

Governance and risk management

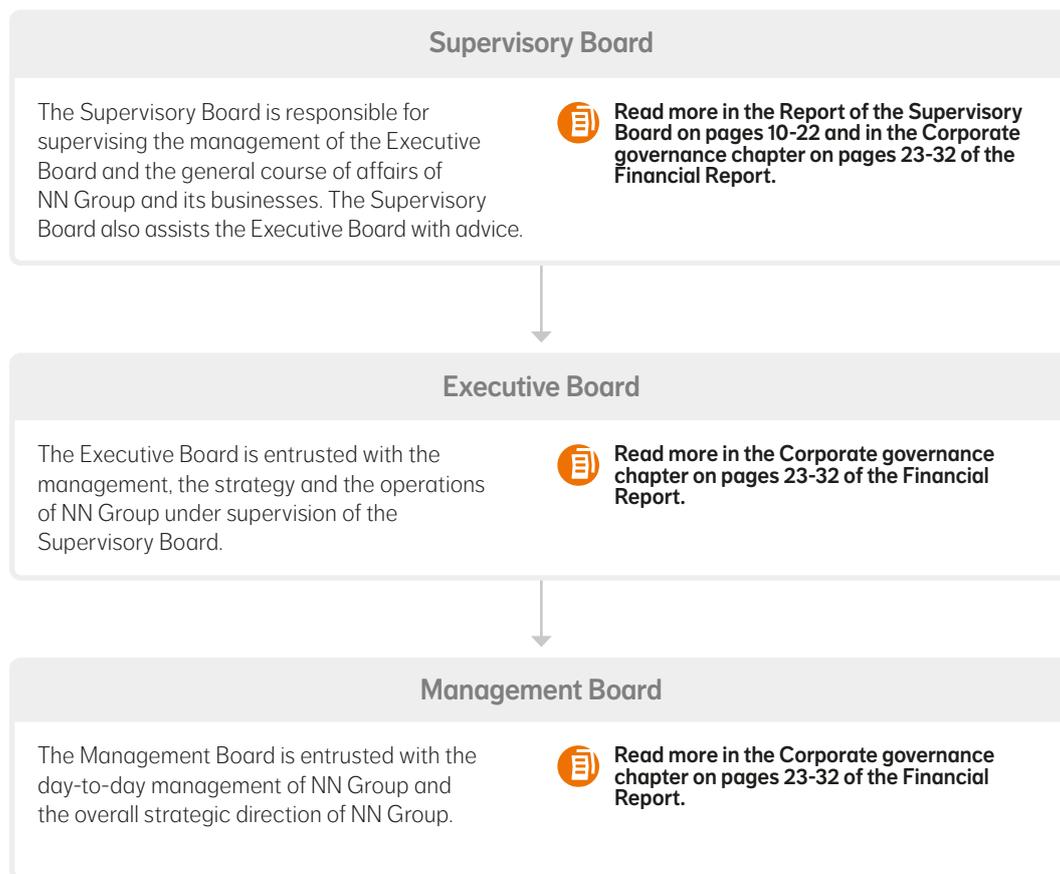


Our governance structure ensures we act with the interests of our group and all our stakeholders in mind, and that we comply with relevant regulations. Strong risk management is essential for the successful execution of our business plans and for achieving our strategic commitments.

Governance and risk management – How we are organised

How we are organised

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



The interests of NN Group and our stakeholders

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

Dutch Corporate Governance Code

NN Group is subject to the Dutch Corporate Governance Code (the Code). The application of the Code by NN Group during the financial year 2020 is described in the publication Application of the Dutch Corporate Governance Code by NN Group, dated 10 March 2021, which is available on the website of NN Group. This publication is to be read in conjunction with the Corporate governance chapter on pages 23-32 of the Financial Report.

NN Group Compliance Function Charter

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

Governance and risk management – Our Management Board

Our Management Board

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



David Knibbe Chief Executive Officer and chair of the Executive Board and Management Board

Nationality: Dutch
Date of birth: 1971



Delfin Rueda Chief Financial Officer and vice-chair of the Executive Board and Management Board

Nationality: Spanish
Date of birth: 1964



Satish Bapat Chief Executive Officer NN Investment Partners

Nationality: Dutch, Indian
Date of birth: 1966



Tjeerd Bosklopper Chief Executive Officer Netherlands Non-life, Banking and Technology

Nationality: Dutch
Date of birth: 1975



Bernhard Kaufmann Chief Risk Officer

Nationality: German
Date of birth: 1969



Dailah Nihot Chief Organisation and Corporate Relations

Nationality: Dutch
Date of birth: 1973



Leon van Riet Chief Executive Officer Netherlands Life & Pensions

Nationality: Dutch
Date of birth: 1964



Fabian Rupprecht Chief Executive Officer International Insurance

Nationality: German, Swiss
Date of birth: 1969



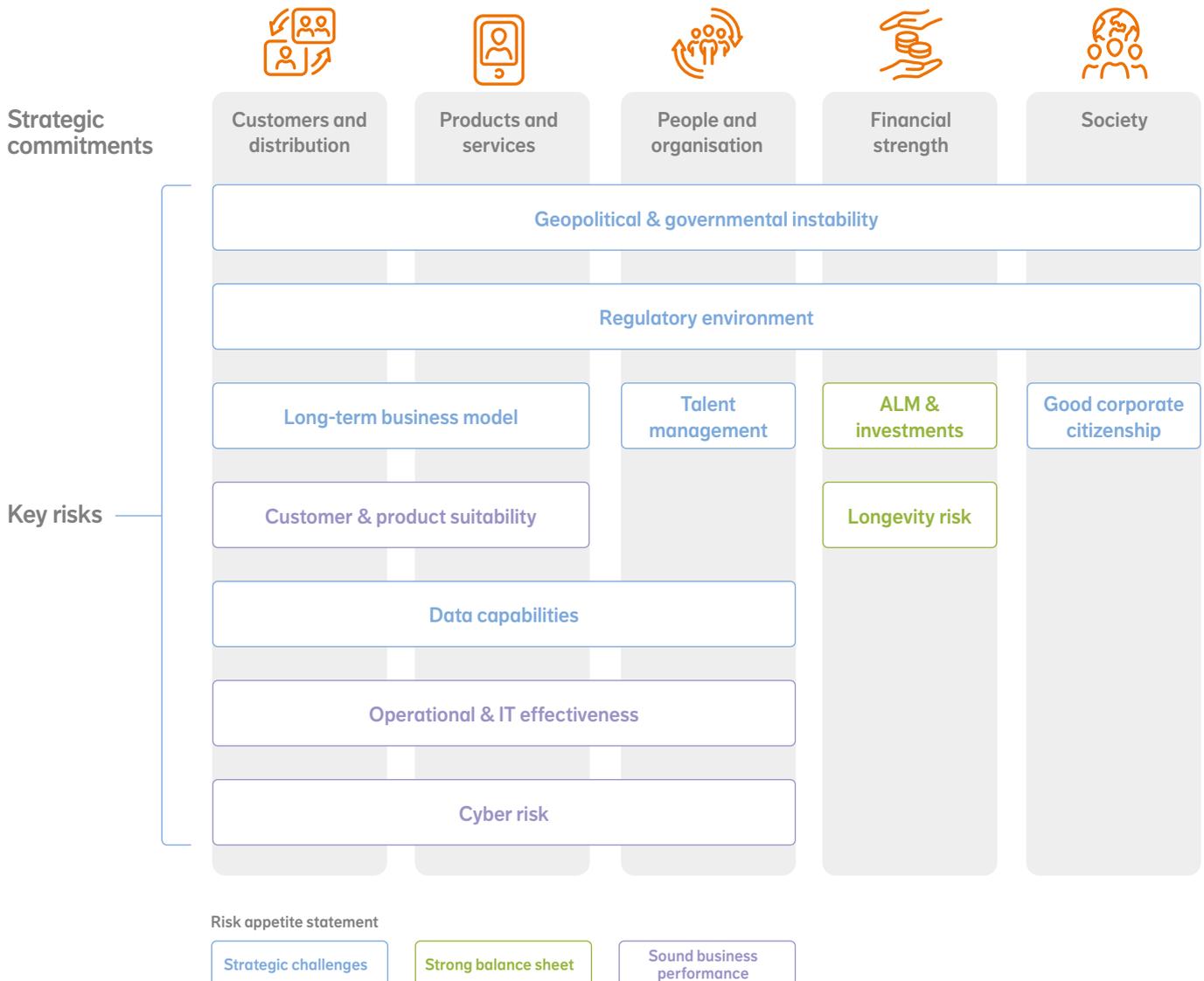
Janet Stuijt General Counsel

Nationality: Dutch
Date of birth: 1969

 Read more about our Management Board on pages 23–42 of the Financial Report.

Managing our risks

Strong risk management is important for the successful execution of our business plan, and for achieving our strategic commitments. In these times, increased levels of uncertainty require us to remain alert, monitor the developments in our operating environment, and act where necessary.



On a regular basis, we identify the key risks related to our strategy. We use a variety of inputs, such as the material topics identified by our stakeholders, macroeconomic reports, risks identified by the management boards of our business units and by the CRO Forum (a group of professional risk managers from the insurance industry).

In 2020, we paid specific attention to risks related to our new strategy and to the Covid-19 pandemic. For each set of risks, we define our risk appetite: how much risk we are willing to take. This covers three main areas: **Strategic challenges**, **Strong balance sheet**, and **Sound business performance**.

Governance and risk management – Managing our risks continued

Below we provide more information on our key risks and how we manage them. Where relevant, we discuss how the Covid-19 pandemic impacts the risks. Note 51 on Risk management in our Annual Accounts includes further details on NN's overall approach to risk management and our financial and non-financial risk exposures.

Strategic challenges:

We manage our businesses on a risk-return basis, in order to meet strategic objectives and the interests of our stakeholders.

Key development

How we manage risks

Geopolitical and governmental instability: risk of disintegration of existing economic and political systems and structures, driven by shifting power balances or nationalism, leading to protectionist behaviour, reduced economic prospects or geopolitical instability.

(Geo)political developments can have severe impact on both the economic as well as the regulatory environment in which we operate. We manage this risk by ensuring a strong solvency and liquidity position, and by holding investments with a high allocation to bonds of highly-rated European countries with relatively strong economies and whose sovereigns are considered a safe haven in times of crisis, and with a low exposure to the financial sector. We closely follow developments in international markets, and managing our asset exposures using a system of concentration limits on amongst others sovereign and country exposures, which are subject to regular review and monitoring.

Regulatory environment: risk of adverse changes to regulations or increased supervisory scrutiny that can have a profound impact on our business, products, regulatory solvency position and/or performance (e.g. IFRS 9 and 17, taxes, Solvency II regulation, crisis measures, sustainability related legislation).

Political and regulatory developments may significantly impact our businesses, for example through revised solvency regulations, tax reforms or business regulations. Major developments in this area are the ongoing Solvency II review, implementation of IFRS 9 and 17, new pension regulations in the Netherlands, and new regulations around sustainability. ESG considerations have been part of NN's way of doing business for a long time, and are at the heart of NN's updated strategy. We follow the development of regulations closely, regularly assessing their potential impact on our business. We actively manage our relationships with regulators and supervisors to ensure NN can make an effective contribution to legislative processes and any concerns are consistently raised in relevant forums.

Long-term business model: risk of not adapting our business model in time to the changing world around us (e.g. changing customer behaviour or demographics, low-interest environment, new entrants/partnerships/markets, technical disruption, impact of climate change).

To manage this risk we need to stay relevant as a company to customers, now and in the longer run, by timely adapting to new developments, managing our operations efficiently using new technologies, or by creating economies of scale.

Sustained low interest rate levels impact our current balance sheet and new sales. Products that offer options and guarantees based on available returns in the market are less attractive to customers given low interest rates and the associated low yields. We adjust our product offerings, investment strategy and asset & liability management for this.

We focus on being a customer-centric, data-driven company by evolving current skills, while further developing capabilities and our entrepreneurial mindset to meet changing customer demands, and stay competitive and relevant in the future.

Climate change is an emerging risk to NN Group, given that we are predominantly a life insurer, and consists of physical and transition risks. Physical risks may impact our investment portfolio, or customer properties. Also there is risk related to transition to lower carbon economies which may adversely affect individual businesses, sectors and the broader economy, thereby having an impact on our investment portfolio. NN performs climate scenario analyses to create more insight into specific drivers of climate-related risks and opportunities. Read more in **Our response to the Task Force on Climate-related Financial Disclosures** (pages 50-53) and our Carbon Footprint report.

Talent management: risk of not being able to attract, retain and pay world class talent in competition with players within and outside our industry.

NN proactively invests in personal and professional development throughout the careers of our people. We help them build valuable networks, explore career paths, offer long- and short-term internal assignments, and job rotation schemes. We have also introduced agile working methods to give individuals and teams more flexibility in performing and prioritising their activities. We composed a new leadership profile, called i-LEAD, based on which our management is trained to coach and manage our people.

We monitor employee engagement through regular surveys and benchmarks. Read more in **Empowering our people to be their best** (pages 29-31).

Governance and risk management – Managing our risks continued

Key development	How we manage risks
<p>Data capabilities: risk of not having best-in-class big data capabilities for pricing, underwriting and distribution, in light of value chain disintermediation and growing attention for data privacy.</p>	<p>To achieve our strategic commitments, we continue to develop an agile, digital mindset within the company, as well as investing in excellent data capabilities (e.g. Artificial Intelligence, use of big data). These require different (technology-related) skills and ways of working, strengthening pricing and underwriting teams, implementing a data strategy within Non-life, and rolling-out an extensive training programme in all our businesses.</p>
<p>Good corporate citizenship: risk that NN Group does not adequately balance stakeholder interests, or deviates from society's evolving norms and values, in areas such as responsible investments, environmental protection, equality, inclusion, taxes and remuneration, leading to reputational damage.</p>	<p>Long-term value creation for all stakeholders is at the core of our new strategy. Society's norms and values are evolving rapidly and not always codified in formal legislation. By responding adequately to increased stakeholder expectations we have the opportunity to improve our business, to create long-term value, and to strengthen our brand and reputation towards customers, investors and employees, and the broader society. This is why we integrate ESG criteria into our decision-making by formulating clear policies and monitoring adherence, for example through our Responsible Investment Framework Policy, Remuneration Framework and Tax Risk Management Policy.</p> <p>Read more in Creating a positive impact on society (pages 36-40) and Our response to the Task Force on Climate-related Financial Disclosures (pages 50-53).</p>
<p>Strong balance sheet: This facilitates sound financial business performance – we want to avoid having to raise equity capital after a moderate stress event or being a forced-seller of assets when markets are distressed.</p>	
Key development	How we manage risks
<p>Asset & Liability Management (ALM) and investments: risk of reduced available capital due to financial market turmoil or missed investment opportunities.</p>	<p>Market risk is taken in pursuit of returns for the benefit of customers and shareholders. As part of the new strategy, we started the process of shifting to higher-yielding assets, partly replacing low-yielding sovereign bonds, and financed by the sale and redemption of sovereign bonds. The Covid-19 pandemic has created volatility and uncertainty in financial markets. At selected moments, NN however used opportunities to additionally invest in higher-yielding assets.</p> <p>Market risks are managed within clearly-defined and monitored limits and tolerances, and with the option to reduce downside risk through hedging programmes. In addition, our strategic asset allocation aims to optimise capital generation within the boundaries of adequate diversification, acceptable risk levels and cash flow matching mismatch limits.</p>
<p>Longevity risk: risk of higher technical provisions or required capital if life expectancy increases faster than expected.</p>	<p>NN Group's pension and guarantee product portfolios are exposed to longevity risk, especially in the Netherlands. In May 2020, NN Life successfully completed three re-insurance transactions to transfer longevity risk. NN will actively explore further opportunities to manage longevity risk. We also actively manage our exposure by continuing to move from defined benefit (DB) to defined contribution (DC) products, and repricing and renewing old DB products into new DC products. Read more in Financial Report Note 51 on Risk Management.</p>

Governance and risk management – Managing our risks continued

Sound business performance:

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

Key development

How we manage risks

Customer and product suitability: risk that products do not appropriately cover customers' interests over the full product lifetime.

Product suitability is essential to our relationship with customers and creating longer-term value for our stakeholders. NN's Product Policy covers product requirements, including specific requirements on customer suitability. Our NN Code of Conduct states what we expect from our employees and business partners in terms of behaviour. Also Product Approval and Review Processes and product risk committees are in place to oversee product design, customer suitability, sound underwriting and claims management, and adequate pricing of existing and new products.

The current Covid-19 environment impacts many of our customers, which may lead to increased risks, such as difficulties in paying premiums or mortgages. NN is helping customers and business partners through specific actions, such as via providing temporary payment breaks for premiums, mortgages or consumer loans. Read more on NN's Covid-19 related initiatives to support customers and employees (page 7).

Operational and IT effectiveness: risk of material failures in processes or IT systems leading to higher expenses, operational losses, disruption of operations or reputational damage.

NN wants to become a more agile organisation, with the ability to respond faster to relevant developments, and by encouraging an entrepreneurial mindset. At the same time, risks must be managed well. We therefore use a risk control framework which ensures risks are understood and managed through effective controls, and that robust processes are in place that demonstrate the effectiveness of controls, and compliance with policies, standards and governance. Read more in the **Financial Report**, Note 51 on **Risk Management**.

Cyber risk: risk of cybersecurity attacks, leading to misuse or loss of information (including personal data breaches), discontinuity of operations, or financial or reputational loss.

Technological developments are reshaping our business model and impacting our operations. Increasing data volumes, mobilising data access, and making IT more agile and flexible have helped drive the adoption of cloud services. Working from home, as well as increased use of digital channels by clients and agents, increases our dependency on IT and proper business continuity measures. At the same time, the Covid-19 pandemic has led to an acceleration of digitalisation trends and the use of (new) technologies.

The Chief Information Officer and Information & Infrastructure Security functions ensure business continuity management, cyber-risk management and business information security via standardised, internationally-accepted frameworks, norms and technical guidelines that form the basis for managing IT and cyber risks within NN Group. For managing dependencies with external third parties, NN has an outsourcing policy and framework in place.