

# Our operating environment



## The world around us

There are many different forces in society, from demographic, economic and political developments, to changing regulations. They all affect financial companies and the way we interact and do business. In addition, the Covid-19 pandemic continues to have a significant impact on people, society, businesses and the wider economy.

This is reshaping many industries on a number of dimensions, accelerating digitisation, changing product offerings, prompting a new wave of innovation, and creating a new competitive landscape. In 2020, these factors provided both challenges and opportunities for NN Group. These have been taken on board when we defined our new strategy, which is primarily aimed at creating long-term value for all our stakeholders.

## Our operating environment – The world around us

### Covid-19

In the beginning of 2020, we were not yet familiar with concepts like 'lockdown' or 'social distancing'. Since then the spread of Covid-19 continues to impact all aspects of life. Health care systems are burdened, and many people are dealing with personal challenges or loss. Economies around the world have been significantly affected, and businesses and their customers had to adjust to changing circumstances.

Due to government support and monetary easing by central banks, many businesses have been supported to some extent. Also, there has been support to customers, business partners and societal organisations from companies and other stakeholders.

### Economic developments and outlook

The global pandemic has disrupted business activities worldwide. On the supply side, lockdowns, business closures, and social distancing cause challenges. On the demand side, layoffs and the loss of income reduce household consumption and general investments. In the Netherlands, the economy shrunk by a little over 4%, and in other markets such as Japan and Poland by around 3%.

## Impact Covid-19 on NN, including initiatives to support customers and employees



NN responded swiftly to the Covid-19 outbreak with the aim to help ensure the well-being of our colleagues, customers, business partners, and society at large. We were able to do so given our strong starting position. The pandemic has tested our resilience towards business disruption. While some of our businesses were confronted with operational issues in the first two weeks, most of our businesses continued as usual using remote working and digital channels. This required a focus on clear and speedy communications, and considerable adjustments to the IT infrastructure. Employees were given the opportunity to receive facilities such as laptops, monitors, office chairs, etc., to make it possible to work from home adequately.

These activities were coordinated by the central NN Corona Coordination Team (CCT), which was installed to monitor developments, to advise the Management Board, and to support a safe and smooth transformation process. The vast majority of our employees have worked from home since the start of the pandemic. Only a limited number

of staff worked in offices, as some activities needed to be done at NN premises for legal or logistic reasons. Also, employees dealing with specific personal circumstances were allowed to work in the office under strict conditions.

At the same time, the company focused on helping our customers, agents and business partners, and supporting the broader community. In several countries, such as the Czech Republic, we designed a digital sales and client signature process, enabling our sales force to remotely serve customers. Overall, sales processes have moved almost entirely online and we can serve our customers fully digitally.

In this process, we have changed the terms of many of our products to support customers in financial distress. For example, providing extra cover for restaurants that started delivery services and for the hospitality industry. Also, in the Netherlands, we have provided mortgage and consumer loan payment breaks to customers that experience financial difficulties. In Japan, we extended the moratorium period of premium payment for SMEs.

NN also supports the communities in which we operate. For example, by helping our local charitable partner organisations, or by providing laptops to children that do not have the necessary equipment for remote education. In Romania, we donated funds for ventilators and breathing monitors, vital for treating critically ill patients affected by Covid-19, and in Spain, we offered free protection to healthcare professionals against Covid-19. A full list of initiatives can be found on our [website](#).

In light of our strong financial position, we did not require any government support for paying salaries and other cost, and there was no delay in regulatory filings.

While the impact of Covid-19 on society as a whole is significant, the financial impact on NN Group for 2020 was relatively limited to EUR 53 million.

NN so far has shown to be relatively resilient to financial markets volatility, mainly due to our conservative investment strategy, close matching of assets and liabilities and a strong capital position. We continue to monitor the situation, and will take further measures when necessary. Monitoring includes:

- Ensuring business continuity to allow customers be serviced uninterruptedly and employees to work safely from home
- Assessing volatility and liquidity in financial markets, and to apply stress testing and scenario analysis
- Ensuring that outsourced activities can be performed according to defined services levels and that sales and support networks via brokers and tied agents remain healthy

## Our operating environment – The world around us continued

It is generally expected that economic growth will return to pre-pandemic levels in the coming years; growth in Europe will be rising by around 4% in 2021 and in 2022. At the time of closing this Annual Report it is not possible to predict how recovery will precisely take place. Scientific progress, pharmaceutical advances (vaccines), and adjustments in the behaviour of citizens and companies should help keep the virus in check. Policies to support jobs and firms, in place since the beginning of the pandemic, will enable a faster, stronger rebound when restrictions are lifted, as more and more activities restart, limiting the aggregate income loss.

### Continuing low interest rates

In 2020, we saw a continuation of the low interest rate environment. While NN Group is relatively well positioned to face this environment, low interest rates affect the sector, and our company, through the balance sheet both on the assets and liabilities side, but also through the income channel. Therefore, we continue to look into possible solutions, such as an accelerated shift to defined contribution pension products in the Netherlands, and a shift towards protection products in general. Where possible, we also seek opportunities to create additional returns on our investments, and NN Bank seeks to lower its funding costs by rate reductions for savings and bank annuities and by optimising its wholesale funding.

### (Geo)political developments

Next to Covid-19, macroeconomic uncertainties were driven by different geopolitical developments and governmental instability. Among them, Brexit, economic conflicts between the US, EU and China, and rising nationalism in the EU and in the US. This contributed to increased volatility in financial markets, but the overall impact on NN has been limited.

### Customer experience, new technologies and innovation

Notwithstanding the severity of the Covid-19 situation, there are some outcomes that could have a long-term positive impact on the planet and societies. For example, a rejuvenated sense of community, or unprecedented levels of innovation. Due to lockdowns, many businesses have had to reinvent themselves and have undergone rapid digitalisation. Companies and individuals have quickly adapted to virtual tools to carry out activities that were previously face-to-face.

Technology, digitalisation, the shift to a platform economy and the use of data have a growing impact on our customers' everyday lives and expectations. For NN, this has been a major factor in the development of our new strategy. As we want to offer tailored solutions and excellent experiences for customers, we need to leverage our data and digital capabilities. To achieve this, we want to radically simplify our technology and operations. This will make our processes more customer-friendly, agile and efficient, which is particularly helpful in our banking and Non-life businesses in the Netherlands, and in the markets where we offer protection products in Europe and Japan. This transformation goes hand in hand with great care around customer data and privacy and continued investment in cybersecurity.

### Trends in labour markets

To prevent the spread of Covid-19 and to ensure distancing of people, businesses and companies have been temporarily shut down and many employed people are confined to their homes. Labour markets have been strongly affected, for example by people losing their employment, cancellation of the hiring of new staff, or self-employed people with reduced working hours. This requires a lot of flexibility and adaptability from the workforce, and it is expected to have a lasting impact on the future way of working. For NN, this is an important area of focus in determining our human resources policies going forward (see page 29). Furthermore, changing customer behaviour and tech developments also require different skills from employees, such as IT and data analytics, as well as new ways of collaborating or managing teams. Therefore, at NN, we are investing in training and developing our colleagues, recruiting people with new skills, and strategically thinking about the well-being and needs of our workforce in the long term.

### Transition towards a sustainable economy

Climate change has an increasing impact on the financial sector. Organisations are assessed on different aspects, such as financial performance, their market reputation, the quality of their products, and increasingly by their impact on society at large. Not only are citizens and businesses looking for products and services that suit their specific needs, they also expect companies to act responsibly and play their part. The pandemic has proven the viability of the environmental, social and governance (ESG) agenda for companies, investors and other stakeholders. It has specifically

elevated the significance of social and environmental factors in the long term. NN has a track record of integrating ESG factors into its investment and underwriting processes. We also use our influence to support the transition to a sustainable economy and green recovery by engaging with governments and the companies in which we invest, and by offering clients sustainable finance solutions.

### Regulatory developments

Towards the end of 2020, the European supervisory body EIOPA issued an opinion to the European Commission (EC) on the Solvency II framework that the EC will use as input when it drafts a legislative proposal in 2021. This will then be discussed with the European Council and European Parliament in the coming years. The resulting legislation is currently expected to be implemented at the earliest in 2024. Based on the EIOPA Opinion and prevailing market conditions at the time of the publication, the net impact from the proposed changes to the risk-free curve extrapolation and risk margin calculation on NN Group's Solvency II ratio at the expected implementation date is expected to be manageable.

Numerous other regulatory developments also have a large impact on the financial sector and our business model. Noteworthy are pension reforms in the Netherlands and a number of Eastern European countries, particularly Poland. We follow these developments closely and proactively analyse the impact on our business.

Furthermore, new regulations have been introduced concerning sustainability that NN supports. The EU Action Plan on Sustainable Finance, including the EU Taxonomy, is aimed at creating a greener and more sustainable economy; related regulations, such as the Sustainable Finance Disclosure Regulation and the Non-Financial Reporting Directive strive for greater transparency on sustainability risks and opportunities.

## Our operating environment – Determining material topics

# Determining material topics

NN conducts a regular review of its operating environment to identify topics that are considered to be material to our company. That is, those 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 development of our strategy and our risk management, and it also helps us to identify focus areas for our reporting.

Methodologically, a long list of some 100 topics was compiled, based on an analysis of internal and external sources. From this list, a shortlist of 15 topics was created, using three main criteria: the impact of the topic on NN Group and/or our different stakeholders, the likelihood, and the impact within the key markets where NN is active. These criteria were applied with a timeframe in mind of the coming 12 months.

Compared with 2019, certain topics clearly linked to Covid-19 pandemic entered the shortlist, such as 'Operating during lockdowns' and 'Financial hardship'.

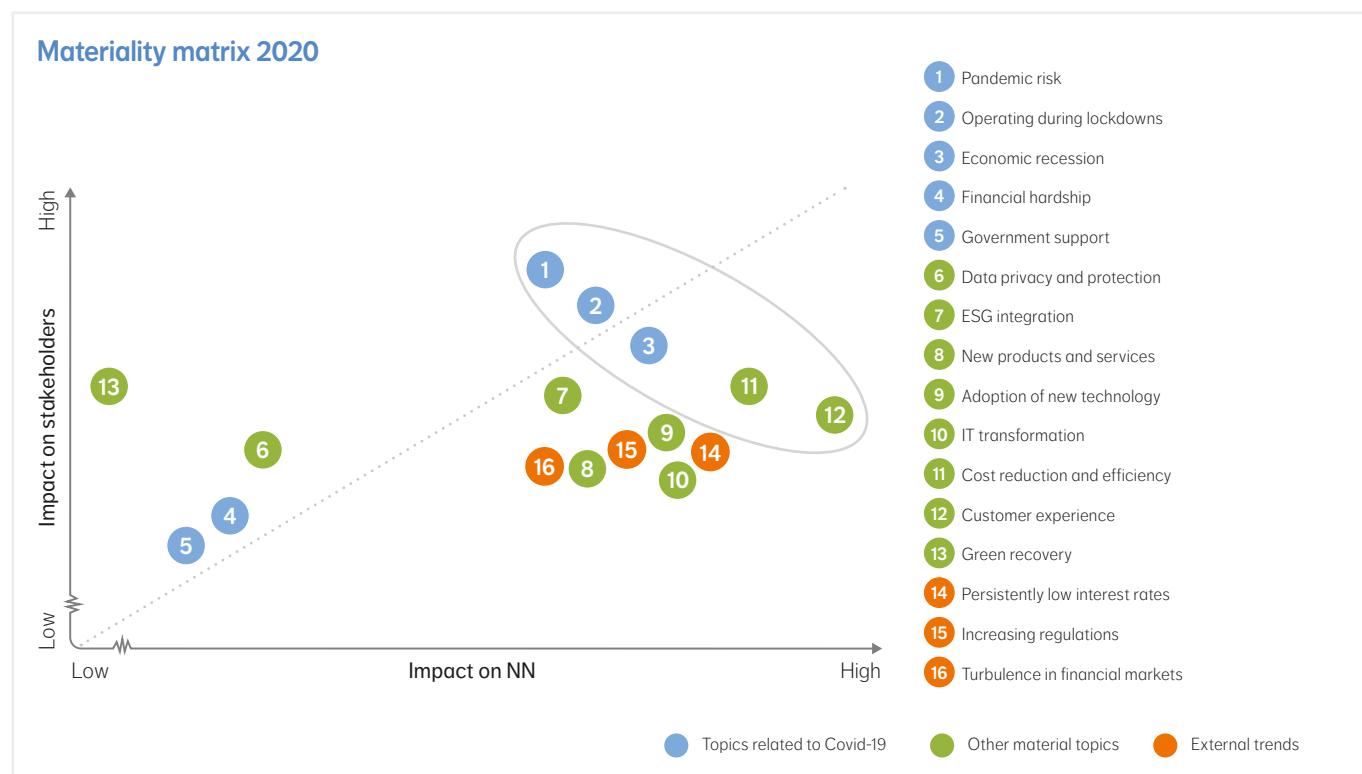
The outcomes of the list were discussed in NN Group's Purpose Council, which advised adding the topic of 'Increasing regulation'.

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

The results presented in the matrix below show that the topics considered as most important (upper right) are Pandemic risk, Operating during lockdowns, Economic recession, Cost reduction & efficiency and Customer experience. Furthermore, we align with our stakeholders on topics, such as ESG integration, Data privacy & protection and Financial hardship.

Through an open question in the survey, stakeholders responded that they missed employee-related topics and climate change risk on the shortlist. We will therefore continuously assess the developments in our operating environment, and strive to address these material topics in our decisions, strategic choices, and business activities.

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



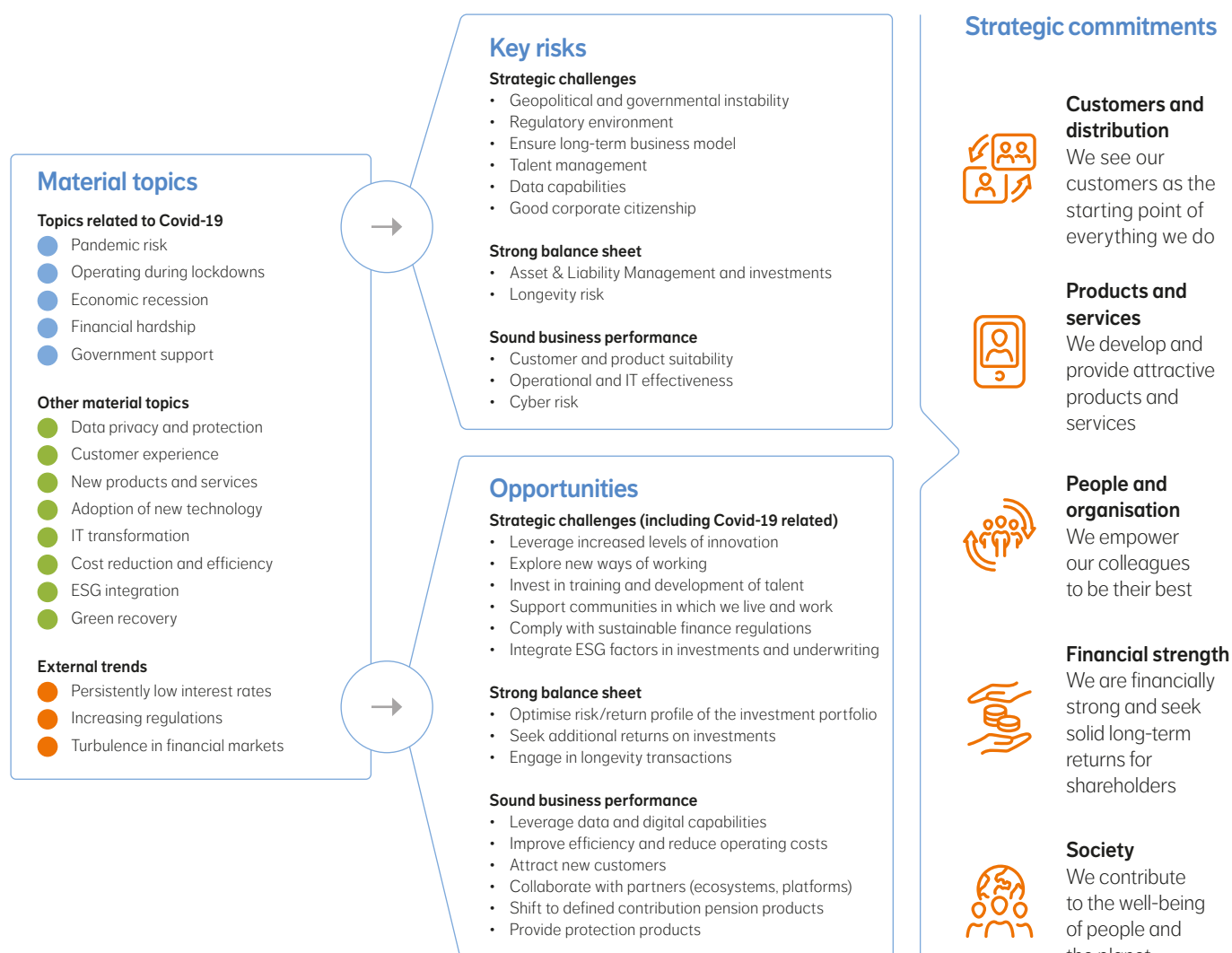


## Our operating environment – Risks and opportunities

# Risks and opportunities

The environment that we operate in, together with the material topics identified by our stakeholders, provide both risks and opportunities to our business model and strategic objectives.

The successful execution of our strategic objectives crucially depends on the strength of our risk management. We regularly identify key risks and determine our risk appetite, covering three main areas: strategic challenges, strong balance sheet, and sound business performance. Pages 57-60 elaborate on NN's risk management.



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**NN Group maintains a balanced risk profile in accordance with the long-term nature of our business model**

**Bernhard Kaufmann**  
Chief Risk Officer