Our values

Our values guide, inspire and unite us. They are the foundation of our culture, and are at the basis of our strategic framework. Our values guide us in our everyday work – not only in what we do, but also in how we do it.

- **Care**: Empower people to be their best, and respect each other and the world we live in
- **Clear**: Communicate proactively and honestly, while being accessible and open
- **Commit**: Act with integrity and do business with the future in mind
Living our Values programme
The Living our Values programme was launched in 2014 to encourage and support employees in applying the values in their daily work.

Updated statement of Living our Values
We first launched the NN statement of Living our Values, in preparation of our future as a stand-alone company. It states, for both internal and external stakeholders, what NN stands for and reflects our commitment to long-term value creation.

After six years, and with the development of our company’s new strategy, we felt a review was due to ensure our values remain relevant in a changing world. We aligned the statement with our new purpose, and rephrased and updated the text. We also removed some principles that are now covered in more detail in the Code of Conduct, while considering applicable regulatory requirements (e.g. the Oath for Financial Institutions in the Netherlands). The essence of each value remains unchanged.

We published the updated statement in June 2020, as part of our strategic framework.

Cultural fit
The NN Living our Values programme aims to increase awareness around our values and enables colleagues to fully integrate them into their everyday behaviour. We take steps to ensure that all employees remain conscious of the values throughout their NN careers, and that they are reflected in our HR policies and processes.

The values are therefore the starting point for hiring new employees, and part of the reward process. The new i-LEAD profile (see page 30), which is based on the new strategic framework, captures all key NN behaviours. The newly-designed Key Talent Management process for senior management incorporates ‘cultural fit’ (i.e. acting in accordance with the NN values).

Values week
Our annual NN Values week, organised across 12 countries, provides an opportunity to engage colleagues in how we live our values. Values week 2020 was about connecting, an opt theme given the need to work from home during the pandemic.

In the Netherlands, Values week was fully digital. From their homes nearly 750 colleagues joined workshops, dialogues and presentations on business and societal topics. Afterwards, 81% of the participants in the Netherlands felt the Values week provided a good opportunity to reflect on our values (2019: 71%). 68% felt it stimulated discussion (2019: 60%) and 99% would encourage colleagues to join the next edition (2019: 95%). The NN Innovation Method (see page 29) was used to see how we could find ways to increase colleagues’ participation in Values week. The outcome was to develop a digital team energiser, to be launched in 2021.

Tone at the top
Our Management Board and senior leaders are important role models when it comes to living our values. To open Values week, David Knibbe, CEO NN Group, and Dailah Nihot, Chief Organisation and Corporate Relations, participated in a live discussion viewed by over 1,000 colleagues globally. They spoke about what our values mean to them and the importance of the Living our Values programme. Our values state that we listen and support employees in applying our values. Values week Project group use the outcomes of the Management Board and senior leaders’ participation in Values week. The outcome was to develop a digital team energiser, to be launched in 2021.

Monitoring progress
We monitor the effectiveness of the Living our Values programme in our annual employee engagement survey. The Management Board and the Living our Values Project group use the outcomes to evaluate where we need to focus attention. The 2020 results saw a significant improvement on 2019.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Difference with Nov 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Care</td>
<td>8.4 +0.2</td>
</tr>
<tr>
<td>Clear</td>
<td>8.3 +0.3</td>
</tr>
<tr>
<td>Commit</td>
<td>8.3 +0.2</td>
</tr>
</tbody>
</table>

We also ask employees how connected they feel to our values, and in 2020 this score rose to 8.2 (2019: 7.9). As nearly all colleagues were working from home, we conducted an additional special survey in August, for employees in the Netherlands. The survey aimed to gain insights into perceptions that may have changed due to working remotely. We were pleased with the response that 80% of our people felt equally connected to the values before we started working from home; 9% felt less connected, 6% more so, and 5% neutral. We will continue to monitor perceptions in 2021.
Consumer perceptions
We measure the perception of our values amongst our customers and the general public through the Global Brand Health Monitor (GBHM).

For customers, the 2020 year-end results show that the values remain strongly embedded in the NN brand, with at least 50% of customers recognising each of the values in most markets. However, in 2020, Belgium, Japan and the Netherlands fell below 50% which is a significant decrease compared to 2019.

For the general public, most markets show stable scores in comparison to 2019. Particularly Belgium shows a high growth, while Hungary and the Netherlands show a significant decrease on all three values. The GBHM-scores were under pressure in many of our markets, because marketing communication plans had to be adjusted and activities were postponed due to the Covid-19 pandemic. Together with the local business units, we will look into ways to restore the results in 2021. We will continue to invest in a strong and relevant brand.

Let’s connect programme
As a follow-up to the 2019 Values review, we introduced a communication and culture programme around the theme ‘Let’s connect’. This programme was developed for our leadership when we launched our new strategy in June. It aims to enhance engagement around our purpose and strategy, and to further stimulate an open dialogue on how we help people care for what matters most to them. In 2020, to feel connected and engaged turned out to be even more important than before.

Initiatives to achieve this included our ‘Let’s connect’ theme for our internal International Leadership Meeting, focused on 250 senior managers, and a ‘Let’s connect’ session for colleagues in the Netherlands with Tjeerd Bosklopper and Leon van Riet, members of the Management Board.

Purpose Council

‘We help people care for what matters most to them’ is our company’s purpose. It expresses the ‘why’ behind our actions, and it reflects the kind of company we aspire to be; one that delivers long-term value for our stakeholders. Along with our values and our brand, our purpose is at the heart of our culture.

In December 2019, a committee was set up to advise and support the Management Board in developing a new purpose statement. A year later, this committee was formalised as the group-wide Purpose Council, with the objective to oversee how we are upholding our purpose and progressing on our non-financial targets.

Chaired by the Chief Organisation and Corporate Relations, and sponsored by the Group CEO, the Council consists of several Management Board members, heads of relevant staff functions and business/country representatives. It performs an advisory, consultative and preparatory role, and supports the Management Board in steering, measuring and reporting on non-financial issues relevant to the strategy, and related to customers, employees and society.
Safeguarding value creation – Our Code of Conduct and other policies

Our Code of Conduct and other policies

“While the Covid-19 pandemic affects the world in many ways, our NN Code of Conduct continues to be a clear guide for how we want to behave towards our customers, colleagues and other stakeholders.”

Janet Stuijt
General Counsel

NN Code of Conduct
Based on the NN statement of Living our Values, the NN Code of Conduct offers clear guidance in a single, easy-to-understand document for the behaviours we expect from NN employees; how we interact with colleagues, customers, and other stakeholders; how we deal with information and data; how we deal with conflicts of interest, fraud, corruption, and financial economic crime; how we use equipment and the internet; and how we report and deal with breaches.

Employees are required to formally acknowledge annually that they understand the content of the NN Code of Conduct, and can and will apply the underlying policies and standards. This has been mandatory for all business units for several years. The Code of Conduct has a supplement for management: The Manager Annex.

In 2020, we achieved an acknowledgement score of 100% for internal NN staff and managers (excluding staff on long-term leave or sick leave).

E-learning
In 2019, we launched the online learning platform ‘Conduct Matters’, to raise awareness of the NN Code of Conduct. It is accessible for all employees in all local languages.

Since then, we have rolled out several new interactive e-learning courses. These aim to raise risk awareness around confidential and price-sensitive information (Confidential Matters), Market Abuse/ Insider trading (Trading Matters – all NN insiders), Bribery & Corruption/ Conflicts of Interest (Conflicting Matters – all local languages), Silent voice Activation/ Whistleblowing Procedure (Your Voice Matters) and Privacy – all key topics in the Code of Conduct.

Digital Compliance Dashboard
In November 2020, a digital Compliance Dashboard was launched for all business units via the local compliance departments, as a first step towards a more data-driven compliance function within NN.

The dashboard brings together multiple data sources in an overview that helps facilitate effective and efficient compliance monitoring in areas such as: Insiders; incidents; gifts and events and possible conflicts; outside positions and outside interests and possible conflicts; the Code of Conduct acknowledgment; and awareness and execution of e-learnings per business unit and corporate staff departments. The dashboard will initially be used by Compliance Officers, and after further development it will be extended to colleagues driving business activities.

Risk Culture Check-in
In January 2019, Group Risk and Group Compliance introduced the Risk Culture Check-in, whereby all business units perform a self-assessment on how they perceive the risk culture within their unit. They also assess head office control functions on their risk culture and cooperation. In 2020, the second Risk Culture Check-in was executed.

This two-way assessment forms the basis for a constructive dialogue with NN senior management on how we manage the risk culture within the company and where we can improve. The resulting 360-degree loop delivers content to underpin the ‘Employee Conduct & Business Culture’ statement within our risk management framework. The process is led by Group Risk, in close cooperation with Group Legal and Group Compliance within business units.

Platform on Product Insights
In December, ‘Product Talks’, a digital learning platform was launched by Group Legal, Group Compliance and Group Risk, for colleagues involved in product development or review in all business units.

The online platform brings together relevant legal, compliance, risk and behavioural science perspectives in micro-learning courses. These aim to expand and deepen knowledge and skills relevant to developing and reviewing NN products and services in line with our Product Policy. The content is relevant for both first-line functions (such as product development, sales and marketing) and second-line functions, and accessible to all interested NN employees.

Reporting misconduct
When misconduct occurs, NN carefully reviews and assesses whether an investigation or other action is needed. Breaches of the NN Code of Conduct are not taken lightly, and can include appropriate measures.

Whistleblower Policy
The NN Group Whistleblower Policy enables every employee to report, if they wish anonymously, a concern outside normal reporting channels. NN Group guarantees...
various rights, including protection from retaliation for any employee who reports a concern in good faith. NN Group also provides information, causes information to be provided, or otherwise assists in an investigation. The main outline of the Whistleblower Policy is explained in our NN Code of Conduct. The Whistleblower course (see e-learning above) is used during the NN hiring and onboarding programmes.

In one of the two cases listed below Corporate Security & Investigations carried out further investigations. Concerns, reported in 2020, have been recorded and reported periodically (numerically) via the Chief Compliance Officer to the Management Board and Supervisory Board.

<table>
<thead>
<tr>
<th>Whistleblower concerns</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2</td>
<td>4</td>
<td>7</td>
</tr>
</tbody>
</table>

Other incidents and concerns
In 2020, Corporate Security & Investigations was involved in 66 cases (2019: 95). In six cases, disciplinary measures (warning, reprimand, termination of employment, or instant dismissal) were taken. Employees are informed in writing of any disciplinary measures.

<table>
<thead>
<tr>
<th>Cases involving disciplinary measures</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud-related</td>
<td>0</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Unethical behaviour</td>
<td>6</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Conflict of interest</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>6</td>
<td>14</td>
</tr>
</tbody>
</table>

Other policies
NN, has policies, processes, systems and practices in place to ensure that we always do business in line with our values. That means being there for our customers by developing products and services designed with their best interests at heart, and managing our processes and their personal data in line with best practice in terms of transparency, safety and security. In doing so, we demand standards from all our business units and employees that meet and often exceed legal requirements.

PARP process and golden rules
The demand for transparent, simple products from the financial services industry continues to grow. Customers expect value for money, transparency, and products and services that evolve with developments. Any new or modified product or service must first undergo a careful Product Approval and Review (PARP) process to ensure it is transparent and meets customers’ needs. Integral to PARP are our Customer Golden Rules:

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

Data privacy
As digitalisation continues rapidly, we are conscious that to safeguard the privacy of our customers, it is more important than ever that we secure their personal data and then handle it responsibly. We do this by complying with all data protection legislative requirements, of which the EU General Data Protection Regulation (GDPR) is the most important one.

Data is vital to us in order to be able to serve today’s customer effectively. Using (big) data to analyse customer propositions helps us strengthen our interactions with customers, forge more intuitive partnerships, and create superior, tailor-made solutions.

Our data & artificial intelligence (AI) analyses are focused on product-market optimisation, process efficiency, and fraud and claim analytics. An example of process efficiency is the email classification project that uses AI to automatically classify emails received in generic mailboxes and routes them to the department that can best deal with them. This increases speed in answering and reduces handling costs.

In 2020, we developed our own AI ethics framework (the ‘NN AI Guidelines’) aligned with our values. These guidelines facilitate the development and use of trustworthy AI, and set even stricter requirements than legislations prescribe. During 2021, we will develop an NN AI Policy that further entrenches these principles. NN also contributed to the Dutch Association of Insurers’ Ethical Framework (‘Ethisch Kader’).

We are very aware that we need to strike a proper balance between individual choices, privacy and social responsibility. Besides the focus on the data we manage and protect, we also provide our customers with services around data and cybersecurity. As the consequences of inadequate cybersecurity can be far-reaching for both individuals and companies.

Financial economic crime
NN cautiously guards against money laundering, funding of terrorism, tax evasion and other forms of financial economic crime (FEC). Both because they are illegal and unethical, and because they can harm confidence in NN as a financial services provider. Digitalisation and dependency on digital systems has significantly increased the potential impact of FEC, and NN takes pro-active preventative measures to avoid FEC occurring. We do not tolerate any deviation from relevant FEC laws or regulations.

One of the steps taken in 2020 is the completion of the Best in Data (BID) programme in the Netherlands. Our FEC processes have been thoroughly analysed, screened and improved; our data quality monitoring and control have been improved; our data standards have been set and improved; transparency and completeness controls have been set; and employees have completed awareness courses to ensure their familiarity with the latest legislation.

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

The Dutch insurance subsidiaries of NN Group continue to periodically reach out to groups of selected customers to encourage them to carefully assess their unit-linked products in order to enable them to address their personal situation and offer customers the option to switch to another product or make changes to their policy free of charge. Customers are also entitled to free advice. As at 31 December 2020, the portfolios of Dutch insurance subsidiaries of NN Group comprised less than 375,000 active unit-linked policies. In a limited number of cases (less than 1,250), Dutch insurance subsidiaries of NN Group have settled disputes with individual customers. These are tailor-made solutions. A limited number of individual customers and several consumer protection organisations have initiated legal proceedings against Dutch insurance subsidiaries of NN Group. Read more on pages 125-127 of the Financial Report Note 44.
Safeguarding value creation – Stakeholder engagement

Stakeholder engagement and international commitments

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

Stakeholder engagement

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

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

In 2020, NN participated in the research publication ‘Stakeholder inclusion as an accelerator for the Sustainable Development Goals’. This collaborative effort with UN Global Compact Netherlands, academics, NGOs and around 70 Dutch corporates, provided insight into the different stages of stakeholder engagement.

National and international commitments

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

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

Commitment of the financial sector to the Dutch Climate Agreement

In July 2019, NN signed the commitment of the financial sector to the Dutch Climate Agreement and thereby commits to contribute to the financing of energy transition, to disclose the carbon footprint of our relevant investments and publish an action plan in 2022.

For the third year in a row, NN has disclosed the carbon footprint of our proprietary assets, currently covering 80% of our total portfolio. It is composed of the general account assets of the insurance activities, and the assets of NN Bank and NN Group. You will find a summary update on page 66 and more detail can be found in a separate publication ‘2020 Carbon footprint of proprietary assets’ report on our website. We continuously enhance our approach to address climate change into our strategy, policies and activities. We encourage the energy transition, for example through our active ownership activities, and make sustainable and impact investments.

In June 2020, NN announced its ambition to transition its proprietary investment portfolio to net-zero greenhouse gas emissions by 2050. This builds on existing climate initiatives, such as phasing out thermal coal-exposed investments from our investment portfolio by 2030 and NN IP’s active dialogues with investee companies on climate-related matters.

Furthermore, as a mortgage provider we want to contribute to the reduction of greenhouse gas emission in the houses we finance. NN Bank offers financing options to make homes more sustainable. Through prevention and advice tools such as Powerly, we encourage and support customers to improve the energy efficiency of homes. Read more in the sections on Responsible investment on pages 36-38, Our response to the Task Force on Climate-related Financial Disclosures (TCFD) on pages 50-53, and NN IP's Responsible Investing Report 2020.

International Corporate Social Responsibility (ICSR) sector covenant

The ICSR covenant for the Dutch insurance sector aims to ensure that insurers identify and mitigate any potential negative environmental, social and governance (ESG) impacts through their investments.

The covenant’s signatories (all Dutch insurers, the government and six NGOs) pool their knowledge and experience, identify ESG risks, and initiate steps to mitigate those risks. Insurers are expected to have due diligence processes in place to address ESG risks and, where necessary, to develop, adjust and improve their policies. Publication of policies and restricted lists are required, as are disclosures on voting and engagement activities with investee companies.
During the year under review, we participated in many of the activities organised by the parties of the covenant. In a knowledge sharing session, NN IP provided insight into how we aim to integrate ‘access to remedy’ in the investment process. Furthermore, we co-signed an engagement letter to two pharmaceutical companies on the topics of access to medicines and transparency. Read more on how we integrate ESG in our investment process on pages 36-38 and in NN IP’s Responsible Investing Report 2020. For an overview of fixed-income bonds held on the NN Group balance sheet by type of issuer, refer to page 152 of the Financial Report (Note 51).

Early 2020, we conducted a review of our human rights policies and processes. The findings enable us to further strengthen our approach to human rights risks and opportunities across the organisation. We are currently working on the approach and results of human rights due diligence for our own operations, more specifically our procurement activities.

### Stakeholders, engagement, topics and outcomes

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Engagement</th>
<th>Topics discussed</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers (retail)</td>
<td>Customer interviews, panels and surveys, both online and offline</td>
<td>Customer experience related to any change in products, services and processes</td>
<td>Increase customer engagement and loyalty</td>
</tr>
<tr>
<td>Clients (institutional)</td>
<td>Client surveys, (digital) events, roundtables</td>
<td>Client satisfaction, sustainable finance regulation, responsible investing</td>
<td>Informed and engaged clients</td>
</tr>
<tr>
<td>Financial advisors, brokers, agents</td>
<td>Advisor survey, roundtables, webinars, (digital) visits</td>
<td>Products and services, performance, strategy, partnering, integration and conversion acquired business</td>
<td>Stimulate good cooperation, increase financial advisor and broker satisfaction, leading to customer satisfaction</td>
</tr>
<tr>
<td>Shareholders, analysts, investors</td>
<td>Annual shareholders meeting, analyst calls, investor meetings</td>
<td>Strategy, financial and operational developments, capital position, approach to ESG</td>
<td>Inform and engage shareholders, analysts and investors</td>
</tr>
<tr>
<td>Employees</td>
<td>Leadership and other (digital) conferences, surveys, works councils, unions</td>
<td>Values, Code of Conduct, Covid-19 measures, integration process, engagement</td>
<td>Inform and engage employees, values-driven culture</td>
</tr>
<tr>
<td>Investee companies</td>
<td>Voting at shareholder meetings, dialogue with company management, engagement</td>
<td>Financial and operational developments, corporate governance, natural resources and climate change, decent work, (non-)financial disclosures</td>
<td>Create value through consistent and transparent voting behaviour, improved disclosures, improved decision-making including on ESG issues</td>
</tr>
<tr>
<td>Regulators, government bodies</td>
<td>Meetings, reporting, information exchange</td>
<td>Economic and financial market developments, risk assessments, (pension) regulation, ICSR sector covenant, sustainable finance</td>
<td>Ensure compliance with, and discussion of impact of regulation</td>
</tr>
<tr>
<td>Non-governmental organisations</td>
<td>Correspondence, meetings, reports, benchmarks</td>
<td>Investment in oil &amp; gas companies (arctic drilling), natural resources and human rights, deforestation, benchmarking methods</td>
<td>Exchange vision and insights, engagement with investee companies, participation in working group on biodiversity</td>
</tr>
</tbody>
</table>
Our response to the Financial Stability Board’s Task Force on Climate-related Financial Disclosures

At NN Group, we have reported on climate change since the financial year 2017 incorporating the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD). This response is structured along the four TCFD pillars: governance, strategy, risk management, and metrics and targets.

**Governance**

The NN Group Executive Board ensures that the company has adequate internal risk management and control systems in place so that it is aware of any material risks run by our company, and that these risks can be managed properly. Each year, the Executive Board defines the company’s risk appetite, related limits and tolerances. This is ratified by the Supervisory Board. Risk management processes are covered as part of the NN Group Financial Report (Note 5).

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

Within the Management Board, the Chief Organisation & Corporate Relations (COCR) has Corporate Citizenship, which includes sustainability, in her portfolio. The COCR is the sponsor for any sustainability, climate or responsible investment related topics that are discussed in the Management Board. The Chief Risk Officer (CRO), also part of the Management Board, is entrusted with the day-to-day responsibility for NN Group’s risk management function. The CRO is tasked to ensure both the Management Board and the Supervisory Board are at all times informed of, and understand the material risks to which NN is exposed including climate-related risks.

He is the sponsor of the NN Group annual risk & solvency assessment, in which we evaluate outcomes of scenario analyses including climate change.

In addition to this, each of our other Management Board members promote and integrate sustainability into their respective businesses or functions where relevant. To advise the Management Board on the implementation of the overall sustainability direction, the company employs a dedicated Corporate Citizenship team. This team works closely together with the different businesses and functions to steer and advise on the embedding of ESG aspects, as part of the implementation of the overall strategy.

In 2020, as part of our Supervisory Board’s Permanent Education programme, a session was organised on climate change risks & opportunities disclosures and dialogue. Furthermore, the Management Board discussed and confirmed NN’s approach to climate change risks and opportunities. It also sponsored selected activities carried out by NN’s teams to engage in industry initiatives, leading to publications such as ‘Insuring the climate transition’ from the UN convened TCFD Insurer Pilot.

**ESG-related governance within our investment activities**

NN’s Responsible Investment (RI) Framework policy describes our approach to integrate ESG factors, including climate change, in our investment process. The Management Board decides on adjustments to the RI Framework policy and the related restricted list, taking into account the recommendation of the ESG Committee of NN Investment Partners (NN IP). In 2020, RI-related items were discussed in the Management Board four times.

At NN IP, the executive team provides strategic direction and oversees the implementation of the RI Framework policy in the investment processes, as well as the execution of NN IP’s climate change policy. This latter policy determines the climate change governance within NN IP and describes how it addresses climate-related risks and opportunities. The scope of the policy covers the investment beliefs, integration of climate change in the investment process, active ownership, restrictions, transparency, and advocacy.

To ensure proper support and implementation of these policies, the executive team receives input from NN IP’s ESG Committee. The committee is chaired by the Chief Investment Officer (CIO) of NN IP and comprises representatives of the Responsible Investment team and senior representatives from NN IP’s various business segments, as well as the CIO of NN Group and representatives of Corporate Citizenship.

To support the investment teams in the integration of ESG within the investment process, and to further drive the development of responsible investing and engagement, NN IP has a dedicated Responsible Investment team, which reports to the CIO of NN IP.

In 2020, a Paris Alignment Council was set up to develop and oversee the approach of aligning the proprietary investment portfolio to the Paris goals. The ‘net-zero’ ambition is a new commitment that NN has made to actively support the global transition to a low-carbon economy, and was communicated externally at the NN Capital Markets Day in June 2020. The Council, chaired by the CIO of NN Group, will provide direction on the implementation of the approach and monitor progress on plans and targets.

**Climate Change Dialogue**

To support TCFD implementation, NN has a Climate Change Dialogue: a multi-disciplinary working group, advising the Management Board on climate risks and opportunities. In 2020, the Dialogue convened to discuss the climate scenario analysis work, explore new developments and identify further actions. It also reviewed the functioning of the dialogue group, and identified a need to bring further alignment into the climate-related risk and opportunity analyses performed throughout the Group.

**Strategy**

Climate change presents risks and opportunities, and it is expected that these will increase over the mid to long term. NN Group therefore considers climate change to be an emerging development with potential for
considerable risk to our long-term business model and strategy. As such, we evaluate climate change-related risks as part of our strategy resilience, stress tests and scenario analyses (refer also to the section on Risk management on page 94 of this chapter).

The materiality and time horizons over which climate change-related risks impact our business activities depend on specific types of business, asset portfolios, geography and a range of other differentiating factors as illustrated in the three cases below:

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

NN distinguishes (a) transition risks and (b) physical risks from climate change. Transition risk could arise from the adjustment process towards a lower-carbon economy. This may adversely affect individual businesses, sectors and/or the broader economy, impacting our investment portfolios and thus the asset side of our balance sheet. Overall, NN anticipates that the global pricing of financial assets will increasingly be influenced by factors such as public policy, technological developments, changing consumer preferences, or evolving interpretations of legal frameworks. Such trends and changes are likely to materialise over the medium term. Insurers may be exposed to these risks through their investment portfolio. However, our investments are also exposed to specific short-term risks, such as sudden possible adjustments to market sentiment around climate risks, impacting segments and investments in our portfolio. Having a well-diversified and global portfolio focused on a broad range of investments could lessen the impact of transition risk. NN uses a system of risk limits and tolerances to manage financial risks overall, per asset category or type of financial risk.

Transition risk could also arise from a change in the composition of the underwriting portfolio, impacting the liability side of our balance sheet. This change will be affected by our objectives to diminish the carbon footprint, explore initiatives to keep the climate-related underwriting risks insurable, and develop sustainable products and services.

Physical risks relate to long-term changes in climate and increases in natural catastrophes. These risks are particularly relevant to our non-life insurance business. Although predominantly in the Netherlands, we also offer a range of non-life products in Belgium, Spain and Poland. An increased frequency and severity of weather events, such as windstorms or hail, can lead to higher expenditures (claims and operational costs), thus affecting the margins of our P&C insurance products. However, because P&C is mostly a one-year renewal business, we have the ability to adjust our risk models and define premiums (or introduce excess) to reflect predicted possible losses. Moreover, external reinsurance will, under certain conditions, partially mitigate potential impacts.

Besides having consequences on the liability side, physical risks could also impact our investment portfolio. A severe windstorm or flooding might damage buildings within our European real estate portfolio, which could result in asset impairments or indirectly affect our clients’ ability to pay their mortgages.

Finally, prolonged and multiple periods of heatwaves or other consequences of rising temperatures may result in increased mortality and morbidity, thereby impacting our life and income insurance liabilities. Long-term threats are difficult to predict, but currently we expect this to have less impact on our life and income insurance liabilities than other risks, such as changes in demographics. Furthermore, we note that from an overall risk perspective, NN has a larger exposure to longevity risk, which partly offsets mortality risk.

Our response

The management of climate-related risks and opportunities is part of our overall business strategy. Measures we take include:

Using insights from scenario analyses in risk and investment process – In 2019/20, NN Group performed climate change scenario analyses to get more insight into specific drivers of climate-related risks and opportunities that may impact investment performance. The analyses are focused on the largest asset categories on our balance sheet: government bonds, residential mortgages, and non-financial corporate exposure. Where possible, we considered a relevant short-, medium-, and long-term scenario, aligned with the TCFD recommendations. We described these analyses in our 2019 Annual Review, and published additional details in the ‘2020 Carbon footprint of our proprietary assets’ report. We use the insights as further input for formulating our investment strategy, and further integration of climate change aspects in our risk management practices.

Aiming for a net-zero emissions proprietary investment portfolio – In June 2020, NN announced a new objective to transition our proprietary investment portfolio to net-zero greenhouse gas (GHG) emissions by 2050, to align with the goals of the Paris Agreement. Our approach has two dimensions: decarbonisation of the investment portfolio, and increasing investment in climate solutions. Playing our part in helping the real economy to decarbonise serves as a guiding principle. To ensure appropriate actions, asset-class specific approaches will be defined in a step-by-step manner. For more details also refer to the section on Responsible Investment (pages 36–38).

Phasing out coal in our portfolio – In 2019, we adopted a policy to phase out thermal coal-exposed investments by 2030 in our proprietary portfolio. This decision affects around EUR 16 billion of investments in the mining and utility sectors, mostly held in corporate bonds. While most of these holdings will mature before 2030, we have some longer-dated exposures. These will be closely monitored; if by 2030 the companies have not reduced their coal-related business to 5% or lower they will be sold. To create consistency in our business, we aligned our policy for insurance underwriting with the investment side. We believe this policy sends a strong signal for an urgent phase-out of coal in order to achieve the Paris targets, and additionally supports us in mitigating the climate-related transition risks in our portfolio.

Capitalising on opportunities – Our strategy seeks to leverage opportunities for financing a low-carbon, climate-resilient future, such as by offering our asset management clients sustainable and impact strategies, by providing insurance products to protect against physical climate impacts and to support low carbon business models. In 2020, NN IP further expanded its green bonds range of funds by adding a corporate variant. Our banking business launched Woonnu, a new mortgage loan platform that offers consumer mortgage loans that rewards steps taken to reduce the owner’s carbon footprint, for instance by improving the energy efficiency of their property. We also adapt existing features in our insurance offerings; we provide cover for solar panels on residential insurance policies without charging an additional premium. Finally, we support customers through risk prevention and advice tools; Powery provides Dutch homeowners with tailored...
advice to improve the energy-efficiency of homes and offers connections with partners able to implement the measures.

**Active dialogue with investees** – Our asset manager engages with investee companies on climate-related matters. ‘Natural Resources and Climate Change’ is one of NN IP’s thematic engagement themes and focuses on deforestation, plastics, and the transition to low-carbon business models for the utilities, and oil & gas sectors. These engagements are often conducted in collaboration with other investors, such as through the PRI or the Climate Action 100+. NN also annually takes part in the CDP Non-Disclosure Campaign, encouraging companies to disclose information on climate change, water and deforestation risks. In 2020, we also supported a new CDP Science Based Target Campaign to encourage companies to set long-term targets on reducing their GHG emissions. Next to engagement with companies, NN IP supported the investor letter from the IIGCC to EU leaders on a sustainable recovery from Covid-19. For more details on NN IP’s stewardship activities please see NN IP’s RI Report.

**Joining forces to develop best practices** – We also collaborate with peers to develop industry best practices. In 2020, we joined the Platform Carbon Accounting Financials (PCAF), and we participated in the IIGCC Paris Aligned Investment Initiative (PAII), to help develop the ‘Net zero investment framework’ which investors can use to develop strategies to align their portfolios to the Paris goals. We also collaborated with 21 other insurance companies to develop risk management approaches, forward-looking scenario-based tools and methodologies. The pilot group published a paper titled ‘Insuring the climate transition’ in January 2021.

**Risk management**

NN Group’s risk policy framework ensures that all risks (including climate-related risks) are managed consistently and that NN operates within the set risk tolerances.

**Processes within investments**

NN has a policy framework in place to ensure our assets are invested responsibly. The policy includes a requirement to systematically incorporate ESG factors into the investment process. The consideration of ESG factors, alongside traditional financial data, helps us to make better informed decisions and optimise the risk-return profile of investment portfolios. At NN IP, assessing the materiality of ESG factors, including climate change, is an integral part of the investment process, where the analysts identify material risks and opportunities within the investment case. The processes are constantly enhanced. In 2020, NN IP developed its own proprietary ESG indicator for corporates and sovereigns. By the end of 2020, ESG criteria were consistently integrated for 74% of NN IP’s AuM.

Next to analysing individual investment-level risks, we carry out analyses at a portfolio level to assess potential climate risks and opportunities, and to support the implementation of a broader climate strategy. For example, we measure the carbon intensity of our proprietary investments, which provides us information on our highest carbon risk exposure and is useful for, amongst others, engagement purposes. We consider engagement to be an important tool, also for managing climate risks. This means we enter into a dialogue with investee companies on the risks of climate change, and the need to transition to a low-carbon economy.

Although we prefer to support behavioural change through an engagement approach, we may decide to exclude a company when it is not willing to engage in a dialogue, or when we believe not enough progress is being made. We have environmentally focused exclusion criteria on oil sands and thermal coal mining. For NN’s proprietary investment portfolio, we additionally implement the earlier mentioned coal phase-out policy.

**Processes within insurance underwriting**

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

We let insights from catastrophe models guide our risk management process in terms of pricing/underwriting. For this, we use external vendor models (based on meteorological modelling, reflecting observed storms and patterns) to estimate the impact and damage that would be caused by large natural catastrophes, such as windstorms. NN uses a multi-year forward-looking approach. Catastrophe models are also part of the risk management process in terms of solvency and capital management. Portfolio diversification and tracking concentration risks are other key risk mitigating steps. NN’s wide product range offers a broad variety of non-life insurance protection cover options against damage and loss from a wide range of causes. In addition to our P&C products, our portfolio includes income products, such as disability and accident insurance, which are less sensitive to windstorm or climate change.

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

To mitigate potential climate-related transition risks and provide a strong signal to companies, the insurance business applies exclusionary criteria for thermal coal mining companies. We will not provide (non-life) insurance services to companies that derive more than 30% of their revenues from thermal coal mining or use at least 30% thermal coal for power generation. These thresholds will phase down to 5% by 2030, to align our policy with the investment side.

The transition towards a low-carbon economy also causes legal challenges. We monitor climate-related litigation. Most cases are against governments, but complaints against business are on the rise. This can have consequences for NN, in case we insure these companies. However, because the relative size of NN’s general liability insurance portfolio to corporate clients, we consider risks in this area to be low at this moment in time.

To enhance the focus of ESG and climate aspects within our non-life business, we will start to assess the climate sustainability factor of our current and new products according to the latest (regulatory) insights. To determine this factor, NN will implement external screening criteria and potential own developed criteria. In addition, we will embed metrics and set targets to manage the impact of climate change on the underwriting portfolio and to align with various climate-related disclosure requirements and recommendations.
Solvency and resilience testing

We explicitly consider large catastrophic losses in economic capital modelling in order to ensure NN Group is resilient to such extreme scenarios. The Solvency II supervisory framework requires that insurers hold sufficient capital to cover the losses of a 1-in-200-year event, over a one-year time period. In addition, insurers also consider risks beyond this one-year time period as part of their Own Risk and Solvency Assessment (ORSA), and hold a level of capital that is in line with their defined risk appetite. NN Group, and each of its regulated (re)insurance subsidiaries, prepares an ORSA at least once a year. The ORSA includes the outcomes of stress tests and/or scenario analyses that are aligned with the identified key risks.

The 2020 Group ORSA includes climate change scenarios, further building on the previously mentioned assessments on our own general account investment portfolio to better understand the impact on our business. Topics covered are:

• A qualitative assessment focusing on transition risks associated with policies for government bonds. It is built on our assumption that countries that have a well-developed long-term strategy towards achieving GHG emissions reductions consistent with the Paris Agreement, are more likely to face lower transition risk.
• A quantitative assessment using geographical data to assess physical (concentration) risks for properties in NN’s mortgage book in the Netherlands, looking at flooding events (including surface water flood caused by heavy rainfall, river flood and coastal flood).
• A quantitative assessment to assess preparedness of corporates to deal with climate change. Investments in certain industries might lose value when companies cannot adapt to a low-carbon business model.

Our Non-life and Banking businesses have analysed the following scenarios:

• A quantitative assessment of a series of windstorms, and the potential impact on the solvency position of Non-life.
• A quantitative assessment of a disorderly transitional scenario ensuing from rapid global action and policies to limit warming to below 2°C compared to pre-industrial levels, but having impact on our assets (equity, mortgages, real estate) materialising over the medium-term business planning period, in line with a (2019) PRA scenario.
• A quantitative assessment focusing on the effects on homeowners that are confronted with unintended adverse effects of government energy transition policies, that include a severe but plausible economic downturn with uncertainty about future property values and reduced sales of existing homes.

General conclusions from these assessments are:

• Impact of climate change contains high levels of uncertainty and as such, caution is warranted in drawing conclusions based on scenario outcomes. Furthermore, climate-related scenarios are potentially not representing the full impact of climate change, as it is virtually impossible to provide an all-inclusive scenario.
• Scenario analyses performed so far show climate change is more imminent to our underwriting business in NN Non-life compared to our Life and Pensions businesses.
• Qualitative scenarios, as well as other data supported analysis, can help to gain a further understanding of potential exposures in our portfolios. For instance, for the mortgage portfolio, geographical data offers visualisation of concentration of physical risks. Based on current insights, and assuming the Dutch government will further execute its infrastructure improvement programme, our exposures until 2050 are limited. We will continue to incorporate new data and assumptions in our regular monitoring.
• For our corporate bond portfolio, we consider the potential impact moderate and manageable. Over the past years we have been refining our RI strategy, and will continue to do so in the years to come. This will help to position our portfolio composition more towards companies that are likely to be best positioned on a path to decarbonising and/or offer climate solutions, while keeping a diversified portfolio.

We will continue exploring potential events and more accurate parameters to quantify the impact of climate risks, as well as build further capabilities to make more detailed assessments per type of investment.

This includes a specific focus on deepening our understanding of climate-related risks, focusing on our non-life insurance portfolio, amongst others by using the insights gained from the earlier mentioned UN convened TCFD Insurer Pilot.

Metrics and targets

Own operations

At NN Group, we are committed to reducing the environmental impact of our own operations. Our operations have been carbon neutral since 2015, by reducing our emissions year-on-year and by offsetting any remaining emissions. We have set quantitative targets to reduce our GHG emissions and consumption of scarce resources. In 2021, we expect to set a new target, which will be science based. Read more on page 39.

Investments

We measure the carbon footprint associated with our proprietary investments. New for 2020, is the inclusion of our real estate investment portfolio. Now for 2020, is the inclusion of our real estate investment portfolio. This brought the total assessed amount to EUR 175 billion, representing 80% of our total asset portfolio, composed of the general account assets of the insurance entities, and the assets of NN Bank and NN Group. For more detail see table on page 66 and the separate publication, called ‘Carbon footprint of our proprietary assets’ report.

In 2020, NN committed to transition our proprietary portfolio to net-zero GHG emissions by 2050. We are developing asset-class specific strategies (see page 36 on Responsible Investment). In 2021, we will define intermediate objectives and milestones in relation to this commitment.

Other metrics and targets:

• NN IP’s Aum in sustainable and impact strategies: EUR 29.3 billion (2020)
• Amount of green bonds and infrastructure investments in the areas of energy and resource efficiency in the proprietary portfolio: EUR 1.3 billion (2020).
• GRESB score, as an indicator of the sustainability performance of the proprietary real estate portfolio: 83 out of 100. The assessment covers EUR 8 billion or 97% of NN’s real estate portfolio.
• Amount of securities covered by the coal phase-out strategy for the proprietary portfolio: EUR 16 billion.
• Number of company dialogues on ESG factors conducted by NN IP analysts and ESG specialists: 1,269.
• Shareholder proposals where NN IP voted ‘for’: 100% out of 22 proposals requesting companies to set up GHG emission reduction targets in line with the Paris goals; 100% out of 11 proposals filed by Climate Action 100+; and 100% out of three proposals related to deforestation.