

Our operating environment



The world around us

As an international financial services company, we are part of and impacted by a wide range of longer-term economic, geopolitical, social, regulatory and technological developments. We monitor these developments closely, and take them into account as we shape our business model and strategic priorities.

Covid-19 pandemic

The pandemic entered its second year and continued to dominate daily life. While mass vaccination campaigns offered some much-needed relief, the spread of new variants resulted in further increases in infections and people falling ill. As a result, healthcare systems remain under pressure and by year-end 2021 some countries, including the Netherlands, had reimposed full or partial lockdowns. Experts predict the virus will continue to pose challenges for years to come. For consumers, the pandemic has underscored the relevance of life protection and health insurance, leading to increased demand for these products.

Economic outlook

The global economy rebounded strongly from a severe contraction in 2020, fuelled by the loosening of lockdown restrictions, government support programmes and monetary easing by central banks. Financial markets had another turbulent year, with equity markets reaching record highs and a continued rise in real estate valuations. Nevertheless, the recovery has been uneven, due to a variety of factors including differences in vaccination rates between countries, supply shortages and a sharp rise in energy prices. Economic growth is forecast to continue, albeit at a slower pace and amid ongoing uncertainties caused by the pandemic and the war in

Ukraine. Inflation has risen in many parts of the world, ending a prolonged period of low inflation. Central banks are responding by announcing interest-rate increases and unveiling plans to start phasing out stimulus programmes. It is still unclear whether the high inflation is structural and whether or not interest rate rises will be temporary.

Our operating environment – The world around us continued

The impact of climate change – NN's response

Natural disasters caused by extreme weather struck many of our markets during the summer of 2021, underscoring the real-life impact of climate change. Across Europe, floods from heavy rainfall hit many countries, resulting in significant damage and impacting thousands of our customers across Belgium and the Netherlands, read more on page 20. In Greece and Turkey, a severe heatwave led to multiple wildfires, destroying swathes of forest and causing mass evacuations. Scientists and authorities attribute these events to climate change and expect the number of extreme weather-related disasters to increase in the coming years, posing a major challenge to the planet and our customers. It could also have a significant impact on insurers, since we are exposed to climate risk on both sides of our balance sheet: through our investments on the asset side and our underwriting on the liability side.

For this reason, climate risk has been a focal point for NN for several years, and it was one of the key risks that we looked at during 2021. While it is still difficult to fully assess or quantify these risks, climate change could affect our business model, our balance sheet and even our own business operations in the future. We are therefore working on climate scenario analyses to further understand the short- and long-term impact of both physical and transitional risks. In the meantime, through our strategic commitments we aim to support the transition to a low-carbon economy across our business activities and operations (read more on page 61).

For our investments, we announced that we aim to transition our portfolio to net-zero greenhouse gas (GHG) emissions by 2050, and we have defined intermediate steps for 2025 and 2030 to achieve this goal. Among these steps is our aim to increase investments in climate solutions by at least EUR 6 billion by 2030 (read more on page 44).

In addition, we are developing more sustainable customer products and services, such as environmental, social and governance (ESG) pension products and mortgages aimed at making homes more sustainable. We joined the Net-Zero Insurance Alliance in 2021 to pool our knowledge and goals with other participants. As part of this alliance, we have committed to transition to a net-zero insurance underwriting portfolio by 2050.

Finally, while as a financial services provider our own carbon footprint is limited, we have nevertheless set ourselves targets to significantly reduce emissions in the coming years caused by our own business operations, principally our office buildings and travel. For more on how we manage climate risks see:

- 'Managing our risks' for the risks we see as most material to our business (page 61)
- 'Our response to the Task Force on Climate-related Financial Disclosures' (page 66)
- For our approach to responsible investing, see 'Creating a positive impact on society' (page 44)



Our operating environment – The world around us continued

Geopolitical developments

Rising instability caused by Russia's invasion of Ukraine in February 2022 is expected to have a significant impact on our operating environment. At the time of writing, Russian troops continued to invade Ukraine and hundreds of thousands of Ukrainians had fled their homes. The war has fuelled international tensions, resulting in market volatility, an increase in energy prices, and impacting capital flows and global supply chains. NN does not have business activities in Ukraine or Russia, and our direct financial exposure to these countries is limited. We will continue to closely monitor the developments, as a growing number of people seek refuge in countries where we operate. Together with our colleagues, we are supporting charitable organisations helping Ukrainian refugees.

Labour markets

Labour markets continue to be strongly affected by the pandemic. Lockdowns have had a major impact on business activity, resulting in job losses and companies in some sectors introducing recruitment freezes. The pandemic has also driven employers to further embrace technology, resulting in a shortage of digital and IT skills at a moment when some European countries have full employment.

For NN, this is an important area of focus when shaping our human resources policies (read more on page 37). With rapidly changing customer behaviour and ongoing technological developments, we continue to invest in relevant training and development for colleagues, for example in the areas of IT and data analytics. We are also recruiting people with new skills, and thinking strategically about the well-being and needs of our workforce over the long term.

Transition to a sustainable economy

A series of extreme weather events in 2021 underscored the increasing threat climate change poses to our planet. The UN Intergovernmental Panel on Climate Change (IPCC) warned in August that climate change is 'widespread, rapid and intensifying' and that some trends are 'now irreversible'.

The risks this brings for the financial industry are growing, as illustrated by the summer's floods in Western Europe (read more on page 20). Our industry is working hard to be part of the solution. Together, we can contribute to the transition to a more sustainable economy through our investments, underwriting activities, and products and services, as well as our own operations (read more on page 44).

The regulations stemming from the EU Sustainable Finance Strategy (continuing the Action Plan on Sustainable Finance) came into force to support the transition to a more sustainable economy. By meeting the Sustainable Finance Disclosure Regulation, which came into effect in March 2021 and has ongoing milestones, NN will strive for greater transparency of the sustainability risks and opportunities of our products and services. In addition, NN has said it will consider the principal adverse impact of our investment decisions. Furthermore, we have adopted the EU Taxonomy to strive for greater transparency in our products, investment portfolio and our underwriting portfolio (read more on page 135). NN has and will continue to support these and other initiatives.

Regulatory developments

In September, the European Commission published its proposal regarding the Solvency II review, as a follow-up to the Opinion of the European Insurance and Occupational Pensions Authority (EIOPA). The proposals were broadly in line with expectations, though there were some noteworthy changes compared to the EIOPA Opinion. This was generally seen as a positive development, as it would better reflect our business model and the related risks. The proposals will be discussed in 2022 by the European Council and European Parliament, with the final regulation expected to be implemented at the earliest in 2024.

In December, EIOPA published the results of its 2021 Insurance Stress Test, where it assessed the industry's resilience to a prolonged Covid-19 pandemic combined with a 'lower-for-longer' interest rate environment. Overall, EIOPA felt the European insurance industry entered the stress test with 'a strong level of capitalisation', which will allow insurers to 'absorb the shock of the adverse scenario'. Moreover, the stress test shows that participating Dutch insurers, including NN Group, are well positioned to navigate a scenario where Covid-19 remains present for a longer period. This is also the result of NN Group's disciplined asset and liability management (ALM) and investment risk management practices.

Meanwhile, in the Netherlands, the new pension agreement is expected to be finalised in 2022 and become effective as of 2023. The planned reforms would change the Dutch pension landscape and potentially create growth opportunities for our pension business in the Netherlands.

Digitalisation

Covid-19 has accelerated the already existing digitalisation trend. The growing amount of data available to companies gives them all sorts of opportunities to improve the customer experience, internal processes and operational efficiency. Whether it is groceries, clothing or financial services, consumers increasingly expect businesses to offer an omnichannel experience. That means our customers and intermediaries also expect us to be able to provide a relevant, anytime, anywhere personalised offering. However, rapid advances in digitalisation also bring risks: the threat of data breaches is growing, as became evident at the end of the year, when a flaw was detected in the widely-used Log4j internet software. These growing cyber risks are creating a greater need for appropriate cybersecurity policies. (read more on page 58 and 65).

Our operating environment – Determining our material topics

Determining our material topics

NN conducts a regular review of its operating environment to identify developments and topics that are considered to be material to our company. That is, those developments or topics that potentially have the most impact – be it a risk or an opportunity – on our business and stakeholders, and where we could create the most value.

We use this process as valuable input for the advancement of our strategy and our risk management. It also helps us identify focus areas for our reporting efforts.

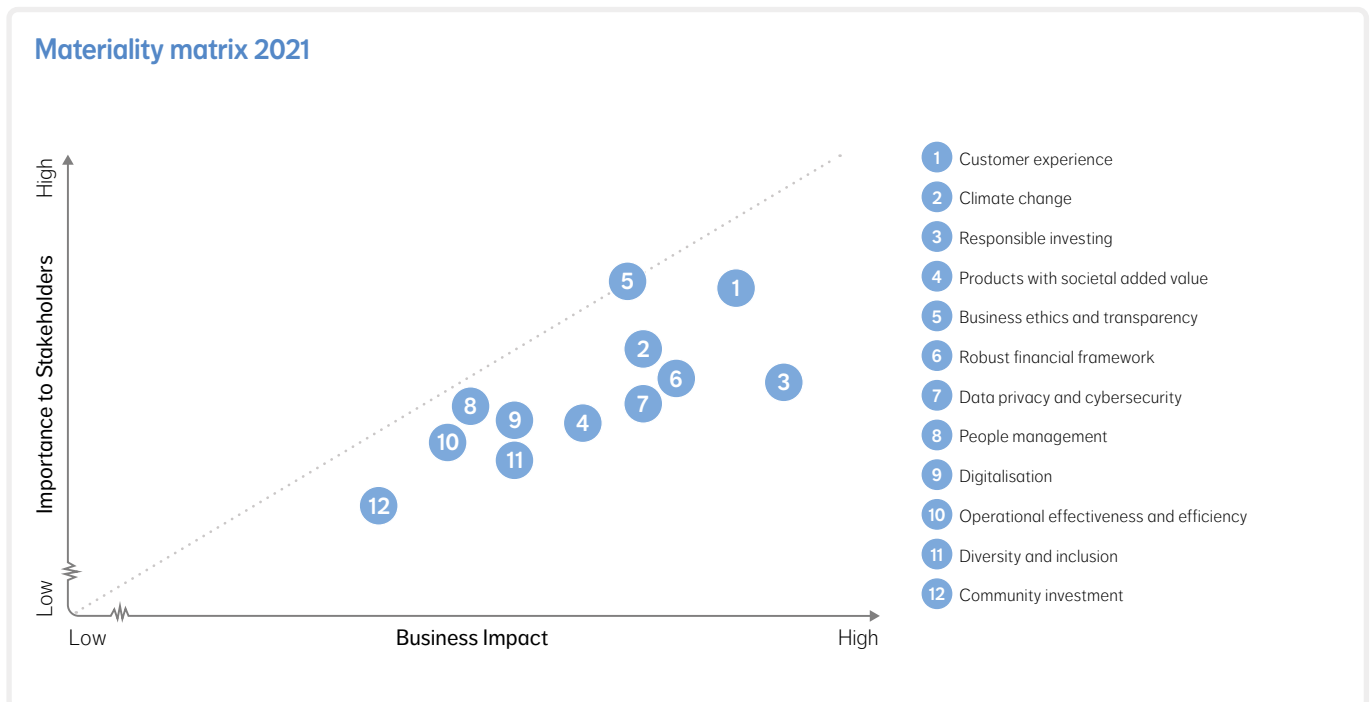
A long list of topics was compiled, based on an analysis of internal and external sources. From this long list, a shortlist of 12 topics was created, using the following criteria: the impact on NN Group (the 'outside-in impact' e.g. impact on business results, employee engagement, or reputation) and the topic's related risks and opportunities.

As a next step, the impact of NN on the topic ('inside-out impact'), shown on the x-axis, was assessed through interviews with stakeholders in which they were asked to reflect on the related risks and opportunities of the topics and to consider how NN's operations could have an impact on society (economically, environmentally and/or socially).

During an online stakeholder dialogue, involving internal and external stakeholders (including customers, investors, regulators and societal organisations), we discussed the relevance (low, medium, high) our stakeholders (y-axis) attach to these topics. 'Responsible investing' was mentioned as important, but this is a broad topic containing various ESG aspects, such as biodiversity and human rights. It was also stressed that 'Diversity and inclusion' is an area of importance. Compared to 2020, we saw that topics directly related to the pandemic, such as 'Operating during lockdown', are becoming embedded in regular daily business.

The results presented in the matrix below show that the topics considered most important (upper right) are 'Customer experience', 'Business ethics and transparency', 'Robust financial framework' and 'Climate change'. Compared to 2020, we note that 'Climate change', 'Diversity and inclusion' and 'Community investment' have become more top-of-mind.

The results of the assessment were presented to the Management Board for discussion and approval. The Supervisory Board approved the materiality matrix as part of the Annual Report approval process. Read more on our material topics in the 'Material topics index'.



Our operating environment – Opportunities and risks

Opportunities and risks



“ We are gradually shifting our investment portfolio to higher-yielding assets, while maintaining a well-balanced risk profile

Bernhard Kaufmann
Chief Risk Officer

The environment that we operate in provides opportunities, which, together with the material topics identified by our stakeholders, define our strategy and strategic commitments. As the same time, the environment also creates risks that can impact NN meeting its objectives towards stakeholders.



Read more details about our risk management on pages 61-65.