	1,538	828		2,366
Debt securities issued	614			614
Other borrowed funds	1,500	2,788	3,469	7,757
Investment contracts for risk of company	18		723	741
Customer deposits and other funds on deposit	5,828	4,843		10,671
Financial liabilities	**9,498**	**8,459**	**4,192**	**22,149**

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

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

37 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	
	2016	2015	2016	2015
Real estate investments	2,028	1,564	2,028	1,564
Property in own use	41	42	41	42
Fair value of non-financial assets	**2,069**	**1,606**	**2,069**	**1,606**

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

Methods applied in determining the fair value of non-financial assets (2016)

	Level 1	Level 2	Level 3	Total
Real estate investments			2,028	2,028
Property in own use			41	41
Non-financial assets	**0**	**0**	**2,069**	**2,069**

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

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

Changes in Level 3 Non-financial assets (2016)

	Real estate investments	Property in own use
Level 3 Non-financial assets – opening balance	1,564	42
Purchase	400	5
Changes in the composition of the group and other changes	5	
Revaluation recognised in equity during the year		-4
Amounts recognised in the profit and loss account during the year	59	-2
Level 3 Non-financial assets – closing balance	**2,028**	**41**

Changes in Level 3 Non-financial assets (2015)

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

Level 3 – Amounts recognised in the profit and loss account during the year on non-financial assets (2016)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	59		59
Property in own use	-2		-2
Level 3 Amounts recognised in the profit and loss account during the year on non-financial assets	**57**	**0**	**57**

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

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

Real estate investments and Property in own use

Valuation methodology

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

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

Key assumptions

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

Significant assumptions

	Fair value	Valuation technique	Current rent/m²	ERV/m²	Net initial yield %	Vacancy %	Average lease term in years
The Netherlands							
Industrial	46	DCF	48-49	46-48	5.7-6.4		6.9
Office	77	Income Capitalisation	472	329	10.4		2.1
Germany							
Industrial	206	Income Capitalisation	42-101	42-102	5.4-7.2	7	5.0
Retail	304	DCF	198-396	201-393	4.8-5.0	3	6.7
Office	62	Income Capitalisation	261	242	4.1		3.1
France							
Industrial	125	DCF	42-78	42-77	3.5-7.3	2	5.0
Industrial	94	Income Capitalisation	48-49	37-49	6.0-6.2	6	3.1
Office	140	DCF	502-649	487-619	4.4-5.7		4.1
Spain							
Industrial	114	Income Capitalisation	18-85	27-85	3.5-8.6	7	3.1
Retail	267	DCF	184-271	188-284	5.8-5.9	8	5.0
Italy							
Industrial							
Retail	156	DCF	526	493	6.6	3	2.7
Office	79	DCF	-21-209	230	-1.9-6.2	24	4.5
Belgium							
Industrial	22	DCF	55	52	9.1		1.3
Retail	127	DCF	103-297	117-289	4.9-7.6	4	1.9
Denmark							
Residential	88	DCF	252	252	4.7	2	4.0
Industrial	16	DCF	148	126	6.6		13.2
Poland							
Retail	93	DCF	151	156	6.5	7	3.6
Real estate under construction and other	53						
Total real estate	**2,069**					**4.6**	**4.4**

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.

38 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 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 hedged and the type of IFRS-EU hedge model that is applicable. The three models applicable under IFRS-EU are: cash flow hedge accounting, fair value hedge accounting and net investment hedge accounting. The company's detailed accounting policies for these three hedge models are set out in Note 1 'Accounting policies' in the section on 'Accounting policies for specific items'.

To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the profit and loss account. However, in certain cases, NN Group mitigates the profit and loss account volatility by designating hedged assets and liabilities at fair value through profit or loss. If hedge accounting is applied under IFRS-EU, it is possible that during the hedge a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the profit and loss account may be higher than would be expected from an economic point of view.

With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however they do not represent amounts at risk.

Cash flow hedge accounting

NN Group's hedge accounting consists mainly of cash flow hedge accounting. NN Group's cash flow hedges principally consist of (forward) interest rate swaps and cross-currency interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults.

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in Shareholders' equity. Interest income and expenses on these derivatives are recognised in the profit and loss account consistent with the manner in which the forecast cash flows affect Net result. The gains and losses on ineffective portions of such derivatives are recognised immediately in the profit and loss account.

For the year ended 31 December 2016, NN Group recognised EUR 406 million (2015: EUR -435 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 2016 is EUR 5,916 million (2015: EUR 5,376 million) gross and EUR 4,435 million (2015: EUR 4,029 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 41 years with the largest concentrations in the range 1 year to 9 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in EUR 39 million income (2015: EUR -25 million income) which was recognised in the profit and loss account.

As at 31 December 2016, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 2,027 million (2015: EUR 2,641 million), presented in the balance sheet as EUR 2,398 million (2015: EUR 2,756 million) positive fair value under assets and EUR 371 million (2015: EUR 115 million) negative fair value under liabilities.

As at 31 December 2016 and 2015, 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 203 million (2015: EUR 249 million) and EUR 11 million (2015: EUR 22 million), respectively, relating to derivatives used in cash flow hedges.

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 2016, NN Group recognised EUR 69 million (2015: EUR 11 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 -78 million (2015: EUR -6 million) fair value changes recognised on hedged items. This resulted in EUR -9 million (2015: EUR 5 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2016, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR -54 million (2015: EUR -96 million), presented in the balance sheet as EUR 91 million (2015: EUR 11 million) positive fair value under assets and EUR 145 million (2015: EUR 107 million) negative fair value under liabilities.

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

39 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 (2016)

	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	7,762	872					8,634
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]						30,711	30,711
– non-trading derivatives	19	68	292	1,027	3,015		4,421
– designated as at fair value through profit or loss	438	163	19	5	6	242	873
Available-for-sale investments	455	1,053	2,215	12,095	56,961	6,988	79,767
Loans	469	596	739	4,040	28,025	51	33,920
Reinsurance contracts	9	27	31	19	54	91	231
Intangible assets	1	3	11	62	6	259	342
Deferred acquisition costs	25	12	76	187	1,242	94	1,636
Assets held for sale	6						6
Other assets	1,101	626	704	274	434	13	3,152
Remaining assets (for which maturities are not applicable)[3]						4,812	4,812
Total assets	**10,285**	**3,420**	**4,087**	**17,709**	**89,743**	**43,261**	**168,505**

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.

Assets by contractual maturity (2015)

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

1 Includes assets on demand.

2 Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Group.

3 Included in remaining assets for which maturities are not applicable are Property and equipment, Real estate investments and Associates and joint ventures. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

40 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 52 'Risk management' for a description on how liquidity risk is managed.

Liabilities by maturity (2016)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment[1]	Total
Liabilities								
Subordinated debt[2]	654	169	476		1,000		-11	2,288
Debt securities issued					600		-2	598
Other borrowed funds	4,043		241	2,470	900	-8		7,646
Customer deposits and other funds on deposit	7,226	58	238	986	1,716			10,224
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	87	48	172	544	1,202		-45	2,008
Financial liabilities	**12,010**	**275**	**1,127**	**4,000**	**5,418**	**-8**	**-58**	**22,764**
Insurance and investment contracts	670	1,158	3,846	16,175	63,079	30,771		115,699
Liabilities held for sale	2							2
Other liabilities	1,336	577	457	246	3,454	266		6,336
Non-financial liabilities	**2,008**	**1,735**	**4,303**	**16,421**	**66,533**	**31,037**	**0**	**122,037**
Total liabilities	**14,018**	**2,010**	**5,430**	**20,421**	**71,951**	**31,029**	**-58**	**144,801**
Coupon interest due on financial liabilities	21	27	92	567	1,752			2,459

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 14 'Subordinated debt'.

Liabilities by maturity (2015)

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

1 This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).

2 Subordinated debt maturities are presented based on the first call date. For the legal date of maturity reference is made to Note 14 'Subordinated debt'.

41 Assets not freely disposable

The assets not freely disposable relate primarily to investments of EUR 125 million (2015: EUR 357 million) provided as guarantees for certain contingent liabilities. There are no significant terms and conditions relating to the collateral represented by such guarantees.

Assets relating to securities lending are disclosed in Note 42 'Transferred, but not derecognised financial assets'. Assets in securitisation programmes originated by NN Bank are disclosed in Note 47 'Structured entities'.

42 Transferred, but not derecognised financial assets

The majority of NN Group's financial assets that have been transferred, but do not qualify for derecognition, are debt instruments used in securities lending. NN Group retains substantially all risks and rewards of those transferred assets. The assets are transferred in return for cash collateral or other financial assets. Non-cash collateral is not recognised in the balance sheet. Cash collateral is recognised as an asset and an offsetting liability is established for the same amount as NN Group is obligated to return this amount upon termination of the lending arrangement. Reference is made to Note 17 'Insurance and investment contracts, reinsurance contracts' – Changes in Investment contracts.

Transfer of financial assets not qualifying for derecognition

	2016	2015
Transferred assets at carrying value:		
Available-for-sale investments	5,871	3,453
Associated liabilities at carrying value:		
Other borrowed funds	1,500	880

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 47 'Structured entities'.

43 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 (2016)

					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	4,192		4,192	-1,177	-2,971	44
Financial assets at fair value through profit or loss		**4,192**	**0**	**4,192**	**-1,177**	**-2,971**	**44**
Other items where offsetting is applied in the balance sheet		**70**		**70**	**-11**	**-57**	**2**
Total financial assets		**4,262**	**0**	**4,262**	**-1,188**	**-3,028**	**46**

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2015)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial assets	Gross financial liabilities offset in the balance sheet	Net financial assets in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	4,216		4,216	-1,189	-2,991	36
Financial assets at fair value through profit or loss		**4,216**	**0**	**4,216**	**-1,189**	**-2,991**	**36**
Investments							
Available-for-sale investments	Other	50		50	-37	-10	3
Investments		**50**	**0**	**50**	**-37**	**-10**	**3**
Other items where offsetting is applied in the balance sheet		**81**		**81**		**-81**	**0**
Total financial assets		**4,347**	**0**	**4,347**	**-1,226**	**-3,082**	**39**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2016)

					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	1,677		1,677	-1,185	-472	20
Financial liabilities at fair value through profit or loss		**1,677**	**0**	**1,677**	**-1,185**	**-472**	**20**
Other items where offsetting is applied in the balance sheet		11		11	-11		0
Total financial liabilities		**1,688**	**0**	**1,688**	**-1,196**	**-472**	**20**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2015)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	1,366		1,366	-1,185	-143	38
Financial liabilities at fair value through profit or loss		**1,366**	**0**	**1,366**	**-1,185**	**-143**	**38**
Total financial liabilities		**1,366**	**0**	**1,366**	**-1,185**	**-143**	**38**

44 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 (2016)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	411	631	1,879	508	79	226	3,734
Guarantees		1				1	2
Contingent liabilities and commitments	**411**	**632**	**1,879**	**508**	**79**	**227**	**3,736**

Contingent liabilities and commitments (2015)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	182	909	1,183	559	130	361	3,324
Contingent liabilities and commitments	**182**	**909**	**1,183**	**559**	**130**	**361**	**3,324**

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.

Furthermore, NN Group leases assets from third parties under operating leases as lessee. The future rental commitments to be paid under non-cancellable operating leases are as follows:

Future rental commitments for operating lease contracts

Future rental commitments	2016
2017	41
2018	31
2019	30
2020	27
2021	25
Years after 2021	47

45 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, 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 many jurisdictions at any point in time. Although NN Group believes that it has adequately provided for its tax positions, the ultimate outcome of these audits may result in liabilities that are different from the amounts recognised.

Unit-linked products in the Netherlands

Since the end of 2006, unit-linked products (commonly referred to in Dutch as 'beleggingsverzekeringen') have received negative attention in the Dutch media, from the Dutch Parliament, the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten) and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and Dutch insurers are in general being accused of being less transparent in their offering of such unit-linked products. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008, NN Group's Dutch insurance subsidiaries reached an outline agreement with two main consumer protection organisations to offer compensation to their unit-linked policyholders where individual unit-linked policies had a cost charge in excess of an agreed maximum and to offer similar compensation for certain hybrid insurance products. At 31 December 2008, costs of the settlements were valued at EUR 365 million for which adequate provisions have been established and of which a substantial portion has been paid out. The remaining unpaid part of the provision as per 31 December 2016 is solely available to cover costs relating to the settlements agreed in 2008. A full agreement on implementation was reached in 2010 with one of the two main consumer protection organisations, with the second main consumer protection organisation signing its agreement in June 2012. In addition, NN Group's Dutch insurance subsidiaries announced additional measures (flankerend beleid) that comply with the 'Best in Class' criteria as formulated on 24 November 2011 by the Dutch Minister of Finance. In December 2011 this resulted in an additional agreement on these measures with the two main consumer protection organisations. In 2012 almost all unit-linked policyholders were informed about the compensation.

The agreements with the two consumer protection organisations are not binding to policyholders. Consequently, neither the implementation of the compensation schemes nor the additional measures offered by NN Group prevent individual policyholders from initiating legal proceedings against NN Group's Dutch insurance subsidiaries and making claims for damages.

In November 2013, the so-called 'Vereniging Woekerpolis.nl', an association representing the interests of policyholders, initiated a so-called 'collective action', requesting the District Court in Rotterdam to declare that NN Group's Dutch insurance subsidiaries sold products in the market, which are defective in various respects (e.g. on transparency regarding cost charges and other product characteristics and included risks for which the insurer failed to warn, such as considerable stock depreciations, the inability to realise the projected final policy value, unrealistic capital projections due to difference in geometric versus arithmetic returns). These claims have been rejected by NN and NN defends itself in these proceedings. An (interim) ruling from the District Court in Rotterdam is expected in the course of 2017.

Apart from the aforementioned 'collective action', several other claim organisations and initiatives were established on behalf of policyholders, such as the organisation Wakkerpolis. This organisation primarily concentrates on the recovery of initial costs for policyholders, based on an interim ruling of the KiFiD issued on 13 May 2013 in an individual case. In this case, the KiFiD concluded that there is no contractual basis for charging initial costs (which are costs charged to the policy during a limited period of time). Apart from the initial costs, it can be derived from the interim ruling – in accordance with past rulings of the KiFiD – that an insurer is obliged to warn against the leverage and capital consumption effect (which is the effect caused by the dependency of life insurance premium on the value of the policy; the lower the value of the policy, the higher the life insurance premium). On 29 March 2016 KiFiD issued its final ruling (in first instance) in line with its conclusions made in its interim ruling of 13 May 2013. NN Group believes that both the interim ruling and final ruling are incorrect on several legal grounds and is appealing the KiFiD ruling with the Appeals Committee of the KiFiD. The ruling from the Appeals Committee of the KiFiD is expected in the first half of 2017.

In proceedings that were pending before the District Court in Rotterdam, the Court, upon request of the parties, including NN Group, submitted preliminary questions to the European Court of Justice to obtain clarity on principal legal questions with respect to cost transparency related to unit-linked policies. On 29 April 2015 the European Court of Justice issued its ruling on these preliminary questions submitted in relation to unit-linked products. The main preliminary question considered by the European Court of Justice was whether European law permits the application of information requirements based on general principles of Dutch law that extend beyond information requirements as explicitly prescribed by laws and regulations in force at the time the policy was written. The European Court of Justice ruled that the information requirements prescribed by the applicable European directive may be extended by additional information requirements included in national law, provided that these requirements are necessary for a policyholder to understand the essential characteristics of the commitment and are clear, accurate and foreseeable. Although the European Court does not decide on the applicable standards in specific cases and solely provides clarification on the interpretation of the applicable European directive, the ruling of the European Court of Justice has given clarification on this question of legal principle which is also the subject of other legal proceedings in the Netherlands. Dutch courts will need to take the interpretation of the European Court of Justice into account in relevant proceedings.

NN Group's Dutch insurance subsidiaries have issued, sold or advised on approximately one million individual unit-linked policies. There has been for some time and there continues to be political, regulatory and public attention focused on the unit-linked issue in general. Elements of unit-linked policies are being challenged or may be challenged on multiple legal grounds in current and future legal proceedings. There is a risk that one or more of those legal challenges will succeed.

Customers of NN Group's Dutch insurance subsidiaries have claimed, among others, that (a) the investment risk, costs charged or the risk premium was not, or not sufficiently, made clear to the customer, (b) the product costs charged on initial sale and on an ongoing basis were so high that the expected return on investment was not realistically achievable, (c) the product sold to the customer contained specific risks that were not, or not sufficiently, made clear to the customer (such as the leverage capital consumption risk) or was not suited to the customer's personal circumstances, (d) NN owed the customer a duty of care which NN has breached, or (e) the insurer failed to warn of the risk of not realising the projected policy values. These claims may be based on general standards of contract or securities law, such as reasonableness and fairness, error, duty of care, or standards for proper customer treatment or due diligence, such as relating to the fairness of terms in consumer contracts and may be made by customers, or on behalf of customers, holding active policies or whose policies have lapsed, matured or been surrendered. There is no assurance that further proceedings for damages based on aforementioned legal grounds or other grounds will not be brought. Save for the ruling from the Appeals Committee of the KiFiD in an individual case, which is expected in the first half of 2017, the timing of reaching any finality on these legal claims and proceedings is uncertain and such uncertainty is likely to continue for some time.

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

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

Although the financial consequences of any of these factors or a combination thereof could be substantial for the Dutch insurance business of NN Group and, as a result, may have a material adverse effect on NN Group's business, reputation, revenues, results of operations, solvency, financial condition and prospects, it is not possible to reliably estimate or quantify NN Group's exposures at this time.

Insurance business in South Korea

Arbitration proceedings were initiated in 2014 by Life Investment Limited (LIL) – the purchaser of NN Group's former insurance subsidiary in South Korea, ING Life Insurance (Korea) Limited (INGLK) in December 2013 – alleging that the financial condition of this subsidiary was not accurately depicted. On 15 December 2016, the International Chamber of Commerce in Hong Kong issued a Tribunal's Partial Final Award in respect of these proceedings in which it has found NN Group in breach of certain obligations under the Sale and Purchase Agreement entered into with LIL relating to the sale of INGLK. The decision of the Tribunal as to NN Group's liability to pay damages in its Partial Final Award is binding and is not subject to challenge or appeal.

The Tribunal found NN Group liable to pay damages to LIL and has ordered the quantum of these damages to be determined and deferred the determination of such quantum until a further stage of the proceedings. NN Group recognised a provision through the profit and loss account in the fourth quarter of 2016. In the context of the ongoing proceedings on the quantum of the damages, NN Group does not disclose the amount of the provision recognised. In the third supplement of the Base Prospectus in connection with NN Group's Debt Issuance Programme dated 5 January 2017 NN Group disclosed that at the time it expected that the quantum would not exceed KRW 113 billion (approximately EUR 90 million at current exchange rates) and could be significantly less. The provision recognised is lower than that amount.

These proceedings concern a former subsidiary of NN Group and, therefore, do not impact NN Group's business or strategy going forward.

Australia

In April 2015, the Australian Taxation Office (ATO) commenced a Transfer Pricing Audit on ING Australia Holdings Ltd., a former subsidiary of NN Group (Tax Audit). The Tax Audit focusses on the currency denomination of and interest on intercompany loans that resulted from the disposal of the insurance and asset management businesses in Australia. ING Australia Holdings Ltd. was transferred by NN Group to ING Group in 2013, and, therefore, is no longer a subsidiary of NN Group. As part of this transfer, ING Group and NN Group agreed that NN Group remains liable for any damages resulting from tax claims. Whilst the potential impact of the Tax Audit could be significant, the examination by the ATO is on-going and the amount claimed, if any, remains uncertain. The Tax Audit concerns a former subsidiary of NN Group and, therefore, does not impact NN Group's business or strategy going forward.

46 Companies and businesses acquired and divested

Acquisitions (2016)

Notus Financial Advisors, Poland

In May 2016 NN Group announced that it had reached an agreement to acquire 100% of the shares of Dom Kredytowy Notus S.A. (Notus). Notus is a leading financial broker in Poland, offering mortgage loans, insurance, investment and savings products. The transaction was closed in the third quarter of 2016 and did not have a material impact on the capital position and operating result of NN Group.

Divestments (2016)

Mandema & Partners

In July 2016, NN Group announced the sale of its 100% subsidiary Mandema & Partners to Van Lanschot Chabot. The transaction, which was completed in January 2017, will not have a material impact on the capital position and operating result of NN Group.

NN Re (Ireland)

In October 2016, NN Group announced that its wholly-owned reinsurance entity in Ireland, NN Re (Ireland) Limited, had signed a portfolio transfer agreement with Canada Life International Re Limited. The agreement is a result of the continuous strategic assessment of NN Group's portfolio. As a result of this portfolio transfer, NN Re (Ireland) Limited handed back its reinsurance license and repatriated almost all its capital to NN Group in the fourth quarter of 2016. These transactions have not impacted NN Group's reinsurance business in the Netherlands.

Acquisitions (2015)

Polish pension fund

During the first six months of 2015, NN Group reached an agreement with ING Bank Slaski to acquire the remaining 20% stake in the Polish pension fund, NN Powszechne Towarzystwo Emerytalne S.A. (NN PTE) in which NN Group held 80% of the shares. In July 2015 NN Group completed the acquisition of the remaining stake for a consideration of PLN 128 million (approximately EUR 31 million). The consideration reflects a purchase price of PLN 210 million adjusted by a PLN 82 million dividend paid by NN PTE to ING Bank Slaski before completion. NN PTE manages the second pillar open-ended pension fund and the open-ended third-pillar voluntary pension fund.

Divestments (2015)

Parcom Capital Management

In December 2015, NN Group completed the sale of its wholly owned private equity management company, Parcom Capital Management. The divestment result on the sale of Parcom Capital Management is included in 'Results on disposals of group companies'. As a consequence of the sale of the asset management company, NN Group no longer has control over its investments in private equity funds, which are managed by Parcom Capital Management. These private equity funds were previously consolidated and the underlying investments were included in the Consolidated balance sheet in 'Trading assets' and 'Available-for-sale investments'. As a consequence of the divestment of Parcom Capital Management, these underlying investments were derecognised and the investments in the private equity funds are now included in the balance sheet under 'Associates and Joint ventures'.

47 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 programmes (Hypenn)
- Investments – NN Group managed investment funds
- Investments – Third-party managed structured entities

Consolidated NN Group originated liquidity management securitisation programmes

Mortgage loans issued are partly funded by issuing residential mortgage-backed securities under NN Group's Dutch residential mortgage-backed securities programmes (Hypenn). 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:

	Maturity year	Related mortgage loans		RMBS issued and held by third parties	
		2016	2015	2016	2015
Hypenn RMBS I	2019	1,807	1,792	396	394
Hypenn RMBS II	2019	472	511	290	301
Hypenn RMBS III	2020	635	685	561	617
Hypenn RMBS IV	2020	549	596	498	550
Hypenn RMBS V	2021	518		477	
Hypenn RMBS VI	2022	923		599	
Total		**4,904**	**3,584**	**2,821**	**1,862**

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 structured entities relate to asset-backed securities (ABS), classified as loans. Reference is made to Note 4 'Available-for-sale investments' where the ABS portfolio is disclosed.

The majority of the investments in equity instruments of structured entities relate to interests in investment funds that are not originated or managed by NN Group. Reference is made to Note 4 'Available-for-sale investments' in which investments in equity securities are specified by NN Group managed investment funds and Third-party managed investment funds.

NN Group has significant influence for some of its real estate investment funds as disclosed in Note 6 'Associates and joint ventures'.

The maximum exposure to loss for NN Group is equal to the reported carrying value of the investment recognised in the balance sheet of NN Group.

48 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 49 'Key management personnel compensation' for more information on these transactions.

Transactions with consolidated entities

Entities in 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 47 '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:

	2016	2015
Assets	10	11

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) and the NN CDC pension fund in the Netherlands. For more information on the post-employment benefit plans, reference is made to Note 28 'Staff expenses'.

Transactions with other related parties

Investment funds

Other related parties include NN Group managed investment funds. Reference is made to Note 47 'Structured entities' for more information.

Pension entities

NN Group operates two pension entities in The Netherlands: the NN Premium Pension Institution B.V.(PPI) and the de Nationale Algemeen PensioenFonds (APF). These entities are NN branded and 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 two entities are considered related parties.

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.

Relationship agreement and other agreements

In connection with the initial public offering of NN Group N.V., ING Groep N.V. and NN Group N.V. entered into a Relationship Agreement. The Relationship Agreement contains certain arrangements regarding the continuing relationship between ING Groep N.V. and NN Group N.V. The Relationship Agreement, with the exception of certain specific provisions, terminated on 2 February 2016, the date on which ING Groep N.V.'s holding of ordinary shares in the share capital of NN Group N.V. fell below 15% of the issued and outstanding ordinary shares.

The full text of the Relationship Agreement is available on the website of the Company.

In addition, in connection with the initial public offering of NN Group N.V., ING Groep N.V. entered into several other agreements with NN Group N.V. in 2014, such as a transitional intellectual property license agreement, a joinder agreement, an equity administration agreement and a warrant agreement. And in 2015, NN Group N.V. and ING Groep N.V. entered into an agreement providing 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. and a share repurchase agreement pursuant to which NN Group N.V. may from time to time repurchase NN Group shares from ING Groep N.V. in order to neutralise the dilutive effect of stock dividend issued by NN Group N.V.

49 Key management personnel compensation

Transactions with key management personnel (Executive Board, Management Board and Supervisory Board) are transactions with related parties. These transactions are disclosed in more detail as required by Part 9 Book 2 of the Dutch Civil Code in the remuneration report in the financial report. The relevant sections of the remuneration report therefore are part of the annual accounts.

2016

Executive Board and Management Board (2016)

Amounts in thousands of euros	Executive Board	Management Board[3]	Total
Fixed compensation:			
– base salary (cash)	1,858	3,166	5,024
– base salary (fixed shares)	465		465
– pension costs[1]	52	133	185
– individual saving allowance[1]	587	734	1,321
Variable compensation:			
– upfront cash	93	388	481
– upfront shares	93	388	481
– deferred cash	139	413	552
– deferred shares	139	582	721
Other[2]		169	169
Fixed and variable compensation	**3,427**	**5,973**	**9,400**
Other benefits			646
			10,046

1 The pension costs consist of an amount of employer contribution (EUR 185 thousand) and an individual savings allowance (EUR 1,321 thousand which is in 2016 27.7% of the amount of base salary above EUR 101,519).

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 1 October 2016, Mr. Caldwell stepped down from his position in the Management Board. He was succeeded by Mr. Erasmus, who was appointed as member of the Management Board as per 1 September 2016. In the table above, fixed and variable compensation of Mr. Caldwell up to 1 October 2016 is included, and fixed and variable compensation of Mr. Erasmus as per 1 September 2016. Besides the compensation in the capacity as a Board member, one new Management Board member received a 'sign-on/buy-out award' which is awarded fully in shares with a total value of EUR 809,000 with a three-year tiered vesting schedule and a retention period of five years from the date of award.

In the table above, 'Executive Board' refers to the two members of the Executive Board as at 31 December 2016. The two members of the Executive Board are also members of the Management Board. In the table above, 'Management Board' refers to the five members of the Management Board as at 31 December 2016, 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 2016.

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 2016: EUR 10.0 million) includes all variable remuneration related to the performance year 2016. 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 2016 and therefore included in 'Total expenses' in 2016, relating to the fixed expenses of 2016 and the vesting of variable remuneration of 2016 and earlier performance years, is EUR 10.4 million.

As at 31 December 2016, members of the Executive and Management Board held a total of 104,426 NN Group N.V. shares.

No options on NN Group N.V. shares were held by members of the Executive and Management Board in 2016 and 2015.

In 2016, 63,311 share awards on NN Group N.V. (both deferred and upfront) were granted to the Executive Board and Management Board.

Supervisory Board (2016)

Amounts in thousands of euros	Supervisory Board
Fixed fees	725
Expense allowances	59
International attendance fees	78
Compensation Supervisory Board	**862**

The above mentioned amounts include VAT of EUR 150 thousand for 2016 (2015: EUR 119 thousand). 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 2016, members of the Supervisory Board held a total of 13,560 NN Group N.V. shares.

As at 31 December 2016, members of the Supervisory Board held no options on NN Group N.V. shares.

Loans and advances to members of the Management Board and Supervisory Board (2016)

Amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Management Board members	660	5.23%	83
Supervisory Board members	427	5.69%	
Loans and advances	**1,087**		**83**

As at 31 December 2016, no loans and advances were provided to members of the Executive Board.

2015

Executive Board and Management Board (2015)

Amounts in thousands of euros	Executive Board	Management Board	Total
Fixed compensation:			
– base salary (cash)	1,764	3,055	4,819
– base salary (fixed shares)	441		441
– pension costs[1]	50	128	178
– individual saving allowance[1]	548	697	1,245
Variable compensation:			
– upfront cash	80	336	416
– upfront shares	80	336	416
– deferred cash	120	376	496
– deferred shares	120	504	624
Other[2]		128	128
Fixed and variable compensation	**3,203**	**5,560**	**8,763**
Other benefits			504
			9,267

1 As per 1 January 2015, the pension scheme for the members of the Executive Board and Management Board changed as a result of new pension legislation (Witteveen kader 2015). The pension costs consist of an amount of employer contribution (EUR 178 thousand) and an individual savings allowance (EUR 1,245 thousand which is 27.3% of the amount of base salary above EUR 100 thousand).

2 For the NN Investment Partners business, 50% of deferred awards are made in a deferred investment in funds managed by the business instead of awarding deferred cash. In this way, alignment of interests is achieved between staff working in the NN Investment Partners business and the clients who invest in funds managed by that business.

Remuneration of the members of the Executive Board and the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. The total remuneration as disclosed in the table above (for 2015: EUR 9.3 million) includes all variable remuneration related to the performance year 2015. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in staff expenses in 2015 and therefore included in 'Total expenses' in 2015, relating to the fixed expenses of 2015 and the vesting of variable remuneration of 2015 and earlier performance years is EUR 9.6 million.

As at 31 December 2015, members of the Executive and Management Board held a total of 66,401 NN Group N.V. shares.

No options on NN Group N.V. shares were held by members of the Executive and Management Board in 2015.

In 2015, 68,218 share awards on NN Group N.V. were granted to the Executive Board and Management Board.

Supervisory Board (2015)

Amounts in thousands of euros	Supervisory Board
Fixed fees	695
Expense allowances	48
International attendance fees	26
Compensation Supervisory Board	**769**

The above mentioned amounts include VAT of EUR 119 thousand for 2015. NN Group does not provide for any pension arrangement, termination arrangements (including termination or retirement benefits) or variable remuneration, for members of the Supervisory Board.

As at 31 December 2015, members of the Supervisory Board did not own any NN Group N.V. shares.

As at 31 December 2015, members of the Supervisory Board held no options on NN Group N.V. shares.

Loans and advances to members of the Management Board (2015)

Amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Loans and advances	**743**	**4.64%**	**83**

The loans and advances provided to members of the Management Board consist of mortgage loans.

As at 31 December 2015, no loans and advances were provided to members of the Executive and Supervisory Board.

50 Fees of auditors

Fees of auditors

	2016	2015
Audit fees	12	15
Audit related fees	2	1
Fees of auditors	**14**	**16**

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. Fees paid to NN Group's auditors are included in 'External advisory fees' as part of the other operating expenses.

51 Other events

Offer Delta Lloyd

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 (the 'Shares') to acquire their shares at a price of EUR 5.40 (cum dividend) in cash for each share, representing a total consideration of EUR 2.5 billion. The offer is supported and recommended by the Delta Lloyd Executive Board and the Delta Lloyd Supervisory Board. The offer period during which Shares may be tendered commenced at 09:00 hours CET on 3 February and will expire at 17:40 hours CET on 7 April 2017, unless extended. The offer is subject to the satisfaction or waiver of the offer conditions as set out in the offer memorandum and is subject to a minimum acceptance level of 95% of the Shares. The minimum acceptance level is lowered to 67% if a legal merger is approved at the Delta Lloyd EGM on 29 March 2017. The offer values 100% of the Shares at EUR 2.5 billion. NN Group intends to pay the offer consideration through a combination of available cash resources and external debt.

At the date of this Financial Report NN Group holds 45,273,626 Shares, representing 9.7% of the aggregate number of issued and outstanding ordinary and preference shares in the capital of Delta Lloyd and 9.9% of the issued and outstanding ordinary share capital of Delta Lloyd.

These acquisitions of shares in Delta Lloyd have been funded from the cash capital position at the holding company.

Debt issue

On 10 January 2017 NN Group announced that it is has priced EUR 850 million of subordinated notes and EUR 500 million of senior unsecured notes.

The EUR 850 million subordinated notes have a maturity of 31 years and are first callable after 11 years and every quarter thereafter, subject to conditions to redemption. The coupon is fixed at 4.625% per annum until the first call date and will be floating thereafter. These notes qualify as Tier 2 regulatory capital. The subordinated notes are rated by Standard & Poor's (BBB) and Fitch (BBB) and listed on Euronext Amsterdam (ISIN: XS1550988643). The proceeds have been used to repay EUR 823 million of hybrid loans to ING Group.

The EUR 500 million senior notes have a fixed coupon at 0.875% per annum and a maturity of 6 years. The senior notes are rated by Standard & Poor's (A-) and Fitch (A-) and listed on Euronext Amsterdam (ISIN: XS1550988569). The proceeds are planned to be used to repay EUR 476 million of Subordinated debt of NN Group on its first call date in May 2017.

The subordinated and the senior notes are issued under the Debt Issuance Programme of NN Group N.V., for which the Base Prospectus dated 24 March 2016 and Supplements to it, dated 22 June 2016, 7 October 2016 and 5 January 2017 are available on www.nn-group.com. The Base Prospectus and the Supplements thereto have been approved by the Netherlands Authority for the Financial Markets (AFM).

52 Risk management

Introduction

Risk taking is integral to the business model for insurance, investment management and banking organisations such as NN Group. NN Group has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. By working within this structure, NN Group aims to meet its obligations to policyholders and other customers and creditors, manage its capital efficiently and comply with applicable laws and regulations.

NN Group's approach to risk management is based on the following components:

- Risk management structure and governance systems: NN Group's risk management structure and governance systems follow the 'three lines of defence' model, which outlines the decision-making, execution and oversight responsibilities for the implementation of NN Group's risk management. This structure and governance system is embedded in each of NN Group's organisational layers, from the holding level to the individual business units.
- Risk management system: NN Group's risk management system takes into account the relevant elements of risk management, including its integration into NN Group's strategic planning cycle, the management information generated and a granular risk assessment. This includes a comprehensive set of risk management policies, standards and processes. These are updated regularly to align with market leading practices, applicable laws and regulations and to changes in NN Group's business and risk profile. These risk management policies, standards and processes apply throughout NN Group and are used by NN Group to establish, define and evaluate NN Group's risk tolerance levels and risk control processes and to ensure that the tolerance levels and policies are communicated throughout the organisational structure.

Risk management structure and governance system

Executive Board and its (sub) committees

The Executive Board is responsible for defining, installing and monitoring the risk management organisation in order to ensure its control systems are effective.

The Executive Board, or its (sub) committees, approves all risk management policies as well as the quantitative and qualitative elements of NN Group's risk appetite. The Executive Board reports and discusses these topics with the Risk Committee, a committee of the Supervisory Board, on a quarterly basis.

While the Executive Board retains responsibility for NN Group's risk management, it has entrusted the day-to-day management and the overall strategic direction of the Company, including the structure and operation of NN Group's risk management and control systems, to the Management Board.

Chief executive officer and chief risk officer

The chief executive officer (the CEO), the chairman of the Executive Board, bears responsibility for NN's risk management, including the following tasks:

- Setting risk policies
- Formulating NN Group's risk management strategy and ensuring that it is implemented throughout NN Group
- Monitoring compliance with NN Group's overall risk policies
- Supervising the operation of NN Group's risk management and business control systems
- Reporting of NN Group's risks and the processes and internal business controls
- Making risk management decisions with regards to matters which may have an impact on the financial results of NN Group or its reputation, without limiting the responsibility of each individual member of the Management Board in relation to risk management

The CEO is also primarily responsible for the communication of risk-related topics to the Supervisory Board.

The Executive Board designates a chief risk officer (the CRO) from among the members of the Management Board, who is entrusted with the day-to-day execution of these tasks. Each business unit also has its own chief risk officer, who reports (directly or indirectly) to the CRO.

Supervisory Board and its committees

The Supervisory Board is responsible for supervising the Executive Board and the general affairs of the Company and its business and providing advice to the Executive Board. For risk management purposes the Supervisory Board is assisted by two committees:

- Risk Committee: The Risk Committee assists the Supervisory Board in supervising and advising the Executive Board with respect to NN Group's risk management strategy and policies.
- Audit Committee: The Audit Committee reviews and assesses the applicable accounting standards and NN Group's compliance therewith, the going concern assumption, significant financial risk exposures, significant adjustments resulting from audit, compliance with statutory and legal requirements and regulations, tax and tax planning matters with a material impact on the financial statements, and detection of fraud and other illegal acts.

Three lines of defence model

The three lines of defence model, on which NN Group's risk management structure and governance is based, defines three risk management levels, each with distinct roles, decision authorities, execution responsibilities and oversight responsibilities. This framework ensures that risk is managed in line with the risk appetite as defined by the Executive Board, ratified by the Supervisory Board and cascaded throughout NN Group.

- First line of defence: The CEOs of the business units of NN Group and the other Management Board members of the business units that have primary accountability for the performance of the business, operations, compliance and effective control of risks affecting their businesses. They underwrite the (insurance) products that reflect local needs and thus know their customers and are well-positioned to act in both the customers' and NN Group's best interests.
- Second line of defence: Oversight functions at the Head Office and at the business units with a major role for the risk management organisation, corporate legal and the compliance function. The CEO and CRO steer a functional, independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight functions include:
  - Developing the policies and guidance for their specific risk and control area
  - Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinate the reporting of risks
  - Supporting the first line of defence in making proper risk-return trade-offs
  - Escalation power in relation to business activities that are judged to present unacceptable risks to NN Group
- Third line of defence: Corporate audit services (CAS). CAS provides an independent assessment of the standard of internal control with respect to NN Group's business and support processes, including governance, risk management and internal controls.

Operating Model

NN Group consists of a Head Office and its Business Units. The Business Units may independently perform all activities that are consistent with the strategy of NN Group and the approved (3 year) business plan (hereinafter: 'Business Plan') and as long as they are consistent with the Frameworks, applicable laws and regulations, applicable collective agreements, NN Group's risk appetite, NN Group Values, and 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 a Framework, 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 profitability, 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 N.V.
- Ensuring that the business is run in compliance with laws and regulations, NN Group policies and standards and internal controls
- Fulfilling their statutory responsibilities
- Implementing a sound control framework and operating in accordance with NN values
- Sustainability of the corresponding Business Unit in the long term
- Sharing best practices across NN Group

Risk Management Function

The Business Unit CROs have a functional reporting line to the NN Group CRO. To ensure solid understanding, oversight, and support to the BUs, the span of control of the NN Group CRO is strengthened by segment focused directors (Netherlands, International) at Group level. Depending on BU size, BU CROs report functionally to the Head of Risk Management Netherlands or Head of Risk Management International or directly to the NN Group CRO.

While the NN Group CRO teams are multi-disciplinary and focused on the segment, the teams also work together across Head Office Risk on specific risk types. Thus, the Head of Risk Management Netherlands and International are each delegated responsibility to champion the NN Group approach to one or more of operational risk, financial risk, product risk and business risk. In these champion roles, they have responsibility to ensure NN Group's approach to managing these risk types is robust and to work with the relevant experts across NN Group Head Office Risk on managing these risk types.

Other Key Functions in risk management structure

Model Governance and Model Validation Function

NN Group's model governance and validation function seeks to ensure that NN Group's models are fit for their intended purpose. Models and their disclosed metrics are approved by the Model Committee. The findings of the model validation function are also regularly reported to the Model Committee. This committee is responsible for modelling policies, processes, methodologies, and parameters which are applied within NN Group. Furthermore, the model validation function carries out validations of risk and valuation models particular those related to Solvency II. Any changes to models that affect Group risk figures above a certain materiality threshold are presented to the Risk Committee. As part of its continuous improvement process, the above described governance has been reviewed heading into 2017.

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 lifecycle: at initiation, before approval, when the model has been redeveloped or modified, and on a regular basis, based on a yearly planning discussed and agreed with model development. It is not a mere verification of the mathematics or statistics of the model, but encompasses both a quantitative and qualitative assessment of the model. Accordingly, the validation process encompasses a mix of developmental evidence assessment, process verification and outcome analysis.

The validation cycle is based on a five year period. This means that at least once every five years a model in scope will be independently validated. In general, the validation frequency relates the relative materiality of the models in scope.

The Compliance Function

To effectively manage Compliance Risk, NN has put in place a Compliance Function which is headed by a Chief Compliance officer (CCO) with delegated responsibility for day-to-day management of the Compliance Function. 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 of the CCO with the CEO and the Chairman of the Risk Committee of the Supervisory Board. Within NN's broader risk framework, the purpose of the Compliance Function is to:

- Understand and advocate the rules, regulations and laws and the effective management of Compliance Risk; proactively work with and advise the business to manage Compliance 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 Compliance Risks
- Support NN'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 '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 Compliance Risk

At the local level, Management establishes and maintains a Compliance Function and appoints a Local Compliance Officer (LCO). The LCO hierarchically reports to the CEO or to the Business Unit Head of Legal.

The LCO's have a functional reporting line to the CCO. If local level Management decides it can meet and manage its compliance obligations without a dedicated full-time or onsite LCO, Management must first obtain a waiver from the CCO.

The Actuarial Function

The mission of the Actuarial Function 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 clients, regulators and investors alike of the financial solidity of NN.

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 operates within the context of NN'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 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'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

The Internal Audit Function

Corporate Audit Services NN Group (CAS), the internal audit department within NN Group, is an independent assurance function and its responsibilities are established by the Executive Board and approved by the Audit Committee of the Supervisory Board, under the ultimate responsibility of the Supervisory Board. 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, 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 Audit Committee supervises the activities of the Executive Board with respect to the role and functioning of CAS. The General Manager of CAS is accountable to the CEO and functionally to 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 a serial process but a dynamic and integrated system. The system is structured around three elements, which need to be in place:

- A risk control cycle, embedded in
- An appropriate organisation, following
- The business strategy and (risk) objectives, set in alignment with the environment

NN Group's business environment exposes NN Group to inherent risks and obligations. As such, the environment determines the playing field and rules on which to calibrate all risk management activities. These activities are carried out within an internal environment reflected by NN Group's risk philosophy (or: risk culture), called Active Risk Management. We assess the effectiveness of this philosophy twice yearly through Risk Culture Dashboards.

In this philosophy, every employee has a role in identifying risk in their domain and the role of management is to decide how to manage them. It is paramount to know which risks we take and why, have our eyes wide open for both the biggest risks and everyday risks and ensure an adequate return for risk.

With risk management, we do not try to predict the future but manage possibilities. It encompasses all our risks to all key business objectives.

When assessing and managing risks, we work systematically, aim for completeness and document what we do. Each risk analysis performed shall be focused and relevant. It thus becomes clear and transparent throughout the organisation for the benefit of management and stakeholders alike.

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continued

Risk control cycle

NN's risk control cycle consists of four steps executed in a sound risk culture. The risk control cycle starts with business processes that support business and risk objectives setting (the latter resulting in a risk strategy: risk appetite, policies and standards), followed by business processes aimed at realisation of those objectives, leading to risks which need to be managed by identifying/assessing them, 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 Taxonomy

From the environment come inherent risks. 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 classes. For the use in day-to-day risk management, the main risk types are further split in approximately 150 sub risk types.

Risk Class	Description	Main mitigation technique
Emerging Risks	Risks related to future external uncertainties that could pose a threat to the businesses of NN Group	Scenario analyses and contingency planning
Strategic Risks	Risks related to unexpected changes to the business profile and the general business cycle as envisaged during strategic decision making	Scenario analyses and business planning
Market Risk	Risks related to (the volatility of) financial and real estate markets. This includes liquidity risk	New Investment Class Approval and Review Process, Asset Liability Management studies, Strategic Asset Allocations, Limit structure, Derivatives
Counterparty Default Risk	Risk related to the failure to meet contractual debt obligations	Limit structure
Non-Market Risk	Risks related to the products NN Group markets	Product Approval & Review Process, Limit structure, reinsurance
Non-Financial Risk	Risks related to people, inadequate or failed internal processes, including information technology and communication systems and/or external events	Business and Key Controls, Control Testing, Incident Management

Risk appetite framework

NN Group's risk appetite framework determines which risks NN Group takes, avoids, retains and/or removes. The risk appetite framework consists of qualitative and quantitative statements pertaining to risk preferences, risk tolerances, risk limits and risk controls.

The key quantitative risk appetite statement aims to ensure that the holding company can meet its annual overhead expenses and obligations to its creditors and keep its businesses adequately capitalised even after a 1-in-20 annual risk sensitivity; NN Group quantifies the cash needed to do so using capital sensitivities to Basic Own Funds across its Solvency II regulated businesses (and available Regulatory Capital for its other businesses). The capital impact in a 1-in-20 year event is measured by the Own Funds at Risk, or OFaR metric (or equivalent metric for the other businesses) which is described in more detail later in this section and is used to present the risk profile of NN Group. OFaR is a key input into determining the capital NN Group should have available to capitalise its businesses to adequate solvency levels.

In addition to the key quantitative measures, qualitative statements form part of the risk appetite framework. Together they serve to guide risk taking conduct in the areas of underwriting, Asset and Liability management (ALM), investing and operations. These statements support NN Group's strategy, diminish unwanted or excessive risk taking and further optimise the use of capital. The qualitative risk appetite statements are organised under the following categories:

- Managing underwriting: Underwriting and product development are essential to the insurance business. NN Group offers a comprehensive range of easy to understand and transparent value-for-money products that can be effectively risk managed over the expected life of the contract
- Asset and Liability Management: NN Group matches its asset portfolio to its liabilities with optimal strategic asset allocation and by limiting any mismatches to an acceptable degree. The ALM process is integral in ensuring adequate liquidity for policyholder obligations
- Managing investments: NN Group's appetite for investments provides an appropriate risk and return for NN's policyholders and shareholders
- Managing operations: Under this category, NN Group specifies requirements for managing reputation, business continuity, processes and controls, as well as for providing a safe and engaging work environment that supports qualified and motivated colleagues

Risk limits

The quantitative risk appetite statement is translated into quantitative risk limits for the business units pertaining to Basic Own Funds (Solvency II capital), and – where necessary – additional interest rate risk limits. The business units report regularly on their risk profile compared to applicable risk appetite and risk limits.

Risk policy framework

NN Group's risk policy framework ensures that all risks are managed consistently and that NN Group as a whole operates within its risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. To ensure that policies are efficient and effective they are governed by the risk committee structure. Potential waivers to the policies have to be approved through the respective risk committees.

Risk Assessment & Control

Risk assessments are regularly performed throughout NN Group. For market, counterparty default and underwriting risk, NN's internal and associated models are leading in risk assessments/measurement. Risks that do not directly impact the balance sheet generally require more professional judgment 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. As part of 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 and Internal Capital Adequacy Assessment Process

NN Group (and each of its regulated (re)insurance subsidiaries) prepares an 'own risk and solvency assessment' (ORSA) at least once a year. In the ORSA, NN Group articulates its strategy and risk appetite; describes its key risks and how they are managed; analyses whether or not its risks and capital are appropriately modelled; and evaluates how susceptible the capital position is to shocks through stress and scenario testing. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN Group. Stress testing can also be initiated outside ORSA, either internally or by external parties such as 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.

At least once a year, NN Group's banking and investment management operations run a process for internal capital adequacy assessment (ICAAP) and internal liquidity adequacy assessment (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

The product approval and review process (PARP) has been developed to enable effective design, underwriting, and pricing of all products as well as to ensure that they can be managed throughout their lifetime. This process establishes requirements as to the product risk profile features to ensure that products are aligned with NN Group's strategy. The PARP takes into account customer benefits and product suitability, expected sales volumes, value-oriented pricing metrics and relevant policies. It includes requirements and standards to assess risks as per the risk categories, as well as the assessment of the administration and accounting aspects of the product.

New investment class and investment mandate process

NN Group maintains a new investment class approval and review process (NICARP) for approving new investment classes of assets. At the holding level, NN Group establishes a global list of asset classes in which the business units may invest. Each business unit also maintains a local asset list that is a subset of the global asset list. The local asset list includes asset allocation parameters, which prescribe the relative proportions in which the relevant business unit may invest in different asset classes, as well as asset, industry, regional, and credit concentration limits.

Non-financial risks

Operational, compliance, legal and related second order reputation risks are monitored in their mutual relationship as 'Non-Financial Risk' (NFR). As non-financial risks are diverse in nature, NN Group has a framework in place governing the process of identifying, assessing, mitigating, monitoring and reporting non-financial risks. Important elements in this framework are NFR risk assessments, action tracking, key risk indicators, key control registers, incident reporting, NFR Committee and NFR Dashboard.

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 risk committees and management boards. Action shall be taken by management when monitoring indicates that risks are not adequately controlled.

Risk Reporting

On a quarterly basis, MB and SB NN Group are presented with an Own Funds – 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. 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, provides action points from a Risk function perspective, and aims to encourage forward looking risk management. It builds on the following quarterly reports:

- Quarterly Non-Financial Risk Dashboard
- Quarterly Market Risk report, including Liquidity Report
- Quarterly Investment Risk Dashboard

Recovery planning

NN Group has determined a set of measures for early detection of and potential response to a financial or non-financial crisis, should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, allocation of roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis.

Risk profile

As described under the Risk Appetite section, NN Group manages the level of risk exposures by measuring and limiting the impact of a 1-in-20 year adverse scenario on the Solvency II Basic Own Funds or Regulatory Capital of its business. The loss of Own Funds in a 1-in-20 year scenario is referred to as Own Funds at Risk (OFaR), the metric used to describe the risk profile throughout the remaining section.

In line with NN Group's Solvency II Own Funds calculation, Japan is treated as 'equivalent' under OFaR. The Solvency II concept of Equivalence is granted to capital frameworks that are deemed to have similarity with the Solvency II framework and/or principles and as such can be relied-upon to assess capital requirements. Accordingly, should a 1-in-20 event occur in Japan, NN Group's Own Funds will be impacted to the extent the local regulatory capital is impacted. Hence regulatory capital at risk related to local Japanese accounting and capital requirements (under a 1-in-20 adverse event) is used for Japan. 1-in-20 shocks are also applied to non-insurance entities (such as NN Bank, NN IP and non-regulated Pension Funds) and included in the NN Group OFaR – also by summing up and assuming no diversification.

As NN Group is designated as a Financial Conglomerate, regulatory Solvency II reporting does not include NN Bank. From a risk management perspective, the impact of a 1-in-20 scenario of NN Bank does impact NN Group consolidated and therefore NN Bank is included in NN Group's OFaR, yet on a separate line.

NN Group uses an internal model to measure OFaR (or RCaR) across its entities. The underlying model used to calculate OFaR is based on the (Partial) internal model (PIM) approved by the DNB, but with several key differences:

- OFaR measures losses in a 1-in-20 year event (or 95% level of confidence), whereas the PIM measures losses in a 1-in-200 year event, (or 99.5% level of confidence)
- OFaR is based on the internal model across all Solvency II entities, whereas PIM is based on internal model across Dutch entities, and Standard Formula for international entities
- Credit spread model used for OFaR shocks the Volatility Adjustment applied to the liabilities to measure the specific spread risk related to Own Funds, whereas the PIM assumes no change in the Volatility Adjustment in a shocked-event but factors the illiquidity of liabilities into the asset shocks in order to ensure appropriate risk capital relative to the riskiness of the underlying assets

OFaR sensitivities provide management with information as to how Own Funds could be impacted under less severe shocks than the 1-in-200 shocks required for Solvency Capital Requirement purposes, but under more likely stress scenarios for which management is more likely to need to respond. Where necessary, such as interest rate risk at certain units or hedging of separate account guarantees, additional limits are applied to align with the goal of hedging on a more granular economic basis. Within this section, OFaR is used to elaborate on the risk profile of NN Group. The table below provides an overview of OFaR per major risk category.

OFaR Overview

	2016	2015
Insurance Risk	1,673	1,484
Business Risk	914	854
Market and credit Risk	1,874	1,194
– own account	1,813	1,115
– separate account	230	252
– diversification between own account and separate account	-169	-173
Diversification between modelled risks	-1,438	-1,118
Modelled OFaR	**3,023**	**2,414**
Operational Risk	177	172
Loss-absorbing capacity of Deferred Taxes	-687	-539
Non-Solvency II entities	900	560
Total OFaR (excluding NN Bank)	**3,413**	**2,607**
NN Bank	35	34
Total OFaR (including NN Bank)	**3,448**	**2,641**

The increase in Market and credit risk is mainly attributed to higher Credit Spread and Real Estate risks.

OFaR for Operational risk of Solvency II entities is based on the Solvency II standard formula calculation. To be relevant, however, for a 1-in-20 year event (or 95% level of confidence), the 95% figure is derived from the 99.5% SCR using an assumed underlying distribution.

Non-Solvency II entities OFaR shows an increase of approximately EUR 341 million mainly related to Japan Life. The increase reflects an update of the interest rate sensitivities which aims to align the shocks applied for Japanese regulatory capital at risk calculations with the corresponding shocks defined under the Solvency II methodology and used for NN Group's OFaR calculations. Additional investments made during the year for Japan Life business unit also contributed to the increase.

In line with Solvency II, a loss-absorbing capacity of deferred taxes (or LAC DT) is recognised. NN Group's total loss in a 1-in-20 adverse event would be offset by tax recoveries and these are recognised to the extent to be expected to be recoverable. The determination of LAC DT is significantly dependent on various assumptions, such as capitalisation assumptions, the assumed investment returns and the projection period.

The following sections provide details on the change in modelled OFaR for the main risk types.

Main types of risks

As outlined above, the following principal types of risk are associated with NN Group's business which are further discussed below:

Non-Market risk

- **Insurance risk**: Insurance risks are the risks related to the events insured by NN Group and comprise actuarial and underwriting risks such as mortality, longevity, morbidity and non-life insurance risks, which result from the pricing and acceptance of insurance contracts.
- **Business risk**: Business risks are the risks related to the management and development of the insurance portfolio but exclude risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks occur because of internal, industry, regulatory/political, or wider market factors.

Market and Counterparty Default Risk

- **Market and credit risk**: Market risk is the risk of potential losses due to adverse movements in financial market variables. Counterparty default risk (credit risk) is the risk of potential losses due to default by counterparties. Market and credit risks include (i) equity risk; (ii) real estate risk; (iii) interest rate risk; (iv) credit spread risk; (v) counterparty default risk and (vi) foreign exchange risk. In relation to market and credit risk, NN Group distinguishes between own account business and separate account business.
  - **Own account business**: In the case of own account business, NN Group directly bears the market and credit risk of its invested assets and liabilities. Own account business includes NN Group's life insurance and non-life insurance business, as well as other invested assets and direct liabilities.
  - **Separate account business**: In the case of separate account business, the policyholder bears the market and credit risk. NN Group's earnings from the separate account businesses are primarily driven by fee income. However, in the case of variable annuities and the guaranteed separate account pension business in the Netherlands, NN Group retains risk associated with the guarantees provided to its policyholders. Businesses in this category are (i) the variable annuities (VA) portfolio, (ii) the group pension business in the Netherlands for which guarantees are provided and (iii) other separate account business, primarily the unit-linked business.
- **Liquidity risk**: Liquidity risk is the risk that one of NN Group's entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner.

Non-Financial Risk

- **Operational risk**: Operational risk is a non-financial risk that includes direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error and certain external events.
- **Compliance risk**: Compliance risk is the risk of impairment of NN Group's integrity. It is a failure (or perceived failure) to comply with NN Group Statement of Living our Values and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage NN Group's reputation and lead to legal or regulatory sanctions and financial loss.

Insurance Risk

Insurance risks are the risks related to the events insured by NN Group and comprise actuarial and underwriting risks such as mortality, longevity, morbidity, and non-life insurance risks, which result from the pricing and acceptance of insurance contracts.

Risk profile

Mortality risk occurs when claims are higher due to higher mortality experience (for instance in relation to term insurance). Longevity risk is the risk that insured persons live longer than expected due to mortality improvements. While NN Group is exposed to both longevity and mortality risks, these risks do not fully offset one another as the impact of the longevity risks in the pension business in the Netherlands is significantly larger than the mortality risk in the other businesses, not only due to the size of the business but also due to the current low interest rate environment. Changes in mortality tables impact the future expected benefits to be paid and the present value of these future impacts is reflected directly in measures like Own Funds in the Netherlands. Longevity risk exposes NN Group primarily to mortality improvements and the present value impact is larger when interest rates are low.

NN Group's morbidity risk lies in health insurance which pays out a fixed amount, reimburses losses (e.g. loss of income), or pays for expenses of medical treatment related to certain illness or disability events. The main exposures to morbidity risks within NN Group are the disability insurance policies underwritten in Netherlands Non-life, the health and accidental death covers within the Corporate Owned Life Insurance (COLI) business in Japan Life, and the healthcare insurance business in Greece.

The Netherlands Non-life portfolio also includes Property & Casualty (P&C) products covering risks such as fire damage, car accidents, personal and professional liability, windstorms, hail, and third party liabilities.

Risk mitigation

Proper pricing, underwriting, claims management, and diversification are the main risk mitigating actions for insurance risks.

By expanding insurance liabilities to cover multiple geographies, product benefits, lengths of contract and both life and non-life risk, NN Group reduces the likelihood that a single risk event will have a material impact on NN Group's financial condition.

Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that NN Group underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through NN Group's underwriting standards, product design requirements, and product approval and review processes – as referred to under Risk Management Policies, Standards and Processes.

Insurance risks are diversified between business units. Risk not sufficiently mitigated by diversification is managed through concentration and exposure limits and through reinsurance:

- Tolerance limits for non-life insurance risks are set by line of business for catastrophic events and individual risk
- Tolerance limits for life insurance risks are set per insured life and significant mortality events affecting multiple lives such as pandemics
- Reinsurance is used to manage risk levels (such as morbidity reinsurance in the COLI business in Japan Life)
- Reinsurance creates credit risk which is managed in line with the reinsurance credit risk policy of NN Group

Risk measurement

The table below sets out NN Group's OFaR for insurance risk as at 31 December 2016 and 2015, respectively.

OFaR for insurance risk[1]

	2016	2015
Mortality (including longevity)	1,636	1,445
Morbidity	212	203
P&C	224	218
Diversification Insurance Risk	-399	-382
Total	**1,673**	**1,484**

1 Note that NN Group's businesses calculate business risk locally at 99.5% level. The OFaR figure (on a 95% confidence level) is derived from the 99.5%level using scaling with an assumed underlying distribution.

The OFaR for insurance risks is mostly mortality risk, in particular longevity risk in the Netherlands pension business.

Given the long-term nature of the longevity portfolio, the underlying risks are sensitive to interest rates due to the discounting impact. Interest rates decreased in 2016 resulting in an increase of insurance risk. Minor updates of models and assumptions also contribute to the increase.

The P&C risk is primarily underwritten by Netherlands Non-Life and catastrophic losses are partially reinsured to external reinsurers through NN Re.

Business Risk

Business risks are the risks related to the management and development of the insurance portfolio but exclude risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks can occur because of internal, industry, or wider market factors.

Risk profile

Policyholder behaviour risk

Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by NN Group. Depending on the terms and conditions of the insurance policy, and the laws and regulations applicable to the policy, policyholders could have the option to surrender, change premiums, change investment fund selections, extend their contracts, take out policy loans, and make choices about how to continue their annuity and pension savings contracts after the accumulation phase, or even change contract details. Policyholder behaviour therefore affects the profitability of the insurance contracts. The risk that policyholders maintain their contracts longer than NN Group has assumed is specific to the variable annuity business when guarantees are higher than the value of the underlying policyholder funds, the pension business in the Netherlands, and the older, higher interest rate guaranteed savings business in Europe. The risk that policyholders hold their contracts for a shorter period than NN Group has assumed relates to the life business in Japan and the unit-linked businesses in Central and Eastern Europe.

Changes in tax laws and regulations can affect policyholder behaviour, particularly when the tax treatment of their products affects the attractiveness of these products for customers. For instance, changes in tax treatment may affect the tax efficiency of the products of the Japan Life COLI business. Similarly, the market conditions in Central and Eastern Europe can significantly impact the policyholder behaviour.

The OFaR/SCR calculations for policyholder behaviour risk take into account the present value impact of changes in policyholder behaviour assumptions.

Expense risk

Total administrative expenses for NN Group in 2016 amounted to EUR 1,734 million. Parts of these expenses are variable, depending on the size of the business and sales volumes, and parts are fixed and cannot immediately be adjusted to reflect changes in the size of the business. Expense risk relates primarily to the fixed part of NN Group's expenses, and is the risk that future actual expenses per policy exceed the expenses assumed per policy. A significant portion of the fixed expense risk is incurred in the closed block operations of Netherlands Life, where NN Group is exposed to the risk that the overheads relating to IT administration systems will remain constant, or even increase, while the number of policies in the in-force book gradually decreases, leading to a per policy expense increase. Furthermore, the valuation of the Group pension business in the Netherlands includes long-term best estimate expense assumptions, discounted over a long period of time. Changes in these assumptions will affect NN Group's expense risk.

Risk mitigation

Policyholder behaviour risk

Policyholder behaviour risks – such as persistency and premium risk – are managed through the product development, product approval and review processes and by ensuring that appropriate advice is given to the customer, not only at the point of sale but also during the lifetime of the product. The policyholder behaviour experience of in-force policies is assessed at least annually.

As part of its strategy, NN Group has put several programmes in place to own and improve the customer experience. These programmes improve the match between customer needs and the benefits and options provided by NN Group's products. Over time, NN Group's understanding and anticipation of the choices policyholders are likely to make, will improve, thereby decreasing the risk of a mismatch between actual and assumed policyholder behaviour.

Expense risk

Ongoing initiatives are in place to manage expense risk throughout NN Group, especially in the Netherlands where company targets are in place to reduce expenses, thus, lowering expense risk going forward. These initiatives seek to variabilise expenses to the underlying contracts in place. This is particularly relevant for the Dutch individual life closed-block business that can only reduce in number of contracts.

Risk measurement

The table below sets out NN Group's OFaR for business risk as at 31 December 2016 and 2015, respectively.

OFaR for business risk[1]

	2016	2015
Persistency	283	318
Premium	11	8
Expense	817	743
Diversification Business Risk	-197	-215
Total	**914**	**854**

1 Note that NN Group's businesses calculate business risk locally at 99.5% level. The OFaR figure (on a 95% confidence level) is derived from the 99.5%level using scaling with an assumed underlying distribution.

The main contributors to policyholder behaviour risk are Netherlands Life, the unit-linked business in Central and Eastern Europe, and the Japan Closed Block VA.

The majority of the expense risk capital is driven by expense level risk in Netherlands Life. The OFaR amount related to expense risk, in particular for Netherlands Life, is higher in 2016 mainly due to lower interest rates and model and assumption changes.

Persistency risk decreased slightly particularly due to model and assumption changes in both the Netherlands Life and Netherlands Non-Life business units and, with a lower effect, model and assumption updates in the other European business, the decrease being partially offset by the changes in the interest rate curve.

The diversification in business risk is driven by the fact that policyholder behaviour and expense risk are largely uncorrelated.

Market and credit risk: Own account

Market and credit risks are the risks related to the impact of financial markets on NN Group's balance sheet. NN Group distinguishes between market and credit risks on NN Group's own investment asset portfolio (Own account) and portfolios or businesses where the majority of such risks are primarily borne by policyholders (separate account).

This section refers to the market and credit risks of the Own account in which NN Group and its shareholders take on market and credit risks in pursuit of returns. These returns are used to fulfil policyholder obligations with any surplus return benefitting the group and its shareholders. Accordingly, optimisation within the risk appetite is paramount to generating returns for both policyholder and shareholder.

The table below sets out NN Group's OFaR for the Own account assets and liabilities as at 31 December 2016 and 2015, respectively.

OFaR – Market and credit risk: Own account

	2016	2015
Equity risk	1,122	1,135
Real estate risk	452	303
Interest rate risk	792	857
Credit spread risk	1,579	1,273
Foreign exchange risk	178	168
Inflation risk	45	36
Counterparty default risk	56	113
Diversification benefit	-2,411	-2,770
Total Market and credit risk	**1,813**	**1,115**

Within NN Group's Own account, market risks are driven by the fixed income portfolio that generates spread risk and interest rate risk for duration mismatches. Equity and real estate investments also generate risks which cannot be directly offset by the liabilities. The total market and credit risk of NN Group's Own account increased in 2016 mainly due to an increase in spread and real estate risk. Additionally, the diversification benefit in 2016 is lower, since the magnitude of main risks is less balanced in 2016 compared to 2015.

The OFaR for the fixed income bonds and mortgage loans is calculated within spread risk and OFaR for the remaining fixed income loans within counterparty default risk. OFaR for non-fixed income assets such as equity and real estate are addressed in the respective risk categories.

The table below sets out NN Group's asset class values as at 31 December 2016 and 2015. The values in these tables may differ from those included in the consolidated IFRS balance sheet as derivatives are excluded and due to classification and valuation differences to reflect a risk management view.

Investment assets

	Market value 2016	% of total 2016	Market value 2015[3]	% of total 2015[3]
Fixed income	**106,153**	**81.80%**	**97,635**	**83.40%**
Government bonds	56,389	43.40%	54,351	46.30%
Government loans	733	0.60%	719	0.60%
Financial bonds	4,068	3.10%	3,363	2.90%
Financial loans	1,096	0.80%	1,127	1.00%
Corporate bonds	10,215	7.90%	8,568	7.30%
Corporate loans	4,256	3.30%	3,019	2.60%
Asset Backed Securities	3,424	2.60%	3,810	3.30%
Mortgages[1]	25,645	19.80%	22,340	19.10%
Other Retail Loans	327	0.30%	338	0.30%
Non-Fixed income	**13,742**	**10.60%**	**11,696**	**10.00%**
Common & Preferred Stock	3,535	2.70%	3,350	2.90%
Private Equity	842	0.60%	726	0.60%
Real Estate	6,558	5.10%	5,080	4.30%
Mutual Funds (Money market funds excluded)	2,807	2.20%	2,540	2.20%
Money Market Instruments (Money market funds included)[2]	**9,908**	**7.60%**	**7,735**	**6.60%**
Total Investments	**129,803**	**100.00%**	**117,066**	**100.00%**

1 Mortgages are on book value
2 Money market mutual funds are included in the Money Market Instrument
3 2015 numbers have been restated to reflect new classification

These amounts represent the maximum exposure to credit risk.

As presented in the table, several key developments in the portfolio have occurred over the course of 2016. In particular:

- There was a shift from government bonds and financial loans to financial bonds and corporate bonds and loans
- Reductions in exposures to Asset-backed securities
- Higher exposure in Money Market instruments, mainly due to increase in cash collateral as a result of the decrease in interest rates
- Higher exposure in Mortgages

Equity risk

As shown in the asset tables above, equity plays a role in the Own account by providing diversification and up-side return potential. This does present a risk which is measured as the impact of changes in prices of directly held equities and equity derivatives such as futures and options.

Risk profile

The table below sets out the market value of NN Group's equity assets as at 31 December 2016 and 2015, respectively.

Equity assets

	2016	2015[1]
Common & Preferred Stock	3,535	3,350
Private Equity	842	726
Mutual Funds (Money market funds excluded)	2,807	2,540
Total	**7,184**	**6,616**

1 2015 numbers have been restated to reflect new classification.

Within the Own account, NN Group is mostly exposed to public listed equity, but also invests in private equity funds and equity exposures through mutual funds. Note that mutual funds are classified as equity in the table above, but include predominantly fixed income funds. Equity assets increased mainly driven by favourable market developments and additional investments in this asset class.

As shown in the market and credit risk table, equity risk slightly decreased over the course of 2016 despite the increase in the investments listed above. The decrease of equity risk is primarily due to an improvement in the hedge effectiveness in the Japan Closed Block VA portfolio.

Risk mitigation

Exposure to equities provides for additional diversification and up-side return potential in the asset portfolio of an insurance company with long-term illiquid liabilities. The concentration risk on individual issuers is mitigated under relevant investment mandates. As mentioned, there is no natural hedge for equity risk on the liability side of the balance sheet, but from time to time NN Group protects the downside risk of the equity portfolio by buying put options and other hedge instruments.

Real estate risk

With the long-term nature of the liabilities of NN Group's Own account, illiquid assets such as real estate can play an important role in the strategic allocation. Real estate risk is the risk of loss of market value of real estate assets. Market values are driven by a change in rental prices, required investor yield and/or other factors.

Risk profile

NN Group's real estate exposure increased from EUR 5,080 million as at 31 December 2015 to EUR 6,558 million as at 31 December 2016. The real estate exposure is mainly present in Netherlands Life and Netherlands Non-life. NN Group has two different categories of real estate: (i) investments in real estate funds or real estate directly owned and (ii) investments in buildings occupied by NN Group. Several of the real estate funds owned by NN Group include leverage, and therefore the actual real estate exposure is larger than NN Group's actual real estate assets.

The real estate portfolio is held for the long-term and is illiquid. Furthermore there are no hedge instruments available in the market to effectively reduce the impact of market volatility.

The table below sets out NN Group's real estate exposure by sector type excluding leverage as at 31 December 2016 and 2015, respectively. Real estate is valued at fair value in the OFaR model in the Netherlands. Fair value revaluations for 77% of the real estate portfolio directly affect the IFRS result before tax.

Real estate assets by sector

	Revalued through P&L 2016	Not revalued through P&L 2016	Revalued through P&L 2015	Not revalued through P&L 2015
Residential	5%	7%		7%
Office	13%	1%	16%	2%
Retail	42%	4%	38%	12%
Industrial	14%	5%	13%	4%
Other	3%	6%	1%	7%
Total	**77%**	**23%**	**68%**	**32%**

Risk mitigation

Exposure to real estate provides for additional diversification for the asset portfolio. The concentration risk on individual issuers is mitigated under relevant investment mandates.

Risk measurement

Along with the increase in exposure to real estate assets, Own account OFaR for real estate risk increased from EUR 303 million at the end of 2015 to EUR 452 million at the end of 2016. Model changes for shock recalibration for real estate during 2016 also contributed to the increase.

Interest rate risk

Interest rate risk is the impact of interest rate changes on Own Funds as a result of the associated change in the value of the assets and liabilities.

Risk profile

The table below provides an overview of NN Group's insurance business' undiscounted best estimate policyholder liability cash flows (net of expenses and commissions) by maturity.

Liabilities' annual undiscounted cash flows (net of expenses and commissions)[1]

					Liabilities originated in	
	Eurozone EUR		Japan JPY[2]		Other Currencies[2]	
Maturities	2016	2015	2016	2015	2016	2015
0-1	-3,701	-2,793	436	365	-231	-339
1-2	-4,331	-4,363	10	-67	-45	-138
2-3	-4,279	-5,512	-397	-383	-75	-142
3-5	-8,220	-7,800	-1,377	-1,261	-144	-344
5-10	-16,010	-16,085	-4,566	-3,790	-514	-827
10-20	-25,246	-25,010	-3,724	-3,168	-655	-1,011
20-30	-16,441	-15,678	-1,387	-1,128	-203	-400
30+	-17,184	-15,218	-837	-684	-41	-86
Total	**-95,412**	**-92,459**	**-11,842**	**-10,116**	**-1,908**	**-3,287**

1 The 'minus' sign in the table means cash outflow from NN Group to the policyholders, agents, intermediaries and other expense related outflow.

2 Japan and Other Currencies are presented at constant FX of 31 December 2016. Other includes CZK, HUF, PLN, RON and USD.

As can be seen in the table, the EUR denominated liabilities have a significant amount of long-term liability cash flows, which relates primarily to the pension business in the Netherlands.

Risk mitigation

NN Group hedges its economic interest rate exposure by investing in long-term bonds and swaps matching liability maturities. The remaining interest rate gap may be, from time to time, further reduced through purchases of receiver swaps and swaptions. Interest rate risk management focuses on matching asset and liability cash flows as much as possible.

Risk measurement

For purposes of discounting liabilities under Solvency II, therefore relevant for OFaR, NN Group uses a swap curve less credit risk adjustment plus Volatility Adjustment. The Volatility Adjustment is treated as part of the credit spread risk. In line with Solvency II, NN Group extrapolates the EUR swap curve from the 20 year point onwards to the Ultimate Forward Rate (UFR). The OFaR for interest rate risk primarily depends on the level of cash flow matching between assets and liabilities up to the 20 year point, and the difference between the swap curve and the curve extrapolated to the UFR for longer cash flows.

NN Group's Own Funds are more at risk (higher OFaR) when the Volatility Adjustment increases and when interest rates are low. Both these elements pose a distortion to the economic curve (leading to different liability valuation than asset valuation) and thereby increase risk to Own Funds. At end of 2016, (long-term) interest rates were considerably lower than at the end of 2015; the difference between the Solvency II curve and the curve used for interest rate risk matching was increased, accordingly exhibiting a higher risk to Own Funds. The increasing divergence between the economic and regulatory duration gap is a key driver of the increase in interest rate risk.

OFaR does not currently include the change in value of the risk margin due to interest rate shocks. This is deemed to be conservative as the risk margin has the effect of lowering the risk for NN Group under the Solvency II curve with the UFR.

Credit spread risk

Credit spread risk reflects the impact of credit spreads widening (or narrowing) due to changes in expectation of default, illiquidity and any other risk premiums priced into the market value of bonds. Credit spread risk takes into account both the impact on the asset side as well as the corresponding interaction with the Volatility Adjustment on the liabilities. To the extent that the asset portfolio has a different asset mix than the reference portfolio for the Solvency II Volatility Adjustment, or to the extent that the duration of the liabilities is different than the assets or the assumptions in the Volatility Adjustment, there is volatility in the Own Funds and this is captured as such in the OFaR calculation.

Risk profile

The table below sets out the market value of NN Group's fixed-income bonds which are subject to credit spread risk OFaR by type of issuer at 31 December 2016 and 2015, respectively.

Fixed-income bonds by type of issuer

	Market value		Percentage	
	2016	2015[1]	2016	2015[1]
Government Bonds	56,389	54,351	76%	78%
Manufacturing	4,368	3,613	6%	5%
Finance and Insurance	4,068	3,363	5%	5%
Asset Backed Securities	3,424	3,810	5%	5%
Utilities	1,387	1,372	2%	2%
Information	1,384	1,152	2%	2%
Transportation and Warehousing	1,137	1,081	2%	2%
Mining, Quarrying and Oil and Gas Extraction	373	342	0%	0%
Other	1,566	1,008	2%	1%
Total	**74,096**	**70,092**	**100%**	**100%**

1 2015 numbers were restated to match new classification.

The table below sets out the market value of NN Group's assets invested in government bonds by country and maturity.

Market value government bond exposures (2016)

			Market value of government bond 2016 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 2016
Japan	A	98%	356	231	357	750	2,865	3,095	1,559	612	9,825
Germany	AAA	0%	157	202	44	96	1,169	3,863	3,850		9,381
France	AA	0%	90	87	81	108	143	1,548	2,276	3,914	8,247
Netherlands	AAA	99%	68	63	135	329	913	1,567	4,500	281	7,856
Belgium	AA	29%	561	230	432	438	1,053	1,757	1,745		6,216
Austria	AA	0%	82	83	193	420	977	878	1,408	651	4,692
Spain	BBB	46%	45	11		11	324	640	946		1,977
Italy	BBB	0%	37	28	30	90	149	1,157	37	6	1,534
Finland	AA	0%	47	8	103	235	356	65	630		1,444
Poland	A	60%	43	9	59	54	190	332	26		713
European Union[3]	AAA	100%		13	1	19	72	176	369		650
Others			280	238	269	387	1,100	1,109	471		3,854
Total			**1,766**	**1,203**	**1,704**	**2,937**	**9,311**	**16,187**	**17,817**	**5,464**	**56,389**

1 NN Group uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds.
2 Percentage of the bonds held in the local unit, e.g. percentage of Dutch bonds held by entities registered in the Netherlands.
3 Includes EIB, ECB, EFSF, EU and ESM.
4 Based on legal maturity date.

Market value government bond exposures (2015)

			Market value of government bond 2015 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
Japan	A	95%	424	203	220	602	2,738	2,574	1,059	407	8,227
Germany	AAA	0%	115	163	209	136	1,236	3,750	3,629		9,238
France	AA	0%	67	108	89	186	166	1,536	2,047	3,456	7,655
Netherlands	AAA	99%	76	56	65	186	1,192	1,614	4,337	351	7,877
Belgium	AA	32%	213	573	237	810	863	1,937	1,590		6,223
Austria	AA	0%	90	86	86	415	618	1,616	1,285	576	4,772
Spain	BBB	50%	14	47	11		197	582	873		1,724
Italy	BBB	0%	20	38	28	114	111	1,237	37	6	1,591
Finland	AAA	0%	13	46	8	292	405	64	571		1,399
Poland	A	63%	57	49	8	98	199	341	30		782
European Union[3]	AAA	100%	130	37	24	140	270	303	599		1,503
Others			330	270	229	394	1,037	767	333		3,360
Total			**1,549**	**1,676**	**1,214**	**3,373**	**9,032**	**16,321**	**16,390**	**4,796**	**54,351**

1 NN Group uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds.
2 Percentage of the bonds held in the local unit, e.g. percentage of Dutch bonds held by entities registered in the Netherlands.
3 Includes EIB, ECB, EFSF, EU and ESM.
4 Based on legal maturity date

Exposures to Dutch, German and French government bonds are primarily held by Netherlands Life. Of the EUR 17 billion German and Dutch government bonds held by NN Group, almost half will mature after year 20; more than 75% of the EUR 8 billion of French government bonds held by NN Group will mature after year 20. These long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates. With regards to Central and Eastern Europe, government bond exposures in Poland, Czech Republic, Hungary, The Slovak Republic, Romania and Turkey are mainly domestically held. The EUR 138 million of Greek government bonds (bucketed under 'Others') are all held by the Greek business unit. 46% of the Spanish government bonds are held by NN Group's Spanish business units, while another 45% of the amount is held by Netherlands Life. In the OFaR model, all government bonds contribute to credit spread risk, including those rated AAA.

The table below sets out the market value of non-government fixed-income securities (excluding mortgages and derivatives) by rating and maturity. The AAA securities are primarily asset-backed securities.

Market value non-government bond securities (2016)

	Market value of non-government bond securities by number of years to maturity								
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2016
AAA	63	27	70	159	189	694	624	1,246	3,072
AA	239	308	164	547	739	519	437	131	3,084
A	795	558	434	1,189	2,200	299	142	125	5,742
BBB	309	230	606	809	2,333	236		75	4,598
BB	35	46	101	203	338	8		79	810
B		4	80	106	126			7	323
CCC	78								78
Total	**1,519**	**1,173**	**1,455**	**3,013**	**5,925**	**1,756**	**1,203**	**1,663**	**17,707**

Market value non-government bond securities (2015)[1]

	Market value of non-government bond securities 2015 by number of years to maturity								
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2015
AAA	82	72	240	293	365	188	588	1,675	3,503
AA	276	209	254	565	606	681	336	55	2,982
A	679	716	669	810	1,611	481	392	105	5,463
BBB	341	242	230	701	1,149	281	6	131	3,081
BB	20	37	41	115	127	11		100	451
B		3	4	103	127			8	245
CCC			4	12					16
Total	**1,398**	**1,279**	**1,442**	**2,599**	**3,985**	**1,642**	**1,322**	**2,074**	**15,741**

1 Amounts reiterated following updated definition.

The table below sets out NN Group's holdings of asset-backed securities by market value of asset type and the percentage of NN Group's total asset-backed securities portfolio as at 31 December 2016 and 2015, respectively.

Asset-backed securities[1]

	Market value 2016	% of total 2016	Market value 2015[1]	% of total 2015[1]
RMBS	2,946	86%	2,806	74%
Other	478	14%	1,004	26%
Total	**3,424**	**100%**	**3,810**	**100%**

1 2015 Restated to match new classification (the amount now excludes lending exposures).

Risk mitigation

NN Group aims to maintain a low-risk, well diversified fixed income portfolio. NN Group has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. In order to reduce the credit spread risk, NN Group has increased its investments in non-listed and own-originated assets. The concentration risk on individual issuers is managed using rating-based issuer limits on one (group of related) single name(s), effectively managing the default risk of the issuers.

Risk measurement

The OFaR for credit spread risk reflects, with 95% level of confidence, the risk of Own Funds to spread movements – impacting fixed income assets held in the Own account and the liabilities in the Own account due to the Solvency II Volatility Adjustment. Fixed income assets are shocked with severity linked to a 1-in-20 year event (or 95% level of confidence) and depending on the credit class, rating and duration. Given that the Own account liabilities are valued using the Solvency II Volatility Adjustment, shocks are applied to the reference portfolio to determine the level at which the liabilities will be valued in a 1-in-20 scenario. This has a positive impact on Own Funds, offsetting the impact on the asset-side. In this regard, the OFaR spread model identifies mismatches (basis difference) between the Own account assets and the reference portfolio, and seeks the worst case loss within the desired level of confidence.

Note that the spread model used for OFaR assesses the impact on Own Funds under adversity and follows the dynamics of the balance sheet valuation. The spread model under the PIM used for determining capital requirements includes a simpler and less volatile offset due to the liability illiquidity.

The table below sets out NN Group's OFaR for credit spread risk.

OFaR – Spread risk: Own account

	2016	2015
Credit spread risk assets	4,741	4,080
Credit spread risk liabilities: Effective capital offset from volatility adjustment	-3,162	-2,807
Total Credit Spread risk net of Volatility Adjustment	**1,579**	**1,273**

Credit spread risk increased over the year due to higher asset valuations driven by lower interest rates and higher government and corporate spreads. Model changes also contributed to increased Spread Risk OFaR, as a result of the recalibration of shocks applied for government and corporate bonds. Furthermore, during 2016, the mortgages have been removed from the scope of Counterparty Default Risk calculation and included under the scope of Credit Spread Risk, similarly as for the SCR calculation. The increase in Spread Risk OFaR was also marginally enhanced by the lower Volatility Adjustment offset as a result of EIOPA reference portfolio update, which became effective as of the third quarter of 2016.

Counterparty Default risk

Counterparty default risk is the risk of loss of investments due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors (including reinsurers) of NN Group. The OFaR for counterparty default risk is primarily based on the associated issuer's probability of default (PD) and the estimated loss-given-default (LGD) on each individual asset combined with diversification across assets.

The Counterparty Default Risk module covers any credit exposures which are not covered in the spread risk sub-module. For each counterparty, the Counterparty Default Risk module takes account of the overall counterparty risk exposure pertaining to that counterparty.

The Counterparty Default Risk Exposure is split in Type I and Type II exposures. The class of Type I exposures covers the exposures which may not be diversified and where the counterparty is likely to be (externally) rated, e.g. reinsurance contracts, derivatives and money market exposures. The class of Type II exposures attempts to cover the exposures which are usually diversified and where the counterparty is likely to be unrated, predominantly loans, but also other forms of term lending not covered in Type I. These two classes form the basis for the respective capital treatment in the Counterparty Default Risk module.

Risk profile

Type II assets' OFaR is the main contributor to the total Counterparty Default Risk, particularly due to loan exposures. NN Group has increased its exposure Loans primarily in to corporate loans during 2016. Cash is the largest Type I exposure. Other sources of Counterparty Default Risk include reinsurance and the claims on counterparties from over-the-counter derivatives. Furthermore, during 2016, the mortgages have been removed from the scope of Counterparty Default Risk calculation and included under the scope of Credit Spread Risk, similarly as for the SCR calculation. As a result of all the changes, the overall OFaR for counterparty default risk reduced by EUR 57 million.

Risk mitigation

NN Group uses different credit risk mitigation techniques. For OTC derivatives, the use of International Swaps and Derivatives Associations master agreements accompanied with credit support annexes is an important example of risk mitigation. Other forms of credit risk mitigation include reinsurance collateral. For cash and money market funds, limits per counterparty are put in place.

Risk measurement

The Counterparty Default module comprises two sub-modules:

- CDR Type I: applicable to exposures which might not be diversified and where the counterparty is likely to be (externally) rated. The underlying model is the Ter Berg model (basis for Standard Formula under Solvency II)
- CDR Type II: applicable to exposures that are usually (well) diversified and where the counterparty is likely to be unrated. The underlying model is based on the Basel regulatory model

The capital charges for CDR Type I and CDR Type II exposures are calculated separately and subsequently aggregated.

Note that fixed income bonds are also subject to counterparty default risk, but this risk is included in credit spread risk.

Mortgages

The Loan-to-Value (LTV) for residential mortgages, which is based on the net average loan to property indexed value, at Netherlands Life, NN Bank and Netherlands Non-Life stands at 86%, 83% and 86% respectively, due to the high proportion of interest-only mortgages. With the change in the Dutch tax regime in 2014 with regards to mortgage interest deductibility, a shift from interest-only mortgages to annuity and linear payment type mortgages is being observed. The inherent credit risk is compensated primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG) and other secondary covers like savings, investments and life insurance policies. Mortgages with NHG accounted for 19%, 27% and 15% at Netherlands Life, NN Bank and Netherlands Non-Life respectively at end of 2016.

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 arrear still exists after 90 days. A loan is re-categorised as a performing loan again when the amount past due has been paid in full. The decrease in delinquencies and non-performing loans is due to the improving housing market and economic environment and a more efficient process for handling problem loans. The decrease in remaining exposure at risk is caused by the increasing house prices and the cap at maximum LTV for new production.

Credit quality: NN Group mortgage portfolio, outstanding[1, 3]

	Netherlands Life		NN Bank		Other[2]	
	2016	2015	2016	2015	2016	2015
Performing mortgage loans	11,457	10,376	12,573	10,391	669	294
Non-performing mortgage loans	110	170	129	128	1	1
Total	**11,567**	**10,546**	**12,702**	**10,519**	**670**	**295**

1 Risk figures and -parameters do not include third party originated mortgages and collateralised mortgages although they are on the balance sheet of NN Group.
2 'Other' column includes numbers of NN Non-Life and NN Belgium Life.
3 Additional exposure of EUR 4 million of mortgages held in Spain and Greece are not represented in the table due to low materiality.

Aging analysis (past due, including non-performing): NN Group mortgage portfolio, outstanding

	Netherlands Life		NN Bank		Other[1]	
	2016	2015	2016	2015	2016	2015
Past due for 1–30 days	86	47	123	51	1	1
Past due for 31–60 days	46	109	44	99	2	2
Past due for 61–90 days	39	42	46	54	1	
Past due for > 90 days	77	137	93	92	1	
Total	**248**	**335**	**306**	**296**	**5**	**3**

1 'Other' column includes numbers of NN Non-Life and NN Belgium Life.

Net exposure on mortgage loans

	Netherlands Life		NN Bank		Other[1]	
	2016	2015	2016	2015	2016	2015
Carrying value	11,567	10,546	12,702	10,519	670	295
Indexed collateral value of real estate	14,916	13,062	16,998	12,700	800	333
Savings held	612	557	932	802		
NHG guarantee value	1,901	1,836	3,075	2,481	81	71
Total cover value + NHG guarantee capped at carrying value[2]	11,338	10,133	12,515	10,075	670	295
Net exposure	**229**	**413**	**187**	**444**	**0**	**0**

1 'Other' column includes numbers of NN Non-Life and NN Belgium Life.

2 'The cover value of the real estate does not include haircuts, which are applied in the determination of loan loss provisions..

Foreign exchange risk

Foreign exchange (FX) risk measures the impact of losses related to changes in currency exchange rates.

Risk profile

FX transaction risk can occur on a local entity level, while FX translation risk can occur when non-Euro entities are consolidated at the level of NN Group and show a risk in regards to NN Group's reporting currency, the Euro.

Risk mitigation

The FX risk at the local entity level is mitigated by limiting investment to the local currency assets. The exceptions are Japan Life, where USD and EUR assets are held to diversify the portfolio and the FX risk is managed through rolling FX forward contracts, and in the large Own account portfolio of Netherlands Life. The FX translation risk at the holding level is managed using FX forward contracts.

Risk measurement

The OFaR for Own account for foreign exchange risk increased EUR 10 million, to EUR 178 million at year end 2016.

Market and credit risk: Separate account

The separate account businesses are those in which the policyholder bears the majority of the market and credit risk. NN Group's earnings from the separate account businesses are primarily driven by fee income. However, in the case of variable annuities and the guaranteed separate account pension business in the Netherlands, NN Group retains risk associated with the guarantees provided to its policyholders. Businesses in this separate account category are (i) the variable annuities (VA) portfolio; (ii) the group pension business in the Netherlands for which guarantees are provided; and (iii) other separate account business, primarily the unit-linked business. This section refers to separate account business only.

Variable annuity portfolio

Risk profile

From a risk management perspective, NN Group distinguishes three blocks of variable annuities:

- Guaranteed minimum accumulation benefit (GMAB) products of Japan Closed Block VA: Under this type of variable annuity, a minimum guaranteed benefit is paid upon death or at maturity of the policy at the end of the initial investment period. The survival guarantee is only available up until the original policy term, mainly 10 years and cannot be changed. The minimum guaranteed benefit is either a single premium or an amount which may lock-in at a higher guarantee level depending on the product. The GMAB product was sold from 2005 until 2009 in Japan through banks and security brokers. The guarantees of this product have been highly in-the-money but with the improving stock markets have moved closer to at-the-money and in some cases out-of-the-money levels. The volatility risks of the options and guarantees increase when the option is at-the-money and closer to maturity.
- Guaranteed minimum death benefit (GMDB) products of Japan Closed Block VA: Under this type of variable annuity, a minimum guaranteed benefit is paid upon the death of the policyholder. The GMDB product has a generally predefined term of 10 years and provides the option to extend the guarantee of the policy during the investment phase up to age 90 and in the case of some policies, also allow further extension to whole of life. At death, the product pays a maximum of the guaranteed value or the account value. During the insured period, the client can receive the maximum of the minimum guaranteed benefit or the account value. Payment occurs either at death or after the specified term of the product. There are different funds underlying the policyholder account value, including Japanese equity, Japanese bond, global equity and global bond funds. The value of the minimum guarantee depends on the level and volatility of equity, bond and foreign exchange markets.
- VA products of Insurance Europe: NN Group has been selling VA products in Europe since 2008 in Belgium, Italy, Luxembourg, Poland, Spain and Hungary. The products mostly have minimum guaranteed living benefits such as survival benefit or withdrawal benefits.

Variable annuity business overview (2016)

	Number of policies	Account value[1]	Net amount at risk[2]	IFRS provision for guarantees[3]	Average remaining years
Variable Annuity Japan GMAB	131,920	6,099	274	434	1.6
Variable Annuity Japan GMDB[3]	22,395	2,102	77	240	6.9
Variable Annuity Europe	43,473	1,430	23	49	6.9

1 The Account value is the value of the underlying funds which belong to the policyholder.
2 The net amount at risk is the difference between the guaranteed minimum value and the account value, for those policies where the guaranteed value exceeds the account value.
3 Excludes other provision adjustments.

Variable annuity business overview (2015)

	Number of policies	Account value[1]	Net amount at risk[2]	IFRS provision for guarantees[3]	Average remaining years
Variable Annuity Japan GMAB	175,733	7,711	142	355	1.9
Variable Annuity Japan GMDB[3]	26,459	2,317	61	160	5.3
Variable Annuity Europe	42,691	1,394	24	42	8.3

1 The Account value is the value of the underlying funds which belong to the policyholder.
2 The net amount at risk is the difference between the guaranteed minimum value and the account value, for those policies where the guaranteed value exceeds the account value.
3 Excludes other provision adjustments.

Risk mitigation

NN Group has hedging programmes in place for the Japan Closed Block VA business and the European VA business. These hedging programmes target equity, interest rate and FX risks. The market risks that remain for the Japan Closed Block VA business are increases to market volatility, both implied and realised and basis risk. Basis risk is the difference in market movements between the benchmarks used for hedging and the underlying funds. The table below sets out the estimated changes in the value of these options and guarantees and the corresponding estimated changes in the value of the assets hedging this portfolio with regard to the Japan Closed Block VA.

Closed Block VA Japan asset and liability movements[1]

	2016	2015	2014	2013	2012
Change in Value of Policyholder Guarantee	26	300	745	2,411	1,652
Change in Value of Hedge Assets	-119	-334	-724	-2,367	-1,482
Economic Hedge Result	**-93**	**-34**	**21**	**44**	**170**

1 The hedge results exclude core technical margin from year 2012 to year 2015.

Separate account guaranteed group pension business in the Netherlands

	2016	2015
Account value	5,456	8,630
Additional IFRS provision for guarantee	516	584

Risk profile

In the Dutch separate account pension portfolio, investments are held in separate accounts on behalf of the sponsor employer who concluded their contract with NN Group. Regardless of actual returns on these investments, NN Group guarantees pension benefits for the beneficiaries under the contract. Contracts are typically re-negotiated every five years, but the guarantee obligations to the beneficiaries survive termination of the contract with the sponsor employer unless otherwise agreed.

In principle, the sponsor employer selects the investments based on a basket of equity, fixed income, and real estate instruments and pays a fee for the guarantee. The value of the guarantee that NN Group provides is sensitive to interest rates, movements in the underlying funds and the volatility of those funds.

Over the course of 2016, the decrease in account value is mainly explained by the amount transferred from the separate account to the own account (EUR 3.2 billion). Furthermore, lower interest rates increased the value of the fixed income assets.

Risk mitigation

NN Group currently hedges the value of the guarantees it provided under group pension contracts in the Netherlands. For the purpose of hedging, the exposure under such guarantees is discounted at the swap curve without the extrapolation to the UFR. The hedge programme includes equity basket options, swaps and equity futures. Upon contract renewal, NN Group offers policyholders defined contribution products with investments in portfolios that NN Group can more easily hedge, thus reducing the risk to NN Group.

Other separate account business

Risk profile

The other separate account business primarily consists of unit-linked insurance policies, which provide policyholders with fund selection combined with an insurance cover. In a unit-linked policy, the investment risk is borne by the policyholder, although there are some unit-linked products where NN Group has provided guarantees on the performance of specific underlying funds. Unit-linked products without guarantees do not expose NN Group to market risk, except to the extent that the present value of future fees is affected by market movements of the underlying policyholder funds.

Risk mitigation

The market risks of the unit-linked and other separate account business are managed at the design of the product. Currently NN Group does not hedge the market risks related to the present value of future fee income derived from this business.

Risk measurement – separate account

NN Group determines OFaR for the market and credit risks of the separate account business through modelling the risks of the fee income and the guarantees including the impact of the hedge programmes.

The table below sets out the OFaR for the market and credit risk of the separate account businesses as at 31 December 2016 and 2015, respectively.

OFaR for the separate account businesses

	2016	2015
Variable annuity	162	217
Separate account guaranteed group pension business in the Netherlands	337	285
Other separate account business (unit-linked)	110	94
Diversification benefit	-379	-344
Total	**230**	**252**

The risk associated with the variable annuity stems mostly from the Japan VA business. The decrease in risk shown in the table is mainly due to the increase in hedge effectiveness ratio from 2015 to 2016 and strong market performance in the last quarter of 2016.

Liquidity risk

Liquidity risk is the risk that one of NN Group's entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due. NN Group manages liquidity risk via a liquidity risk framework: ensuring that – even after shock – NN Group's businesses can meet immediate obligations.

Risk profile

NN Group identifies two related liquidity risks: funding liquidity risks and market liquidity risks. Funding liquidity risk is risk that a company will not have the funds to meet its financial obligations when due. This risk is in particular relevant for NN Bank. Market liquidity risk is the risk that an asset cannot be sold without significant losses. The connection between market and funding liquidity stems from the fact that when payments are due and not enough cash is available, investment positions need to be converted into cash. When market liquidity is low, this would lead to a loss.

Risk mitigation

NN Group's Liquidity Management Principles include the following:

- Interbank funding markets should be used to provide liquidity for day-to-day cash management purposes
- A portion of assets must be invested in unencumbered marketable securities that can be used for collateralised borrowing or asset sales
- Strategic asset allocation should reflect the expected and contingent liquidity needs of liabilities
- Adequate and up-to-date contingency liquidity plans should be in place to enable management to act effectively and efficiently in times of crisis

NN Group defines three levels of Liquidity Management:

- Short-term liquidity or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk
- Long-term liquidity management considers business conditions, in which market liquidity risk materialises
- Stress liquidity management looks at the company's ability to respond to a potential crisis situation

Two types of liquidity crisis events can be distinguished: a market event and an NN Group specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale. The Treasury function at NN Group is responsible for Liquidity Management.

Liquidity limits are in place at various levels of the NN Group and its entities.

Risk measurement

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested. NN Group manages liquidity risk via a liquidity risk framework ensuring that – even after shock – NN Group's businesses can meet immediate obligations. Accordingly, NN Group does not calculate a specific OFaR for liquidity risk as liquidity is sufficiently available in the insurance business units.

Operational risk

Risk profile

Operational risk is a non-financial risk that includes direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.

The operational risk management areas can be defined as given below:

- **Control and processing risk**: the risk of financial or reputational loss due to non-adherence with business policies or guidelines as well as the risk of loss due to unintentional human error during (transaction) processing
- **Fraud risk**: the risk of financial or reputational loss due to abuse of procedures, systems, assets, products or services of NN Group by those who intend to unlawfully benefit themselves or others
- **Information (technology) risk (including cyber-risk)**: the risk of financial or reputational loss due to inadequate information security, resulting in a loss of data confidentiality, integrity and availability
- **Continuity and security risk**: the risk of threats that might endanger the continuity of business operations and the security of our employees
- **Unauthorised activity risk**: the risk of misuse of procedures, systems, assets, products and services
- **Employment practise risk**: the risk of financial or reputational loss due to acts inconsistent with employment, health or safety laws, agreements and from payment of personal injury claims or diversity/discrimination events

Risk mitigation

For operational risk NN Group has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks.

Operational risk assessments are done based on historic data as well as on a forward looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk.

Mitigation of operational risks can be preventive in nature (e.g. training and education of employees, preventive controls, etc.) or can be implemented upon discovery of a risk (e.g. enforcement of controls, disciplinary measures against employees). Risk mitigating actions or controls are based on a balance between the expected cost of implementation and the expected benefits.

NN Group conducts regular operational risk and control monitoring to measure and evaluate the effectiveness of key controls. It determines whether the risks are within the norms for risk appetite and in line with the ambition levels and policies and standards. Operational risks are monitored through the Non-Financial Risk Dashboard (NFRD) process at all levels in the organisation. The NFRD is one tool which provides management at all organisational levels with information about key operational, compliance and legal risks and incidents. The exposure of NN Group to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each risk is assessed as to its likelihood of occurrence as well its potential impact, should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

The business process owners are responsible for the actual execution of the controls and for assessing the adequacy of their internal controls. Operational risk management, as part of the second line of defence, is responsible for providing management with an objective assessment of the effectiveness and efficiency of NN Group risks and controls.

Risk measurement

NN Group's OFaR for operational risk was EUR 177 million and EUR 172 million as at 31 December 2016 and 2015, respectively. The OFaR is calculated based on the standard formula for Solvency II. As it is additive to the modelled OFaR, it should be considered as net of diversification with other NN Group risks. As it is added to the modelled OFaR without applying any diversification, the implied OFaR for operational risk is higher if considered on a diversified basis.

Compliance risk

Risk profile

Through NN Group's retirement services, insurance, investments and banking products, NN Group is committed to helping our customers secure their financial future. To fulfil this purpose, we base our work on three core values: care, clear, commit. Our Values set the standard for conduct and provide a compass for decision making. Further, NN Group is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which it operates (Compliance Risk). All employees are expected to adhere to these laws, regulations and ethical standards and management is responsible for embedding the compliance related rules. Compliance is therefore an essential ingredient of good corporate governance. NN Group continuously enhances its compliance risk management programme to ensure that NN Group complies with international standards and laws.

Risk mitigation

NN Group separates compliance risk into four risk areas: client conduct, personal conduct, organisational conduct and financial services conduct. In addition to effective reporting systems, NN Group has also a whistle blower procedure which protects and encourages staff to 'speak up' if they know of or suspect a breach of external regulations, internal policies or our values. NN Group also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, customer suitability, conflicts of interest and confidential and inside information, as well as a code of conduct for its personnel. Furthermore, NN Group designates specific countries as 'ultra-high risk' and prohibits client engagements and transactions (including payments or facilitation) involving those countries.

NN Group performs a product review process when developing products and continuously invests in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception of acceptable market practices by both the public at large and governmental authorities might influence customer expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, and regulatory activity. The compliance function and the business work closely together with the aim to anticipate changing customers' needs.

Risk measurement

There is no specific compliance risk capital calculated for OFaR, however, it is considered to be part of the Operational Risk OFaR.

Solvency Capital Requirement based on the Partial Internal Model

Solvency II capital requirements for NN Group are based on the approved Partial Internal Model. The group capital model is named as such due to the fact that an Internal Model is used to calculate the capital requirements for the Dutch insurance businesses while the Standard Formula is used to calculate capital requirements for operational risk (across the group) and capital requirements for the international businesses that fall under Solvency II, with Japan incorporated based on local capital rules under equivalence.

The choice for a partial internal model is based on the conviction that an Internal Model better reflects the risk profile of the Dutch insurance entities and 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 NN Life e.g. sovereign and other credit spread risks. In addition the approach to the most significant non-market risks within NN Life such as longevity (trend uncertainty) and expense risk (closed block treatment) can be better tailored to the specific portfolio characteristics.
- An Internal Model approach better reflects the reinsured risks of NN Re. A significant proportion of the NN Re risks are a share of the NN Non-life risks where an Internal Model approach is applied. Variable Annuity risks are not adequately addressed by the Standard Formula. The Internal Model captures the integrated market risks and hedging programmes more accurately.
- In the case of Disability/Morbidity Risks the product features and experience in the Dutch market are different from those in the wider European market, e.g. greater emphasis is placed on claimants returning to work in the Netherlands.

The following table shows the NN Group capital requirements at year-end 2016:

NN Group capital requirements

	2016
Interest Rate Risk	1,237
Equity Risk	1,912
Spread Risk	2,241
Real Estate Risk	936
FX Risk	283
Inflation Risk	73
Diversification between Market Risks	-3,109
Market Risk	**3,573**
Counterparty Default Risk	400
Basis Risk	138
Diversification between Market, Counterparty Default Risk and Basis Risk	-113
Market Risk (including Counterparty Default risk and Basis Risk)	**3,998**
Life Risk	3,752
Health Risk	349
Non-life Risk	432
Diversification Non-Market Risk	-533
Non-Market Risk	**4,000**
Diversification between Market Risk including Basis Risk and Counterparty Default risk and Non-Market Risk	-2,246
Total BSCR	**5,752**
Operational Risk	442
Capital add-on	30
LACTP	-50
LACDT	-1,298
Non-modelled Solvency II Entities	123
Solvency II entities SCR	**4,999**
Non Solvency II Entities	460
Total SCR	**5,459**

The Basic Solvency Capital Requirements (BSCR) of the Solvency II entities is EUR 5,752 million and includes both the Internal Model business' BSCR (EUR 5,178 million) and the Standard Formula business' BSCR (EUR 782 million). Together, these figures reflect the diversification benefits between the Dutch and International businesses.

IFRS Net result sensitivity analysis

Following the risk appetite described above, NN Group also calculates sensitivities of IFRS net result. These risk sensitivities are designed to estimate a 1-in-20 year risk for the various risk factors. The following table sets out the shocks to parameters used to assess the sensitivities.

Sensitivity Descriptions	
Interest rate risk	Measured by parallel upward and downward 1-in-20 shocks in interest rates. Under IFRS-EU, NN Group values its policyholder liabilities using a discount rate that is set when the policies are sold and subjects them to a reserve adequacy test using current interest rates. As a result, changes in interest rates do not affect IFRS net result through liability valuations, unless the adequacy of the insurance liabilities of a segment falls below the 50th percentile level, in which case reserves need to be strengthened. Apart from a few exceptions, interest rate movements do not impact IFRS result before tax as investment income for fixed income assets is recorded at amortised cost. A few derivative instruments not subject to hedge accounting could cause volatility in IFRS result before tax due to interest rates.
Equity risk	Measured by the maximum loss between an 31% upward and downward shock in equity prices. Equity shocks can impact IFRS net results due to (amongst others): impairment losses, fair value accounting and fee income in unit-link accounts.
FX risk	Measured by the impact of the worse of a 20% upward or downward movement in all currencies compared to the euro. IFRS net result can be impacted by FX movements in coupons, positions classified as Trading, or the amortised cost part of Assets classified as Available For Sale.
Credit spread risk	Determined using 1-in-20 Value at Risk shocks for marked-to-market individual assets. AAA government bonds are shocked for this sensitivity calculation. IFRS net result can be impacted by changes in spreads in impaired assets, positions classified as Trading, guarantees and/or fees on unit linked/variable annuity.
Counterparty default risk	Determined using 1-in-20 shocks for (i) fixed income assets at book value (that do not fall under spread risk) and (ii) for derivatives, reinsurance, money market (Type 1) and Loans, including residential mortgages (Type 2).
Real estate price risk	This is measured by the impact of an 8% drop in real estate prices only for the minority holdings and for all real estate re-valued through P&L. Other holdings will be included in case of possible impairments caused by a drop in prices.
Variable Annuity risk	Where fair value accounting is used, sensitivities to IFRS net result is based on changes in market value in a 1-in-20 with loss-absorption of taxes based on IFRS.
Mortality (Including Longevity)	IFRS net result can be impacted by 1-in-20 insurance risk shocks to the extent that they are within a one-year horizon. Multi-year risks related to volatility and uncertainty are therefore not shocked.
Morbidity	
P&C	

Sensitivities of IFRS net result

The table below sets out various market and insurance risk impacts of one year 1-in-20 year sensitivities for IFRS net result.

Estimated IFRS net result sensitivities

		2016	2015
	Interest Rate Upward Shock	-25	-102
	Interest Rate Downward Shock	61	63
	Equity –31%	-387	-383
	Equity +31%	139	82
Market risk and credit risk	Real estate –8%	-319	-232
	FX –20%	-72	-107
	Variable annuity (Europe and Japan)	-105	-129
	Counterparty default	-143	-118
	Mortality (including longevity)	-26	-30
Insurance risk	Morbidity	-114	-110
	P&C	-121	-118

As at 31 December 2016, the equity risk primarily relates to the Own account equity holdings in the Netherlands and Belgium, the hedging of the separate account pension business in the Netherlands and fee income from NN Group's investment management business. Real estate IFRS net result sensitivities reflect investments in real estate funds and direct real estate assets. Market movements in real estate are reflected in the IFRS net result.

The change in interest rate sensitivity reflects also an update in methodology during the year: the values calculated for the end of 2015 were based on relative shocks applied on relevant tenors on the interest rate term structure, while, for the end of 2016, they are based on an absolute, parallel shock of +1% (for the upward shock) and -1% (for the downward shock) applied for all tenors. Slightly higher shocks (+/-1.5%) are applied for USD denominated exposures. The update aims to align the shocks applied for IFRS net result sensitivities with the corresponding shocks defined under the Solvency II methodology and used for OFaR calculations.

Due to the differences between IFRS and Solvency II accounting, the IFRS net result has different sensitivities under a 1-in-20 than the Solvency II Own Funds (as measured by OFaR). In general:

- Market shocks only flow through to IFRS net result to the extent the underlying asset/liability is market-valued under IFRS and/or impairments would need to be taken
- Non-market risks are only impacted by higher claims or higher expenses in one year and not normally by a reassessment of best estimate actuarial assumptions in the provisions as may be the case under Solvency II

Another source of difference, including volatility in IFRS sensitivities, comes from the hedging programmes for the guaranteed separate account pension business in the Netherlands as the economic risk of the guarantee is the basis for hedging while the IFRS liability has a different valuation. Given the impact of these hedges on IFRS net result and sensitivities, the changes in these sensitivities between 2015 and 2016 are largely driven by the guaranteed separate account pension business in the Netherlands.

53 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 the capital management framework which is based on regulatory, economic and rating agency requirements. NN Group closely monitors and manages the following metrics: Own Funds/Solvency Capital Requirement (SCR), cash capital at the holding company, financial leverage, fixed cost coverage, capital generation and liquidity.

Governance

The NN Group Corporate Finance department consists of Capital Management and Corporate Treasury. Activities of both departments are executed on the basis of established policies, guidelines and procedures.

Capital Management is responsible for the sufficient capitalisation of NN Group entities, which involves the management, planning and allocation of capital within NN Group. Corporate Treasury is responsible for management and execution of debt capital market transactions, term (capital) funding, cash management and risk management transactions.

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 units adequately at all times. Operating entities have to comply with the local statutory capital frameworks that are under supervision of local regulators. To ensure adequate capitalisation, they are managed to their commercial capital levels in accordance with the risk associated with the business activities. Capital adequacy is ensured through the capital planning process which starts with the annual budgeting process in which a capital plan is prepared for NN Group and its operating entities with the time horizon of 3-5 years. NN Group's risk appetite statements, as further described in the risk management paragraph, drive the target setting and are cascaded down to the operating entities in line with NN Group's risk management strategy. Other important factors which are considered in the capital plan are efficient capital allocation, the cost of capital and capital generation. Capital positions of operating units are closely monitored and, if necessary, measures are taken to ensure capital adequacy. At the end of 2016, all business units were capitalised above their local regulatory requirements. As from March 2016 NN Group is designated by the Dutch Central Bank (DNB) as a mixed financial holding company, also known as a Financial Conglomerate (FICO). NN Group is the holding company of licensed insurers, an asset manager and a bank. As NN Group is designated as FICO by DNB, it requires NN Group to exclude NN Bank from its Group Solvency.
- In addition, cash capital is held at the holding company. The cash capital position is available to cover capital needs of the subsidiaries after a stress event and to cover financial leverage costs and holding company expenses for a period of 12 months. Stress tests are based on 1-in-20 year scenarios and specific stress tests that might change from time to time. The free cash flow at the holding is an important metric, which is closely monitored and forecasted on a regular basis.
- NN Group assesses its funding mix via the financial leverage and fixed-cost coverage ratio. Financial leverage measures the amount of debt that NN Group issued to capitalise its operations. Debt used for funding of liquidity needs for the operating companies is not considered financial leverage. At 31 December 2016, EUR 200 million was lent through to NN Bank by way of operational leverage to cover its funding needs. The fixed-cost coverage ratio measures the ability of NN Group to pay its fixed financing expenses and is defined as the earnings before interest and tax of ongoing business (EBIT) adjusted for special items divided by interest before tax on financial leverage.

Liquidity management

NN Group monitors and manages its liquidity risk based on certain severe stress scenarios, thereby following a bottom-up approach. Liquidity ratios are periodically reported and monitored both on an individual entity and on a consolidated basis.

Liquidity ratios indicate whether an entity can withstand a 12-month period of severe liquidity stress without external or NN Group support. Ratios are calculated as: (i) the liquid assets – in some cases subject to a haircut – of an entity divided by (ii) the outflows that it can expect, which includes lapses and market volatility in a severe stress scenario. Liquidity ratios of entities must be sufficient on a stand-alone entity basis. At 31 December 2016, all entities report ratios higher than 100%.

For NN Bank, De Nederlandsche Bank (DNB) requires an annual internal evaluation to determine whether the liquidity position and risk management is sufficient, given NN Bank's operations now and in the near future, including stress testing. This internal evaluation is performed using an Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP). The ICLAAP and Supervisory Review & Evaluation Process (SREP) show that NN Bank has a robust capital and liquidity position.

Main events 2016

Significant events of 2016 are listed below in chronological order.

On 5 January 2016, ING Group announced the sale of 33 million shares of NN Group at a price of EUR 31.00 per share, which settled on 8 January 2016. As part of this transaction NN Group repurchased approximately 8 million shares from ING Group for an aggregate amount of EUR 250 million.

In April 2016, ING Group completed ING's divestment of NN Group.

On 18 May 2016, NN Group announced an acquisition of Notus Financial Advisors in Poland.

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On 26 May 2016, NN Group announced an open market share buyback programme of up to EUR 500 million over a period of 12 months commencing 1 June 2016. Following NN Group's intended offer for Delta Lloyd as announced on 5 October 2016, the EUR 500 million share buyback programme has been suspended. Up until the date of the announcement, share buybacks under this programme had been executed for an amount of EUR 167 million.

On 30 June 2016, NN Group paid a final dividend related to 2015 of EUR 1.05 per ordinary share, or approximately EUR 341 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 156 million. This share buyback was an addition to the open market share buyback programme for an amount of up to EUR 500 million which was announced on 26 May 2016.

On 18 July 2016 NN Group announced the sale of Mandema & Partners to Van Lanschot Chabot. The sale was completed in January 2017.

On 7 September 2016, NN Group paid a 2016 interim dividend of EUR 0.60 per ordinary share, or approximately EUR 195 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 82 million. This share buyback was an addition to the open market share buyback programme for an amount of up to EUR 500 million which was announced on 26 May 2016 and the repurchase of shares for an amount of EUR 156 million to neutralise the dilutive effect of the stock dividend related to the 2015 final dividend.

On 4 October 2016, NN Group announced the transfer of its Irish reinsurance portfolio to Canada Life. As a result of this portfolio transfer, NN Re (Ireland) Ltd. handed back its reinsurance license and repatriated almost all of its capital to NN Group in the fourth quarter of 2016.

On 5 October 2016, NN Group announced its intention to make an all-cash offer for Delta Lloyd of EUR 5.30 (cum dividend) per ordinary share for all issued and outstanding ordinary shares of Delta Lloyd for a total consideration of EUR 2.4 billion. It also announced the suspension of the remaining outstanding part of the EUR 500 million share buyback programme of EUR 333 million.

On 7 October 2016, Standard & Poor's placed NN Group's 'A-' and Core Subsidiary 'A+' ratings on CreditWatch negative following the offer on Delta Lloyd. Fitch Ratings announced that NN Group's Insurer Financial Strength rating of its main operating entity of 'A+' with Stable outlook was unaffected by NN Group's intended offer for Delta Lloyd.

On 23 December 2016, NN Group and Delta Lloyd reached a conditional agreement on a recommended all-cash public offer of EUR 5.40 (cum dividend) per issued and outstanding ordinary share of Delta Lloyd representing a total consideration of EUR 2.5 billion. On 2 February 2017, NN Group and Delta Lloyd announced an all-cash public offer for the issued and outstanding ordinary shares in the capital of Delta Lloyd at an offer price of EUR 5.40 (cum dividend) per ordinary share, representing a total consideration of EUR 2.5 billion.

Solvency II

As of January 2016, Solvency II is the regulatory framework for (re-)insurance undertakings and groups domiciled in the EU and replaced the former regulatory regime which was based on the EU Solvency I directive.

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.

Regulated entities which from local regulatory perspective are not subject to the Solvency II regime (e.g. pension funds and NN Investment Partners) are included in Own Funds based on their local available capital and in SCR based on required capital defined by sectoral supervisory rules. 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 for NN Group and its insurance subsidiaries in The Netherlands. The regulatory approval of the model from the Dutch regulator (DNB) was received in December 2015. For the International entities NN Group applies the Standard Formula.

The Solvency II capital ratios of NN Group and NN Life do not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by NN Group's Dutch insurance subsidiaries in the past, as this potential liability cannot be reliably estimated or quantified at this point.

NN Group was adequately capitalised at year-end 2016 with a Solvency II ratio of 241% based on the Partial Internal Model.

Eligible Own Funds and Solvency Capital Requirement

	2016	2015
Shareholders' equity	22,706	20,469
Elimination of deferred acquisition costs and other intangible assets	-816	-1,000
Valuation differences on assets	1,594	1,955
Valuation differences on liabilities, including insurance and investment contracts	-12,455	-10,689
Deferred tax effect on valuation differences	2,887	2,379
Difference in treatment of non-Solvency II regulated entities	-1,182	-870
Excess assets/liabilities	**12,734**	**12,244**
Deduction of participation in NN Bank	-605	
Qualifying subordinated debt	3,037	2,921
Foreseeable dividends and distributions	-505	-356
Basic Own Funds	**14,660**	**14,809**
Non-available Own Funds	1,427	1,271
Non-eligible Own Funds	84	197
Eligible Own Funds to cover Solvency Capital Requirements (a)	**13,149**	**13,341**
of which Tier 1 unrestricted	8,414	8,484
of which Tier 1 Restricted	1,919	1,844
of which Tier 2	1,043	1,061
of which Tier 3	750	735
of which non-Solvency II regulated entities	1,022	1,217
Solvency Capital Requirements (b)	**5,459**	**5,587**
of which Solvency Capital Requirements calculated on the basis of consolidated data	4,999	4,903
of which the capital requirements for investment firms and IORPS	198	469
of which the capital requirements for undertakings included under the D&A method	262	215
NN Group Solvency II ratio (a/b)[1]	**241%**	**239%**

1 The Solvency ratios are not final until filed with the regulators. SII ratios are based on the partial internal model.

The Solvency II ratio of NN Group improved to 241% from 239% at the end of 2015, reflecting the ongoing capital generation partly offset by capital flows to the shareholders. Eligible Own Funds decreased by EUR 0.2 billion from EUR 13.3 billion at 31 December 2015 to EUR 13.1 billion at 31 December 2016. The decrease reflects capital flows to shareholders and the exclusion of NN Bank from the Group solvency. This was partially offset by ongoing capital generation and positive market impacts. Solvency Capital Requirement decreased by EUR 0.1 billion, from EUR 5.6 billion at 31 December 2015 to EUR 5.5 billion at 31 December 2016. The decrease is mainly caused by the exclusion of NN Bank from the Group solvency partially offset by positive market impacts.

Structure, amount and quality of own funds

Subordinated liabilities included in NN Group own funds:

						Solvency II value[1]	
Interest rate	**Year of issue**	**Notional**	**Due date**	**First call date**	**Own funds tier**	**2016**	**2015**
4.625%	2014	1,000	8 April 2044	8 April 2024	Tier 2	1,117	1,061
4.50%	2014	1,000	Perpetual	15 January 2026	Tier 1	1,093	1,037
Variable	2007	506	Perpetual	Redeemed January 2017	Tier 1	509	506
Variable	2005	169	Perpetual	Redeemed January 2017	Tier 1	169	169
Variable	2005	148	Perpetual	Redeemed January 2017	Tier 1	148	148

1 At 31 December 2015 the subordinated liabilities were included based on their clean value, i.e. excluding accrued coupon. At 31 December 2016 the subordinated liabilities are included in accordance with the Solvency II guidelines based on their dirty value, i.e. including accrued coupon.

The subordinated loans listed in the table above are issued by NN Group N.V.

The dated subordinated notes with a coupon of 4.625% and maturity date on 8 April 2044 are fully paid in. In the event of bankruptcy, subordinated loans rank lower than other liabilities but higher than preference and other shareholders. NN Group has the right to redeem these notes on 8 April 2024 and any interest date following the first call date. Next to the regular call option, there are several early redemption conditions described in the prospectus of the notes. For the notes, these are redemption for tax reasons, regulatory reasons, rating reasons and purchases. NN Group has the right to suspend interest payments if the solvency ratio falls below the minimum required. The notes are not cumulative. The notes are classified as Restricted Tier 2 capital based on the transitional provisions (grandfathering) and confirmation by DNB. The notes are grandfathered for the maximum period of 10 years until 1 January 2026. The value of the notes of EUR 1,117 million at 31 December 2016 increased from EUR 1,061 million at 31 December 2015 due to including the accrued coupon and market impacts caused by lower interest rates. The Solvency II value of the notes moves inversely to changes in interest rates.

The perpetual subordinated notes with a coupon of 4.50% are fully paid in. In the event of bankruptcy, subordinated loans rank lower than other liabilities but higher than preference and other shareholders. NN Group has the right to redeem these notes and any interest date following the first call date on 15 January 2026. Next to the regular call option, there are several early redemption conditions described in the prospectus of the notes. For the notes, these are redemption for tax reasons, regulatory reasons, rating reasons and purchases. NN Group has the right to suspend interest payments if the solvency ratio falls below the minimum required. The notes are not cumulative. The notes are classified as Restricted Tier 1 capital based on the transitional provisions (grandfathering) and confirmation by DNB. The notes are grandfathered for the maximum period of 10 years until 1 January 2026. The value of the notes of EUR 1,093 million at 31 December 2016 increased from EUR 1,037 million at 31 December 2015 due to including the accrued coupon and market impacts caused by lower interest rates. The Solvency II value of the notes moves inversely to changes in interest rates.

The perpetual subordinated notes with floating rates are fully paid in. In the event of bankruptcy, subordinated loans rank lower than other liabilities but higher than preference and other shareholders. NN Group has the right to redeem the notes on any interest date following the first call date. Next to the regular call option, in the prospectus of the notes there are several early redemption conditions described. For the notes, these are redemption for tax reasons, regulatory reasons, rating reasons and purchases. NN Group has the right to suspend interest payments if the solvency ratio falls below the minimum required. The notes are not cumulative. The notes are classified as Restricted Tier 1 capital based on the transitional provisions (grandfathering) and confirmation by DNB. The notes are grandfathered until 1 January 2017. The value of the notes at 31 December 2016 increased slightly versus 31 December 2015 due to including the accrued coupon. The notes were redeemed in January 2017 for a total amount of EUR 823 million using the proceeds of EUR 850 million subordinated notes issued by NN Group on 10 January 2017. The EUR 850 million subordinated notes have a maturity of 31 years and are first callable after 11 years and every quarter thereafter, subject to conditions to redemption. The coupon is fixed at 4.625% per annum until the first call date and will be floating thereafter. These notes qualify as Tier 2 regulatory capital.

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 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
- The proportional share in the own funds of NN Investment Partners and pension funds is classified as Tier 1
- The proportional share in the eligible own funds of NN Life Japan (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) is classified as Tier 1
- Perpetual subordinated debt is classified as Tier 1 based on the transitional provisions (grandfathering) and as confirmed by DNB
- Dated subordinated debt is classified as Tier 2 based on the transitional provisions (grandfathering) and as confirmed by DNB

As at 31 December 2016 NN Group had no ancillary own funds (31 December 2015: nil).

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
- Tier 2 and Tier 3 capital together cannot exceed 50% of the Solvency Capital Requirements calculated on the basis of consolidated data (excluding the capital requirements for investment firms, pension funds and credit institutions and for undertakings included under the D&A method)
- Tier 3 capital cannot exceed 15% of the Solvency Capital Requirements calculated on the basis of consolidated data

The application of the regulatory restrictions as at 31 December 2016 is reflected in the table below. On 31 December 2016 the Group Consolidated SCR is EUR 4,999 million and Eligible Own Funds were EUR 13,149 million.

Eligible own funds to cover the Solvency Capital Requirement

	Available Own Funds	Eligibility restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	**10,333**			**10,333**
Of which:				
– Unrestricted Tier 1	8,414			8,414
– Restricted Tier 1	1,919	Less than 20% Tier 1		1,919
Tier 2 + Tier 3	**1,877**	**Less than 50% SCR**	**-84**	**1,793**
Tier 2	1,043			1,043
Tier 3	834	Less than 15% SCR	-84	750
Non-solvency II regulated entities	1,022			1,022
Total Own Funds	**13,233**		**-84**	**13,149**

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 participations 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 participations use to prepare respective local financial statements
- In case of 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.

These own-fund items are included in NN Group own funds to the extent they are eligible for covering Solvency Capital Requirements of respective participations. On 31 December 2016 Excess Non-available own funds amount to EUR 1,427 million.

Solvency Capital Requirements based on the Partial Internal Model

Solvency II capital requirements for NN Group are based on the approved Partial Internal Model. The group capital model is named as such due to the fact that an Internal Model is used to calculate the capital requirements for the Dutch insurance businesses while the Standard Formula is used to calculate capital requirements for operational risk (across the group) and capital requirements for the international businesses that fall under Solvency II, with Japan incorporated based on local capital rules under provisional equivalence. 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 2016 are provided in Note 52 'Risk Management'.

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. 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 important related metric is the free cash flow at the holding which is defined as the change in the cash capital position at the holding company over the period, excluding acquisitions and capital transactions with shareholders and debtholders.

Cash capital position at the holding company

	2016	2015
Beginning of period	1,953	1,413
Cash divestment proceeds		1
Dividends from subsidiaries[1]	1,611	1,548
Capital injections into subsidiaries[2]	-93	-143
Other[3]	-169	-40
Free cash flow to the holding[4]	**1,349**	**1,366**
Acquisitions		-31
Capital flow from/(to) shareholders	-812	-792
Increase/(decrease) in debt and loans		-3
End of period	**2,489**	**1,953**

Note: cash capital is defined as net current assets available at the holding company.

1 Includes interest on intragroup subordinated loans provided to subsidiaries by the holding company.

2 Includes the change of intragroup subordinated loans provided to subsidiaries by the holding company.

3 Includes interest on subordinated loans and debt with external debtholders, holding company expenses and other cash flows.

4 Free cash flow to the holding company is defined as the change in cash capital position of the holding company over the period, excluding acquisitions and capital transactions with shareholders and debtholders.

The cash capital position at the holding company increased to EUR 2,489 million from EUR 1,953 million at 31 December 2015. The increase reflects free cash flow to the holding of EUR 1,349 million driven by dividends from all business segments, partly offset by EUR 812 million of net capital flows to shareholders primarily comprising cash dividend payments for a total amount of EUR 297 million and share buy-backs executed during the year for a total amount of EUR 515 million.

Financial leverage

The financial leverage and fixed-cost coverage ratio are managed in accordance with a single A financial strength rating target.

Financial leverage

	2016	2015
Shareholders' equity	22,706	20,469
Adjustment for revaluation reserves	-8,763	-6,936
Goodwill	-253	-260
Minority interests	12	9
Capital base for financial leverage (a)	**13,703**	**13,283**
– Undated subordinated notes[1]	986	986
– Subordinated debt	2,288	2,290
Total subordinated debt	3,274	3,276
Debt securities issued (financial leverage)	398	398
Financial leverage (b)	**3,672**	**3,674**
Debt securities issued (operational leverage)	199	199
Total debt	**3,871**	**3,873**
Financial leverage ratio (b/(a+b))	21.1%	21.7%
Fixed-cost coverage ratio[1,2]	**12.8x**	**13.1x**

1 The undated subordinated notes classified as equity are considered financial leverage in the calculation of the financial leverage ratio. The related interest is included on an accrual basis in the calculation of the fixed-cost coverage ratio

2 Measures the ability of earnings before interest and tax (EBIT) of ongoing business and Insurance Other to cover funding costs on financial leverage

The financial leverage ratio of NN Group improved to 21.1% at 31 December 2016. The capital base for financial leverage increased by EUR 420 million, largely driven by the 2016 net result of EUR 2,108 million offset by capital flows to shareholders of EUR 1,812 million.

The fixed-cost coverage ratio improved to 12.8x at the end of 2016 versus 13.1x at the end of 2015, mainly due to increased result before tax.

Proposed 2016 final dividend

At the Annual General Meeting on 1 June 2017, a final dividend will be proposed of EUR 0.95 per ordinary share, or approximately EUR 307 million in total based on the current number of outstanding shares (net of treasury shares). Together with the 2016 interim dividend of EUR 0.60 per ordinary share paid in September 2016, NN Group's total dividend over 2016 will be EUR 502 million or EUR 1.55 per ordinary share which is equivalent to a dividend pay-out ratio of approximately 51% of NN Group's full-year 2016 net operating result of ongoing business. The final dividend will be paid in cash, after deduction of withholding tax if applicable, or ordinary shares 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 5 June 2017. The record date for the dividend will be 6 June 2017. The election period will run from 5 June up to and including 19 June 2017. 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 13 June through 19 June 2017. The dividend will be payable on 26 June 2017.

Going forward, and barring unforeseen circumstances, NN Group intends to pay ordinary dividends on a semi-annual basis. In line with NN Group's stated dividend policy, capital generated in excess of NN Group's capital ambition is expected to be returned to shareholders unless it can be used for any other appropriate corporate purposes, including investments in value creating corporate opportunities. NN Group is committed to distributing excess capital in a form which is most appropriate and efficient for shareholders at that specific point in time, such as special dividends or share buy backs.

Share capital

On 8 January 2016, NN Group repurchased 8,064,516 ordinary shares in NN Group treasury shares from ING Groep N.V. at a price of EUR 31.00 per share for an aggregate amount of EUR 250 million.

On 26 May 2016, 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 June 2016. The share buyback was deducted in full from Solvency II Own Funds in the second quarter of 2016. Up until the date of the announcement on 5 October 2016 of the intended offer for Delta Lloyd, share buybacks under this programme had been executed for an amount of EUR 167 million and had been suspended for an amount of EUR 333 million. Following the announcement on 23 December 2016 of the recommended public offer for Delta Lloyd, this remaining outstanding amount of EUR 333 million has been added back to Solvency II Own Funds as at 31 December 2016.

NN Group intends to neutralise the dilutive effect of stock dividends. Following payment of the 2015 final dividend on 28 June 2016 and the 2016 interim dividend on 9 September 2016, NN Group will repurchase ordinary shares for an amount of EUR 238 million, equivalent to the value of the stock dividends. These share buybacks will be executed under the programme by financial intermediaries by 31 May 2017. The remaining outstanding amount on 31 December 2016 was EUR 140 million.

The share buyback programme is being executed within the limitations of the existing authority granted by the AGM on 2 June 2016 and is being performed in compliance with the safe harbour provisions for share buybacks. The shares will be repurchased at a price that does not exceed the last independent trade or the highest current independent bid on Euronext Amsterdam. NN Group intends to cancel all of the share acquired under the programme. NN Group reports on the progress of the share buyback programme on its corporate website on a weekly basis (www.nn-group.com/Investors.htm).

In 2016, a total number of 18,139,783 ordinary shares for a total amount of EUR 515 million were repurchased. In June 2016, NN Group cancelled 7,808,135 treasury shares.

On 13 March 2017, the total number of NN Group shares outstanding (net 12,674,896 of treasury shares) was 322,176,475.

Credit ratings

On 11 April 2016 Fitch Ratings assigned NN Group's core life insurance subsidiary NN Life, an Insurer Financial Strength (IFS) rating of 'A+'. Fitch also assigned NN Group a Long-term Issuer Default Rating (IDR) of 'A' and ratings on the Subordinated debt at 'BBB'. On 7 October 2016, Fitch Ratings announced that NN Group's ratings and outlook were unaffected by NN Group's intended offer for Delta Lloyd. On 7 October 2016, Standard & Poor's announced that it had placed NN Group's ratings on CreditWatch negative following the offer on Delta Lloyd (last updated 4 January 2017, when Standard & Poor's maintained the rating on CreditWatch negative). The Baa2 rating by Moody's is on an unsolicited basis as from 18 May 2016.

Credit ratings on NN Group N.V. on 15 March 2017

	Financial Strength Rating	NN Group N.V. Counterparty Credit Rating
Standard & Poor's	A+ CreditWatch negative	A- CreditWatch negative
Fitch	A+ Stable	A Stable

Authorisation of the Consolidated annual accounts

The Consolidated annual accounts of NN Group N.V. for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Executive Board on 15 March 2017. The Executive Board may decide to amend the Consolidated annual accounts as long as these are not adopted by the General Meeting.

The General Meeting may decide not to adopt the Consolidated annual accounts, but may not amend these during the meeting. The General Meeting can decide not to adopt the Consolidated accounts, propose amendments and then adopt the Consolidated annual accounts after a normal due process.

The Hague, 15 March 2017

The Supervisory Board

J.H. (Jan) Holsboer, chair
D.H. (Dick) Harryvan, vice-chair
H.J.G. (Heijo) Hauser
R.W. (Robert) Jenkins
Y.C.M.T. (Yvonne) van Rooij
J.W. (Hans) Schoen
H.M. (Hélène) Vletter-van Dort

The Executive Board

E. (Lard) Friese, CEO, chair
D. (Delfin) Rueda, CFO, vice-chair

Parent company balance sheet

Amounts in millions of euros, unless stated otherwise

Parent company balance sheet

As at 31 December before appropriation of result	notes	2016	2015
Assets			
Investments in group companies	2	22,591	20,882
Other assets	3	5,540	4,774
Total assets		**28,131**	**25,656**
Equity	4		
Share capital		40	40
Share premium		12,153	12,153
Share of associates reserve		10,743	8,546
Retained earnings		-1,419	-1,835
Unappropriated result		1,189	1,565
Shareholders' equity		**22,706**	**20,469**
Undated subordinated notes	4	986	986
Total equity		**23,692**	**21,455**
Liabilities			
Subordinated debt	5	2,288	2,290
Other liabilities	6	2,151	1,911
Total liabilities		**4,439**	**4,201**
Total equity and liabilities		**28,131**	**25,656**

References relate to the notes starting on page 157. 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	2016	2015
Income including result group companies	1,344	1,731
Result on disposals of group companies	-4	
Other income	3	-12
Total income	**1,343**	**1,719**
Interest expenses	104	107
Other operating expenses	59	76
Total expenses	**163**	**183**
Result before tax	**1,180**	**1,536**
Taxation	-9	-29
Net result	**1,189**	**1,565**

Parent company statement of changes in equity

Parent company statement of changes in equity

	Share capital	Share premium	Share of associates reserve	Other reserves[1]	Shareholders' equity	Undated subordinated notes	Total equity
Balance as at 1 January 2016	**40**	**12,153**	**8,546**	**-270**	**20,469**	**986**	**21,455**
Unrealised revaluations available-for-sale investments and other			2,487	-62	2,425		2,425
Realised gains/losses transferred to the profit and loss account			-230		-230		-230
Changes in cash flow hedge reserve			406		406		406
Deferred interest credited to policyholders			-689		-689		-689
Share of other comprehensive income of associates and joint ventures			3		3		3
Exchange rate differences			-7		-7		-7
Remeasurement of the net defined benefit asset/liability			-13		-13		-13
Unrealised revaluations property in own use			-2		-2		-2
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**1,955**	**-62**	**1,893**	**0**	**1,893**
Net result for the period				1,189	1,189		1,189
Total comprehensive income	**0**	**0**	**1,955**	**1,127**	**3,082**	**0**	**3,082**
Transfers to/from associates			242	-242	0		0
Dividend				-298	-298		-298
Purchase/sale of treasury shares				-503	-503		-503
Employee stock option and share plans				-10	-10		-10
Coupon on undated subordinated notes				-34	-34		-34
Balance as at 31 December 2016	**40**	**12,153**	**10,743**	**-230**	**22,706**	**986**	**23,692**

1 Other reserves include Retained earnings and Unappropriated result.

Parent company statement of changes in equity
continued

Parent company statement of changes in equity

	Share capital	Share premium	Share of associates reserve	Other reserves[1]	Shareholders' equity	Undated subordinated notes	Total equity
Balance as at 1 January 2015	**42**	**12,098**	**9,008**	**-793**	**20,355**	**986**	**21,341**
Unrealised revaluations available-for-sale investments and other			-639	-69	-708		-708
Realised gains/losses transferred to the profit and loss account			-345		-345		-345
Changes in cash flow hedge reserve			-435		-435		-435
Deferred interest credited to policyholders			644		644		644
Share of other comprehensive income of associates and joint ventures			9		9		9
Exchange rate differences			188		188		188
Remeasurement of the net defined benefit asset/liability			28		28		28
Unrealised revaluations property in own use			-3		-3		-3
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-553**	**-69**	**-622**	**0**	**-622**
Net result for the period				1,565	1,565		1,565
Total comprehensive income	**0**	**0**	**-553**	**1,496**	**943**	**0**	**943**
Changes in share capital	-2	-2		4	0		0
Transfers to/from associates			91	-91	0		0
Capital contribution		57			57		57
Dividend				-251	-251		-251
Purchase/sale of treasury shares				-597	-597		-597
Employee stock option and share plans				5	5		5
Coupon on undated subordinated notes				-34	-34		-34
Changes in composition of the group and other changes				-9	-9		-9
Balance as at 31 December 2015	**40**	**12,153**	**8,546**	**-270**	**20,469**	**986**	**21,455**

1 Other reserves 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.

Due to an amendment to the Dutch Civil Code, NN Group is no longer permitted to present a condensed parent company profit and loss account under Section 402 of Part 9 of Book 2 of the Dutch Civil Code. Therefore, as of 2016 the parent company profit and loss account is presented in a full, uncondensed, format. In line with the requirements for an accounting policy change, the comparatives for the year 2015 are presented in the new format as well.

A list containing the information referred to in Article 379 (1), Book 2 of the Dutch Civil Code has been filed with the Commercial Register of the Chamber of Commerce in Amsterdam in accordance with Article 379 (5), Book 2 of the Dutch Civil Code.

Changes in balance sheet values due to changes in the revaluation reserves of associates are reflected in the 'Share of associates reserve', which forms part of shareholders' equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with NN Group accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these associates, other than those due to changes in share capital, are included in the 'Share of associates reserve'.

A legal reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the 'Share of associates reserve'.

2 Investments in group companies

Investments in group companies

		Interest held 2016	Balance sheet value 2016	Interest held 2015	Balance sheet value 2015
NN Insurance Eurasia N.V.	Amsterdam, the Netherlands	100%	21,988	100%	20,731
Nationale-Nederlanden Bank N.V.	The Hague, the Netherlands	100%	514		
NN Insurance International B.V.	The Hague, the Netherlands	100%	81	100%	136
NN Internationale Schadeverzekeringen S.E.	London, United Kingdom	100%	8	100%	15
Investments in group companies			**22,591**		**20,882**

In 2016, Nationale-Nederlanden Bank N.V. was internally transferred and became a direct subsidiary of NN Group N.V.

Changes in investments in group companies

	2016	2015
Changes in investments in group companies – opening balance	20,882	21,170
Revaluations	1,880	-589
Result of group companies	1,294	1,669
Capital contributions	38	77
Dividend and repayments	-2,101	-1,445
Changes in the composition of the group and other changes	598	
Changes in investments in group companies – closing balance	**22,591**	**20,882**

3 Other assets

Other assets

	2016	2015
Receivables from group companies	1,319	1,557
Cash	2,352	2,749
Other receivables	1,869	468
Other assets	**5,540**	**4,774**

As at 31 December 2016, an amount of EUR 1,598 million (2015: EUR 1,719 million) is expected to be settled after more than one year from the balance sheet date.

4 Equity

Equity

	2016	2015
Share capital	40	40
Share premium	12,153	12,153
Share of associates reserve	10,743	8,546
Retained earnings and unappropriated result	-230	-270
Shareholders' equity	**22,706**	**20,469**
Undated subordinated notes	986	986
Total equity	**23,692**	**21,455**

As at 31 December 2016, share premium includes an amount of EUR 6,140 million (2015: EUR 6,141 million) exempt from Dutch withholding tax.

Share capital

	Shares (in number)		Ordinary shares (Amounts in millions of euros)	
	2016	2015	2016	2015
Authorised share capital	700,000,000	700,000,000	84	84
Unissued share capital	365,148,629	366,447,128	44	44
Issued share capital	**334,851,371**	**333,552,872**	**40**	**40**

For details on the changes in share capital, share premium and warrants, reference is made to Note 13: 'Equity' in the Consolidated annual accounts.

Changes in Retained earnings and unappropriated result (2016)

	Retained earnings	Unappropriated result	Total
Retained earnings and unappropriated result – opening balance	-1,835	1,565	-270
Net result for the period		1,189	1,189
Unrealised revaluations	-62		-62
Transfer to/from share of associates reserve	-242		-242
Transfer to/from retained earnings	1,565	-1,565	0
Dividend	-298		-298
Purchase/sale of treasury shares	-503		-503
Employee stock option and share plans	-10		-10
Coupon on undated subordinated notes	-34		-34
Retained earnings and unappropriated result – closing balance	**-1,419**	**1,189**	**-230**

Changes in Retained earnings and unappropriated result (2015)

	Retained earnings	Unappropriated result	Total
Retained earnings and unappropriated result – opening balance	-1,381	588	-793
Net result for the period		1,565	1,565
Unrealised revaluations	-69		-69
Transfer to/from share of associates reserve	-91		-91
Transfer to/from retained earnings	588	-588	0
Dividend	-251		-251
Purchase/sale of treasury shares	-597		-597
Employee stock option and share plans	5		5
Coupon on undated subordinated notes	-34		-34
Changes in the composition of the group and other changes	-5		-5
Retained earnings and unappropriated result – closing balance	**-1,835**	**1,565**	**-270**

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

Share of associates reserve

	2016	2015
Unrealised revaluations within consolidated group companies	10,227	8,321
Currency translation reserve	10	-24
Net defined benefit asset/liability remeasurement reserve	-103	-90
Reserve for non-distributable retained earnings of associates	555	313
Revaluations on investment property and certain participations recognised in income	54	26
Share of associates reserve	**10,743**	**8,546**

Positive components of the Share of associate reserve of EUR 10,846 million (2015: EUR 8,660 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

	2016		2015	
Total shareholders' equity		22,706		20,469
Share capital	40		40	
Positive components of Share of associates reserve	10,846		8,660	
Total non-distributable part of shareholders' equity		**10,886**		**8,700**
Distributable reserves based on the Dutch Civil Code		**11,820**		**11,769**

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

	2016		2015	
Solvency requirement under the Financial Supervision Act	5,459		4,663	
Reserves available for financial supervision purposes	13,149		14,914	
Total freely distributable reserves on the basis of solvency requirements		7,690		10,251
Total freely distributable reserves on the basis of the Dutch Civil Code		11,820		11,769
Total freely distributable reserves (lower of the values above)		**7,690**		**10,251**

Reference is made to Note 53 'Capital and liquidity management' for more information on solvency requirements and the 2016 change from Solvency I to Solvency II capital requirement.

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 53 'Capital and liquidity management' in the Consolidated annual accounts for the minimum capital requirements.

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

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

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

Undated subordinated notes

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

5 Subordinated debt

Subordinated debt

				Notional amount		Balance Sheet Value	
Interest rate	Year of issue	Due date	First call date	2016	2015	2016	2015
4.625%	2014	8 April 2044	8 April 2024	1,000	1,000	988	986
6.375%	2002	7 May 2027	7 May 2017	476	476	477	481
Variable	2007	Perpetual	Redeemed January 2017	506	506	506	506
Variable	2005	Perpetual	Redeemed January 2017	169	169	169	169
Variable	2005	Perpetual	Redeemed January 2017	148	148	148	148
Subordinated debt						**2,288**	**2,290**

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 except for the Subordinated debt with a Notional amount of EUR 476 million. All subordinated debt is euro denominated.

Reference is made to Note 51 'Other events' for more disclosure on the Subordinated debt.

6 Other liabilities

Other liabilities

	2016	2015
Debt securities issued	598	597
Amounts owed to group and parent companies	1,480	1,238
Other amounts owed and accrued liabilities	73	76
Other liabilities	**2,151**	**1,911**

Amounts owed to group and parent companies by remaining term

	2016	2015
Within 1 year	1,195	1,238
More than 1 year but less than 5 years	285	
Amounts owed to group and parent companies	**1,480**	**1,238**

7 Other

NN Group N.V. has issued statements of liability in connection with Article 403, Book 2 of the Dutch Civil Code and other guarantees (mainly funding and redemption guarantees) for group companies.

Reference is made to the Consolidated annual accounts for the number of employees, audit fees and remuneration of the Executive Board, the Management Board and the Supervisory Board.

Authorisation of the Parent company annual accounts

The Parent company annual accounts of NN Group N.V. for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Executive Board on 15 March 2017. The Executive Board may decide to amend the Parent company annual accounts as long as these are not adopted by the General Meeting.

The General Meeting may decide not to adopt the Parent company annual accounts, but may not amend these during the meeting. The General Meeting can decide not to adopt the Parent company accounts, propose amendments and then adopt the Parent company annual accounts after a normal due process.

The Hague, 15 March 2017

The Supervisory Board

J.H. (Jan) Holsboer, chair
D.H. (Dick) Harryvan, vice-chair
H.J.G. (Heijo) Hauser
R.W. (Robert) Jenkins
Y.C.M.T. (Yvonne) van Rooij
J.W. (Hans) Schoen
H.M. (Hélène) Vletter-van Dort

The Executive Board

E. (Lard) Friese, CEO, chair
D. (Delfin) Rueda, CFO, vice-chair

Independent auditor's report

To: the Annual General Meeting of Shareholders and the Supervisory Board of NN Group N.V.

Report on the audit of the 2016 annual accounts

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 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands 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 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the annual accounts 2016 of NN Group N.V., officially based in Amsterdam and headquartered in The Hague, as set out on pages 31 to 162. 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 2016;
2 the following consolidated statements for 2016: 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 2016;
2 the parent company profit and loss account for 2016;
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 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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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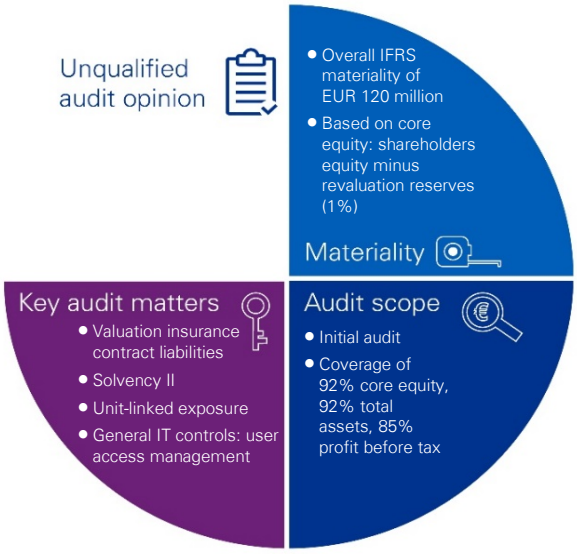
Audit approach

Summary



Initial audit

The year 2016 was the first year we have audited the annual accounts of NN Group, therefore we provide more information on how we prepared for the initial audit.

Before commencing our audit work in October 2015, KPMG member firms, their partners and staff ensured that we were independent of the Group. This involved ceasing commercial relationships and changing financial arrangements for all our partners and for staff who work on the audit of the Group.

From October 2015 and throughout the 2015 year-end process, we worked alongside the former auditors, attending their key meetings with the Group and understanding the complex or significant audit judgements which they made. Members of the audit team met with the Group's Executive Board, Management Board and other key senior executives to understand the issues faced by the business, and to gather information which we required to plan our audit. During this phase we also reviewed key accounting papers and the 2015 annual accounts to ensure we agreed with the key accounting policies. We also attended the Audit Committee and Risk Committee meetings of the Group.

In December 2015, we hosted a two day meeting of the partners and staff from KPMG member firms who undertake audits of the most significant group entities. The meeting was also attended by the Executive Board and senior executives from across the Group that have a key role in the Group's financial reporting, risk management and internal audit. This meeting ensured that we would have a consistent approach to the audit internationally, assisted in our determination of the significant risks and presented an opportunity for those partners and staff to collect valuable information directly from the Group's management.

We also reviewed the working papers of the former auditors, to help familiarise ourselves with the controls on which they relied for the purposes of issuing their opinion, and to understand the evidence they obtained over key judgements. We also obtained sufficient audit evidence over the opening balances of the 2016 accounts.

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Materiality

Based on our professional judgment we determined the materiality for the annual accounts as a whole at EUR 120 million. The materiality is determined with reference to core equity (shareholders equity minus the revaluation reserves) and amounts to 1% of core equity. We 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 qualitative reasons for the users of the annual accounts.

We agreed with the Audit Committee of the Supervisory Board that misstatements in excess of EUR 6 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

The Group is head of a group of entities. The financial information of the Group is included in the consolidated annual accounts of NN Group N.V. The Group is structured along 7 segments: Netherlands Life, Netherlands Non-Life, Insurance Europe, Japan Life, Asset Management, Other and Japan Closed Block Variable Annuity (CBVA), each comprising of multiple legal entities and/or covering different countries, except for Japan Life and Japan CBVA.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities.

Our group audit mainly focuses on significant group entities. Significant group entities ('components') are those administrative entities that are either individually financially significant due to their relative size compared to Group or because we assigned a significant risk of material misstatement to one or more account balances of the administrative entities. In addition we include certain group entities in the scope of our group audit in order to arrive at a sufficient coverage over all the relevant significant account balances.

Applying these scoping criteria led to a full or specific scope audit for 22 components, in total covering 9 countries. This resulted in a coverage of 92% of core equity, 85% of profit before tax and 92% of total assets. For the remaining components, we performed analytical procedures at the aggregated group level in order to corroborate our assessment that there are no significant risks of material misstatement within these remaining components.

All components in scope for group reporting are audited by KPMG member firms. We sent 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. We visited component locations in The Netherlands, Japan, Spain, Poland and Greece, where we discussed the audit work performed with the local audit teams and performed detailed file reviews. For all components in scope of the group audit we held conference calls and/or physical meetings with the auditors of the components. At 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 further work deemed necessary by the group audit team was then performed.

The group audit team has set component materiality levels, which ranged from EUR 1 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 performed 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, goodwill impairment testing, equity, group financing, personnel and other administrative expenses in The Netherlands, certain elements of the Solvency II calculations (SCR), corporate income tax for the Dutch fiscal unity and claims and litigation.

By performing the procedures mentioned above at group entities, 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.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the 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.

Estimates used in the valuation of insurance contract liabilities and the Reserve Adequacy Test (RAT)
Description NN Group has insurance contract liabilities of EUR 113 billion representing 78% of its total liabilities. The valuation of the insurance 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 cost, are adequate in the context of the expected future cash flows. Based on relative size and risk profile, the RAT for Netherlands Life and the Japan CBVA business are the most important. The Netherlands Life RAT in respect of the individual and group pension business requires the application of significant management judgement in the setting of the longevity, expense and reinvestment rate assumptions. Further, the valuation of guarantees in the Japan CBVA business involves exercising judgement on policyholder behaviour in response to developments in the financial markets, and the run off of the portfolio. Given the financial significance and the level of judgement required, we considered this to be a key audit matter.
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, recognition and amortisation of deferred acquisition costs, the governance and controls around assumption setting and the review procedures performed on the RAT by the Group Chief Actuary. In

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Estimates used in the valuation of insurance contract liabilities and the Reserve Adequacy Test (RAT)
our audit we also considered the process around the internal validation and implementation of the models used to determine the insurance contract liabilities and the RAT. With the assistance of our actuarial specialists we performed the following substantive audit procedures: - Assessing the appropriateness of assumptions used in the valuation of the Netherlands individual life and pension contracts by reference to company and industry data and expectations of investment returns, future longevity and expense developments. - Assessing the appropriateness of the non-economic assumptions used in the valuation of the Japan CBVA guarantees in relation to lapse or extension assumptions by reference to company specific and industry data. - Assessing the appropriateness of the data, assumptions and methodologies applied in the RAT. - Analysis of developments in actuarial results and movements in reserve adequacy during the year for each of the reporting (insurance) segments 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 at the 90th percentile confidence level, including challenge on the appropriateness of the methodology applied to substantiate that conclusion. NN Group reports a change in accounting policy relating to the RAT, applicable as from 1 January 2017. We assessed the supporting documentation for the proposed change in accounting policy.
Our observation Overall we found that management estimated the valuation of the insurance contract liabilities, net of deferred acquisition costs, in an appropriate manner. We also found the related RAT disclosure to be adequate. Refer to Notes 10, 17 and 33 of the annual accounts. We draw attention to the fact that the unrealised revaluations on available for sale investments backing the insurance contact liabilities are recorded in shareholders equity and show a significant increase in 2016 as a result of decreased interest rates. To the extent that available for sale investments are being sold, the sales proceeds will be reinvested to back the liabilities with lower yields. As a result, the excess in the reserve adequacy would decrease. In other words: if these unrealised revaluations were to be fully realised, the capital gains would only be partly available to shareholders, since a portion of the gains would be required to strengthen the insurance reserves in order to remain adequate at the 90th confidence level. We evaluated the disclosure of the change in accounting policy relating to the RAT applicable as from 1 January 2017 onwards and found the disclosure to be adequate. We refer to page 40.

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 estimated or quantified at this point. Refer to Note 45 of the annual accounts. Due to the potential significance and management judgement that is required to assess the developing fact pattern, we consider this a key audit matter.

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Unit-linked exposure

Our response

Our audit procedures primarily consisted of the following:

- An assessment of NN Group's governance, processes and internal controls with respect to the unit-linked exposures within its business units, in particular NN Life in The Netherlands.
- An inspection of the documentation and a discussion about the unit-linked exposures with management and its internal and external legal advisors. These procedures took into account NN Group's specific developments as well as broader market developments in 2016.
- A detailed consideration 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.
- An evaluation of the unit-linked disclosure in Note 45 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 no provision is recognised in the 31 December 2016 balance sheet, is sufficiently substantiated. This also applies to the Solvency II calculations made by management at the end of 2016.
The disclosure of the exposure in Note 45 describes the related risks and management judgements in compliance with the relevant accounting requirements.

General IT controls: user access management

Description

The Group is highly dependent on its IT-infrastructure for the reliability and continuity of its operations and financial reporting. In 2016 the Group made significant efforts to improve IT systems and processes to increase the reliability and continuity of the IT processing.

In particular there was increased management attention on information security. This is important to ensure that access and changes to applications and data are properly authorised and made in an appropriate manner. We have therefore identified the effectiveness of user access management as part of the general IT controls a key audit matter.

Our response

Our audit approach relies to a large extent on automated controls and therefore procedures are designed to test access controls over IT systems. Given the IT technical characteristics of this part of the audit, we involved our IT audit specialists in all stages of the annual accounts audit (risk assessment, planning, execution and reporting).

Our IT auditors assessed the reliability and continuity of the IT environment, insofar as needed within the scope of our audit of the 2016 annual accounts. We assessed and tested the design and operating effectiveness of the controls over the integrity of the IT systems relevant for financial reporting. We examined the framework of governance over the Group's IT organisation and the IT general controls, access to programs and data, program changes and IT operations, including compensating controls where those were required. We also examined the Group's response to cyber risk in relation to highly critical infrastructure for financial reporting.

Inappropriate access to an application or infrastructure could impact an automated control and therefore compromise financial data. In our evaluation of IT related findings, we considered the impact on the risk of error as well as the risk of fraud taking into account the compensating controls and additional analyses performed by management.

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General IT controls: user access management
A particular area of focus related to the logical access management and segregation of duties controls. Access rights were tested to the extent relied upon for financial reporting and this resulted in the identification of a number of control weaknesses. As a consequence we have performed additional test work over management's remediation of user access controls. For those control weaknesses that were not remediated, we tested compensating controls that were not impacted by ineffective user access management controls. For certain applications we substantively assessed (can do – did do analysis) the access to determine whether inappropriate access occurred and whether changes made were appropriate. To the extent required for the audit of the annual accounts, we also applied forensic data analytical procedures with regard to the payments factory in The Netherlands to mitigate the risk of fraud associated with the observed ineffective internal controls. Finally we performed additional audit procedures to test the effectiveness of management's response to identified IT security breaches to satisfy ourselves this was appropriate in the context of the audit of the annual accounts.
Our observation The combination of the tests of controls and the substantive tests performed provided sufficient appropriate evidence for the purposes of our audit.

Adequacy of Solvency II Capital Requirement disclosure
Description As disclosed in the risk management and capital management section of the annual accounts, the new Solvency II directive that came into force on 1 January 2016 has a significant impact on the NN Group. We refer to Notes 52 and 53. The Own funds and Solvency Capital Requirement (SCR) are the main metrics of the Solvency II prudential reporting framework. The calculation of both metrics is complex and highly judgmental and is based on assumptions which are affected by (future) economic, demographic and political 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 its insurance subsidiaries in The Netherlands. Disclosure of the determination of the metrics, applied assumptions and sensitivity (use of the Ultimate Forward rate) are considered relevant information for understanding the Solvency II metrics. Given the importance of this new legislation for NN Group and complexity of the application and estimates to determine the Solvency II capital requirements, we determined the adequacy of the Solvency II Capital Requirement disclosure to be a key audit matter.
Our response We obtained an understanding of the company's application and implementation of the new Solvency II directive and designed our audit procedures taking into account the NBA practice guidance in Audit Alert 40. As prescribed by this technical guidance, we have set a separate materiality for the audit of the Solvency II capital position. The materiality level applied is EUR 160 million. Due to diversification effects we consider this level of materiality appropriate also in relation to the materiality level (EUR 120 million) we use in the audit of the IFRS financial information. We have assessed the design and operating effectiveness of the internal controls over the Solvency II Capital Requirement calculations, including the company's methodology, model and assumption approval processes (including the approval of the PIM by the Dutch regulator, DNB) and management review controls. These internal controls covered, amongst other:

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Adequacy of Solvency II Capital Requirement disclosure
- 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 approved by DNB. - the appropriateness of assumptions used for the calculations of 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. - the functioning of the Solvency II key functions on risk management and actuarial function. - the reporting of the Own Risk Self-Assessment (ORSA) to the Group's Management and Supervisory Board, and then to DNB. Based on the outcome of our assessment of the effectiveness of the internal controls, we performed amongst others 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. - Verifying that the PIM as approved by DNB was applied in the Solvency Capital calculations. - 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 2016 and discussing the outcome with the company's actuaries and Group Chief Actuary. - Verifying the reconciliation between the disclosures in the annual accounts to the output of the internal reporting on Solvency II, such as ORSA. 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 147.
Our observation Based on the work performed we found that the disclosure on the Solvency II capital requirement sufficiently reflects the requirements of the Solvency II regulatory framework.

Report on the other information included in the annual report

In addition to the annual accounts and our auditor's report thereon, the annual report contains other information that consists of:

- the Report of the Executive Board ('Annual Review');
- other information in the Financial Report, amongst others including the Corporate Governance Report and the Report of the Supervisory Board; and
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Based on the below procedures performed, we conclude that the other information:

- is consistent with the annual accounts and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Netherlands 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 Netherlands Civil Code and the Dutch Auditing Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the annual accounts.

Management is responsible for the preparation of the other information, including the Report of the Executive Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

On 28 May 2015 we were engaged by the Annual General Meeting of Shareholders as auditor of NN Group for the financial years 2016 through 2019.

Description of the responsibilities for the annual accounts

Responsibilities of the Executive Board and 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 with Part 9 of Book 2 of the Netherlands 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 errors or fraud.

As part of the preparation of the annual accounts, the Executive Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Executive Board should prepare the annual accounts using the going concern basis of accounting unless the Executive Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the annual accounts.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of annual accounts

Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in 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.

For a further description of our responsibilities in respect of an audit of annual accounts we refer to the website of the professional body for accountants in the Netherlands (NBA): https://www.nba.nl/Documents/Tools%20Vaktechniek/Standaardpassages/Standaardpassage_nieuwe_controletekst_oob_variant_%20Engels.docx.

Amstelveen, 15 March 2017

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 on the proposal of the Executive Board, as approved by the Supervisory Board. Reference is made to Note 13 'Equity' for the proposed appropriation of result.

Contact and legal information

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For further information on NN Group's strategy, policies and performance, visit **www.nn-group.com**

We welcome input from our stakeholders. If you would like to provide us with feedback, please feel free to contact us via external.communications@nn-group.com

Disclaimer

NN Group's 2016 Annual Report consists of two documents: the 2016 Annual Review and the 2016 Financial Report. More information – for example the GRI Index Table and the case studies – is available on the corporate website in the Investors/Annual report section. Later in 2017, in accordance with the relevant deadlines, the SFCR will be published on the corporate website as well.

Certain of the statements in this 2016 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 eurozone, (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, (13) changes in the policies 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 us 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 and (18) the other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by NN Group and/or related to NN Group.

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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