

A photograph of two women sitting at a wooden table, looking at a tablet. The woman on the left has dark curly hair and wears glasses and a yellow top. The woman on the right has brown hair and wears a white and black striped top. They appear to be in a collaborative work environment.

Shaping our tomorrow

NN Group N.V.
Annual Review 2018



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The 2018 Annual Report consists of the 2018 Annual Review and the 2018 Financial Report. It provides an integrated review of the performance of our company.

The Annual Report is prepared in accordance with applicable Dutch law and the International Financial Reporting Standards (IFRS), which are endorsed by the European Union. It also complies with the Global Reporting Initiative's Sustainability Standards and the guidelines of the International Integrated Reporting Council. The Annual Report aligns relevant information about our strategy, governance systems, performance and future prospects in a way that reflects the economic, environmental and social contexts in which we operate. Read more about Our approach to reporting on page 67 of the Annual Review. NN Group also publishes a Solvency and Financial Condition Report (SFCR), including public quantitative and qualitative disclosures on Solvency II. The SFCR is published on NN Group's corporate website in the Investors/Annual Report section.

2018 Annual Review



The Annual Review covers NN Group's operating environment, key trends and material issues, it describes how we create value, and provides information on our strategy, our objectives and business performance. Also achievements and dilemmas related to our business are included. It is targeted at a broad range of NN Group stakeholders.

2018 Financial Report



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



Visit our website for further information
www.nn-group.com



You matter

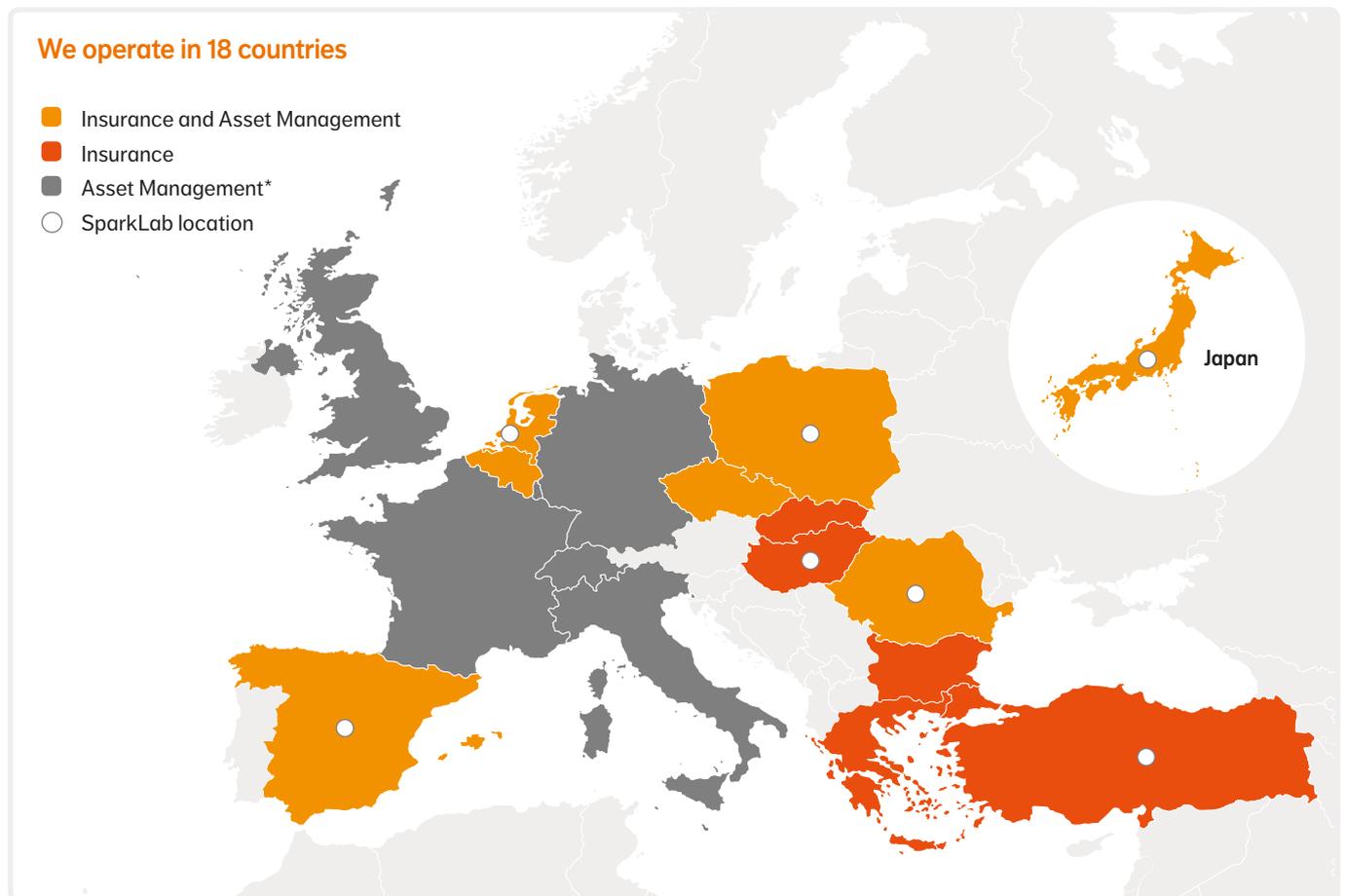
We believe people want to live life to the fullest, focusing on what matters most to them. We empower them to do just that – through all stages of their lives – by taking on the risks they cannot bear alone, and by helping them to secure their financial well-being.

What matters to you, matters to us.

NN at a glance

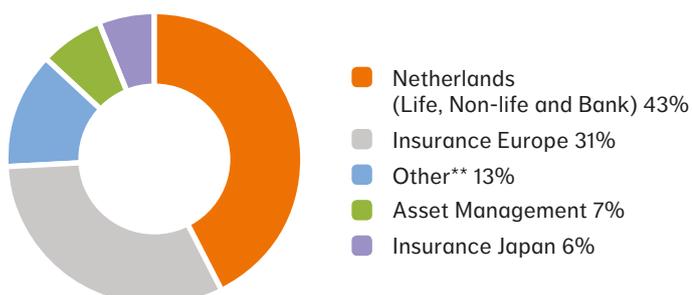
Who we are

NN Group is a financial services company, active in 18 countries with a strong presence in a number of European countries and Japan. Our purpose is to help people secure their financial futures. Through our retirement services, and insurance, investments and banking products, we aim to create value for our customers and other stakeholders.



* Outside Europe and Japan, NN Investment Partners has offices in New York and Singapore.

We have 14,953 employees



** Other includes Group staff, Chief Investment Office and NN Re.

Our values



How we performed

Financial highlights

Operating result ongoing business

EUR 1,626m ▲
(2017: EUR 1,586m)

How we performed

The increase reflects improved results, expense reductions, and the inclusion of Delta Lloyd (from 2Q17), partly offset by a lower benefit from non-recurring items. Our annual earnings growth target: 5-7%.

Expense reduction

EUR 289m ▲
(Target: EUR 400m by 2020)

How we performed

Total expenses reductions at the units in scope of the integration of EUR 289 million compared with the 2016 administrative expense base. Well on track to reaching the target: EUR 400 million by end of 2020.

Free cash flow to the holding

EUR 1,216m ▲
(2017: EUR 881m)

How we performed

Free cash flow to the holding of EUR 1.2 billion, mainly reflecting EUR 1.6 billion of dividends received from subsidiaries, partly offset by holding and funding costs.

NN IP Assets under Management

EUR 246bn =
(2017: EUR 246bn)

How we performed

Total Assets under Management of NN Investment Partners stable at EUR 246 billion compared with year-end 2017.

Solvency II ratio

230% ▲
(2017: 199%)

How we performed

The Solvency II ratio increased from 199% (year-end 2017) to 230% (year-end 2018), driven by operating capital generation and positive market variances, partly offset by capital flows to shareholders.

Value of new business

EUR 391m ▲
(2017: EUR 345m)

How we performed

The value of new business (VNB) in 2018 amounted to EUR 391 million, up 13.4% compared with 2017, driven by an improved product mix at Insurance Europe and Japan Life.

Non-financial objectives

Net Promoter Score

+1.5 points ▲
(2017: +17 points)

Where we stand

We aim to increase our NPS scores every year. In 2018, 5 of our 12 insurance business units maintained or improved their relational NPS scores compared with 2017. Other units saw their scores decrease, which has our full attention.

Women in senior management positions

33% ▲
(2017: 32%)

Where we stand

We exceeded our target to have 30% women in senior management positions by 2020. We will continue to strengthen our efforts in this area.

Assets under Management in sustainable and impact strategies

EUR 16.5bn ▲
(2017: EUR 10.9bn)

Where we stand

We aim to increase our AuM in sustainable and impact strategies every year. In 2018, these assets represented 6.7% of total AuM, while at the same time showing again an increase of 53% compared with 2017.

Young people reached through NN Future Matters programme

38,536 ▲
(2017: 37,208)

Where we stand

Since the start of our programme in 2014, we have reached 112,937 young people, exceeding our 2020 target to positively impact the futures of 100,000 young people. We aim to continue to grow this number.

Employee engagement

7.1 ▲
(2017: 7.0)

Where we stand

We aim to increase our employee engagement every year. In 2018, engagement showed a slight increase compared with 2017.

Direct environmental footprint (CO₂ emissions per FTE)

-6% ▼
(2017: -10.5%)

Where we stand

Our target is to reduce the CO₂ emissions of our direct operations by 3% per year. In 2018, our CO₂ emissions (scope 1 and 2) per FTE showed a decrease of 6%. We aim to further decrease our CO₂ emissions every year.

How we create and share value

We aim to create long-term value for our stakeholders. The value creation model shows how we use the resources and expertise at our disposal, and the value this creates for our stakeholders.

Key inputs

Capital

Financial Capital

- EUR 13.3bn gross premium income
- EUR 246bn Assets under Management
- EUR 16,727m eligible own funds

Human and Intellectual^{*} Capital

- 14,953 employees
- Values-driven culture
- Responsible business standards

Social and Relationship^{**} Capital

- Customer relationships (around 17 million customers)
- Business partners and suppliers
- Other key stakeholders

* Intellectual capital refers to the institutional, innovation and digitalisation knowledge, research etc. developed within the organisation.

** Relationships developed within and outside the organisation. It includes relationships with customers, business partners and suppliers.

Trends and developments

- Economic and demographic changes
- Low interest rates
- Regulation
- Changing pensions systems
- New technologies and innovation
- Sustainable development



The value we created in 2018

Output	Outcome	Contributing to the Sustainable Development Goals
<p> Customers</p> <ul style="list-style-type: none"> Claims and benefits paid EUR 15.2bn Customer satisfaction NPS +1.5 pts 	<p>We offer products and services that are easy to understand and that meet our customers' needs, helping them to secure their financial futures throughout the different stages of their lives. Read more on pages 22-32 and 35-37.</p>	
<p> Employees</p> <ul style="list-style-type: none"> Salaries and benefits EUR 1.5bn Training and development EUR 21.5m Women in senior management 33% Employee engagement 7.1 	<p>We offer an attractive, stimulating and diverse work environment to our employees. We invest in their skills and personal development to help them reach their full potential. Read more on pages 38-41.</p>	
<p> Investors</p> <ul style="list-style-type: none"> Dividend paid EUR 570m Share price change -3.7% Free cash flow to holding EUR 1,216m 	<p>We maintain a strong balance sheet and take a disciplined approach to capital management, so we can offer attractive long-term returns for our investors. Read more on pages 42-43.</p>	
<p> Society</p> <ul style="list-style-type: none"> Income tax paid to governments EUR 55m Paid to suppliers EUR 1bn AuM in sustainable and impact investment strategies EUR 16.5bn Donations to charitable organisations EUR 2.7m 	<p>We use our resources, expertise and reach to help society achieve long-term prosperity. We invest in a responsible way, ensure fair tax policies, minimise our direct environmental footprint, and support local communities. Read more on pages 44-51.</p>	

Our seven reporting segments

Our business activities are structured within seven reporting segments: Netherlands Life, Netherlands Non-life, Insurance Europe, Japan Life, Asset Management, Other, and Japan Closed Block VA.¹

1. Netherlands Life

Proven track record in improving the customer experience whilst reducing expenses

Products and services

Group life/pension products

Individual life/pension products

Premium Pension Institution (BeFrank)

Pension administration & support for pension fund boards (AZL)

Customers

Retail customers

Small- and medium-sized enterprises (SMEs) and their employees

Pension funds

Large corporate clients and their employees

Financial performance

Operating result EUR 972m

New sales life insurance (APE) EUR 262m

Total provision EUR 112bn for insurance & investment contracts – of which for risk policyholder EUR 21bn

Solvency II ratio NN Life 255%

Solvency II ratio Delta Lloyd life 180%

Value of new business (VNB) EUR 9m

2. Netherlands Non-life

Improving performance and delivering growth in the changing non-life market

Products and services

Property & casualty

Motor insurance

Fire insurance

Liability insurance

Transport insurance

Disability & accident

Individual disability insurance (Movir)

Group income insurance

Accident insurance

Health insurance (NN Zorg, OHRA Zorg)

Customers

Retail customers

Self-employed

Small- and medium-sized enterprises (SMEs) and their employees

Large corporate clients and their employees

Financial performance

Operating result EUR 94m

Gross premium EUR 3,083m income

Combined ratio² 99.4%

– of which Claims² 70.6%

– of which Expenses² 28.8%

3. Insurance Europe

Growing the business by engaging customers through a variety of distribution channels

Products and services

Life insurance (all countries)

Property & casualty (Belgium, Spain, Poland)

Pensions (Bulgaria, Czech Republic, Slovakia, Poland, Romania, Turkey)

Health insurance (Greece, Hungary, Romania)

Employee benefits (Spain)

Customers

Retail customers

Self-employed

Small- and medium-sized enterprises (SMEs) and their employees

Large corporate clients and their employees

Financial performance

Operating result EUR 271m

New sales life insurance (APE) EUR 627m

Value of new business (VNB) EUR 168m

4. Japan Life

Delivering strong profitable growth and diversifying distribution

Products and services

Corporate-owned life insurance (COLI)

Protection life insurance

Customers

Owners and employees of small- and medium-sized enterprises (SMEs), where the company is both the policyholder and the beneficiary of the policy

Financial performance

Operating result EUR 167m

New sales life insurance (APE) EUR 751m

Value of new business (VNB) EUR 214m

¹ Certain changes will be made to the segment reporting of NN Group as from the first quarter of 2019. The banking business, which is currently included in the segment 'Other', will be reported as a separate segment. At the same time, the segment Japan Closed Block VA will no longer be reported separately. Going forward, the results of Japan Closed Block VA will be included in the segment 'Other' as a non-operating item ('Market & other impacts').

² Excluding health and broker business.

³ Percentages based on total operating result before tax of the ongoing business (EUR 1,626m) excluding segment Other (EUR -33m) for 2018.

⁴ The common equity tier I ratio is not final until filed with the regulators.

⁵ (Annualised) net operating result of Banking, divided by (average) adjusted allocated equity.

⁶ The legal mergers of NN Life and NN Non-life with Delta Lloyd Life and Delta Lloyd Non-life respectively became effective on 1 January 2019.

NN at a glance continued

NN Group operating result ongoing business before tax (excluding the segment Japan Closed Block VA)³

(% of total – FY2018)



59% Netherlands Life

6% Netherlands Non-life

16% Insurance Europe

10% Japan Life

9% Asset Management

5. Asset Management

Managing assets responsibly; solutions-driven with a distinctive identity

Products and services

Multi-Assets
Alternative Credit
Spread Fixed Income
Distinctive Equity

Customers

Institutional
Retail
Proprietary

Financial performance

Operating result	EUR 155m
Assets under Management	EUR 246bn
– for third parties	EUR 81bn
Net inflow	EUR -6bn

6. Other

The segment 'Other' is part of the ongoing business. It comprises NN Bank and NN Re (excluding reinsurance of the Japan Closed Block VA portfolio), the holding result and other results.

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

NN Re is NN Group's internal reinsurer. It provides reinsurance solutions to manage risks, optimise capital, support growth in business units, and safeguard stable and efficient hedging.

Financial performance

Operating result (segment 'Other')	EUR -33m
Operating result banking business	EUR 128m
Total assets banking business	EUR 22bn
NN Bank common equity Tier 1 ratio ⁴	16.3%
Net operating ROE banking business ⁵	13.1%

7. Japan Closed Block

Actively managing and hedging the portfolio; run-off driven by maturities

This segment comprises NN Group's closed-block individual life insurance portfolio in Japan. These products were predominantly sold from 2001 to 2009. The total portfolio is reinsured by NN Re in the Netherlands.

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

Financial performance

Result before tax	EUR 1m
Account value	EUR 2,355m
Net Amount at Risk	EUR 175m
Number of policies	34,436

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

- Netherlands Life, Netherlands Non-life and NN Bank are part of Netherlands
- Netherlands Life includes the results of Nationale-Nederlanden Life, Delta Lloyd Life⁶, AZL, the life results of ABN AMRO Insurance and BeFrank
- Netherlands Non-life includes the results Nationale-Nederlanden Non-life, Delta Lloyd Non-life⁶, the non-life results of ABN AMRO Insurance, Movir, OHRA, and the broker results related to health insurance products
- Insurance Europe, Japan Life, Japan Closed Block VA and NN Re are part of International Insurance
- NN Investment Partners is part of Asset Management

Well-positioned to capture further growth



“

Being entrusted with people's financial matters is a responsibility we take very seriously.

Lard Friese
Chief Executive Officer

2018 was a good year for our company and I am pleased with our overall performance. Internationally we further strengthened our footprint, and in the Netherlands and Belgium we made significant progress integrating Delta Lloyd into NN and together achieved important milestones. Our company's financial position is strong. We are well-positioned to capture further growth opportunities and to continue to help our customers secure their financial futures.

How did the integration process progress in 2018?

It has been nearly two years since the acquisition of the Delta Lloyd businesses. Throughout 2018, our teams worked hard on migrating systems, increasing efficiency, and introducing new products and services. The rebranding of Delta Lloyd's products and services to Nationale-Nederlanden is now virtually complete. Naturally, an integration process of this scale is impactful and also brings challenges along the way. For example, integrating and decommissioning certain IT systems at times proved to be more complex than anticipated, and organisational changes often come with levels of uncertainty.

But despite the changes, reorganisations and restructuring, we were able to maintain stable customer and intermediary satisfaction scores, and our employee engagement levels improved compared to 2017.

Early in the year, the legal mergers of Delta Lloyd Asset Management and NN Investment Partners (NN IP), as well as those of Delta Lloyd and NN Belgium were completed. In December 2018, we were pleased to obtain the Dutch Central Bank's approval to expand our Partial Internal Model to include the Delta Lloyd Life and Non-life entities in the Netherlands. Subsequently, we merged those entities into NN Life and Non-life on 1 January 2019. These accomplishments are testament to the commitment and dedication of the teams involved.

What about the performance in the international businesses?

In general, 2018 was a dynamic year: markets were impacted by (geo)political uncertainty, and low interest rates persisted. In several of the countries where we operate, changes in regulation require us to carefully assess the impact of such developments on our business. Even though our operating environment has its challenges, we have been able to grow our international businesses, mainly by expanding the sales of protection products through diverse distribution channels. Commercial momentum continued, and value of new business from our operations in both Europe and Japan increased. In line with our objective to achieve long-term value creation and profitable growth, we acquired Aegon's life insurance business in the Czech Republic and its life insurance and pension businesses in Slovakia.

CEO viewpoint continued

When integrating these businesses into our company, we build on our experience in the Netherlands and Belgium, sharing best practices with the local teams – for example, regarding risk management, communication and onboarding of new colleagues.

How would you describe NN Group's financial performance in 2018?

Our performance was robust and our capital allocation disciplined. The full-year operating result of the ongoing businesses was EUR 1,626 million, up 3% compared with 2017, driven by improved performance at our Dutch Life and Non-life operations, and our European businesses. At the same time, Japan Life, NN IP and the reinsurance business faced some headwinds.

We reported a lower net result at EUR 1,117 million versus EUR 2,110 million in 2017, mainly due to the impact of the goodwill impairment related to the merger of Delta Lloyd Life into NN Life, which was reported in the fourth quarter; however there was no economic or cash impact.

In the Netherlands and Belgium, we achieved total cost reductions by year-end 2018 of EUR 289 million, which brings us to 72% of our target for 2020. Our financial position is robust, with a cash capital position of EUR 2,005 million and a Solvency II ratio of 230%. The latter already reflects the deduction of the final dividend of EUR 1.24 per ordinary share that will be proposed at our Annual General Meeting of Shareholders on 29 May 2019. Combined with the interim dividend paid, this brings our full-year 2018 dividend per ordinary share to EUR 1.90, a 14.5% increase compared with 2017.

What was NN's impact on society in 2018?

We take our responsibility as corporate citizen seriously. There are large societal challenges to be addressed – as exemplified in the Sustainable Development Goals – and we want to play our part in finding solutions. It is my firm belief that the private and public sector should work together to address these challenges. As an insurer, an institutional investor, employer and buyer of goods and services, we are committed to making a positive contribution to society.

In 2018, we further strengthened our Responsible Investment Framework policy, including the decision to exclude tobacco producers, and companies involved in oil sands. Also, we held more than 500 dialogues with companies on their environmental, social and governance (ESG) performance, to encourage them to further improve their plans or conduct.

Furthermore, we joined the Climate Action 100+ initiative and supported the launch of the International Corporate Social Responsibility (ICSR) covenant for the Dutch insurance sector. Finally, NN IP's assets under management in sustainable and impact investing funds and mandates increased by more than 50% to EUR 16.5 billion.

Through our community investment programme Future Matters, that is focused on promoting financial empowerment and economic opportunities, we have reached a total of 112,937 young people since 2014, surpassing our target of reaching 100,000 young people by 2020. Our aim is to continue to grow this number.

We are proud that our efforts are recognised: we are included in the Dow Jones Sustainability Indices, FTSE4Good index and Bloomberg Gender-Equality Index. Sustainalytics considers us a sector leader in sustainability. This inspires us, as we progress on this journey.

How are you strengthening the NN brand?

We further invested in partnerships, deepening and diversifying our distribution capabilities and product offerings. We continued our efforts to improve customer experience across our businesses and now have seven SparkLabs, located in various markets, developing new propositions. We are introducing robotisation and artificial intelligence in some of our business processes, and our business units are embracing new (agile) ways of working to enhance their efficiency. All with the aim to make our products and services more relevant and intuitive for our customers.

We also celebrated our first year as a name sponsor of the NN North Sea Jazz festival in Rotterdam, and the NN Running Team celebrated almost 150 podium finishes, with the new marathon world record by Eliud Kipchoge as the highlight of the running year.

How will you continue to create long-term value?

Our company has a history dating back to 1845. Since then, our company has changed, grown and merged, but the core of who we are has remained the same. We want to help people secure their financial futures, guided by three values that connect and inspire us: care, clear, commit.

We know that solid financial protection requires saving and careful planning throughout a person's lifetime, and with people living longer, healthcare costs rising, and social security systems eroding, the parameters of financial planning are changing. With more providers, channels and technologies at our customers' disposal, the need for trustworthy planning and advice will only increase. These changing market circumstances and demands require us to stay attuned to our environment.

In 2018, we changed the composition of our Management Board, equipping us with the skills and competencies to further shape our company's journey. We focused on refining the long-term strategic direction, which centres around maintaining and optimising our current portfolios, as well as exploring potential drivers for future growth and transforming our business models. With the financial flexibility and the strong foundation we have today, we are well-positioned to identify and seize new opportunities as they arise.

What is next?

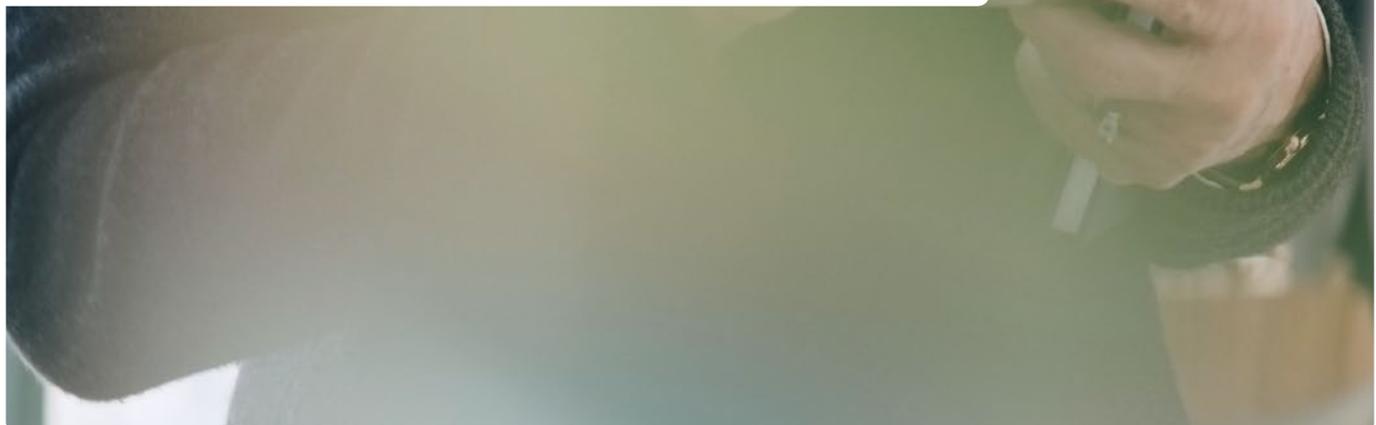
We will continue to build on our solid foundation, and I feel privileged to do this alongside nearly 15,000 hard-working colleagues committed to making this company one that truly matters. We are grateful for the trust our customers and business partners have in us, and for the continued support of our stakeholders.

I would like to extend our heartfelt thanks to our NN Group Supervisory Board Chair, Jan Holsboer, who will step down as of the close of our AGM on 29 May this year. For over 50 years, he has served a range of NN Group businesses, in various roles and responsibilities. In recent years, Jan played an important role in the many milestones of our company: the separation from ING Group and the IPO in July 2014, and the acquisition and integration of Delta Lloyd. On behalf of the Executive and Management Boards, I express my gratitude and deep appreciation for Jan's mentorship, his commitment to NN Group and his unwavering support. It has been an honour and a pleasure to work with him. David Cole will succeed Jan, and I am looking forward to working with him in his new role.



Our operating environment

NN operates in a dynamic environment. We therefore keep a close eye on what happens around us, with a focus on developments that may impact our overall strategic direction, our financial performance and the way we conduct business.



Our operating environment

Driving forces in our external environment

We take into account the many developments impacting our operating environment, which often affect the entire financial services sector. Understanding this environment helps us manage the risks and opportunities we face, so that we can better meet the expectations of our stakeholders.

A variety of external factors impact the environment in which the financial services industry operates. They range from macroeconomic and financial market trends, and geopolitical, governmental and regulatory developments, to demographic changes, competitive challenges, as well as the way business models evolve.

Dynamic environment

The external environment remained dynamic throughout 2018. Though economic conditions remained favourable and new opportunities arose from technological innovation, developments such as protectionism, instability in financial markets, rising levels of debt and climate change continued to cause uncertainty.

Mixed picture on global economic growth

Favourable monetary and financial conditions have for some years been benefiting the economy. Global economic growth was firm in 2018, with the Dutch, and Central and Eastern European economies outgrowing the European average. However, economic growth is being impacted by (geo)political developments, such as tense international trade relations influencing investments, as well as Brexit and tension within the Eurozone and the European Union at large. As a consequence, the financial sector may be confronted with reduced consumer and producer confidence, continued volatility in financial markets, and a prolonged period of low interest rates.

Changing demographics

People are becoming older, and this is a global phenomenon. The working-age population has declined over the past decade and is projected to further decline in the coming years. The ageing population, combined with increased life expectancy, suggests that the overall costs of pension provision will come under pressure. At the same time, living longer also means people are able to work longer, and ultimately must do so if they wish to save sufficient money before retiring. This development provides opportunities for the financial sector, as solid financial protection requires saving and careful planning throughout a person's lifetime. However, it can also lead to longevity risk for insurance companies. Read more on page 17.

Adapting to new regulations

An extensive package of regulations for the financial services industry was put in place following the financial crisis in 2008. This aims to bring more financial stability and security for society as a whole. European and national regulations impact the way insurers do business and manage their balance sheet. For the European insurance industry, the Solvency II framework, which determines how much capital an insurance company should hold, is arguably the most important regulatory framework.

Legislation aims to ensure a similar level of transparency around products, services and business models within the industry. A stable regulatory framework is important, as it can help to build and retain customer trust and create a level playing field.

Risk shifting towards customers

Risk is gradually shifting from governments towards individuals in areas such as healthcare and supplementary pensions. Also, due to labour market and demographic developments, and the low interest rate environment, new life insurance and pension products offer fewer or no guarantees. This contributes to investment risk being shifted from institutions to individual customers. Customers need to take into account that solid financial protection requires saving and careful planning throughout a person's lifetime. There is a concern that not everyone will be able to understand, manage or absorb such risks. The financial services industry bears a responsibility, together with other stakeholders, to help increase awareness around this trend and support customers in making conscious choices for their future financial well-being.



Our operating environment – Driving forces in our external environment continued

Changes to regulation can have a significant impact on our customers and business when they materialise in the markets in which we operate, and therefore require careful monitoring.

There are, for example, concerns within the industry around specific measures in some Central and Eastern European countries regarding the pension systems. Read more on developments in Romania on page 29. In the Netherlands, regulatory reform of the pension system remains a topic of discussion. It is one of the current Dutch government's main goals, but it is proving hard for stakeholders involved to reach a final agreement.

Regulations that were particularly relevant to our business in 2018 included the Insurance Distribution Directive (IDD, 2018), Standards 9 & 17 of the International Financial Reporting Standards (IFRS) and the General Data Protection Regulation (GDPR, 2018). In addition, Dutch legislation has been introduced in 2019 on planning for the recovery and resolution of insurance companies in order to deal with future failing insurance firms. The Netherlands, along with France and Romania, are European frontrunners in this area.

Increased focus on sustainable development

There is increased focus within the financial sector on the environmental, social and governance (ESG) aspects of doing business. This reflects global trends and challenges, such as climate change, scarcity of resources and social inequality, and the expectations of stakeholders related to these matters. International initiatives and guidelines, such as the EU Action Plan on Sustainable Finance and the recommendations of the Task Force on Climate-related Financial Disclosures, also drive this trend.

Environmental risks, such as risk of draught, storms and fire, are affecting the insurance industry. The industry needs to anticipate these changes in its underwriting and product offering processes. At the same time, ESG aspects provide an additional lens through which to identify and manage risks and opportunities in investment portfolios. Next to integrating ESG factors in investment processes, the industry is able to use its influence to support the transition to a sustainable economy by engaging with the companies it invests in. Furthermore, specialised sustainable and impact investing strategies are offered to customers. Read more on pages 30-32 and 44-46.

Adapting to new technologies and innovation



New technologies continue to drive the digitalisation of society. The increased availability and sharing of data enables companies to improve the way they develop and personalise products and services. The expectation is that we are on the brink of a fundamental transformation of the financial services industry. Artificial Intelligence, blockchain, robotics, machine learning, smart data, and the Internet of Things are just some examples of technologies that enable companies to operate faster and more effectively, often at lower costs.

The strength of competition is increasing, both from within the sector and from newcomers (predominantly data, tech and platform companies) that want to leverage experiences in other businesses within financial services. The financial industry needs to react and anticipate quickly. Implementation of new technology remains a challenge in view of legacy infrastructure and technology, and huge investments are often needed to implement change. From an employee perspective, technological developments can require different (sometimes scarce) skillsets. However, digitalisation also brings opportunities: new players emerge that offer relevant services for our customers, which can lead to new opportunities for partnerships.

As technology advances, new risks also emerge. Expert estimates put the global economic damage from cybercrime at some EUR 490 billion per year (of which EUR 135 billion in Europe and Central Asia) – around 0.8% of global GDP. Read more on NN's approach to cybersecurity on page 14.

Changing customer needs

Topics such as finance and saving for retirement are rarely top of mind for our customers, and their expectations around financial services provision and ease of doing business are being shaped and rapidly changed by their experiences in other industries. Nowadays, many people, but especially millennials and Gen Z-ers, are used to 24/7, no-threshold access via any channel or device.



They want products and services that they understand and that meet their specific and ever-evolving needs. This creates challenges and opportunities. The need for the financial sector to provide trustworthy planning and advice increases, and – especially with more providers, channels and technologies at customers' disposal – it can also be a way to differentiate. The changing ways of doing business require different expertise, technical skills and ways of working (agile). This calls for our continuous attention, also from a human resources perspective, and a continued focus on servicing customers where and when it matters most. Understanding and anticipating developing customer needs will be key to further strengthening our relationships with them.

Addressing material topics

In addition to anticipating and dealing with trends and developments, we aim to address topics that our stakeholders find important.

Our customers, employees, shareholders, business partners, regulators and the organisations representing wider society, are all important stakeholders to us. We regularly engage with these different groups to discuss their views and observations, and to identify aspects that might be material to our company.

The Sustainability Standards of the Global Reporting Initiative (GRI) define material aspects as ‘those topics that may reasonably be considered important in influencing the decisions of stakeholders, or reflecting the organisation’s economic, environmental and social impact’. Identifying material aspects and their potential impact on our company is an ongoing process, and one that is highly relevant to our businesses and annual reporting.

As in previous years, we have cross-checked our shortlist of trends and topics against an analysis of recent legislation and regulations, external research, reporting guidelines, benchmarks and peer reports. The list of topics is shorter than in 2017 as we combined some topics to increase clarity.

Reading the materiality matrix

For the external stakeholder perspective (the y axis in the materiality matrix), we conducted desk research, analysing documents covering our dialogue with various stakeholder groups. The x axis shows NN’s impact on each topic, in line with the GRI Standards. Trends such as demographic change and low interest rates fall in the lower left-hand corner of the matrix because – although highly relevant to our business – our impact on these trends is limited. Read more on pages 11-12.

The most material topics as indicated by our internal and external stakeholders are found in the upper-right quarter of the matrix. Some of these relate to the trends described on the previous pages. Other topics, including customer centricity, data privacy and (cyber)security, business ethics, and environmental, social and governance (ESG) integration into products and services, are described on pages 14-15.

To validate the outcome of the plotting exercise, we organised a dialogue session with 20 internal stakeholders representing different business units and relevant staff functions and including two Management Board members. To ensure a balanced and independent discussion, the process was facilitated by an external specialist agency. Subsequently, the materiality matrix was validated by NN Group’s Management Board and the Supervisory Board as part of the approval process of the Annual Review. The outcome of the process is reflected in the chart below.



Material topics

- 1 Customer centricity
- 2 New technology and innovation
- 3 Data privacy and (cyber)security
- 4 Business ethics
- 5 Solid risk management (pages 16-18)
- 6 Responsible tax practices (page 47)
- 7 Financial performance and sustainability of our business model
- 8 Diversity and equality (pages 39-40)
- 9 Employee empowerment and engagement (page 41)
- 10 Financial and economic empowerment (pages 48-49)
- 11 ESG integration into products and services

Macroeconomic trends (pages 11-12)

- 12 Low interest rates and stability of financial markets
- 13 Regulations
- 14 Pension system
- 15 Economic and demographic change
- 16 Sustainable development

Our operating environment – Addressing material topics continued

1 Customer centricity

People entrust us with their financial matters and this is a responsibility we take seriously. When it comes to helping our customers plan for their financial futures, NN wants to be an intuitive partner. Making optimal use of digitalisation, we aim to develop value-adding products and services that anticipate changing needs. We are finding new ways to distribute our products. And we use customer feedback and data analytics to optimise our activities and strengthen our relationship with customers. Read more in the business chapters on pages 22-32, and the chapter Excellent customer service on pages 35-37.

2 New technology and innovation

New technologies are fundamentally changing the behaviours, needs and requirements of our customers. We want to become even more relevant in our customers' lives. We are therefore exploring the potential of ecosystems and platforms around themes such as Vitality & Health, Carefree retirement, Mobility and Home. Within the business units, we are innovating our existing offerings, processes and services to create a customer experience that is digital, personalised and relevant. Read more in the business chapters on pages 22-32, and the chapter Excellent customer service on pages 35-37.

3 Data privacy and (cyber)security

Financial services companies possess large amounts of payment data and/or personal information about their customers, making security awareness and data protection vitally important. Cyberattacks on financial services companies can have a major impact, resulting in not only damage for our customers and company, but also a loss of trust. A major breach can seriously impact a company's reputation.

Protecting financial and customer data is a key component of our daily business operations. We make every effort to provide optimal security and ensure the confidentiality of our customers' data and transactions. Cybersecurity is an integral part of our risk management strategy. We invest in information security and data privacy, and have dedicated security teams made up of over 100 professionals, and a Chief Information Security Officer, supported by the NN Security Operations Centre (SOC). These teams collaborate with business unit Security Officers to provide 24/7 protection for our customers and company against cyberthreats.

Education and awareness-raising are part of our security strategy at all levels of the organisation. We are constantly performing security scans and have data protection security guidelines in place that our businesses must meet.

In addition, we work closely with partners such as universities, law enforcement agencies, other financial institutions, Team High Tech Cybercrime (THTC) and the Dutch National Cyber Security Centre (NCSC) to support our own cybersecurity initiatives, such as the Dutch Cyber Collective and other business innovations. Read more on page 25. For more on the Dutch Cyber Collective, visit www.nederlands cybercollectief.nl.

4 Business ethics

While business ethics are often guided by legislation and regulations, they also provide a basic framework for businesses to follow in order to gain public trust. Companies are expected to observe values-based principles in how they treat their employees, their attitude to the environment, and fair market practices in areas such as pricing.

At the same time, we strongly feel an own responsibility. In order to preserve our integrity and reputation, we are committed to doing business in a responsible way. This means both complying with applicable laws, regulations and ethical standards in each of the markets in which we operate, and acting in line with our own considerations, which are guided by the NN values. This covers everything from anti-bribery and corruption initiatives to meeting our fiduciary responsibilities, and from steps to prevent money laundering to a proactive commitment to ESG-related topics.

The EU General Data Protection Regulation (GDPR)



The GDPR became applicable in the European Union on 25 May 2018. It aims to give citizens more control over their personal data and has further unified all data protection legislation across Europe.

In order to comply with the GDPR, NN Group initiated a centrally-steered GDPR Implementation Programme. Such central steering addressed (amongst others) the challenge of ensuring the consistency of the implementation across our European businesses, for example by performing the same GDPR maturity assessments which were the kick starters for local GDPR implementation programmes.

All European businesses and NN Group have appointed a Data Protection Officer (DPO) and formally established their position and roles and responsibilities. Furthermore, all permanent and temporary employees completed a mandatory e-learning on

the GDPR, all customers were informed about their rights under the GDPR, updated Privacy Statements have been published on the local customer websites of all our European businesses, relevant policies and standards were updated and all measures were taken to properly handle the requests of our customers and employees with regard to exercising their legal rights related to their personal data. Businesses were aligned closely on areas of joint responsibility, resulting in, for example, a joint Privacy Statement of Dutch Businesses. The DPOs will continuously monitor compliance with the GDPR.

The GDPR corresponds with our NN statement of Living our Values, which states that we use our knowledge responsibly, keep confidential what is entrusted to us and communicate proactively and honestly.

Our operating environment – Addressing material topics continued

All our employees are expected to adhere to applicable laws, regulations and ethical standards, and management is responsible for ensuring compliance. We have checks and balances in place to confirm that our products, activities and processes are in line with relevant internal and external requirements. We support our employees in making difficult decisions and encourage open dialogue on dilemmas.

Our values, which embody responsible business conduct and corporate citizenship, are published in our NN statement of Living our Values. NN's Code of Conduct gives more detailed guidelines for specific behaviour and interactions with our stakeholders. Read more in the section Our culture and governance on pages 53-56.

We maintain a continuous dialogue with our stakeholders in order to better understand their concerns around key ethical issues facing our business.

7 Financial performance

Prudent financial management is NN Group's main driver for maintaining a strong balance sheet. It is key to absorbing market volatility, and ensuring NN Group and our operating entities are sufficiently capitalised at all times. This is how we ensure good financial performance and generate attractive returns. For 2018, our Solvency II ratio and cash capital position remained robust, at 230% and EUR 2,005 million respectively. Our operating performance was strong, with the operating result of the ongoing business at EUR 1,626 million. We generated free cash flow of EUR 1,216 million. Our total Assets under Management (AuM) remained stable at EUR 246 billion.

11 ESG integration in products and services

Societal developments, such as climate change and scarcity of resources, are impacting the communities in which we operate. For our business to remain sustainable, we need to address these issues, which might pose risks to our activities and performance, but also bring opportunities to develop new products and services.

We therefore embed ESG aspects into our strategy, policies and activities. Since the turn of the millennium, we have been integrating ESG analyses into our investment process and active-ownership activities, which we believe optimises the risk/return profile of our portfolios, helps reflect NN's values in the investment process, and aligns our business with the broader objectives and expectations of society. In addition, NN Investment Partners offers a range of sustainable and impact investment funds and mandates, totalling EUR 16.5 billion AuM at year-end 2018. Within our insurance businesses, we also offer products that address social issues and/or align with the circular economy. Read more on pages 30-32, 36-37 and 44-46.

Business decisions explained
The ethical and legal aspects of using data



Technological developments and digitalisation have led to an increase of available data in recent years. This data now allows us to better estimate risks, and further optimise and match our services to customer needs. The increase of available data can also allow us to make connections between different data sets, often leading to new information and insights.

The question of whether and how to use this data is increasingly relevant. For NN, the legal (mainly privacy) and ethical aspects of our data science are key issues. We are conscious of the personal data which our customers entrust to us. To ensure we handle any data available to us with the utmost consideration and make balanced decisions on its use in current or new processes, we have developed an internal decision-making process based on three criteria:

- Are we legally allowed to use the data?
- Do we want to use the data, and would doing so be in line with our NN Group Statement of Living our Values and the NN Code of Conduct?
- Is it technically possible to use the data?

Only if all three criteria are met will we continue the project including the use of data. Assessing whether the criteria are met is a joint effort of our NN Group Data Protection Office (including the NN Group Data Protection Officer and Legal) and the Data Science team. An example of a data-driven project proposal that was agreed on based on these criteria is the process of automatically assigning customer questions that we receive via email to the right department. The proposed model analyses the subject and the content of the email in order to determine which department should handle the question. The implementation of the process optimisation started in the beginning of 2019. This means future customer queries can be handled quicker and at a lower cost.

By creating this internal procedure, we take responsibility and we trust that we do justice to our customers' privacy.

Risk management

Accepting and managing risks appropriately

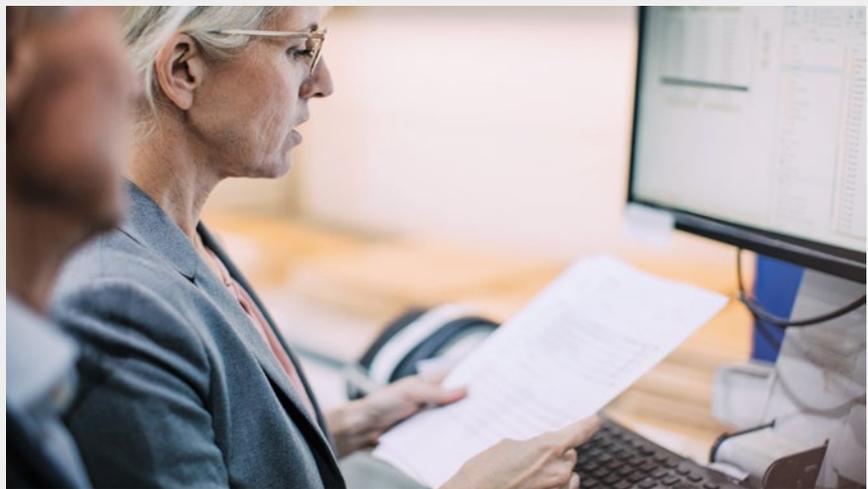
Strong risk management helps us define and achieve our financial and non-financial objectives. It enables us to continue to meet our obligations to stakeholders.

Risk management is an essential link between our strategy, our capital plan and the successful execution of our business plan. Strong risk management helps us define and achieve our financial and non-financial objectives. We track key financial risk indicators, such as our Solvency II ratio, as well as several non-financial indicators related to our operations.

NN Group has a prudent, well-considered risk appetite. This is reflected in our balance sheet and investment portfolio. We invest 85% of our general account Assets under Management in fixed income, of which a large proportion are highly rated government bonds.

Each business unit and all head office departments are expected to ensure that relevant risks are understood at all levels of the organisation and mitigated through controls. They are therefore required to have appropriate control processes in place and comply with our policies, standards and governance. Read more about our financial and non-financial indicators in the chapter Facts and figures and in our Financial Report.

Our Risk control framework



The Risk control framework is defined as the total set of governance, policies, procedures and activities put in place to identify risks to achieving business objectives, to manage these risks within the relevant risk appetite and limits, and to provide reasonable comfort regarding the achievement of business objectives.

The objectives are, amongst others, that the management teams of the business units and the heads of the support functions:

- (1) Ensure relevant risks are understood at all levels of their organisation/ department and mitigated through appropriate controls
- (2) Comply with governance, policies and standards
- (3) Are appropriately informed about the level of risks and the effectiveness of the controls
- (4) Can confirm that they operate within the risk appetite; and if not, know what the issues are and what mitigating actions are required

Our approach to risk management is based on a comprehensive control framework that applies to all business processes within NN Group. It includes supporting technology at both head office and local business units, as this integrated approach increases efficiency. We use a single architecture, on which all three lines of defence (business unit management teams, oversight functions, corporate audit services) can build their activities.

The starting point for our Risk control framework cycle are our company objectives. We then determine how much risk is acceptable when trying to achieve these objectives: our risk appetite. And finally, we identify what the risks actually are, and what controls we need to put in place to ensure we do not exceed our risk appetite.

Risk management continued



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Effective risk management will enable NN Group to adapt to an ever-changing external environment in a controlled way, which is essential to secure NN Group’s long-term future.

Jan-Hendrik Erasmus
 Chief Risk Officer

Control framework and top risks

NN operates a disciplined and rational framework for risk-taking. This Risk control framework is based on a cycle of risk strategy, risk assessment, risk control, and risk monitoring, embedded in a sound risk culture.

As part of an annual cycle, our control framework (read more on the previous page) starts each year by identifying the risk appetite of our company. Our risk appetite has three main components – strategic challenges, strong balance sheet, and sound business performance:

Strategic challenges

We manage our businesses on a risk-return basis, so we can meet strategic objectives while considering the interests of all stakeholders. Top risks identified are:

Not timely adapting our longer-term business model to the rapidly-changing world.

We aim to mitigate this risk through our business planning cycle, in which our longer-term strategy is regularly updated. Next to that, our Chief Transformation Officer leads our initiatives to evolve our business model, in order to serve customers better and stay on track with the developments in our operating environment.

Geopolitical, governmental and regulatory instability.

Related is the risk of further disintegration of the Eurozone/EU driven by nationalism or otherwise protectionist behaviour by governments and supervisors. NN Group closely follows developments in the international markets and the development of future regulation and anticipates these in its internal discussions. We closely monitored Brexit discussions, assessed the potential impact on NN Group, and developed risk mitigation plans to prepare for, amongst others, a potential hard Brexit scenario. Overall sufficient flexibility is maintained through strong solvency and liquidity positions, and asset concentration limits.

Risks as a result of integrating NN Group and Delta Lloyd not being successful in terms of operations, commerce or organisation.

This category also includes the general risk related to talent management in case we are not able to attract, retain and pay world-class talent as we are unable to achieve sustainable success without the right people. This risk is mitigated through a dedicated Integration Management Office that helps ensure a timely and well-controlled integration process. Specific programmes at pre-defined moments in a talent’s career are also in place, as well as a renewed Employee Value Proposition to attract talent.

Strong balance sheet

A strong balance sheet 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. Top risks identified are:

Financial market exposure related to adverse market movements or volatility that could reduce available capital.

A well-diversified portfolio, a natural hedge with our liabilities and specific hedging programmes aim to keep this risk within set limits.

Addressing longevity risks, our largest quantifiable risk.

To reduce longevity exposure and create more flexibility in accepting new longevity risk, NN explores further longevity hedging options. To mitigate this risk, we price our longevity exposure on most recent assumptions and hold a risk margin and solvency capital requirement against longevity risk. We also see a gradual transition of our pensions business in the Netherlands from defined benefit to defined contribution.

Sound business performance

To achieve sound operational performance, we conduct business with the NN values at heart and treat customers fairly. We aim to avoid human or process errors in our operations and to limit the impact of any such errors. Top risks identified are:

Client and product suitability with the risk that products do not cover client’s interest over the full lifetime.

NN Group has included all product risk-related requirements in our Product Policy, which helps to ensure value for our customers.

Cyber & Cloud risk, given dependency on permanent availability of well-functioning IT.

Cybersecurity threats are difficult to manage, and data-sets and services are accumulated in the Cloud. The Chief Information Officer (CIO) function ensures Business Continuity Management, Cyber risk management and Business Information Security via standardised, internationally accepted frameworks, norms and technical guidelines as the basis to manage IT, Cyber & Cloud risk within NN Group.

Ineffective operations that can lead to slow or incorrect decision-making, a cost base that is too high, and reputational damage.

Each business unit and all head office departments are expected to ensure relevant risks are understood at all levels in their organisation, and that they are mitigated through effective controls. Several instruments have been established to support this ambition.

Risk management continued

Any form of financial economic crime (FEC), defined as any involvement in money laundering, the funding of terrorism, or other criminal activities, can harm the confidence in NN as a financial services provider.

Within NN, we actively take preventative measures and do not tolerate any deviation from relevant FEC laws and regulations.

For each area, we look at the potential impact any incident could have. We take into account not only the financial impact, but also the impact on our customers and our reputation.

Control framework and ESG risks

Our Risk control framework also requires all business units to address environmental, social and governance (ESG) risks, supported by a comprehensive policy framework. By including ESG aspects in, for example, our investment process, we aim to optimise the risk/return profile of our portfolios. Read more on page 140 of the Financial Report.

2018 milestones

The integration of Delta Lloyd was an important focus area for risk management throughout 2018. During the year, we worked on further integrating the Delta Lloyd entities in our risk control framework. Material risk arose from challenges arising from IT system migration and decommissioning, some of which turned out to be more complicated than originally assumed, as well as retention of key staff. The importance of business continuity remains paramount.

Much work was done on financial reporting, as Delta Lloyd's accounting system had to be integrated into NN's systems. NN Group also decided to apply for approval to expand the scope of its approved Partial Internal Model (PIM) to improve the accuracy of the Solvency Capital Requirement (SCR) of the combined company.

The main objective was to develop a single PIM for NN Group that ensures appropriate risk measurement and management for both NN and Delta Lloyd entities, and the combined company. The PIM expansion is based on a comprehensive assessment of the risk profiles, portfolios and existing models of NN and Delta Lloyd, which showed broad alignment in terms of risk characteristics.

On 5 December, we announced that NN Group had received approval from the Dutch Central Bank (DNB), the Dutch supervisory authority, to expand our PIM under Solvency II to include the Delta Lloyd Life and Non-life entities in the Netherlands. This was an important step in the integration of Delta Lloyd into NN Group. It creates a uniform control framework for risk measurement and capital management across our largest insurance entities in the Netherlands. The expanded approved PIM has been used to calculate regulatory capital requirements effective 31 December 2018.

With respect to the financial position, the company was further strengthened in 2018 through capital generation, resulting in a stronger capital position than NN Group had prior to the Delta Lloyd acquisition.

Looking ahead

Identifying risks is part of NN's yearly business planning. The increased level of (geo)political instability (such as trade disputes, Brexit) and the speed of change in many societies require risk management to be alert to emerging risks.

Emerging risks include disruptive technology risks, cyberattacks and IT security risks. These risks continue to grow, as do environmental and climate risks, where NN Group cooperates within the international insurance industry to develop responses to these challenges. For example, by participating in the CRO Forum's Climate Change Working Group, which published the paper *The heat is on – Insurability and resilience in a Changing Climate*, in January 2019.



Our performance

NN is delivering on its strategy and priorities. In 2018, we made good progress on the integration of the Delta Lloyd and NN businesses, further innovating our customer experience and strengthening our presence in the markets where we operate.



Our strategy and priorities

NN Group's strategic priorities

By prioritising long-term value creation over short-term gains, we continue to create value for our stakeholders: our customers, employees, shareholders, business partners, and society at large. We carefully consider their interests, and maintaining their confidence is important to us.

Long-term value creation

We want to contribute to a stable, inclusive and sustainable economy and society. We do business with the future in mind, supported by our values: care, clear, commit.

We aim to provide excellent customer care through products and services that use a multi-channel approach, by taking on the risks people cannot bear alone, and by empowering people to improve their financial well-being.

As an employer, we want to attract and retain talent by offering a stimulating workplace where everyone is valued for who they are, and by investing in training and development.

We maintain a strong balance sheet and take a disciplined approach to capital management, so we can offer attractive long-term returns for our investors.

Finally, we use our resources, expertise and reach to help society achieve long-term prosperity. We invest our assets and those entrusted to us in a responsible way by integrating environmental, social and governance (ESG) factors into our investment processes and active ownership practices. We support local communities through donations and employee volunteering.

Four medium-term strategic priorities underpin our strategy.



Disciplined capital allocation



Through disciplined capital management and a focus on generating capital, we ensure our cash capital position and Solvency II ratio remain strong. Capital generated in excess of NN Group's capital ambition will be returned to shareholders, unless it can be used for other appropriate corporate purposes. For example, in 2018, through investments in value-creating opportunities, such as the bolt-on acquisition of Aegon's life insurance business in the Czech Republic, and Aegon's life insurance and pension businesses in Slovakia.

With our full-year 2018 results disclosure, we also announced a share buyback programme up to EUR 500 million over 12 months that began on 1 March 2019.



Innovating our business and industry



We seek innovative ways to meet our customers' needs and keep up with changing market dynamics. Focusing on innovating our business and our industry, we identify new customer segments and develop a customer experience that is as personalised and relevant as possible.

To this end, we are embedding new ways of working within our organisation and have established seven SparkLabs within our business units that continuously explore ways to innovate our business, products and services. These innovation labs are directly linked to the local business units. Our innovation approach is based on the Lean Startup and design thinking methodology. Innovation starts with the right mindset, exploring new growth opportunities, and testing potential solutions quickly in the market.

We work with Minimal Viable Products, which are first versions of products or services, that help us gather customer feedback timely, and enable us to improve, iterate, pivot or – sometimes – stop solutions. If new products or services turn out to be successful, we can decide to bring them back into NN or one of our subsidiaries and integrate them into our existing business.

Our strategy and priorities continued



Agile and cost-efficient operating model



Having an agile and cost-efficient operating model is important to ensuring long-term growth. This involves simplifying our processes to deliver better value for money; stimulating a cost-conscious culture; exploring new ways of working, like agile, in order to deepen our understanding of the customer journey; sharpening our customer intelligence skills; and developing an omnichannel approach.

By year-end 2018, we had reached 72% of our cost-reduction target (EUR 400 million) for 2020 compared with the 2016 full-year expense base.

Different business units are at different stages of our agile journey, and across our businesses, operational manual activities, such as data checks and extracting data from applications, are increasingly automated with robotic process automation.



Value-added products and services



Because offering value-added products and services is central to our ambition to matter in the lives of stakeholders, we also develop solutions for very specific segments, for example, by tailoring a product to particular customer life stages or circumstances.

In Poland and Spain, we offer critical illness insurance products alongside cancer awareness and prevention campaigns. And in 2018, NN Bank launched mortgage products for senior citizens, expats and buy-to-let property owners.

Our asset manager offers a range of sustainable and impact investing funds and mandates to its clients. We believe that this optimises the risk/return profile of the investment portfolios, thereby adding value for our clients. Furthermore, incorporating ESG factors helps to reflect NN's values in the investment process and to align our business with the broader objectives and expectations of society.

Looking ahead

To continue to successfully meet the challenges and opportunities of the future, we will keep adapting our business models, and prepare for new dynamics. As our operating environment changes and customer expectations evolve, strengthening the relationship with our customers and servicing them well, where and when it matters most, remains our priority.

At the end of 2018, as part of a process to sharpen our long-term direction, we identified the areas that will be instrumental to drive growth going forward. Our existing businesses, which are the foundation of our company, remain our focus – while at the same time we will explore new opportunities. We want to realise the untapped potential of our current portfolio, and explore options to expand it across the markets we operate in. With our extensive and diverse suite of products and services, we have a competitive advantage. We can leverage this even more, by continuing to build partnerships and by investing in technology and analytics that will help us to further improve our distribution capabilities. This is the case not only for our insurance and banking business, but also for our in-house asset management business, NN Investment Partners. We aim to grow this business further, significantly strengthen its capabilities, reach and brand, and make it a more competitive, focused, and sustainable third-party partner.

The capital we generate will provide us with the financial flexibility to explore and seize new opportunities. For example, by tapping into the potential that new technologies bring. As our world becomes increasingly connected, we are looking at new ways to strengthen the way we build relationships and interact with our customers, and become more relevant in their lives. With ecosystems and platforms emerging, we will look at themes such as Vitality & Health, Carefree retirement, Mobility and Home to develop new value propositions and continue to matter in the lives of our stakeholders.

Delivering on our strategy — Netherlands

Leveraging combined strengths

While we integrate the activities of NN and Delta Lloyd, we are also leveraging our combined strengths so we can deliver on the strategy for the Netherlands segment: Digital, Personal, Relevant.



Our products and services are designed to meet our customer's ever-evolving needs. This includes developing our distribution channels and teaming up with new business partners to ensure our customers can interact with us in the ways that suit them best.

Netherlands includes Netherlands Life, Netherlands Non-life, NN Bank and Customer & Commerce.

With approximately 6.7 million customers, we are a leading financial services provider in the Netherlands, providing products and services under the following brand names: Nationale-Nederlanden, OHRA, Movir, AZL and BeFrank, as well as via our joint venture, ABN AMRO Verzekeringen, and our partnership with ING Insurance. By optimising the effectiveness of our existing channels and teaming up with the right third parties, we are expanding our offering and creating new business opportunities.

We are leveraging our combined scale and customer base to build a sustainable omnichannel platform for financial services. At the same time, we are exploring how we can tap into the potential of ecosystems and platforms around themes relevant to our customers.

Our progress in 2018

During 2018, we continued to unlock the potential of the combined company by further integrating the Delta Lloyd businesses, and optimising and growing our company based on our Digital, Personal, Relevant strategy. The 2018 operating results of Netherlands increased in all segments: Life (+8.5% versus 2017), Non-life (+213.5% versus 2017) and Bank, as part of segment 'Other' (+3.5% versus 2017). In anticipation of evolving customer needs and market developments, we also explored new business models and opportunities that can help make our organisation ready for tomorrow. At the same time, in response to current market trends, we made modifications to selected portfolios, for example, by adjusting pricing to better match underlying risk.



7.3

Intermediary satisfaction



+7

Relational NPS (Retail)



12

SparkLab initiatives

Delivering on our strategy — Netherlands continued



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Our ambition is to offer products and services that are relevant to our customers. That is why we are developing our distribution channels, and are teaming up with new business partners.

David Knibbe
CEO Netherlands

Integration

The joining of forces of NN and Delta Lloyd in 2017 was an important step for our company. The integration was and continues to be an intensive process, impacting colleagues across our businesses. Yet despite the many changes and restructuring, in 2018, customer satisfaction and intermediary satisfaction remained stable, and employee engagement increased to 7.0 (+ 0.2 versus 2017).

The process is also an opportunity to create expense synergy. For the total integration scope, the expense base was reduced by EUR 289 million (compared with the 2016 baseline).

The legal merger of NN Bank and Delta Lloyd Bank became effective on 1 January 2018. On 1 January 2019, the legal mergers of NN Life and NN Non-life with Delta Lloyd Life and Delta Lloyd Non-life respectively became effective. The main milestones since the start of the integration have been the onboarding and migration of colleagues to NN workplaces and locations, several systems migrations, the integration of regulatory reporting, and the changes in and reduction of office space. By the end of 2018, the rebranding of Delta Lloyd products and services was virtually complete.

With the legal mergers, rebranding and works council approvals now in place, integration activities for 2019 will focus predominantly on migrating IT systems, products and policies to target systems, and on decommissioning (redundant) legacy systems. Our aim is to achieve further synergies and organisational efficiencies. This is a challenging endeavour, given the complex IT landscape and major migrations still in scope, and it will have our undivided attention. Overall, the process remains on track with expense reductions progressing well.

Developing business

Alongside the integration, and in line with our strategy, new initiatives were launched across business lines designed to anticipate evolving customer needs and market developments.

As part of our strategy to become more digital, NN Life is unlocking Individual Life systems to online customer and broker portals. This will give customers online access to their product details via the mijn.nn environment and NN app, allowing them to find relevant information and digital documents, and to apply policy changes. Over 1 million customers use mijn.nn, and that number continues to rise.

We made progress in servicing customers through online personal chats and the use of chatbots, and are optimising our omnichannel services too, so customers can choose how they engage with us.

In our efforts to become more personalised, we are tailoring our online experience. For example, by welcoming Delta Lloyd customers to the Nationale-Nederlanden brand in a personalised way when they access their mijn.nn environment. This way, they get better insight into their products and self-service options.

Delivering on NN Group's strategic priorities

Disciplined capital allocation

We continue to allocate capital rationally to ensure our businesses have the capital needed to realise their strategies. At the same time, we want to keep improving market and business positions, in terms of efficiency, growth and return on capital. In 2018, we achieved further synergies from the integration of the NN and Delta Lloyd businesses, ensuring a solid balance sheet and strong solvency position.

A comprehensive strategic asset allocation (SAA) study was carried out for the combined Life organisation to define an asset mix tailored to the needs of the combined entity. By year-end, we received the regulator's approval to extend the use of the Partial Internal Model (PIM) to include the Delta Lloyd Life and Non-life entities in the Netherlands; the entities were subsequently merged into NN Life and NN Non-life.

In 2018, NN Bank further diversified its funding mix and extended its funding redemption profile through two successful covered bond transactions under the NN Bank Covered Bond Programme, and the early repurchase of a securitisation transaction.

Carefree retirement

Nationale-Nederlanden started a number of innovative projects around the concept of Carefree retirement, aimed, for example, at employability and living a healthy and happy life.

There are a growing number of ageing people whom we would like to service and support by delivering relevant products and services beyond insurance. Focusing on themes such as financial security and social well-being, we seek to understand the problems and challenges these customers face in these areas.



Delivering on our strategy — Netherlands continued



Vitality

As an employer and insurer, we want to play our part when it comes to sustainable employability and vitality. Rather than only reduce absenteeism, we want to help people remain employable in the long run.

To this end, we developed a vitality programme in 2017, starting with a pilot for a small group of employees to test the service and its effectiveness internally before offering it to customers.

A study on the pilot's effectiveness showed that the engagement of employees who participated in the programme increased. They scored considerably higher on self-esteem and slightly higher on vitality, especially physical vitality.

Incorporating the insights from the first pilot, we developed a second pilot, Fit by Nationale-Nederlanden, which we are again initially offering to our own employees. Following this second pilot, Fit by Nationale-Nederlanden will become available to a limited number of customers in the first half of 2019.

The combination of redemption and issuance has improved the overall redemption profile of the combined NN Bank, by removing previously overlapping maturity dates for some of its securitisation issuances.

Innovating our business and industry

To ensure we can continue to offer relevant products and services to our customers, we are constantly striving to innovate, increase efficiencies and make doing business with us more intuitive for our customers. At the same time, we are embedding new ways of working within our organisation, further diversifying our portfolio, developing new partnerships and exploring options for potential new opportunities around themes such as Vitality, Cybersecurity and Carefree retirement.

NN is a key partner in the Dutch Blockchain Coalition, a public-private consortium that aims to apply blockchain technology in ways that can benefit Dutch society. Within the coalition, NN Bank is leading a project to use Digital Identity technology to enable instant delivery of verified financial information from customer to bank. This could have a significant positive impact, as customers currently find delivering financial mortgage application documents time-consuming and complex. The project's developing partners include ING, Rabobank, ABN AMRO, IBM and PwC.

NN Bank introduced a growth marketing team using data-driven techniques and experimentation to enhance online marketing skills and effectiveness. This new initiative led to a doubling of visitors to the mortgage pages on NN's website.

We increased customer satisfaction and significantly lowered operating costs in NN Life's Pension Services division, where business process management and robotics are helping improve operational processes. As a result, customer response time and service quality has improved.

Our innovation lab, SparkLab, focuses on customer behaviour, exploring new trends and developments in the Non-life market. It runs experiments that can be scaled-up if successful. Examples include Bundelz, our prepaid car insurance for infrequent drivers, and Perfect Day, a cybersecurity service for small- and medium-sized enterprises (SMEs).

Agile and cost-efficient operating model

To secure long-term growth and continue servicing our customers where and when they want, we invest in making our organisation more agile and our operating model more efficient, allowing us to react rapidly to market changes and reduce our time to market.

NN Life started an agile transformation programme, introducing a single way of working (framework, roles, practices) and agile mindset throughout the organisation. At NN Bank, IT operations and functional management of the IT value chain were added to the existing agile teams to become DevOps teams.

After assessing two models of claim handling, the insourced approach of Delta Lloyd was adopted by NN Non-life, creating a more efficient operating model. For NN Bank, a milestone was the complete renewal of the mortgages back-office system to a Software as a Service (SaaS) application, enabling improvements in customer service such as 24/7 availability, better connectivity and shorter time to market.

We now offer our Non-life intermediaries a more digitalised service, as a result of outsourcing the administration of policies sold by intermediaries to retail customers to Voogd & Voogd. In doing so, we benefit from a leading IT system in the market and can decommission multiple internal IT systems to create a more cost-efficient administration. Overall, the integration of Delta Lloyd has left the combined company with multiple systems and platforms for similar product groups. We will therefore continue to decommission systems and migrate policies to avoid unnecessary duplication and enhance efficiencies. Where possible and beneficial, we will move applications to the cloud to increase scalability, flexibility, cost-efficiency and/or security.

Delivering on our strategy — Netherlands continued

 **Value-added products and services**

The core of our business model is to help people carry risks that they cannot bear alone, providing protection for what matters most to them. This year, NN Non-life successfully launched the NN Health proposition, which included welcoming 220,000 former Delta Lloyd Health customers.

NN Life introduced a new defined contribution (DC) proposition, which offers unique features, such as the option to adjust risk appetite on a yearly basis, and best-in-class partner pension coverage. BeFrank introduced a new, transparent online pension product that gives customers more insight, flexibility and options than before and contributed to the company's commercial success.

For group pension, three innovative product features were introduced:

- (i) Customised Collective investments allows an employer to customise the life-cycle engine of our product to the needs of their employees
- (ii) DC accumulation and DC decumulation aligns the option for continuous investment for participants, bridging the gap between pension accumulation and decumulation
- (iii) Personal life-cycles allows participants in DC accumulation products to tailor their asset investment to their personal circumstances

OHRA introduced a new proposition for the self-employed consisting of four types of insurance coverage. In addition, the Property & Casualty SME segment launched the renewed 'Zekerheidspakket' insurance for SMEs and the self-employed.

For more complex risks, the renewed 'Zekerheid op Maat' was introduced, which allows SMEs to customise their insurance product.

As part of our policy to develop mortgages tailored to the needs of specific market segments, NN Bank launched three new mortgage products: the Senior Citizens' Residence Mortgage, that allows people who are 57 or older to finance a new, smaller home; the Expat Mortgage, for expats wanting to settle in the Netherlands; and the Buy-to-Let Mortgage, aimed at retail customers buying a house to rent out.

Also in 2018, we announced plans to implement a new mortgage pricing system, under which mortgage rates charged to customers are automatically adjusted during the fixed-rate period if the loan moves to a risk category with a lower risk premium as a result of redemptions. In addition, the mortgage rate will be adjusted to reflect a higher property valuation upon request of the customer if this leads to a lower risk premium. Facilitating this from 1 January 2019 onwards has proven to be more technically complex than expected. Customers that are entitled to a lower risk premium due to repayment of the mortgage will be compensated for the period from 1 January 2019 until final implementation.

Strategic focus for the coming years

We are anticipating changing customer needs and behaviours, and strive to be where our customers expect us to be. In line with market developments, we will gradually transform and work towards a new operating model. The foundation is our strong customer base, with approximately 6.7 million retail and 360,000 SME and corporate customers, whom we serve through our retail, business and broker platforms, and via our business partners.

In line with our Digital, Personal, Relevant strategy, our omnichannel approach means our customers can do business with us in the ways they want. At the same time, we are teaming up with business partners and exploring the potential of ecosystems and platforms around themes relevant to our customers, such as those discussed in this chapter: Vitality, Cybersecurity and Carefree retirement.

Cybersecurity



In January 2019, Nationale-Nederlanden, along with a number of intermediaries, launched Perfect Day cybersecurity. Perfect Day, which originated in our SparkLab, is a service focused exclusively on SMEs that offers insights, helps with concrete solutions and makes security affordable.

During a personal interview, a company's security vulnerabilities are mapped. Additional information is also collected from suppliers, such as the hosting party.

Perfect Day looks at a company's vulnerabilities around technology and legislation (e.g. the General Data Protection Regulation), but also around employees (e.g. processes, behaviour and knowledge), as some 90% of hacks and data leaks are due to human actions.

Where possible, quick fixes are performed directly by the Perfect Day cyber expert. With a to-do list and detailed report on the findings, the SME is equipped to improve its cybersecurity.

Delivering on our strategy — International Insurance

Optimising and growing our business

In our international businesses, we aim to engage with our customers in a personalised and relevant way, and increase our interaction with them through a variety of distribution channels.



NN's international insurance businesses encompass activities in Europe (Insurance Europe) and Japan Life. We build on a strong foundation of more than 11 million customers, a widespread distribution base with a well-developed tied agent channel, and strong partnerships. In Japan, we have a strong niche position offering products for small- and medium-sized enterprises (SMEs).

We want to expand our activities in these growth markets, and see continued opportunities for long-term savings and protection across both developed and underpenetrated markets in Europe and Japan. We are well positioned to deliver on this ambition and made good progress in 2018. There is ongoing demand for relevant, value-added products, delivered through trusted advisors and seamless digital experiences.

General progress in 2018

Our overall business performance in 2018 has been solid, underlining our ability to profitably capture existing market opportunities. Value of new business (VNB) generation increased to EUR 168 million compared with EUR 141 million in 2017 for Insurance Europe, and EUR 214 million compared with EUR 194 million in 2017 for Japan.

The environment in which we operate was characterised by persistent low interest rates, increased competition, and political and economic uncertainty in some markets. We use scenario planning techniques to ensure that we have properly evaluated a range of outcomes in our business plans, so that we continue to be well positioned to navigate the environment.

To further improve our services for customers, we are digitalising our back office, improving data capabilities, optimising and differentiating agent and broker distribution, and further strengthening our relationships with partners.



382m

Value of new business



1,378m

New sales life insurance (APE)



45

SparkLab initiatives



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Our ambition is to be the leading company when it comes to helping people secure every aspect of their financial future through personalised customer interaction, valuable partnerships and constant innovation.

Fabian Rupprecht
 CEO International Insurance

Integration in Belgium

Significant progress was made in integrating Delta Lloyd Life into NN Insurance Belgium. Belgian employees were supportive of the strategic rationale and opportunity for combining the two mid-sized, complementary companies. The key milestones in 2018 were the approval of the legal merger, the rebranding of Delta Lloyd products, the regrouping of staff within a single location, and several key IT deliveries. Overall, the integration process progressed well in 2018. Due to the high complexity of the legacy IT landscape, the phased IT integration will remain challenging in 2019 and 2020. Our increased distribution capabilities will help us further diversify into the powerful broker network in the Belgian market. As the number four insurer in the Belgium Life market, the focus in 2019 will be on the broader transformation to realise the strategic ambition to become the country’s most personal insurer.

Developing businesses

With the help of an array of new emerging technologies, we further expanded our omnichannel capabilities. We have also improved our data-collection capabilities and data generation in customer relationship management, and have been developing relevant value propositions for customers based on data analytics. By offering relevant products at the right moment, and seamlessly connecting data analytics across all distribution channels and sales points, we aim to further enhance distribution and customer relationships.

In 2018, we started to look into the opportunities that ecosystems and interconnected platforms can provide. We aim to expand our health propositions around the theme of Vitality. For example, in Turkey, where health insurance needs are underserved and the market is dominated by private medical insurance, we see a rapidly growing need for complementary health insurance. Together with Swiss Re, we also developed a customer proposition offering such services, successfully applied for a health insurance license and launched a pilot that will run in a number of large cities until year-end 2019.

In Japan, the average age of SME owners continues to rise. According to the Japanese Ministry of Economy, Trade & Industry, more than 300,000 SME owners in the country will reach the age of 70 within the next five years. This ageing population is creating increasing business succession challenges, resulting in growing opportunities to offer professional support on business planning and succession. Market competition has become fiercer since other insurers launched new products focusing on the corporate owned life insurance (COLI) segment in 2017. NN Life Japan is an expert in supporting SMEs in the Japanese market, and in November 2018 we introduced product upgrades and a new COLI product. NN Life Japan aims to leverage maximum value from its independent sales agent network, the distribution reach of its partner Sumitomo Life and through expansion via regional banks. A review of the tax deductibility of COLI products for SME owners by the Japanese tax authorities is ongoing. NN Life Japan is assessing the possible commercial implications.

Across our footprint, we are investing in existing and new bancassurance partnerships. For example, we invested in a collaboration with one of the biggest Slovak banks, Slovenská sporiteľňa, and enhanced our collaboration with our broker, Partners Group SK. Both distribution partners will sell our pillar II and III pension products, and we are looking at expanding our product offering.

NN Bulgaria continued to develop its distribution capabilities in the bancassurance channel by further strengthening partnerships and expanding its product portfolio, which is currently distributed via five banking relationships. The distributed products vary from credit life and transactional protection products to mandatory and voluntary pension products.

Delivering on NN Group’s strategic priorities

 **Disciplined capital allocation**

Through disciplined capital allocation, we can both ensure our cash capital position and Solvency II ratios remain strong, and be in a position to invest in value-creating opportunities.

The bolt-on acquisition of Aegon’s life insurance business in the Czech Republic, and its life insurance and pension businesses in Slovakia have strengthened our position in the life insurance market, our distribution network in both countries, and our lead position in the Slovak pension market.

The support of our internal reinsurance business, NN Re, also contributed to disciplined capital allocation for our international businesses. Reinsurance deals guide a more efficient use of capital in Spain, Belgium and Japan; and pool risks towards NN Re to achieve greater purchasing power for NN Group.

 **Innovating our business and industry**

With a focus on innovating our business and our industry, we are continuously trying to identify new customer segments and ways to create a more personal and relevant customer experience. In 2018, we set up a centre of excellence, the NN Data Science Hub, in order to strengthen our analytics capabilities and accelerate data-driven transformation. Analytics are used to improve processes throughout the value chain, from product development to marketing and sales, and from risk assessment and underwriting to claims management. For example in Spain, a pilot for a weather-alert system for home insurance customers was launched in collaboration with the NN Data Science Hub. When the official Spanish weather forecast website expects severe weather conditions, an alert is sent to NN customers so they can take appropriate measures to prevent damage to their home.

Delivering on our strategy — International Insurance continued

Cultivating the right innovation mindset is key to ensuring we deliver truly customer-oriented solutions. Our six innovation labs, SparkLabs, work on fostering innovative ideas, identifying and exploring growth. For example, in Romania, the SparkLab team focuses on identifying promising products and services for the local market, such as insurance for cyclists, which is now being tested in various market segments. SparkLab Turkey integrated its systems with the market leader in online loan aggregation, Hesapkurdu.com, to offer insurance cover to customers who apply for a mortgage or consumer loan via the platform. The straight-through, no-hassle process lets customers bundle their loan applications with relevant insurance coverage and complete the entire process online, without leaving the aggregator website.

 **Agile and cost-efficient operating model**

Having an agile, cost-efficient operating model is important to ensure Insurance International's long-term growth. By simplifying our processes and removing administrative burdens we can lower costs, deliver better value for money, reduce time to market and increase customer responsiveness.

In nearly all business units, we have agile teams in place that allow us to innovate faster and improve customer centricity, and this way of working in turn empowers our colleagues. The agile way of working helps us to respond to insights swiftly, which is important as customers and brokers are increasingly expecting a digital experience.

In Hungary, preparations took place throughout 2018 to launch a fully agile organisation as of February 2019. The agile way of working will also be used to create an appealing work environment and as a differentiator in our employer branding, so we can continue to attract young talent.

In Belgium, we further digitalised underwriting processes, for example, by simplifying medical acceptance processes for customers.

In the Czech Republic and Slovakia, we have been investing in a new digital customer engagement platform, NN Stela, which offers brokers real-time, individualised solutions on any device. This decreases processing time and improves the user experience. The next phase will be to migrate remaining distribution channels (tied agents and bancassurance partners) to the platform, to include pension products on Stela and to automate underwriting.

In Spain, we continue improving the digitalisation focus on the customer journey: we redesigned the digital sales process in the tied agent channel, using iOS technology to make it more customer friendly, robust and secure. We are working to increase, in the near future, other service functionalities such as chat, smart email handling, callback and co-browsing.

Until early 2018, NN Life Japan used two CRM applications to create a complete overview of customer contacts. By introducing a new CRM system, we can save time, effort and costs for customers and agents alike.

In Bulgaria, we are further upgrading our bancassurance IT application, providing customised support to bancassurance partners and increasing straight-through processing.

Protect.me

In Hungary, a growing group of people want relevant and accessible digital services with zero entry thresholds. As a result, ecommerce and online banking are growing rapidly. These changing customer needs and trends make digitalisation a priority for NN Hungary. In response, we launched protect.me, an app-based life and accident insurance that covers risks related to recreational activities.

Customers activate the insurance package via the app, only for as long as they need it (on-demand), and pay only for the period of active cover (pay-as-you-go), allowing people to obtain insurance within a few minutes at a competitive price. In 2018, protect.me won the Hungarian Best Mobile App award and in early 2019 the prestigious iF DESIGN Award, making NN the first organisation ever to win this award with a service.



Delivering on our strategy — International Insurance continued

 Value-added products and services

The core of our business model is to take on the risks that people cannot bear alone, providing protection for what matters most to them.

In 2018, Nationale-Nederlanden Spain was the most recommended life and savings insurer for the third consecutive year, according to a study conducted by GfK, and was also recognised as the Best Customer Service in the Life Insurance Category 2019. We launched a new modular insurance protection solution for families, Contigo Familia, that offers choice, flexibility and simplicity. Customers can adjust coverage based on their changing needs and circumstances. Contigo Familia offers a wide range of coverage and allows customers to enjoy additional health services, such as an app that provides unlimited, real-time access to chat with doctors and specialists.

Also in Spain, NN Bank launched an internet savings product for Nationale-Nederlanden on a cross-border basis. This brings an increase in internet traffic, as savings customers visit the website more frequently, potentially also increasing cross-sell opportunities.

In Belgium, we launched a lifelong income insurance, as well as a cancer care rider to HypoCare, our term life insurance linked to a mortgage. In the event of a cancer diagnosis, mortgage expenses are paid by NN Insurance Belgium. For HypoCare customers who also choose the cancer care rider, we offer a free medical check-up at home or work.

Based on NN research that found that only a third of parents in Hungary have life insurance cover to provide for their children, NN Hungary launched a proposition for families with children that combines savings and protection elements. The product offers four types of optional cover for children: critical diseases, hospital stay, accidents and common childhood diseases.

Nationale-Nederlanden Poland received a license to sell non-life insurance in 2017. This important step allowed us to further develop our distribution channels by supplementing our offering. In 2018, we successfully launched new non-life products, such as a travel insurance product, a health expense coverage insurance for children, and home insurance.

In Romania, alongside the public pension system, private pension funds are seen as essential for managing savings for the future. However, the public system is under increasing pressure due to the current macroeconomic environment and an increasing State budget deficit. To support customers, NN Romania reduced fees for its mandatory private pension funds in April 2018. In December 2018, the government approved significant changes to the second pension pillar system. The impact of these changes is being closely studied by NN.

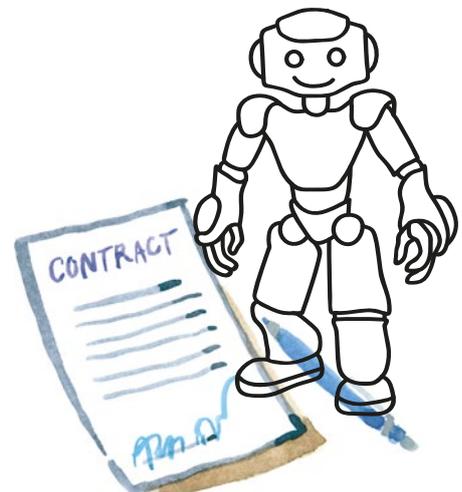
Strategic focus for the coming years

In line with market developments, we are redesigning traditional value chains and working towards new operating models. In the short-to-medium term, we will extend our product range with a focus on protection products and generating new partnerships: bancassurance agreements, as well as partnerships with non-life companies for co-distribution.

In addition, we will invest in our data capabilities and continue to transform ourselves into a truly customer-focused, digital and data-driven organisation. At the same time, we are seeking new types of partnerships, for example, with retailers, telecom providers and energy providers. Investigating the potential of various ecosystems will help us determine where we can significantly increase direct and relevant interaction with customers.

Robotic process automation

In Greece, we simplified and streamlined our customer service operating model by optimising underwriting and claims-handling processes, for example through robotic process automation (RPA) activities and by exploring the use of advanced machine-learning techniques. In Japan, RPA helps us to read the paper application forms our independent agents often use with clients. The ambition is to achieve efficiencies, but also to improve customer experience.



Delivering on our strategy — Asset Management

Solutions-driven with a distinctive identity

NN Investment Partners helps clients achieve their financial goals by managing their assets responsibly, through income-driven products and advice-embedded solutions.



NN Investment Partners (NN IP) manages assets of both retail and institutional clients, as well as NN Group’s own insurance companies and clients. While we have Dutch roots and the Netherlands is our main investment hub, we offer our products and services globally with a local presence in 15 countries.

Financial markets are complex, but our focus is simple: partnering with our clients to achieve their financial goals. Our international reach allows us to offer them a wide variety of investment products and solutions across asset classes, geographies and styles. Our business focuses around four distinct areas: Multi-Assets, Alternative Credit, Spread Fixed Income and Distinctive Equity.

We actively integrate environmental, social and governance (ESG) criteria into our investment process and active ownership activities. In addition, we offer a variety of dedicated sustainable and impact investing products.

We aim to contribute to a more sustainable society, and at the same time provide attractive returns.

General progress in 2018

In 2018, we performed a thorough assessment of our investment capabilities, made clear choices, and are now focusing on our core areas. Our investment strategy focuses on distinctive, solutions-based capabilities, delivered by integrated teams that include analysts, client portfolio managers and next-generation researchers. We also invested in an innovation platform (a team of people dedicated to fostering and helping innovation happen), data scientists, Big and Alternative Data, and Automated Intelligence techniques to explore new potential sources of return.

In December, we reached an agreement to strengthen our long-term partnership with ING Bank Śląski in Poland. Under the agreement, ING Bank Śląski will acquire a 45% stake in NN IP in Poland and distribute NN IP investment funds to the Polish retail market through its branch network.



Euro 578m

Euro Green Bonds AuM



27.6%

Net operating ROE



29%

Senior positions held by women

Delivering on our strategy — Asset Management continued



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Our ambition is to further strengthen our organisation by making clear choices, focusing on distinctive capabilities, while embedding ESG factors throughout the entire investment process.

Satish Bapat
CEO NN Investment Partners

The partnership will further strengthen our position in the Polish market and support the growth strategy of attracting client assets. The transaction is expected to be completed in the first half of 2019.

In April, we initiated a partnership with China's leading asset manager, China Asset Management Company (ChinaAMC), which will explore joint product development opportunities in order to leverage one another's capabilities in the European and Chinese capital markets.

We have also developed new partnerships in the area of Responsible Investment. Together with Bank Nederlandse Gemeenten (BNG) and Bewust Investeren, we have developed a special financing proposition to make community real estate more sustainable. Read more on page 51.

We further strengthened our Responsible Investment policy with norms-based criteria. As a result, we decided in May 2018 to exclude tobacco from all our investments. We aim to divest all equity and fixed income holdings of tobacco manufacturers held within NN IP mutual funds within one year. For client assets that are managed in a discretionary way, NN IP does not divest without prior consultation. With regards to NN Group's general account assets, the existing tobacco investments are all corporate bonds and are divested immediately or brought to maturity.

In October 2018, we placed restrictions on companies involved in oil sands and controversial pipelines. In addition to NN's own assets, these restrictions will apply to all funds managed on behalf of customers.

During 2018, we focused our efforts on becoming more efficient and adaptable. A key milestone was the completion of the legal merger and integration of Delta Lloyd Asset Management (DLAM), demonstrating our ability to scale up.

All DLAM portfolios were onboarded onto NN IP's operating model and systems, and the majority of the old DLAM systems have been decommissioned.

The DLAM office in Amsterdam was vacated and cost reductions are progressing well. The 2016 cost base was reduced by EUR 29 million at year-end 2018, resulting in a cost/income ratio of 69.5%. Throughout the integration, we gave particular focus to the interests of our clients and our fiduciary role.

NN IP was directly and indirectly affected by numerous regulatory changes. These included the Markets in Financial Instruments Directive II (MIFID II), with additional product supervision and transparency requirements for investment firms; and the General Data Protection Regulation (GDPR), which unifies data protection for all individuals within the EU. To integrate these new regimes into our ongoing business, we analysed all processes involving personal data; evaluated the regulation's implications, particularly for our sales, investment, trading and distribution processes; and addressed any regulatory issues we identified.

 **Disciplined capital allocation**

Compared with insurance and banking, asset management is a capital-light business. While this means NN IP has relatively few capital assets compared with its operations, we are sufficiently capitalised to cover and fund our activities. We are committed to disciplined capital management and allocate capital to long-term value-creating opportunities that support our corporate purpose and strategy, always assessing any opportunities against strict financial and non-financial criteria.

 **Innovating our business and industry**

We continue to invest in our company, both directly and via partnerships. We make clear choices on where we can both credibly and profitably innovate and strengthen capabilities, and best drive our growth to meet the interests of our clients.

We are currently making significant investments in data, technology and people to strengthen key capabilities and fund research & development. This includes investments in combining new techniques, such as machine learning and behavioural analysis, with more traditional portfolio analysis. This can give us greater insight into how a market's ecology is evolving over time and how we can improve our decision-making processes.

An example of innovation to support our end-client is the risk-profiling tool with robo-matching module we launched in Poland. This tool measures risk propensity using insights and research into representative samples of the Polish population made available by a third-party financial institution.

In July 2018, NN IP Japan and Rakuten Securities announced the launch of a new investment service, Target Year Wrap, which offers retail investors an individually customised target-year investment solution. NN IP provides the underlying investment products.

 **Agile and cost-efficient operating model**

To equip ourselves for the future, we must concentrate on our core activities to become a less complex, more adaptable organisation. The legal merger and integration of DLAM is one example. Another is the announcement in November of our intention to consolidate our Luxembourg management company, NN Investment Partners Luxembourg S.A. with NN Investment Partners B.V., the Dutch licensed entity, to simplify our organisation, align roles and responsibilities across locations, and harmonise processes and procedures. The consolidation is subject to regulatory approvals.

Delivering on our strategy — Asset Management continued

To actively encourage an agile way of working, we redesigned our office environment into a more inspirational and flexible space that facilitates collaboration and experimentation.

At the end of 2018, we migrated our internal performance attribution analytics platform (which helps us explain why a portfolio performed differently from benchmark) to an Aladdin-based tool. Aladdin is our operational platform for investments. This migration helps us not only to reduce risks and costs, but also to further leverage our internal investment platform.

A number of our operational manual activities, such as data checks and extracting data from applications, are being automated using robotic process automation. For example, our front office needed to download 7,300 files from a website: a repetitive task that would have taken an employee around six weeks to complete. It took a robot just three days.

We monitor the impact of technological developments on our business and employees, and will continue to act in line with our business principles.

 **Value-added products and services**

In 2018, we launched a number of new products and services, addressing the changing needs of our clients. For example, in these times of tightening monetary pressures and growing equity volatility, the new NN (L) Global Convertible Bond Fund addresses growing investor demand globally for the convertible class, offering diversified and scalable exposure to the asset class without compromising on credit quality.

Retail and institutional investors look for sustainable, environmentally friendly investments that still provide attractive returns. We have seen strong global growth in our Green Bond portfolios in recent years, and the NN (L) Euro Green Bond Fund has grown into one of the world's largest open-ended green bond funds. In partnership with the Dutch Development Bank (FMO), we launched the NN-FMO Emerging Markets Loan Fund. This so-called alternative credit fund invests in loans granted to financial institutions, renewable energy and agribusiness.

Another sustainable fund launched in 2018 was the NN (L) European Sustainable Infrastructure Debt Fund. This fund addresses growing investor demand for infrastructure debt investments with robust and predictable cashflows, generated from assets that contribute to a more sustainable future. Infrastructure debt is seen by investors as attractive as it contributes to public assets and services that generate social, environmental and economic benefits.

As part of our ongoing critical self-evaluation process, in 2018 we carried out a detailed outside-in assessment on our capabilities. This revealed that, rather than continue to manage our Global and US High Dividend strategies in-house, the most long-term value for clients would be created by partnering with America Century Investments (ACI). As a result, the US High Dividend strategy was subdelegated to ACI.

The Global High Dividend Strategy investment process continues to be managed by NN IP, but with advisory support from ACI.

Similarly, in 2018 Nomura Asset Management became delegated portfolio manager for our Asia Income and Greater China Funds.

Strategic focus for the coming years

The integration of DLAM added scale to our business and additional skills in certain key areas, and allowed us to look more closely at our business efficiencies and strengths, particularly in relation to our scalable platform.

Our ambition is to further strengthen our business by continuing to make clear choices, streamline our organisation, focus on distinctive capabilities and embed ESG criteria throughout the investment process.

We aim to develop the right skills, and employ the right combination of man, machine and behavioural analysis, to improve our decision-making processes and make a difference.

In 2019, we will continue to focus on delivering top performance, servicing our clients and helping secure their financial futures. We have growth ambitions to add more scale to our business, for example, by attracting client assets mandates, supplemented by new distribution partnerships and bolt-on acquisitions. But only if these support our strategic direction and meet our strict financial and non-financial criteria.

Promoting diversity



While new technologies are transforming our business, asset management is still mainly driven by human brainpower. Technology may help us make better decisions, but it takes human creativity to make the connections needed to thrive in such a competitive and increasingly unpredictable environment.

As an investment company with a global perspective, we believe a diverse workforce provides variety in thought, skills and experience, and better equips us for whatever the future may bring.

We believe promoting diversity of thought creates a culture that can incorporate different opinions, backgrounds and characters, and we already benefit from diverse in-house human intelligence, with over 50 nationalities and 29% of senior positions held by women (+7% since 2017). It is our aim to find more and better ways to use this diversity to benefit investment results.

Business decisions explained

Engagement or exclusion on investments?



When it comes to environmental, social and governance (ESG) issues, NN Group believes that engaging with companies is the best way to encourage them to improve their conduct. But if this does not lead to positive results, exclusion is also an option.

Satish Bapat, CEO NN Investment Partners, and Dailah Nihot, Chief Organisation & Corporate Relations, discuss driving change as an investor.

'We manage EUR 246 billion in assets for our customers and consider ESG analyses throughout the investment process,' explains Satish. 'But such factors are not static. They are based on insights into ESG policies and the behaviour of companies, derived from both independent research agencies, as well as our own research and materiality assessments. We invest in many different sectors and have developed our own vision on social and environmental issues, which also takes into account evolving stakeholder expectations.'

'It is important to us that any investment is in line with the NN values (care, clear, commit),' says Dailah. 'These values express how we want to contribute to the economic and social well-being of the world in which we operate. We actively engage with NGOs, who share and discuss their insights and concerns with us, which provides us with invaluable input.'

How does an engagement trajectory work?

'We take our stewardship responsibility seriously,' says Satish. 'So, we encourage companies to strengthen their approach to ESG issues. To influence their behaviour, we may engage with a company individually on a specific ESG issue, or join forces with other investors. Our collaborative engagements usually take a thematic approach. For instance, we are a member of the PRI-coordinated collaborative engagement on palm oil, and we are leading the engagement with three major chemical companies to help address climate change through the global investor initiative, Climate Action 100+.'

What guides you in deciding to engage or exclude?

'Sometimes engagement with a sector is clearly having no positive impact on how companies run their business,' explains Satish. 'For example, in early 2018 we concluded that engagement with the tobacco industry wasn't going to lead to any fundamental changes.'

Dailah concurs. 'As a company, we attach great value to health and vitality. We simply do not believe it is possible to use tobacco products responsibly. What's more, the health costs of tobacco are an economic burden on society. This type of decision is certainly not taken overnight. Decisions to exclude are made carefully, and with the involvement of relevant stakeholders. In October, we also decided to exclude oil sands. Climate change presents a risk to our investments, but can also offer opportunities if business models are adjusted in time. Though our preferred approach is to engage with companies to support them in the transition to a low-carbon economy, we also want to direct our efforts towards those sectors where we believe we can potentially add most value.'

Which internal stakeholders do you involve?

'We have set up a Controversy & Engagement Council within NN IP,' explains Satish. 'Our experts discuss whether certain companies are in violation of our Responsible Investment policy, and whether it's likely engagement with them can bring about change in their conduct. The council then submits its analysis to the ESG Committee. Where restriction is felt to be more appropriate than continued engagement, the ESG Committee will then present this view to the Management Board of NN Group for a final decision.'

'To ensure we develop and maintain the in-house knowledge to discuss these cases,' says Dailah, 'we regularly meet with various stakeholders to discuss sustainability issues and ESG factors. Aside from discussions around investment decisions, the topic also comes up in other contexts. For example, when recruiting talent, talking with our investors or meeting with shareholders at our Annual General Meeting.'

How do colleagues react to these issues?

'A company can only flourish if its workforce is engaged and feels their voice is heard,' explains Dailah, 'and that means our colleagues are important stakeholders, too. On our internal website, SAM, we regularly provide updates on responsible investment initiatives. We are pleased that colleagues respond to the posts with feedback, questions and ideas.'



Creating and sharing value

We aim to create long-term value for our stakeholders – customers, employees, investors and society at large.



Creating and sharing value – Customers

Excellent customer experience

We want to empower customers to make the right financial decisions in life. By providing products, services and tools that are easy to understand, transparent and offer fair value.

Creating value for our customers

To meet our customers’ needs, we aim to deliver value-adding products and services for every stage of their lives. For example, through life insurance products that protect people against the financial risk of a long life without sufficient means of support, or dying at an early age; through non-life products that protect their valued assets; through our banking businesses helping customers save money and buy a home; and, as an asset manager, by offering savings and investment products that help ensure people’s long-term income.

To ensure they are transparent and serve the customer’s interests, all our products undergo a careful product approval and review process (PARP) before we introduce or adapt them.

A ‘You Matter’ mindset

An integral part of our PARP process are our Customer Golden Rules. They form a key component in our approach towards becoming a customer-driven company. NN Group wants to be known as the ‘You matter’ company; a people-oriented financial services provider. To this end:

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

Customer empowerment

We aim to create long-term value for our customers by empowering them to improve their financial decision-making. We do so through financial planning tools aimed at increasing the customer’s knowledge and understanding of financial matters. We also work with partner organisations specialised in this area.

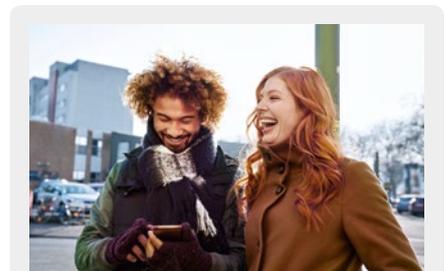
To raise awareness of pensions in the Netherlands, we supported the National Institute for Family Finance Information (Nibud) in creating an online tool where people can check whether they risk having an inadequate pension to support themselves when they retire. The resulting Geldplan Pensioen is available on the Nibud website and distributed via municipalities in the Netherlands. By year-end 2018, 5,538 people had used the tool. NN also introduced a new online application for pension contributors close to pensionable age. This lets users assess their risk appetite by completing a risk profile questionnaire, calculate how much pension they are likely to receive based on product choices and request an offer for a suitable defined-contribution pension product.

Customer satisfaction and our brand

To measure how our customers value our products and services, we use the Net Promoter Score (NPS). NPS allows us to collect, evaluate and act on a continuous stream of customer feedback, so we can drive improvements in our product portfolio and customer service.

In 2018, eight of our insurance businesses had a better NPS relationship (NPS-r) score compared with the market. We measure NPS-r in all our markets for all banking, life insurance and pensions business lines. NPS-r and customer satisfaction measurements for asset management are conducted amongst institutional clients once a year.

To track how our brand is perceived externally we use the NN Global Brand Health Monitor (GBHM). At least twice a year, we measure key brand indicators and obtain insights into NN’s brand performance and development. Aided brand awareness improved significantly in Belgium and Poland. In all other markets aided brand awareness remained at the same level, except for Hungary.



Our objectives and 2020 targets

- Be recognised as a ‘You matter’ company: a people-oriented service provider in the long-term financial planning industry
- Improve relational Net Promoter Scores (NPS)
- Increase the number of products and services with social and environmental added value¹

How we performed in 2018

- Our customers do recognise us as the ‘You matter’ company. Recognition increased in 4 out of 12 markets
- NPS-r above market average in 8 of 12 markets
- Increased awareness of customer need for value-added products and services

¹ For our performance on increasing the number of products with social and environmental added value, we also refer to page 46.

Creating and sharing value – Customers continued

We measure the NPS-r to assess the strength of our relationship with customers. This score provides a high-level understanding of customer satisfaction levels regarding our products and services over a long-term period. The sample base in the GBHM consists of NN customers who did not necessarily have contact with NN. This is therefore a different NPS metric than the NPS reported in the Delivering on our strategy – Netherlands chapter. We measure the NN NPS-r score for the individual business units.

In 2018, our NPS-r score in Hungary and Spain decreased compared with both 2017 and the market average. In Poland, Turkey and Romania, our NPS-r score increased compared with both 2017 and the market average. We are careful in drawing conclusions from decreased or increased NPS-r scores based on one year; however, we will monitor the

scores closely. In addition, we measure the transactional NPS on a local level for specific events. In this case, the survey is especially designed to measure how a recent interaction impacts the customer's satisfaction. This provides us with the opportunity to continuously improve the customer journey. Over time we expect this will impact the relationship NPS as well.

Additional support

NN reaches out to people who may not have access to insurance and could benefit from additional support. Because we are aware that people can face financial and social challenges in life, we try to anticipate their specific needs and individual circumstances to provide a positive and inclusive experience for a wide range of different social and economic groups.

Products with social added value

In Hungary, we launched a new proposition providing overall protection for children and financial security for a child's future. This includes benefits tailored to a child's needs, covering accidents, illnesses and surgeries typical to children. Also in Hungary, a new cooperation was launched with Medicina Health Fund. Some 50,000 members of the health fund and its beneficiaries received a group life insurance with 24/7 medical call centre services.

In Japan, we offer a life insurance product that provides critical illness coverage in cases of cancer, acute cardiac arrest or stroke. It was developed to support small business owners who are unable to manage their company due to critical illness.

In Romania, we provide a health insurance product that offers affordable access to private care. In 2018, we continued to enhance this proposition with new benefits relevant to clients in line with healthcare trends, such as the coverage of expenses related to surgery performed in ambulatory medical care (outside hospital).

Net promoter score

	NPS-r compared to 2017	NPS-r compared to market average
1. Belgium	Improved	Below
2. Bulgaria	Decreased	Above
3. Czech Republic	Decreased	Above
4. Greece	Decreased	Above
5. Hungary	Decreased	Below
6. Japan	Maintained	Below
7. Poland	Improved	Above
8. Romania	Improved	Above
9. Slovakia	Decreased	Above
10. Spain	Decreased	Below
11. The Netherlands	Decreased	Above
12. Turkey	Improved	Above

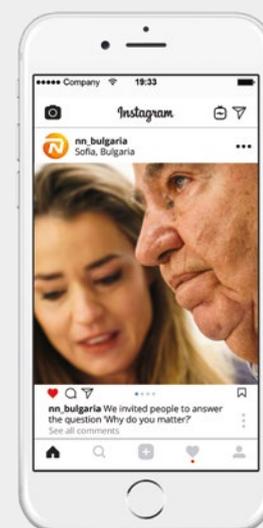
Building our brand

NN's campaigns focus on understanding people's deeper motivations in life. Branding activities let us interact more frequently and connect emotionally with our audience. We want campaigns to inspire people to take care of what matters to them most. In 2018, our digital campaigns reached millions of people across Europe and Japan.

The Pass it on campaign celebrates the uniqueness of people, and the unexpected things we share with our nearest and dearest. We asked people what they hope to pass on to the ones they love, before encouraging them also to pass on financial security.

The high engagement with the content showed that, while life insurance remains a sensitive and complex topic, the campaign's approach not only put across the core message but also reached people on an emotional level. Pass it on ran in Romania, Hungary, Belgium and Japan, getting over 2.2 million views (≥ 10 seconds). In 2019, the campaign will launch in Greece and Spain.

The Why I matter campaign was a social experiment around the existential question: 'Why do I matter?' People were then told their loved ones had secretly written the answer in a letter they were asked to read aloud. The campaign aimed to inspire people to take care of the financial future of their loved ones.



Creating and sharing value – Customers continued

In Spain, we launched a new modular insurance protection solution in 2018 that lets customers pick the personal mix of protection covers to suit their life stage and circumstances. NN offers financial support in the form of monetary benefits, but also advice and tangible health services which include the use of an app that allows customers to chat in real time with medical doctors from a wide range of specialities.

Financial inclusion

Through our membership of the Dutch Insurers Association (Verbond van Verzekeraars), we have a partnership with microfinance organisation Qredits and are also involved with the Foundation for Sustainable (Micro) Pensions in Developing Countries (SDMO). In India, SDMO works with local partner the Development of Human Action (DHAN) Foundation, who have developed a defined contribution scheme where the administration and investment management are arranged by a local life insurance provider. In 2018, 43,352 people participated in the scheme.

Dutch unit-linked products

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

The formal process for reaching out to customers initiated by the AFM for the sector was completed by the Dutch insurance subsidiaries of NN Group on 31 December 2017.

The AFM has recently confirmed that the Dutch insurance subsidiaries of NN Group have fulfilled their obligations towards customers pertaining to customer reach out. 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 2018, the portfolios of Dutch insurance subsidiaries of NN Group comprised approximately 450,000 active policies. In a limited number of cases (less than 1,000), 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 121-123 of the Financial Report (note 42).



To get closer to our customers and further improve our products, we are continuously exploring new forms of collaboration that can help transform our business.

Tjeerd Bosklopper,
Chief Transformation Officer



Green lifecycle

BeFrank, NN's premium pension institution (PPI) in the Netherlands, offers a special 'green' lifecycle with sustainable funds of Triodos Investment Management. For pension scheme members in this lifecycle, BeFrank introduced a Sustainable Impact Dashboard: an overview of the environmental impact of their pension capital. The impact is shown on the basis of three pillars: waste production, water consumption and CO₂ emissions.



Supporting customers in arrears

We want to be a positive force in the lives of customers. That means being there not only when things go well, but also in difficult times. NN Bank uses an early-warning system for mortgage customers at risk of being in arrears. Depending on a customer's personal situation, NN can provide a budget or job coach or restructure the mortgage contract. In 2018, we helped 353 customers this way.

NN is a member of the Creditors Coalition (Schuldeiserscoalitie), where creditors cooperate to find solutions to the increasing problem of payment arrears and debts. As a coalition partner, NN promises to adhere to ten principles that prescribe an ethical way of approaching customers.

 **Read more in Dutch:**
www.schuldeiserscoalitie.nl

Empowered and engaged employees

We want our colleagues to thrive. By providing a stimulating, diverse work environment, we give them the opportunities they need to develop their skills and fulfil their potential.

The integration of Delta Lloyd in the Netherlands and Belgium continued to be a priority in 2018. Internationally, our focus was on further strengthening our ‘You matter’ culture and building a strong brand in all our markets. Our ambition is to be recognised as an employer of choice, so we can attract and retain the talent we need to grow the company.

Delta Lloyd integration

Supporting and implementing organisational changes as part of the integration of Delta Lloyd and NN was a key activity in 2018. We focused on creating diverse teams, combining the different competencies, experiences and cultures to further strengthen entrepreneurship, creativity and customer centricity.

Nevertheless, we recognise that an integration process of this scale is impactful and directly or indirectly affects our employees. In 2018, approximately 1,300 people in our Dutch and Belgian businesses left. This was partly the result of restructuring and redundancies, as well by their own choice. The number also includes regular natural turnover.

A continuing focus for our Human Resources department is to assist those employees whose jobs are affected. The Outplacement Centre helps employees who have been made redundant. Of those who chose ‘from job to job’ support in 2018, approximately 70% were successfully placed within the provided timeframe.

Driving strategy through leadership

Across our businesses, we focus on empowering our leadership. NN’s strategic priorities require that management embrace new ways of working, become more aware of their impact as leaders and drive results without resorting to traditional top-down leadership.

For International Insurance, we are supporting leaders with adaptive leadership sessions. In 2018, we invested in workshops on five themes aimed at improving the management of leadership challenges. These efforts will continue in 2019, including in the Netherlands.

The Strategic Leadership Agenda (SLA) was launched in the Netherlands in 2018. The SLA is a new approach that strongly engages people in defining our collective ambition in the Netherlands, setting goals and implementing our overarching strategy. It is aimed at empowering our people to take ownership and drive change across the organisation. Through dialogue and supported by events, colleagues are fully involved in building, living and sharing the strategy. This process will continue in 2019.

Building a culture of performance and development

In 2016, we piloted an adjusted performance management cycle, with additional pilots in 2017 in the Netherlands and Poland. In 2018, we reviewed the findings from the pilot groups and implemented quarterly reviews across the company to stimulate a more continuous dialogue. The pilot group found that more frequent dialogue led to higher engagement and employees taking greater ownership of their performance.

Through the adjusted performance management cycle, we are supporting the agile business transformation in International Insurance. Alongside the regular, informal feedbacks and feedforwards that are part of the methodology, teams also participate in the quarterly performance snapshots that align with the rhythm of the new way of working.



Our objectives and 2020 targets

- Strengthen our employee journey through our onboarding experience
- Stimulate our talents and strengthen our talent pipeline
- At least 30% women in senior management positions
- Continue to strengthen employee engagement

How we performed in 2018

- EUR 21.5 million spent on training and development — up 2% per FTE
- 33% women in senior management positions — up 1% point
- Slight increase in employee engagement from 7.0 to 7.1¹

¹ In 2018 we introduced a new metric for measuring engagement. The equivalent measurement used in 2017 was 66%.

Creating and sharing value – Employees continued

Training and development

NN is committed to life-long learning and offers a wide range of options for employees to develop their knowledge, competencies and skills. In 2018, NN Group invested EUR 21.5 million in training and development.

To offer our people unique learning opportunities and help them build valuable networks, we offer long- and short-term internal assignments, within other departments or businesses. Job rotation schemes provide additional opportunities to explore new career paths.

In 2018, we introduced an adaptive leadership training for all senior leaders. The aim of this programme is for leaders to develop and learn together, and become even better at managing their day-to-day leadership. It asks our leaders to develop their ability to build emotional commitment and create a safe environment for growth and innovation. In 2018, we organised 9 sessions, which were attended by over 70 leaders.

Digitalisation

We continue to digitalise HR processes and systems across the company and are exploring how best to use data for decision-making. We already use robotic process automation (RPA) to make processes more efficient. Last year, we used seven robotic processes to automate our onboarding. By experimenting with and testing new processes in the Netherlands before they are rolled-out internationally, we aim to create a smoother experience for our colleagues.

We will monitor how digitalisation impacts our workforce, and will continue to assess how we can help our colleagues develop relevant skills.

NN Poland started using predictive analytics for the recruitment of candidates to the Tied Agency Channel. To improve retention rates and productivity, the model constructed a candidate profile based on the five characteristics statistically most likely to influence retention. The first results will be available in 2019.

Our commitment to ensuring the security of our data extends to our colleagues. The General Data Protection Regulation (GDPR) was implemented for our HR systems in Europe, and all employees were required to complete an e-learning on the GDPR.

Enhancing onboarding

In 2018, we introduced an onboarding app in the Netherlands, previously used for NN Investment Partners (NN IP) globally and Delta Lloyd, which was developed to improve the onboarding experience of new internal and external employees.

The My Onboarding app provides information to new employees before they start at NN on our work environment and values. NN Netherlands has exchanged best practices with NN Poland, who also introduced an onboarding app, to improve both applications. We are also exploring the possibility of using the app in other countries.

Equal opportunities and diversity

At NN, we believe everyone, including colleagues, should feel respected and valued for who they are, regardless of gender, age or background. We also believe a diverse workforce creates diversity in thinking, skills and experience, which better equips us for the future. In 2018, 33% of our senior leaders were non-Dutch.

NN WE is our internal network that promotes diversity and inclusion. During NN Values week in the Netherlands, NN WE held an event on diversity that examined how employees can align their personal values with the NN values of care, clear, commit. NN also participated in the 2018 Rotterdam Pride Walk. Read more on Values week on pages 53-54.

To enhance the attraction and retention of talents, NN Life Netherlands organised a diversity job market and dinner.

TEDxAmsterdamWomen

NN Group is committed to promoting female leadership. We therefore support a number of initiatives outside our company. In 2018, NN partnered with TEDxAmsterdamWomen. Both NN and TEDxAmsterdamWomen support women in reaching their potential, and want to celebrate talent and invite people to share their ideas.

TEDxAmsterdamWomen, part of the global TEDxWomen conference, provided a stage for inspiring women under the theme 'Bridging the Gap'. The conference focused on the unique way in which women contribute to shaping the future. In addition to sponsoring the event, NN offered mentoring to two of the event's speakers.



Creating and sharing value – Employees continued

Female leadership

NN Group is committed to promoting female leadership, including through facilitating awareness discussions and training sessions. We have also set targets: our aim is for a minimum of 50% of new recruits to management roles and 30% to senior leadership positions to be female. In 2018, 33% of our senior leaders and two out of four appointments to the NN Group Management Board were women.

In 2018, we completed an analysis on equal pay. We identified that discrepancies in equal pay are limited, but we see room for improvement in certain areas. In the Netherlands, for example, we found that men have a longer tenure, leading to a relatively higher position on salary scales. We do see, however, that women – who represent 48% of our workforce – are on the rise throughout our businesses. This is also reflected in the representation at senior levels. Equal pay is a recurrent topic on the agenda of the Management Board and Supervisory Board.

NN is included in the 2019 Bloomberg Gender-Equality Index, based on our performance data from 2018.

Employee rights and representation

In many countries, employee consultation is arranged through works councils. In 2018, the European Works Council was consulted on the acquisition of Aegon activities in the Czech Republic and Slovakia, and on the intention to consolidate NN IP Luxembourg.

In the Netherlands, as part of the integration of Delta Lloyd, the members of the Delta Lloyd Central Works Council joined the NN Group Central Works Council, and the members of the Delta Lloyd–OHRA Works Council joined the relevant works council in the Netherlands business units. The ABN Amro Insurance (AAV) Works Council continues to exist, and the Delta Lloyd Central Works Council will continue to formally exist until all employee benefits and policies are integrated.

An overview of the Central Works Council members of NN Group and Delta Lloyd and European Works Council members of NN Group is on page 36 of the Financial Report.



Diversity in thinking, skills and experience enables us to be optimally equipped to meet changing customer needs, remain an attractive employer and adapt to new market circumstances.

Dailah Nihot,
Chief Organisation & Corporate Relations



Business decisions explained

Attracting and retaining talent in today's world



Digital transformation is one of the strongest disruptions we have seen in recent decades. It has changed the way businesses are run; expanded the competitive landscape with new, non-traditional players; established new opportunities and business models; and influenced how customers want to and can interact with us. We therefore dedicate resources to understanding how our company can best adapt and transform to deal effectively with these developments. To take full advantage of the digital transformation and new technology, it is critical for companies to ensure they are capable of attracting the right professionals, with the relevant digital skills. This particular group of talented people is in high demand. Research indicates that by 2020, 30% of technology jobs will be unfilled, due to a shortage of digital talent. In a candidate-driven market, where talents are much sought after and can choose the digital jobs that most appeal to them, attracting and retaining trainees and candidates is a challenge.

Where traditionally traineeships and entry-level jobs at large corporates were attractive and popular amongst talented graduates, many large corporates must now reinvent themselves to attract these in-demand (digital) talents. More than ever, young talents are considering starting their career at a startup or scale-up, or as an entrepreneur.

In addition, research shows that many young talents are looking for meaningful work. They highly value companies that put an emphasis on sustainability and have a social mission. They care about the impact of their work and want to know how a company's products and services impact society. This also creates opportunities: where previously young startups and large corporates were cautious about interacting with each other, today we see many such partnerships and collaborations taking place. At NN we understand the importance of collaborating with and supporting startups. We do so through various partnerships as well as through our innovation labs, known as SparkLabs.

Creating and sharing value – Employees continued

In 2018, negotiations started for a single, integrated collective labour agreement (CLA) for NN and former Delta Lloyd employees in the Netherlands. The results of the CLA negotiations were announced in December and subsequently voted on in January 2019. As a majority of the trade union members did not vote for the proposed CLA, the Delta Lloyd CLA still applies and the NN CLA remains in force.

Both the trade unions and the employer acknowledge the importance of creating a single package of employment conditions for NN employees in the Netherlands, and negotiations continue in 2019.

Becoming an employer of choice

Being considered an attractive employer strengthens our position in a competitive labour market. We are confident we have the culture, practices and processes in place to provide the best opportunities for our employees. This view is endorsed by our being recognised as a top employer for 2019 in ten countries: Belgium, Bulgaria, Czech Republic, Greece, Hungary, Poland, Romania, Slovakia, Spain and Turkey, compared with just three in 2018.

Employee engagement

Having engaged, committed employees is key to better serving our customers. In times of change, it is important we understand the areas where we are improving and where we are not.

In 2018, we introduced a new survey tool, Peakon, to better measure and track employee engagement. Peakon replaces the Yearly Engagement Survey (YES). NN IP and NN Bank in the Netherlands piloted the new tool in June, and the global engagement survey took place for the entire company in November. 85% of employees completed the global survey.

The interactive Peakon platform provides greater insights and more advanced analytics, and allows for more frequent measurements. Managers received a results dashboard one week after the survey, compared with four to six weeks previously. Employees can leave anonymous comments, encouraging frank feedback. More than 50,000 comments were made during the global survey, leading to useful insights, context and background.

Global engagement levels increased to 7.1 in 2018 (2017: 7.0). The strongest drivers of how employees experience NN as a place to work are growth, autonomy and meaningful work. The statements 'The work I do is meaningful to me' and 'I feel I am given enough freedom to decide how to do my work' had the most positive results. Through the survey we identified employees' understanding of strategy (globally and within the business units), efficient processes and encouraging healthier lifestyles as three areas where we can improve.

Health and well-being

Health was identified as an improvement area in our global engagement survey, with employees expressing the need for more exercise opportunities at work. To encourage a healthier lifestyle and more balanced life among employees, we launched several initiatives.

Examples include breathing technique workshops in Turkey and a monthly health & safety committee in Japan. In Spain we launched an in-house medical service, and in the Netherlands, we launched a pilot programme, Fit by Nationale-Nederlanden. Read more about Vitality on page 24.



7.1

Employee engagement



85%

Participation rate

Peakon engagement scores

Score	Statement	Detractors 0-6	Passives 7-8	Promoters 9-10
7.1	Overall engagement score	28%	49%	23%
7.9	The work I do is meaningful to me	15%	48%	37%
7.7	I feel I am given enough freedom to decide how to do my work	15%	49%	33%

Attractive returns for investors

We aim to offer investors attractive long-term returns, and we want to be transparent by providing them with high-quality, clear, accurate and timely information.

The authorised share capital of NN Group N.V. consists of ordinary shares and preference shares. Currently, only ordinary shares are issued, while a call option to acquire preference shares has been granted to the NN Group Continuity Foundation (Stichting Continuïteit NN Group). Read more on page 28 of the Financial Report.

Major shareholders

According to the AFM register as at 12 March 2019, the following shareholders have an interest of 3% or more in NN Group on the notification date¹: BlackRock, Inc. (3.89% – 19 June 2018), APG Asset Management N.V. (3.00% – 2 August 2017), RRJ Capital II Ltd. (9.60% – 23 May 2017), and Franklin Mutual Series Fund Inc. (3.87% – 27 May 2015).



Our financial targets

- EUR ~400 million cost reduction² by 2020
- Annual earnings growth of 5-7% on average in the medium term³
- Over time, generate free cash available to shareholders in a range around the net operating result of the ongoing business⁴

How we performed in 2018

- Operating result growth of 3%⁵
- Administrative expense base of business units in scope reduced by EUR 156 million²
- Total free cash flow of EUR 1,216 million
- Proposing a total 2018 dividend of EUR 1.90 per share⁶

1 The stated percentages are the interests reported by the relevant shareholder to the AFM on the indicated dates. It is possible that the stated interests differ from the current interests of the relevant shareholder.
 2 In total for the following units: Netherlands Life, Netherlands Non-life, Belgium, Asset Management, Banking business, and Corporate/Holding entities.
 3 Annual growth rate of operating result before tax of the ongoing business on average in the medium term, based on 2017 operating result.
 4 Net operating result of the ongoing business, adjusted to reflect the deduction of the accrued coupon on undated subordinated notes classified in equity, assuming normal markets, no material regulatory changes and no material special items other than restructuring charges.
 5 Operating result before tax of the ongoing business 2018 versus 2017.
 6 Representing a pay-out ratio of 50% of the net operating result of the ongoing business.

Listing

NN Group ordinary shares are listed and traded on Euronext Amsterdam under the symbol NN.



Authorised and issued capital

in EUR million	Year-end 2018	Year-end 2017	Year-end 2016
Ordinary shares			
– authorised	84	84	84
– issued	41	41	40
Preference shares			
– authorised	84	84	84
– issued	0	0	0

Number of shares in issue and shares outstanding in the market

	Year-end 2018	Year-end 2017	Year-end 2016
Authorised share capital	700,000,000	700,000,000	700,000,000
Issued share capital	341,059,071	340,750,342	334,851,371
Own ordinary shares held by NN Group	6,554,128	6,609,781	10,800,817
Outstanding ordinary shares	334,504,943	334,140,561	324,050,554

Creating and sharing value – Investors continued

Dividend policy

NN Group intends to pay an ordinary dividend in line with its medium-term financial performance and envisages an ordinary dividend pay-out ratio of 40-50% of the net operating result from ongoing business. NN Group intends to pay interim dividends calculated at approximately 40% of the prior year's full-year dividend. Barring unforeseen circumstances, NN Group intends to declare an interim dividend with the disclosure of the second quarter results and to propose a final dividend at the Annual General Meeting (AGM) of shareholders. When proposing a dividend, NN Group takes into account, amongst other things, the capital position, leverage and liquidity position, regulatory requirements, and strategic considerations, as well as the expected developments in these areas.

Dividends are paid either in cash, after deduction of withholding tax if applicable, or in ordinary shares from the share premium reserve at the election of the shareholder. We intend to neutralise the dilutive effect of the stock dividend through repurchase of ordinary shares. In addition, capital generated in excess of NN Group's capital ambition is expected to be returned to shareholders unless it can be used for any other appropriate corporate purposes, including investments in value-creating opportunities. NN Group is committed to distributing excess capital in the form that is most appropriate and efficient for shareholders at that specific time, such as special dividends or share buybacks.

At the AGM on 29 May 2019, a final dividend for 2018 will be proposed of EUR 1.24 per ordinary share. Together with the 2018 interim dividend of EUR 0.66 per ordinary share paid in September 2018, NN Group's total dividend for 2018 will be EUR 1.90 per ordinary share, which is equivalent to a dividend pay-out ratio of 50% of NN Group's full-year 2018 net operating result of the ongoing business.

This represents an increase of 14.5% compared with the total 2017 dividend, reflecting the additional cash flows from the Delta Lloyd transaction.

NN Group shares issued and share buyback programme

On 25 June 2018, NN Group issued 3,918,712 ordinary shares as stock dividend for payment of the 2017 final dividend, representing an aggregate value of EUR 142 million. For payment of the 2018 interim dividend, 2,566,901 ordinary shares were issued as stock dividend on 10 September 2018, reflecting an aggregate value of EUR 95 million.

To neutralise the dilutive effect of the stock dividend, in 2018 NN Group repurchased ordinary shares for EUR 237 million, related to the 2017 final and the 2018 interim dividend.

In February 2019, NN Group announced that it would execute an open market share buyback programme for an amount up to EUR 500 million over 12 months, which commenced on 1 March 2019. NN Group intends to cancel all of the shares acquired under the programme. NN Group will report on the progress of the share buyback programme on a weekly basis on its corporate website: www.nn-group.com.

On 11 April 2018, 6,176,884 NN Group treasury shares that had been repurchased under the share buyback programme completed in December 2017 were cancelled.

Warrant agreement

The warrant agreement entered into between NN Group and ING Group on 10 June 2014 was terminated on 15 November 2018 for a consideration of EUR 76 million. This transaction eliminated potential share dilution.

Credit ratings

On 6 June 2018, Standard & Poor's published a report confirming NN Group's 'A' financial strength rating and 'BBB+' credit rating with a stable outlook. On 20 June 2018, Fitch confirmed NN Group's 'A+' financial strength rating and 'A' credit rating with a stable outlook.

ESG ratings

In the area of sustainability, we are rated by specialised research agencies and included in indices, such as the Dow Jones Sustainability index. Read more on page 70.



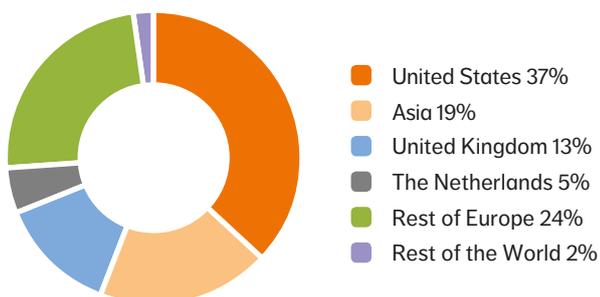
We have an open and constructive dialogue with the investment community with the aim of providing a full and clear understanding of NN Group to the market, and at the same time receiving valuable feedback from our shareholders and bondholders.

Delfin Rueda,
Chief Financial Officer

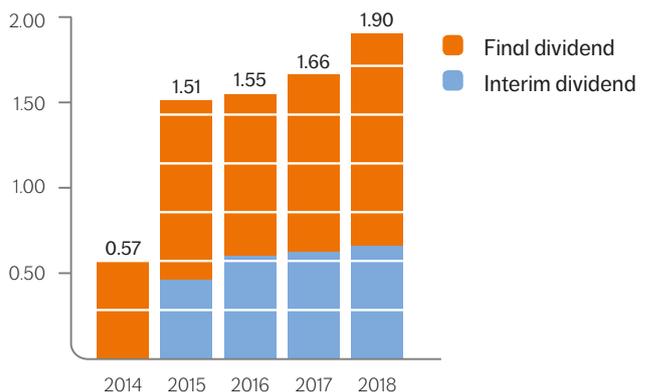


Diverse shareholder base

IHS Markit shareholder analysis at 31 January 2019 (%)



Dividend per share (EUR)



Creating a positive impact on society

We want to have a positive impact on society, by investing our assets responsibly, managing our direct environmental footprint, and through our activities in the communities where we operate.



Our objectives and 2020 targets

- Further develop our Responsible Investment (RI) Framework policy
- Continue to increase our Assets under Management (AuM) in sustainable and impact funds and mandates, and to expand our product offering
- Reach out to at least 100,000 young people through NN Future Matters programme; help 11,625 households out of poverty and debt
- Reduce direct CO₂ emissions (tonnes) by 3% per year

How we performed in 2018

- Revised RI Framework policy, including broadening of exclusionary criteria
- Strong (+53%) increase in our AuM in sustainable and impact funds and mandates to EUR 16.5 billion
- 38,536 young people reached through NN Future Matters programme, now exceeding our 2020 target
- 8% decrease in direct CO₂ emissions; CO₂ emissions per FTE decreased by 6%

Responsible investment

NN Group's Responsible Investment (RI) Framework policy sets out our responsible investment vision and approach: we integrate environmental, social and governance (ESG) factors into our investment processes and ownership practices; we prefer inclusion backed by active ownership to exclusion, but also have restrictions; our asset manager offers a range of sustainable and impact investment strategies.

Supporting ESG integration

In 2018, NN Group revised its RI Framework policy. Norms-based criteria were introduced reflecting our investment beliefs and values, relevant laws, and internationally-recognised norms and standards. These criteria guide the investment process across NN Group.

We apply an engagement-led divestment approach. This means restriction is chosen only when we feel engagement cannot change a company's conduct or involvement in specific activities. Responsibility for assessing whether an issuer fails to meet our norms-based criteria lies with the ESG Committee of NN Investment Partners (NN IP), who are advised by the newly installed NN IP Controversy & Engagement Council. In 2018, this council met 6 times and discussed 69 individual cases.

The revision of our policy led to restrictions in two areas. First, we decided to exclude tobacco from all our investments, as we believe engagement with the tobacco sector is unlikely to solve any issues or improve the impact of tobacco use. Second, we placed restrictions on companies whose business models are dependent on the extraction of oil sands, including pipeline operators involved in oil sands transportation projects that are in dispute and where we do not expect engagement to achieve the desired results. All restricted companies have been put on our publicly available exclusion list.

Influencing companies to take responsibility

Voting is one of the most powerful tools of active ownership and we therefore vote at shareholder meetings (AGMs) on behalf of our own and our clients' assets. We have separate voting committees in place for the different asset types, and publish our voting record on a special website. Some of the voting is outsourced to a proxy service provider, who votes by following our proxy voting guidelines. We monitor these outsourced activities and always make voting decisions internally on a case-by-case basis for our own assets, companies on our engagement list or NN IP sustainable funds.

During 2018, NN IP voted at 2,118 AGMs on 26,839 agenda items. The increase in voting activity compared with last year reflects the addition of Delta Lloyd funds and assets. We cast more votes against management proposals, which was in part the result of our greater emphasis on climate change. NN IP voted against the election of board members where companies in carbon-intensive industries do not disclose their carbon emissions. At several AGMs we also asked the board to commit to the Climate Action 100+ programme. This is a collective engagement effort by investors with over USD 32 trillion AuM, which NN IP joined in 2018 to urge companies in the chemicals sector to take action on climate change.

In addition, we supported a large number of shareholder resolutions linked to social and environmental topics (73% and 95%, respectively). An example of a resolution which we supported is at the AGM of Royal Dutch Shell (Shell).

Creating and sharing value – Society and communities continued

The resolution asked the company to adopt carbon reduction targets in line with the Paris Agreement. Though the resolution was supported by only 5.5% of votes cast, and thus rejected by the AGM, we nevertheless believe it gave a strong signal to the company to take a more active role in leading the transition to low carbon energy sources. As such, we received positively Shell’s announcement in December 2018 that it will adopt short-term climate targets and link executive pay to its carbon ambitions. The announcement was made in a joint statement developed with institutional investors on behalf of Climate Action 100+.

We believe in the importance of an ongoing dialogue with all companies and issuers that we invest in. Through engagement, we raise awareness of ESG issues, and encourage them to improve their ESG policies and practices. Because of the active investment strategies of NN IP, our analysts and portfolio managers are in frequent dialogue with investee companies. Whenever ESG issues are a topic of discussion during our company meetings, we log them in a database. The chart below shows that we had 521 ESG dialogues with issuers in 2018. The increase on last year reflects changes in the way we collect the information. In addition to engagements conducted by our equity analysts, portfolio managers and ESG specialists, we also started to track the dialogues that fixed income analysts and portfolio managers had with corporate and sovereign issuers.

We also extended our collaboration with the service provider, GES, who carried out engagements with 119 companies, focusing on compliance with internationally recognised conventions and guidelines on ESG issues.

In 2018, NN IP concluded a three-year engagement with 20 companies in the power utility sector. Aided by GES, we encouraged best practice in managing carbon emissions and climate risk. During the engagement period, there were overall improvements in the companies’ proactive stance on climate issues and especially in their reporting of greenhouse gas emissions. Several of the Asian companies showed increasing interest during the final year of engagement, partly reflecting growing regulatory reporting requirements and government pension fund demands. There was also progress on emissions reduction targets and action plans, as companies are being increasingly evaluated on their adherence to science-based targets or similar disclosure. However, results remained unchanged in areas such as risk assessment and mitigation strategies for over half of the engagement companies. We are currently defining steps for follow-up and further engagement.

For more examples of how we engage with companies and sectors, please see NN IP’s Responsible Investing report 2018 on our website.



Engaging with the Oil & Gas sector on climate change

The Oil & Gas sector is particularly exposed to the associated risks of climate change, given its vulnerability to a low-carbon world and the fact that its operations, services and products make it a leading contributor to global warming. We therefore feel companies in the sector should be transparent in explaining how they are adapting their business strategies and reporting the risks they face.

In an effort to ensure consistency in its engagement efforts, in 2018 NN IP carried out an analysis of 49 companies in the Oil & Gas sector globally, and found significant variation in the level of detail they disclose on their activities and the associated climate change risks. European Oil & Gas giants, for example, are far more transparent about the integration of climate-related risk into their models than their American counterparts, and Oil & Gas companies in emerging markets appear even more reluctant to publish details. To try to address these inconsistencies between companies, NN IP developed engagement targets that expect all companies in the Oil & Gas sector to develop a clearly outlined transition plan (for more details, please see NN IP’s publication ESG Perspective – The risks of climate change in the Oil and Gas Sector, November 2018).



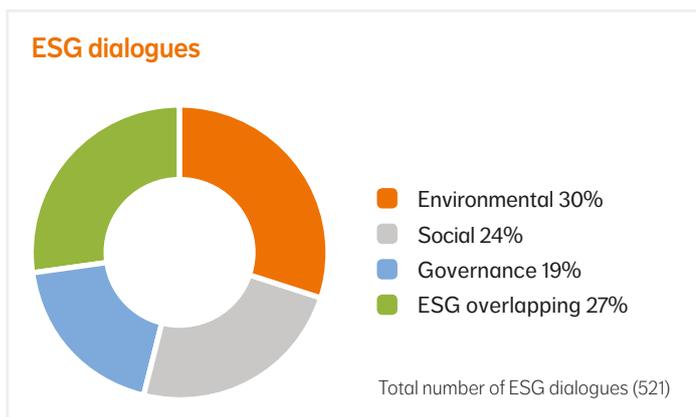
2,118

Number of shareholder meetings at which we voted



521

Dialogues with companies on ESG factors



Creating and sharing value – Society and communities continued

Making a positive impact through our investments

NN IP offers a wide range of sustainable and impact investing strategies to meet customers' growing demand for products that both have a positive impact on society and the environment, and generate solid financial returns. Total AuM in our sustainable and impact investing products grew by 53% to EUR 16.5 billion at year-end 2018. This increase was helped by the addition of the Belgian Star Fund and the NN-FMO Emerging Markets Loans Fund, as well as the merging of Delta Lloyd funds with NN sustainable funds.

For NN Group's own assets, too, we look for investments that have a positive impact on society while still meeting our investment criteria. For instance, within our infrastructure debt portfolio, we finance projects in the area of renewable energy and resource efficiency, such as solar and windfarms, district heating projects, and water and wastewater treatment facilities. NN Group also invests in green bonds. In total, our investments in climate-related infrastructure projects and green bonds amounted to EUR 663 million at year-end 2018.

In 2018, NN Group committed to helping Dutch municipalities to make public-use real estate, such as schools and town halls more energy efficient. Read more on our cooperation with Bewust Investeren BV and BNG Bank on page 51. Other investments aligned with the SDGs include NN's investment in the NN-FMO Emerging Markets Loan Funds as well as a private equity fund focused on investing in the areas of resource efficiency and pollution control in Europe. Each fund will measure the contribution to the SDGs using its own impact methodologies.

Finally, we continue to invest in increasing the energy-efficiency of our private real estate assets, using the Global Real Estate Sustainability Benchmark (GRESB) as the primary tool to evaluate our progress. In the 2018 assessment, NN's portfolio of funds, joint ventures and directly-owned buildings improved its score for the fourth consecutive year, scoring 80 out of 100, well above the benchmark of 66 for European private real estate.



EUR 16.5bn

AuM in sustainable and impact investing funds and mandates

Update on engagement with the palm oil sector



Palm oil is a popular commodity in consumer-related products. However, the list of controversies associated with palm oil is a long one: deforestation; air, soil and water pollution; climate change; and human rights challenges. These issues have raised awareness about some of the problems facing the sector and many NGOs are targeting stakeholders, including investors, to take action. While one NGO has urged us to exclude palm oil companies, others have encouraged us to continue our efforts to engage with such companies, in order to instigate change.

Our engagement approach

Because of the complexity of the supply chain, we do not believe exclusion is the answer, and prefer instead to use our influence to improve standards in the sector. In 2017, we developed an engagement approach, whereby we focus on all parties throughout the supply chain, from palm oil producers to retailers. We engage with these companies both individually and collectively through the PRI working group on Sustainable Palm Oil in which NN IP leads several important engagements with growers.

The results so far

Several companies have shown a commitment to sustainability and most have now established a detailed policy. For example, one company has implemented a sustainability policy, in which they included no deforestation, no peat, no exploitation (NDPE) conditions and an assessment of high conservation value (HCV) areas, that commits them not to develop these. We will monitor the implementation of the policy. For many retailers, growers and traders, implementation of their policies and improving transparency will be the next challenges.

During 2019, NN IP will expand its engagement efforts to several regional banks in Asia to improve financing arrangements and make sure that sustainability agreements are being upheld. We have developed a scorecard and use tools such as the online platform, Sustainable Palm Oil Transparency Toolkit (SPOTT) and general ESG research to monitor and engage with these companies in order to drive improvement by all parties in the supply chain.

Creating and sharing value – Society and communities continued

Responsible tax strategy

We believe that a responsible approach to tax is an essential part of good citizenship. The planning of our tax position is consistent with our business operations, reflects our corporate strategy and takes into account relevant international guidelines, such as the OECD Guidelines for Multinational Enterprises. Being a responsible taxpayer also means that our tax planning takes long-term considerations into account and carefully weighs all stakeholder interests. We have a set of tax principles to which we adhere and communicate publicly on our website through our 'Tax Strategy and Principles' and the 'NN Group Tax Charter'.

Within NN, we aim to create tax awareness via the intranet, on which we share information and developments on taxation. Group Tax also organises internal trainings and courses for senior leaders and business units on different tax areas, i.e. V.A.T., wage tax, Transfer Pricing and corporate income tax. NN shares its tax strategy with stakeholders, including the tax authorities, with whom we seek to maintain good, open working relations. In the Netherlands, these are based on the 'horizontal monitoring' principle.

We also engage in dialogues with other stakeholders on taxation. For example, in April 2018, NN spoke at a roundtable organised by the Ministry of Finance on tax avoidance and evasion. NN supports the Dutch government's approach towards this issue. We believe it is important that profits are taxed against a socially accepted tariff, where those profits are realised. This is in line with one of the key principles of NN's taxation policy: we structure our tax affairs based on a business rationale. This means we do not make use of tax havens or tax-avoiding structures. Another key principle

of our policy is being transparent about the taxes collected and paid to governments in the different countries where NN operates. We provide an overview of corporate income tax on a country-by-country basis. Read more on pages 97-100 of the Financial Report (note 31).

As well as paying corporate income taxes, NN is also responsible for collecting operational taxes on behalf of NN Group, our customers and our employees. In 2018, NN Group paid EUR 1,278 million (2017: EUR 1,225 million) in wage taxes, of which NN contributed EUR 385 million in Dutch social premiums and employment taxes on behalf of our employees, and EUR 893 million on behalf of our clients. NN paid VAT of EUR 40 million (2017: EUR 33 million) and insurance premium tax of EUR 219 million (2017: EUR 217 million) to the Dutch Treasury. To give more insight into our tax contribution a detailed report, called 2018 Total Contribution on Taxation of NN Group will be published on our corporate website.

Financial tax disclosures

The income tax charge of EUR 524 million in 2018 represents an effective tax rate of 31.6%. The effective tax rate was higher than in the previous year (15.5%) and higher than the weighted average statutory tax rate (24.4%). This higher effective tax rate includes the impact of the announced decrease in the corporate tax rate in the Netherlands in 2020 and 2021. This change led to an additional tax charge resulting from the recalculation of the deferred tax position to the new rates. The higher effective tax rate also includes the impact of the goodwill impairment charge, which is not deductible for tax purposes.

The income tax paid is reflected in the consolidated statement of cash flows in the Financial Report and amounted to EUR 55 million in 2018 (2017: EUR 124 million). The lower income tax paid in relation to the income tax charge reflects differences between accounting and tax rules (including the change in tax rates mentioned earlier) and tax losses and tax credit carry-forwards. We provide further details of both the tax charge and the tax paid per country in the Financial Report.

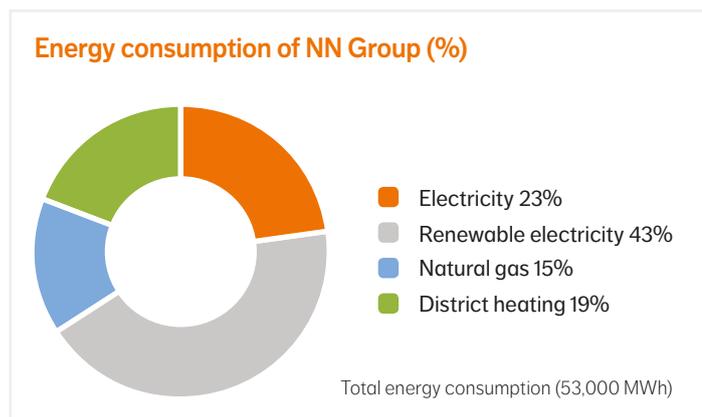
Sustainable supplier management

With an annual spend of around EUR 1 billion, our procurement activities support our business strategy. A substantial part of this investment goes towards professional services, IT, real estate and facility management. Our relationship with suppliers is based on our NN values, and we aim to work together in a mutually beneficial way. We have the supplier qualification process and governance in place for managing social, environmental and financial aspects of the procurement process.

Managing our direct environmental footprint

In 2018, we continued to manage our direct environmental footprint by efficient use of natural resources, and identifying and implementing green alternatives. By purchasing voluntary carbon credits to compensate our CO₂ emissions, we have been carbon neutral since 2007. However, we also aim to reduce our carbon emissions from direct operations (energy consumption on NN sites and business travel) by 3% per year. Our carbon emissions decreased by 8% and we purchased 66% of our electricity from renewable resources (our goal is at least 70%).

We continued to improve our environmental performance regarding office buildings. We encourage less paper consumption and waste in our offices by recycling materials and reducing use of plastic. In our headquarters in The Hague, we highlighted the issues around single-use plastics. Circular projects in the Netherlands included a focus during refurbishments on working towards zero waste and using materials that can be upcycled. We were also a launching partner of Plastic Whale Circular Furniture. This is a collection of high-end office furniture made from plastic collected from Amsterdam's canals.



Creating and sharing value – Society and communities continued



From Debt to Opportunities

Since 2018, the From Debt to Opportunities Foundation has been part of NN Group’s Future Matters programme. With 30 local not-for-profit partners, the foundation helps the 1-in-5 Dutch households with structural debt problems to acquire the financial skills to escape poverty and debt, and achieve sustainable financial security.

The Amsterdam University of Applied Sciences, which helps to research the programme’s impact, found that programme participants’ average debt decreased following participation from EUR 13,149 to EUR 7,282. Since 2016, 7,017 households have been helped, including 2,675 in 2018.

In addition to financial support, 210 NN employees volunteered 3,728 hours of their relevant expertise to projects related to the foundation.

 Read more in Dutch: <https://www.vanschuldennaarkansen.nl>

Community investment

Since 2014, we have gradually targeted our overall charitable giving towards NN Future Matters. This is NN Group’s overarching community investment programme, which aims to help improve people’s financial well-being, specifically targeting 10-25-year-olds and underserved groups. In 2018, we supported 38,536 young people and 84% of our total charitable donations of EUR 2.7 million went to NN Future Matters related target areas.

NN Future Matters focuses efforts, resources and expertise on three complementary target areas: promoting financial empowerment, creating economic opportunities and alleviating financial distress. These themes align with both our purpose and our employees’ knowledge and expertise, and have a proven positive impact on communities. By involving international and local partners, the programme aims to be both globally consistent and locally relevant.

Promoting financial empowerment

Sound financial knowledge helps people move towards a secure financial future. Our initiatives focus on the young, as responsible financial behaviour is often best developed at an early age.

During the 2018 Money Week in the Netherlands, NN colleagues gave 306 lectures in primary schools to more than 7,500 children on money and financial risk. In Bulgaria, with local partners we developed learning content on (personal) finance and aim to reach a total of over 600 students and lecturers across six universities by mid-2019. In Poland, we are involved in the DigiKids project that equips girls from orphanages with basic professional and financial skills to help them when entering the labour market.

Creating economic opportunities

Helping young people develop useful skills increases their labour market opportunities. In collaboration with Dutch not-for-profit organisation JINC, NN colleagues provide job training to young people who may lack specific role models or supportive networks. Through Stichting FutureNL, we joined Expedition micro:bit to help familiarise students with coding and programming, increasingly important skills in today’s job market. NN Group made a financial contribution and 58 NN volunteers gave talks at 33 schools.

Another way of creating economic opportunities is by encouraging entrepreneurship. In 2018, 15,913 students in 10 countries took part in the Social Innovation Relay, the flagship programme of the partnership between NN Group and Junior Achievement Europe. This is a global competition where secondary school students develop an innovative business concept to address a social need.

In Greece, in cooperation with Orange Grove and the Dutch embassy, NN Hellas organised a Meet & Greet for teams and mentors participating in the Ideas That Change Us acceleration programme. Together with NN Hellas executives, Orange Grove partners and business acceleration specialists, IdeaHackers, teams work to develop their ideas into viable businesses that contribute positively to society.

The NN Future Matters scholarship programme, a collaboration between NN and EP-Nuffic, gives first-generation higher education students the opportunity to complete a Master’s degree in the Netherlands. Students are matched with an NN mentor, who supports them during the year.



EUR 2.7m

Donations to charitable organisations



13,236

Employee volunteer hours in NN Future Matters focus areas



38,536

Young people reached through NN Future Matters

Meeting the succession challenge



In Japan, many family-run SMEs risk closure because their owners cannot find successors. For this reason, as part of NN Life Japan's Future Matters programme Mirai no Shacho (Future CEO), launched the Family Business Innovation Lab, which helps young family members see the value and opportunities in joining their family business.

NN Life Japan has run workshops to share success stories and let potential family business successors meet young people who have successfully innovated their family's business.

NN Life Japan also organised a study tour to the Netherlands for three students: the potential successors of an egg farm, a construction & packaging business, and a golf course company. The tour inspired the students by showing them new business perspectives and environments. They also learned about sustainability, branding and design thinking.

“
I learned so many things that I would like to implement to my family business – like the importance of long-term perspective, and social and environmental responsibility, but also the importance of the visual presentation of your business.

Mariko Miyake
 Student

Alleviating financial distress

Even in prosperous societies, formal social services do not reach all the community's disadvantaged and underserved. Through fundraising and partnerships with local charities, NN aims to support families with children in financially challenging circumstances.

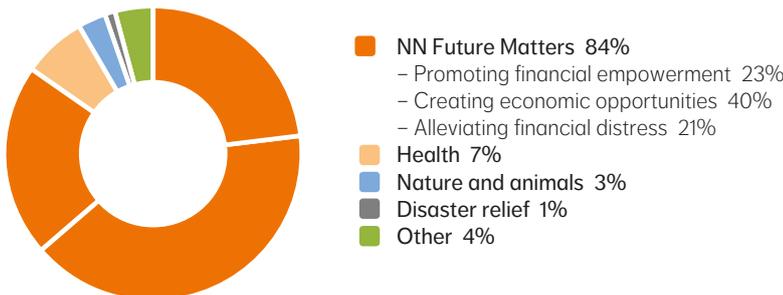
In 2018, in partnership with the LINDA foundation, which helps Dutch families in financial distress, we organised several fundraising initiatives with colleagues and suppliers.

In Romania, the Hai la gradinita! (Go to kindergarten!) project aims to get children in the poorest communities into preschool. With support from early education agency, OvidiuRo, we give children access to kindergarten and age-appropriate education materials.

To celebrate NN Future Matters' fourth anniversary in 2018 and help NN countries strengthen their structural partnerships with relevant local charities, we made additional donations of EUR 115,000 to local charities in 12 NN markets.

 **Read more:** <https://www.nn-group.com/In-society/Positive-change-in-communities.htm>

Charitable donations by theme¹ (%)



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

Contributing to the SDGs

The Sustainable Development Goals address the world’s largest societal challenges, such as poverty, climate change, health care and education. We believe that the public and private sector should work together to help achieve these goals.

How we identified our impact areas

In dialogue with both internal and external stakeholders, NN Group has chosen to focus on Sustainable Development Goals (SDGs) where the company has the biggest impact: SDG 8 (Decent work and economic growth) and SDG 12 (Responsible consumption and production).

Furthermore, we address SDG 1 (No poverty) and SDG 4 (Quality education) through our insurance products and services, and community investment activities. Our impact investment activities and different investment instruments address amongst others SDG 3 (Good health and well-being) and SDG 7 (Affordable and clean energy).

Impact investing and the SDGs

NN Investment Partners (NN IP) developed impact strategies that are primarily designed for investors who want to make a clear impact on one or more of the SDGs. We identify those industries, companies and projects that, as a result of our investment philosophies and universes, combine attractive financial returns with a clear and measurable positive impact on people, planet or prosperity. Environmental, social and governmental (ESG) factors are also integrated throughout the investment process.

Our impact strategies include both equity and fixed income funds and currently hold EUR 1.161 billion Assets under Management. This includes amongst others the Green Bond Fund which holds EUR 578 million.

Stakeholder dialogues

In 2018, we held a number of stakeholder dialogues on the SDGs. We provided input to the Dutch Central Bank (DNB) through a survey and an expert session. This resulted in a DNB report on sustainability risks and goals in the Dutch financial sector. Furthermore, during NN’s International Leadership Conference in December 2018, a workshop was organised in which we discussed how NN can further contribute to the SDGs, and how we can measure progress and set targets.

Going forward, we aim to sharpen our strategy by focusing on three themes: Inclusive Economy, Sustainable Planet, and Healthy and Secure Living. We realise that not all our activities only contribute positively, as we are for example still involved in activities that generate carbon emissions. We intend to improve our performance and the way we measure our progress on an annual basis.

Measuring business impact

SDG	Impact and opportunity	Performance in 2018
	Impact through job creation, procurement activities and community investment	<ul style="list-style-type: none"> Employee engagement: 7.1 (up 0.1 point) EUR 16.5 billion in AuM in sustainable and impact funds and mandates, an increase of 53% 38,536 young people reached through NN Future Matters
	Impact and opportunities through reduction of our direct carbon footprint and integration of ESG factors in investments	<ul style="list-style-type: none"> Reducing our CO₂ emissions per FTE by 6% and purchasing 66% electricity from renewable resources in 2018 Integrating ESG factors in investment process
	Impact through our community investment activities	<ul style="list-style-type: none"> EUR 2.7 million donations to charitable organisations 2,675 households reached in 2018 by Foundation From Debt to Opportunities
	Impact through our insurance products	<ul style="list-style-type: none"> Seven countries providing products and services with social added value that promote good health and well-being for customers
	Impact through employee training and development and Future Matters scholarship programme	<ul style="list-style-type: none"> EUR 21.5 million spent on training and development of our employees 31 scholarships provided to students from eight countries (totalling 70 students to date)
	Impact through our investments in renewable energy	<ul style="list-style-type: none"> Carbon neutrality by offsetting our remaining carbon emissions through the purchase of 23 kt. voluntary carbon credits EUR 508 million investments of own assets in direct renewable infrastructure projects and green bonds used for renewable energy

Creating and sharing value – Sustainable Development Goals continued

Examples of NN Group’s contribution to the SDGs



Decent Work and Economic Growth



Platform Living Wage Financials

NN IP joined the Platform Living Wage Financials (PLWF), a Dutch investor coalition collectively representing over EUR 537bn AuM. Under the umbrella of the platform, financial institutions come together to support, assess, and monitor investee companies with regard to their commitment to paying a living wage to the workers in their supply chains. In 2018 the focus was on the garment and footwear sector.



Responsible Consumption and Production



Investing in the SDGs

Finance and the financial sector have an important societal function, steering funds towards the most productive investments, including societal costs and benefits. Willem Schramade, Senior Portfolio Manager Impact Investing at NN IP, explains: ‘The most interesting SDGs to invest in are those where corporates have most transformational potential, and can make a real difference. For example, leading companies invent new health solutions, boost the transition to renewable energy and provide breakthrough innovations and sustainable products & services.’ In order to measure investee companies’ contributions to the SDGs, NN IP has adopted a method of tagging companies’ contributions with pluses (where it seems significantly positive), zeros (where it seems insignificant), and minuses (where it seems significantly negative).



Affordable and Clean Energy



Improving energy efficiency of real estate

In 2018, NN Group committed to helping Dutch municipalities to make public-use real estate, such as schools and town halls more energy efficient. Together with Bewust Investeren BV and BNG Bank, NN IP developed a special financing proposition, whereby a foundation set up within the municipality can purchase a building and pay to make it more sustainable. After 30 years, ownership of the building will revert back to the municipality. BNG Bank and NN Group have together made EUR 300 million in funding available over the next two years. The intention is to measure progress against impact KPIs that will be developed in cooperation with Dutch academic institutions and linked to the SDGs.



Good Health and Well-being



Excluding tobacco from investments

NN Group made the decision to exclude tobacco from all its investments, together with NN IP. The decision to extend the exclusion to all proprietary and client funds and mandates was made as part of NN Group’s Responsible Investment policy. The decision takes into account concerns regarding public health as well as the economic burden on society via the externalised economic and societal costs of tobacco. The decision applies to all equity and fixed income holdings of tobacco manufacturers, as well as all mutual funds managed by NN IP.



Our culture and governance

Our values serve as a compass for decision-making and guide us in all our interactions. Our governance structure ensures we act with the interests of our group and our stakeholders in mind.

Our values are the foundation of our company culture

At NN, our values of care, clear, commit play an important role in guiding, uniting and inspiring us.



We empower people to be their best and respect each other and the world we live in



We communicate proactively and honestly, while being accessible and open



We act with integrity and do business with the future in mind

Living our Values programme

Our values are reflected in many of our company-wide policies, standards and processes, and implemented across our businesses. Especially in times of change, an open and honest dialogue around our values can help us learn from each other and test our ideas, strategy and ambitions.

The Living our Values programme was launched in 2014 to encourage and support employees in applying the values in their daily work. Read more on our values and what they mean to NN in the NN statement of Living our Values on the Group website.

Values week across the world

In October 2018, we held our third annual NN Values week across 12 countries. The week is an opportunity to reflect on and discuss the values, and address dilemmas people may face in their day-to-day work.

This year's theme was 'our values and change'. Belgium organised a session on values in scrum meetings and Poland on the challenges of digitalisation. Both Belgium and Spain played a values game, Bulgaria organised a values-related competition, Slovakia conducted a survey on values and change, and in Romania, employees could nominate a colleague who they felt was an example of living our values.

Greece, Spain and Turkey hosted townhalls and discussion sessions with senior leaders on the values. Japan organised a values week café and displayed colleagues' messages about themselves and the company's values on walls. Hungary organised dilemma sessions. In Bulgaria and Greece, there were volunteering and charity initiatives. The Czech Republic organised a Fit Day, and health was also a theme in Poland. Bulgaria, the Czech Republic, Poland, Romania and Spain all organised activities designed to help them become even more closely connected to their customers.

To encourage open dialogue, we published a video during the Values week of international senior leaders answering the question 'What is your favourite value, and why?'

Our culture and governance – Our values continued



Values week in the Netherlands

In the Netherlands, the Dutch business units, NN IP and all staff functions joined forces to organise the Values week, during which 715 employees were involved in some 50 activities across 7 office locations. Colleagues were encouraged to reflect on what we stand for as a company across a broad variety of themes including mental health, innovative thinking, the ethics of robotics, change management, coping with debt, responsible investing and the circular economy. A survey found that 81% of participants in the Netherlands felt the Values week provided a good opportunity to reflect on our values (2017: 74 %), 70% felt it stimulated discussion (2017: 57 %) and 98% would encourage colleagues to join the next Values Week (2017: 95%). Suggestions for improvements were also collected for the next edition.

Values and the Delta Lloyd integration

Various initiatives, such as an interactive values dialogue session, were launched in 2018 to help us ensure the NN values form the foundation for the culture of the combined company in the Netherlands and Belgium. Surveys showed that awareness of the NN values amongst Delta Lloyd colleagues continued to rise: from 71% in July 2017 to 76% in October 2017 and 84% in March 2018.

Employee behaviour is key

We take steps to ensure all employees are aware of our values when they join us, and remain so throughout their NN careers.

Recruitment

To ensure we hire people who feel at home at NN, we have made the values an integral part of our employee value proposition. A personality/culture matching tool is available on the recruitment website so candidates can assess how much their personality and values match NN's culture and values. For our NN traineeship programme, we use a special tool to look for traits in candidates that correspond with our values.

Onboarding

Our onboarding programme for new employees explains our values and their importance to NN. In 2018, we introduced the My Onboarding app for employees in the Netherlands, containing information about our company's purpose, values, Code of Conduct, brand and work environment.

In the Netherlands, new employees must also take the Oath for Financial Institutions, which is fully integrated into the NN statement of Living our Values.

Feedback

Our annual employee engagement survey gives employees an opportunity to express their opinions on various topics, including the extent to which we are living our values.

In 2018 we introduced a new version of this survey. In addition to questions around the values themselves (see chart below) the survey now also focuses on how connected people feel to our values. This produced a 7.8 Peakon score. Read more on the Peakon scores on page 41.

The importance of role models

The NN Group Management Board, senior leadership and line managers play a crucial role in setting an example when it comes to living the values. The values are therefore also reflected in the NN leadership profile. For senior leaders, 50% of their annual performance evaluation is related to the extent to which they demonstrate behaviour in line with the NN leadership profile (key elements: demonstrating integrity, customer focus, and creating a culture of clear direction and open feedback).

As part of our engagement survey, we asked colleagues how they feel their managers behave when it comes to living our values. The scores for the Peakon survey statements 'I feel encouraged by my manager to meet our high standard of integrity' (7.9) and 'My manager consistently acts as a role model when it comes to living our NN values (care, clear, commit)' (7.7) were both the same as in 2017.

There is also continuous formal and informal dialogue between the works councils and management representatives on conduct and culture within the company.

Stimulating open dialogue

The Management Board plays an active role in the Living our Values programme and in stimulating an open dialogue. For example, in 2018, all Management Board members participated in Walk & Talk sessions, where they discussed a topic raised by colleagues during an informal walk. We published an internal video of these walks. Hungary also used the format for their local Values week.

Peakon questions on values

Score	Statement	Detractor	Passive	Promoter
8.1	Care: In our team we genuinely care about our customers and treat them with respect	11%	48%	41%
7.9	Clear: On our team we are ready to approach and communicate proactively and honestly	15%	49%	36%
8.0	Commit: In our team we take responsibility for our actions and deliver on our promises	12%	49%	39%

Our culture and governance – Our values continued

Monitoring performance

The Management Board is responsible for incorporating and maintaining our values within the company. Each year, we use various monitoring instruments to assess the effectiveness of the Living our Values programme. This evaluation is also discussed on a yearly basis with the Supervisory Board.

Customer and general public perceptions are measured through the Global Brand Health Monitor (GBHM), and employee perceptions through Peakon.

During 2018, specific attention was paid to whether we need to implement any changes to the existing culture, given the developments our company is going through.

Areas of improvement

We will continue to invest in the role-model function managers have in promoting a values-driven culture and in stimulating open dialogue, and carefully assess in which areas we can improve.

An example of where we feel we can improve is the statement in the Peakon survey 'In our team, we openly discuss consistency of our actions with NN values', which scored a relatively low 7.3.

In 2019, the NN values will have been in existence for five years, so we will reassess their wording to ensure they have stood the test of time. We will look, for example, at how the current values align with further implementation of an agile way of working.

We also plan to organise another Values week in 2019, including initiatives that allow significant involvement from our Management Board and senior management.

The monitoring of values will be further integrated into the Conduct Driver methodology in 2019. Read more on page 56.

NN Code of Conduct

The Living our Values statement requires employees to comply with applicable legislation, regulations, internal policies and standards. This includes the NN Code of Conduct, which outlines NN's position on a number of important topics, such as conflicts of interest, fraud, corruption and financial economic crime, and lists clear rules of conduct as minimum standards to which all NN employees must adhere at all times. Where NN businesses have their own additional rules, these are laid down in a business-specific supplementary document. Every NN employee and anyone representing NN in any capacity is expected to be familiar with and live up to these rules.

While the values provide a compass for decision-making, the NN Code of Conduct gives colleagues more detailed guidelines for specific behaviour. It contains a general Code of Conduct for all employees and a Manager Annex describing specific management responsibilities for raising awareness and upholding standards.

Written acknowledgement of the NN Code of Conduct has been mandatory in several businesses for a number of years, and became mandatory for employees of NN in 2017. In October 2018, NN reached an acknowledgement score of nearly 100% for internal NN staff, including former Delta Lloyd employees, who were asked to acknowledge the NN Code of Conduct as of May 2018. During 2018, we also increased acknowledgement amongst external staff.

“
Our values enable us to build and maintain trust of our stakeholders. Our Code of Conduct supports us in achieving this ambition by giving colleagues more detailed guidelines for specific behaviour.

Janet Stuijt,
General Counsel & Head of Compliance



Culture aimed at long-term value creation



In line with the Dutch Corporate Governance Code, the NN Group Management Board is responsible for creating a culture aimed at long-term value creation. NN's focus on long-term value creation is reflected in the Charters of our Executive Board and Management Board, and embedded in the NN statement of Living our Values, which emphasises the importance of doing business with the future in mind. It states, amongst other things, that we 'respect each other and the world we live in', 'value long-term objectives over short-term gains' and 'carefully balance the interests of our stakeholders'. Read more in the corporate governance section on our corporate website.

Our culture and governance – Our values continued

Embedding conduct and culture in our Risk control framework

Our values are also embedded in the design of our Risk control framework, as explained in the chapter on risk management on page 16. Amongst other things, the framework enables NN to assess the continuing effectiveness of its controls.

To strengthen the effectiveness of the Risk control framework, NN also promotes a strong risk culture. With this in mind, in the fourth quarter of 2018, an improved methodology for assessing our risk culture, and discussing outcomes in a structured and constructive manner was rolled out to all business units for implementation in the first quarter of 2019. The methodology will provide insights into the degree to which colleagues live our values, know and understand the conduct-related policies and standards, and adhere to the related processes.

Reporting concerns

When misconduct may arise, NN carefully reviews and assesses if investigation needs to take place or other actions are required. Breaches of our Code of Conduct are not taken lightly and have consequences.

Whistleblower Policy

The NN Group Whistleblower Policy enables any employee to report, if desired anonymously, a concern outside normal reporting channels. NN Group guarantees several rights, including protection from retaliation, for any employee who reports a concern in good faith, provides information, causes information to be provided, or otherwise assists in an investigation. The main outline of the Whistleblower Policy is explained in our Code of Conduct. Relevant training materials are developed and rolled out to the business units.

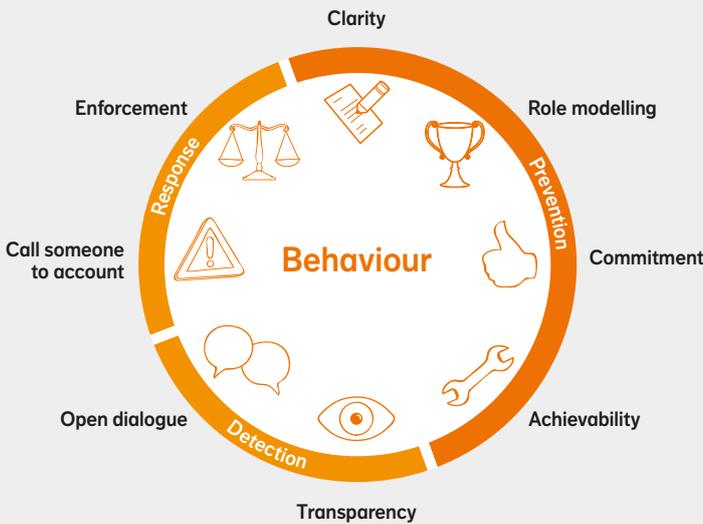
In 2018 NN recorded seven concerns filed through the Whistleblower Policy (in 2017: 11 concerns). In four reported concerns, Corporate Security & Investigations was involved for further investigation (in 2017, Corporate Security & Investigations

was involved in 3 of the 11 concerns). The concerns reported in 2018 were related to, amongst other, potential breaches or misconduct in the field of sales practices, fraud and other unethical employee behaviour. The concerns are recorded and reported periodically (in numbers and on content, if desired) through the Chief Compliance Officer up to the level of the Management Board and, if applicable, up to the level of the Supervisory Board.

Other incidents and concerns

In addition to the reports filed through the Whistleblowing procedure, several other concerns were reported via common channels, such as management. In 2018, Corporate Security & Investigations assessed 100 cases (in 2017: 71 cases). In 14 of these 100 cases in 2018 disciplinary measures were taken (e.g. a warning, reprimand, termination of employment or instant dismissal). Read more on page 73.

Conduct Drivers



To maintain and build the trust of our customers and other stakeholders, it is important we manage those factors that we have identified as influencing behaviour within business units – our so-called ‘Conduct Drivers’.

NN Group uses a model (see diagram) consisting of eight Conduct Drivers: Clarity, Role modelling, Commitment, Achievability, Transparency, Open dialogue, Calling someone to account and Enforcement. Some Conduct Drivers are preventative (help prevent undesirable behaviour), some are detective (help identify undesirable behaviour) and some are responsive (help ensure an adequate response when undesirable behaviour occurs). Conduct Drivers can be used to underpin hard controls within the control framework, thus strengthening the overall internal control of risks at NN.

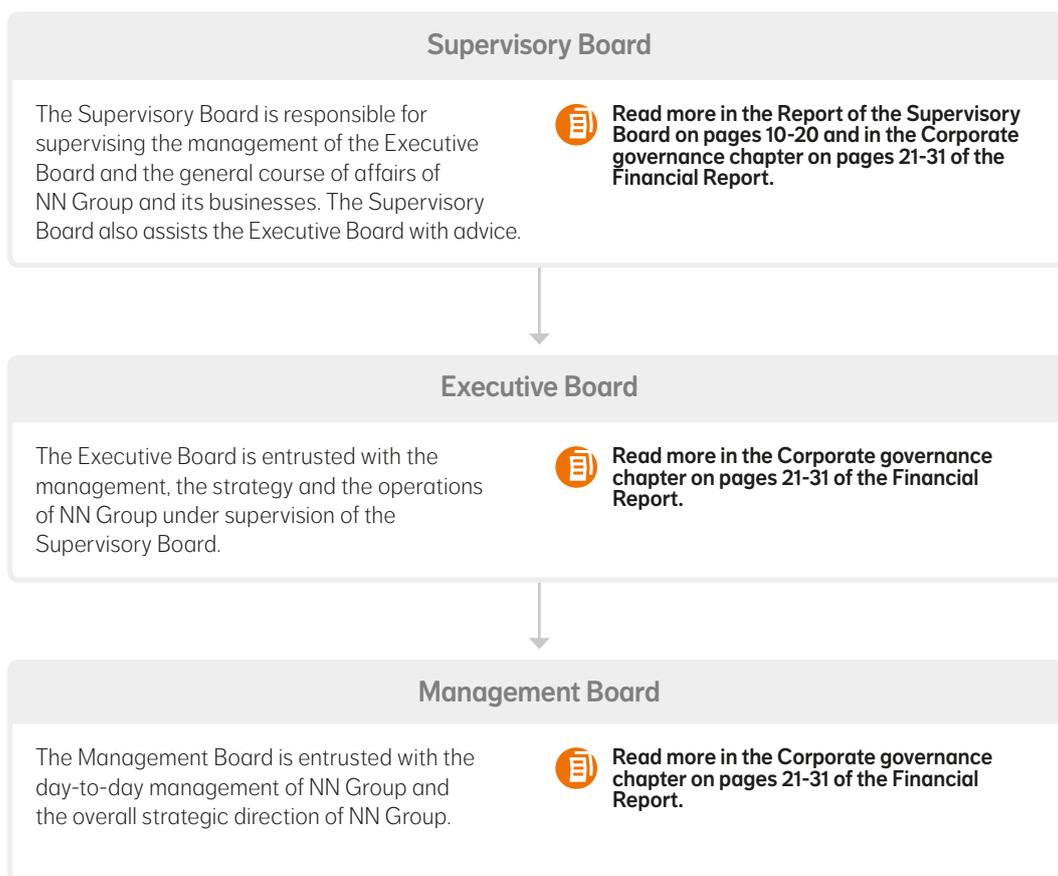
In 2018, we introduced the Conduct Drivers Methodology, and provided training to local teams with additional tooling.

In 2019, we will develop and roll out an online Conduct Drivers tool, with which we can measure the impact of the Conduct Drivers. We will use the first results to get baseline figures and thereafter use the tool for ongoing relative measurement of conduct within business units. With the results, we aim to support management in influencing behaviour and addressing key improvement areas.

All local business units have a target to roll out the methodology and use the supporting online tool during 2019.

The way we are organised

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



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 2018 is described in the publication Application of the Dutch Corporate Governance Code by NN Group, dated 13 March 2019, which is available on the website of NN Group. This publication is to be read in conjunction with the Corporate governance chapter on pages 21-31 of the Financial Report.

NN Group Compliance Charter & Framework

NN Group is committed to upholding its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which 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 or good corporate governance. The purpose of the NN Group Compliance Charter and Framework is to help businesses effectively manage their compliance risks. This document is available for download on the NN Group corporate website.

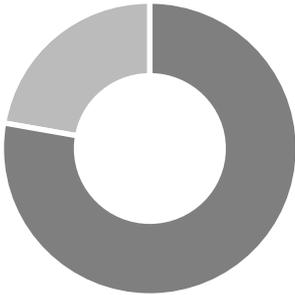
 [Read more www.nn-group.com/Who-we-are/Corporate-governance/Corporate-governance.htm](http://www.nn-group.com/Who-we-are/Corporate-governance/Corporate-governance.htm)

Our culture and governance – Management Board

Management Board

The Management Board is entrusted with the day-to-day management and overall strategic direction of NN Group. In August 2018, we announced a new composition of the Management Board, focused on driving the long-term strategy of the company.

Board diversity



■ Male 7
■ Female 2

4

New appointed Management Board members

2

Management Board members stepped down

Executive Board

1. Lard Friese (1962)

Chief Executive Officer

Appointed: 2014 Reappointed: 2017

Nationality: Dutch

Lard Friese was appointed member and Vice-chair of the Executive Board of NN Group on 1 March 2014, and Chief Executive Officer (CEO) and Chair of the Management Board and Executive Board on 7 July 2014. He was reappointed on 1 June 2017. Lard is responsible for the strategy, performance and day-to-day operations of NN.

2. Delfin Rueda (1964)

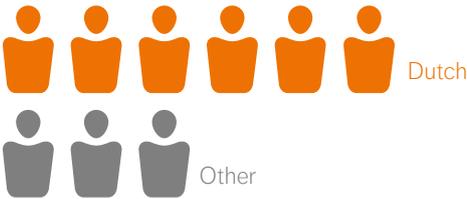
Chief Financial Officer

Appointed: 2014 Reappointed: 2018

Nationality: Spanish

Delfin Rueda was appointed to the Executive Board as Chief Financial Officer (CFO) on 1 March 2014 and member of the Management Board on 7 July 2014. As of 7 July 2014, he was also appointed to the position of Vice-chair of the Executive and Management Board. He was reappointed on 31 May 2018. Delfin is responsible for NN's finance departments and investor relations.

Management Board nationality mix



1. Lard Friese
2. Delfin Rueda
3. Satish Bapat
4. Tjeerd Bosklopper
5. Jan-Hendrik Erasmus
6. David Knibbe
7. Dailah Nihot
8. Fabian Rupprecht
9. Janet Stuijt

Our culture and governance – Management Board continued

Management Board

3. Satish Bapat (1966)

**Chief Executive Officer
NN Investment Partners**

Appointed: 2017

Nationality: Dutch

Satish Bapat was appointed CEO of NN Investment Partners and member of the Management Board of NN Group on 1 April 2017. In this role Satish is responsible for NN Group's asset management business.

4. Tjeerd Bosklopper (1975)

Chief Transformation Officer

Appointed: 2018

Nationality: Dutch

Tjeerd Bosklopper was appointed Chief Transformation Officer (CTO) and member of the Management Board of NN Group on 1 September 2018. As CTO, Tjeerd is responsible for three areas: IT, driving (technological) transformation, and innovation.

5. Jan-Hendrik Erasmus (1980)

Chief Risk Officer

Appointed: 2016

Nationality: South African and British

Jan-Hendrik Erasmus was appointed member of the Management Board of NN Group on 1 September 2016 and as Chief Risk Officer (CRO) of NN Group on 1 October 2016. He is also responsible for Reinsurance and Procurement globally.

6. David Knibbe (1971)

Chief Executive Officer Netherlands

Appointed: 2014

Nationality: Dutch

David Knibbe was appointed member of the Management Board of NN Group on 7 July 2014. On 1 September 2014, he was appointed CEO of Netherlands. He is responsible for all insurance and banking business in the Netherlands, and is leading the integration of Nationale-Nederlanden and Delta Lloyd.

7. Dailah Nihot (1973)

Chief Organisation & Corporate Relations

Appointed: 2018

Nationality: Dutch

Dailah Nihot was appointed as Chief Organisation & Corporate Relations and member of the Management Board of NN Group on 1 September 2018. She is responsible for NN Group's overall corporate relations, sustainability, branding, public affairs, human resources and facility management functions.

8. Fabian Rupprecht (1969)

Chief Executive Officer

International Insurance

Appointed: 2018

Nationality: Swiss and German

Fabian Rupprecht was appointed as CEO of International Insurance and member of the Management Board of NN Group on 1 September 2018. He is responsible for NN's Insurance Europe, Japan Life, and Japan Closed Block VA businesses.

9. Janet Stuijt (1969)

General Counsel & Head of Compliance

Appointed: 2018

Nationality: Dutch

Janet Stuijt was appointed to the Management Board as General Counsel & Head of Compliance on 1 September 2018. She is responsible for NN Group's legal and compliance function and holds the position of company secretary.

Robin Spencer (1970)

Chief Executive Officer

International Insurance

Stepped down: 1 June 2018

Nationality: British

After four years with NN, Robin Spencer stepped down from his position as CEO International Insurance and member of the Management Board of NN Group. As of 1 June 2018, he pursues his career outside of the company.

Dorothee van Vredenburg (1964)

Chief Change and Organisation

Stepped down: 1 October 2018

Nationality: Dutch

Dorothee van Vredenburg was appointed to the Management Board of NN Group as Chief Change and Organisation (CCO) on 7 July 2014. She joined the company in 2009 as managing director of Corporate Communications and Affairs of ING Group. As of 1 October 2018, she pursues her career outside of the company.

Stakeholder engagement and international commitments

NN Group engages at all levels of the organisation in ongoing discussions with stakeholders on a variety of topics ranging from products, services and business performance to our role in society and the communities in which we operate.

We see this as a vital part of our efforts to earn the trust and support of stakeholders, and of our duty as a socially-responsible and engaged company. NN Group identifies stakeholders based on their potential to influence or be influenced by our business. Important stakeholder groups are customers, employees, investors, business partners and society, including regulators and societal organisations. We seek feedback from these groups on key topics so that we know what issues they find important. This feedback helps us align our business interests with the needs and expectations of relevant stakeholder groups, and is a key source of information for strategy development and decision-making processes.

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

During 2018, we considered a number of different developments, issues and challenges that were brought to our attention by and/or discussed with different stakeholders. For a non-exhaustive overview of the key topics discussed with different stakeholders, see the next page.

(Inter)national commitments

As a company based in the Netherlands, we adhere to Dutch law and the Dutch Corporate Governance Code, read more on page 19 of the Financial Report. We observe the laws and regulations of the 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 international initiatives. We are also a member of various international organisations. For an overview, please visit our website. In 2018, we became a member of the International Integrated Reporting Council (IIRC).

International Corporate Social Responsibility (ICSR) sector covenant

In July 2018, the Dutch insurance sector, six NGOs, the largest labour union, and the Ministries of Finance and Foreign Trade & Development Cooperation signed the International Corporate Social Responsibility (ICSR) covenant for the insurance sector. This agreement aims to ensure that investments made by Dutch insurers identify and improve environmental, social and governance (ESG) issues. Investing some EUR 500 billion in companies, governments and countries, the Dutch insurance sector has since 2012 been operating according to the 'Code for Sustainable Investing' of the Dutch Association for Insurers. The ICSR covenant is a broader and more ambitious agreement designed to contribute to further improvements on ESG themes.

The covenant's goal is for signatories to pool their knowledge and experience, learn from each other, identify ESG risks, and initiate actions that can mitigate those risks. Insurers are expected to have due diligence processes in place in order to address ESG risks and, where needed, to develop, adjust and improve their policies. Policies and restricted lists should be publicly available, and insurers should report on both their voting activities and engagements with investee companies, and the sectors they are invested in.

Our culture and governance – Stakeholder engagement continued

In addition to addressing risks, each year signatories will launch a project on a selected theme. The first theme is 'climate change and the energy transition'. By working together, ICSR covenant signatories hope to gain more knowledge of and insight into the topic in question, so they can better address the issues involved and contribute to the UN Sustainable Development Goals.

The ICSR covenant has a term of five years and the fulfilment of the agreements will be monitored by an independent Monitoring Committee. A Steering Committee (of which NN Group is a member, and is together with the Dutch Association of Insurers representing the insurance sector) and various working groups have also been installed.

At NN, we further refined our Responsible Investment (RI) Framework policy in 2018. This included adding norms-based responsible investment criteria, and putting restrictions on tobacco producers and companies involved in oil sands and controversial pipelines. Read more on pages 44-45.

NN also engaged with issuers in order to address ESG risks and support their transition to a more sustainable economy. Read more on pages 45-46 and in NN IP's Responsible Investing report 2018.

In line with the ICSR covenant, we have published our restricted list on our website. An overview of fixed-income bonds by type of issuer is on page 148 of the Financial Report (note 50).

Our approach to human rights

Respect for human rights is an integral part of our values as confirmed in the NN statement of Living our Values. The principles contained in the UN Guiding Principles for Business and Human Rights guide us in implementing human rights in our business activities and interactions with stakeholders.

Our NN Group Human Rights Statement serves as an umbrella document and relates to various policies, such as our Human Capital Policy and RI Framework policy. To provide our stakeholders with more insight and to guide our analysts in their assessment, we published a Guidance paper on human rights in 2017. The anticipated Guidance paper on labour rights will be published in 2019 instead of 2018.

Stakeholder groups, engagement, topics discussed and outcome

Stakeholder group	Engagement	Topics discussed	Outcome
Customers (retail)	Client panels, NPS survey, Global Brand Health Monitor	Products and services, customer experience, complaint management	Improve products and customer processes, increase customer satisfaction
Customers (institutional)	Client survey, client events, client roundtables	Legislative changes, client satisfaction, responsible investment	Product and process improvements, informed on ICSR covenant requirements
Financial advisors, brokers, agents	Training	Products and services, rebranding from Delta Lloyd to NN	Stimulate good cooperation, increase satisfaction financial advisors, ultimately leading to customer satisfaction
Shareholders, analysts, investors	Annual shareholders meeting, quarterly analyst calls, investor meetings	Strategy, financial and operational developments, capital position, approach on ESG	Inform and engage shareholders, analysts and investors during the year
Employees	Townhall meetings, works councils, unions, international (leadership) conferences, surveys	Values, Code of Conduct, reorganisation, integration process, engagement	Informed and engaged employees, living our values
Investee companies	Voting at shareholder meetings, dialogues with company management, engagement	Financial and operational developments, corporate governance, climate change, human rights, (non) financial disclosures	Create value through consistent and transparent voting behaviour, improved disclosures, improved decision-making including ESG aspects
Regulators, government bodies	Meetings, reporting, information exchange	Economic and financial market developments, risks assessments, regulation, ICSR sector covenant, sustainable finance	Ensure compliance with and discuss impact of regulation
Non-governmental organisations	Correspondence, meetings, reports, benchmarks	Investments in fossil fuel companies, controversial weapons, benchmarking methods	Restrictions on companies involved in oil sands and controversial pipelines, policy on coal companies in development

Our response to the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD).

NN Group endorsed the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) in 2017. This section provides our updated response and is structured along the four TCFD pillars: governance, strategy, risk management, 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 and tolerance statements. This is ratified by the Supervisory Board. Read more on risk management in the Financial Report (note 50).

The Executive Board’s responsibilities also include the formulation of the company’s strategy in line with its view on long-term value creation. Non-financial aspects relevant to the company, such as environmental, social and governance (ESG) matters, are taken into account. The Supervisory Board supervises the policy pursued by the Executive Board, whilst the Management Board is entrusted with the day-to-day management and the overall strategic direction of our company. These responsibilities are laid out in the charters of these Boards as published on our corporate website.

The Chief Organisation & Corporate Relations has Corporate Citizenship in her portfolio, which includes sustainability. Additionally, our Board members integrate sustainability in their respective businesses or functions where relevant. To steer and advise the Management Board on the implementation of the overall sustainability strategy, we have a dedicated Corporate Citizenship team.

ESG-related governance within our investment activities

Climate change is an ESG factor that we believe has the potential to materially impact the performance of investment portfolios. The consideration of ESG is part of all the investment processes, and governed by our Responsible Investment (RI) Framework policy, which is centrally managed within NN Group. The Management Board decides on adjustments to the RI Framework policy and related restricted list. In 2018, the topic was on the agenda of the Management Board four times.

NN Group Corporate Citizenship, as owner of the RI Framework policy, advises the Management Board on adjustments to the policy, in consultation with relevant stakeholders including the ESG Committee of NN Investment Partners (NN IP). All proposals regarding NN Group policies and the restricted list are discussed in the ESG Committee, which makes a recommendation to the Management Board of NN Group.

At NN IP, the executive team provides strategic direction and oversees the implementation of the RI Framework policy in the investment processes. 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 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 of five people. This team reports directly to the CIO of NN IP.

Climate change dialogue

To advise the Management Board on climate risks and opportunities, we have a multi-disciplined working group in place, called the Climate Change Dialogue. In 2018, the Dialogue convened to discuss a benchmarking analysis of our TCFD disclosures, and to consider how to incorporate climate-related scenario analysis within our organisation. It was decided to prioritise the investment portfolio of NN Group (general account, or proprietary assets) and to prepare a climate change scenario analysis in 2019. On the insurance side, we chose to cooperate with 16 insurers and reinsurers by joining the TCFD Insurer Pilot of the UNEP FI. The main goal of this group is to develop analytical tools to better understand the impacts of climate change on their business. This approach was endorsed and confirmed by the Management Board in February 2019.

Strategy

Climate change is complex and contains significant areas of uncertainty, particularly when considering long-term horizons. The ways in which businesses might be impacted are also diverse. To align with the TCFD framework, we mapped the potential risks (and opportunities) of climate change relevant to our business, divided in transition and physical risks.

Transition risks

The Paris Agreement’s long-term goal is to limit the increase in global temperature to well below 2°C above pre-industrial levels. To reach the agreement’s goals, governments around the world need to introduce stringent climate-related policies and regulations. If not prepared, the transition to lower carbon economies may adversely affect individual businesses, sectors and the broader economy, thereby also having an impact on the asset side of our balance sheet through our investment portfolio. Besides public policy, the pricing of financial assets could be influenced by factors such as technological developments and changing consumer preferences. Impacts are most likely to occur in the medium term, but our investments might also be exposed to short-term risks such as, for example, a sudden change in market sentiment around climate risks for the specific industries in which we invest.

Our culture and governance – Stakeholder engagement continued

Physical risks

Physical risks relate to the physical consequences of climate change. These risks are particularly relevant to our non-life insurance business, where weather events, such as windstorms or hail, result in higher expenditures (claims and operational costs), influencing the margins of our property & casualty (P&C) insurance products. Our business unit NN Non-Life offers P&C insurance solutions to the Dutch and Belgian markets. Several studies show that the occurrence of these severe weather events will be more likely in the future. It should be noted that P&C is predominantly a one-year renewal business, making it possible 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.

Physical risks might also impact our investment portfolio. For example, a severe windstorm or flood that damages the buildings within our real estate portfolio could result in asset impairments. We use the Global Real Estate Sustainability Benchmark (GRESB) to understand the climate resilience and broader sustainability of individual properties and funds. All of our real estate investments are located in Europe.

Finally, prolonged and multiple periods of heat waves and other consequences of rising temperatures may result in increased mortality and morbidity, thereby impacting our life and income insurance liabilities. Although it is difficult to predict long-term threats, we currently expect that it would have less impact on our life and income insurance liabilities than other risks, such as changes in demographics or pandemics.

Interconnected risks

Whilst consequences of transition and physical risks can be regarded separately, they are interconnected. The introduction of ambitious policies to limit global warming increases transition risks in the short-to-medium term, but it is expected to also reduce the long-term physical risks. Although some of the physical risks will be unavoidable, this interconnection makes it evident that the right forward-looking measures should be taken now. This was also the conclusion of a paper of the Chief Risk Officer Forum (CRO Forum), which comprises risk officers of the major European insurers, and to which also NN contributed. For more details, see the box below.

Climate-related opportunities

Climate change could also create opportunities, even as it threatens the world in a variety of ways. For example, within our asset management business, we continue to see growing interest for investment strategies that support businesses and infrastructure which facilitate the transition towards a low-carbon and resource-efficient economy. For example, NN IP's Green Bond Fund has doubled in size, and a new sustainable infrastructure fund was launched. For the insurer's own account, too, this means there are new investment opportunities. Read more on page 32.

Helping our insurance customers adapt to climate change, or supporting them in opportunities related to energy transition, could generate new sources of revenue. For example, we have developed weather damage prevention tools for SME customers, are a partner of a Dutch climate resilience platform (www.klimaatplein.nl), and have developed a fleet management system for sustainable driving. In 2019, we will continue to look for innovative ways to further help our customers adapt and respond to climate change.

Finally, proactively addressing climate change can improve our reputation, and therewith positively influence customer satisfaction. Of course, the opposite can also occur, for example, if we were to receive negative publicity around not meeting our societal objectives, if our customers were unaware of uninsured risks, or if we had to charge customers higher insurance premiums, making affordability an issue. NN Group acknowledges the importance of trust and customer satisfaction for the insurance industry, and of focusing on clearly informing our customers and being transparent about coverage, as well as helping to initiate adaption and resilience in a changing environment. We will therefore continue to focus on actions that raise awareness of climate change amongst all our stakeholders.

Insurability and resilience in a changing climate

According to a position paper 'The heat is on: Insurance and Resilience in a Changing Climate' of the CRO Forum, published in January 2019, insurers have a vested interest in supporting efforts aimed at limiting global warming and aiding climate change resilience, in order to ensure the long-term sustainability of the industry. To meet the targets of the Paris Agreement and avoid the worst physical risks associated with climate change, it is important that tough transition action is taken now. The paper aims to provide a clear and up-to-date overview of the climate change challenges and explores the potential implications for insurers under 2°C, 3°C and 5°C scenarios, both for insurance underwriting and investments.

NN's contribution to the paper was to support the review of existing research in order to provide a view on the implications for the insurance underwriting side. The paper highlights that:

- Extreme weather events will lead to higher costs
- Increased awareness of risks may lead to greater demand for insurance
- Insurability will be an issue if global warming exceeds 3°C, particularly in regions most affected by climate change
- Preventive and adaptive measures are important to keep overall risk at an affordable level
- The main impact will be in Property & Casualty lines such as property and motor, due to their direct physical exposure to weather. Yet there is potential for higher litigation risk, which would impact liability insurance, and impacts on life insurance from increased mortality or morbidity rates, particularly in a more extreme scenario of >5°C warming as the population struggles with temperature extremes, lack of access to clean water and famine.

Our culture and governance – Stakeholder engagement continued

Resilience of investment strategy

The Dutch Central Bank (DNB) has developed a stress test to gain insight into the possible impact on the Dutch financial sector of a disruptive energy transition. On the basis of four stress scenarios involving policy and technology shocks, the stress test investigates how financial institutions might be affected. The results suggest that a disruptive energy transition could lead to sizeable losses for financial institutions. Governments can help avoid unnecessary losses through timely implementation of effective climate policies, while financial institutions can mitigate their vulnerability to a disruptive energy transition by including energy transition risks in their risk management and performing scenario analyses.

Undertaking scenario analysis is also one of the key recommendations made by the TCFD. To improve our knowledge, we participated in a working group of the Institutional Investors Group on Climate Change (IIGCC) to help produce a guide called Navigating climate scenario analysis. This guide, published in November 2018, sets out a framework to help asset owners and managers use scenario analysis to understand how climate changes drive financial impacts across their portfolios. Using the insights, we initiated a process to select a third-party provider to help us carry out such an analysis for our general account investment portfolio. We have chosen to partner with a provider that can assist us in developing an in-house model in 2019. The scenarios should cover both transition and physical risks and opportunities, and be closely aligned with published data sets from the International Energy Agency (IEA) and IPCC. We will consider several global warming scenarios, and run the analysis for time horizons that are most relevant for our investment portfolio. By developing our model in-house, we want to ensure that our own investment and risk managers can easily understand the developed methods and update the scenarios in the future. It should also provide a basis for tools that can help us better understand how to align our portfolio to the global climate goals.

Besides undertaking this project, we tested an open-source tool, the Paris Agreement Capital Transition Assessment (PACTA) on our (general account) equity and corporate bond portfolios. PACTA gives insights into our exposure to climate transition risk over multiple forward-looking scenarios. Besides supporting our policy development, tools such as PACTA help to prioritise future deep-dives into our exposures and risks to climate-risk sensitive sectors. For more background on the assessment, see our separately published report Carbon footprint disclosure.

Resilience of insurance underwriting

In our insurance business, we explicitly consider large catastrophic losses in economic capital modelling 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 1-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. In 2018, we leveraged a stress test conducted by DNB on our non-life entities, and included our internal reinsurance unit NN Re to explore the impact at NN Group level. The modelled scenarios included one or several windstorms in Europe, in combination with defaults of some major reinsurers, and one scenario focused only on extreme weather events in the Netherlands. The scenarios gave insight into how reinsurance contracts function and validated our decision to buy reinsurance cover for an accumulation of events. Furthermore, while the scenarios showed negative impacts for NN Non-life, they would be manageable on the balance sheet of NN Group.

For its own ORSA, NN Non-life modelled a scenario which was aligned with a stress test initiated in 2018 by the European Insurance and Occupational Pensions Authority (EIOPA). Through this test, EIOPA aimed to assess the resilience of insurers to a succession of natural catastrophe events in European countries occurring over a period of three years. These events included a series of windstorms in the Netherlands and Belgium, and therefore impacting our business. The stress test results revealed that European insurers, including NN Non-life, would be relatively resilient to this scenario, which saw the asset/liability ratios drop to a limited extent. This is in line with the findings from an analysis that DNB performed earlier among Dutch non-life insurers.

In addition, NN Non-life conducted a stress test of a more severe nature with the aim of understanding our resilience with respect to windstorm and climate change. The test revealed that NN Non-life can withstand these events in the short term, given the reinsurance programme in place. In order to ensure continued profitability, it is important to recognise a trend change in time so that we can adapt our processes. On an ongoing basis, we participate in platforms and committees to monitor climate change developments. Furthermore, we perform regular studies to model the impact of climate trends on our portfolio. For example, the number of (severe) rainstorms is expected to increase in the coming years. In 2018, we therefore asked our external vendor to model the NN Non-life portfolio on the basis of Royal Netherlands Meteorological Institute (KNMI) precipitation forecasts.

Our culture and governance – Stakeholder engagement continued

Risk management

Processes within investments

We believe consideration of ESG factors, alongside traditional financial data, helps us make more informed decisions and optimise the risk-return profile of investment portfolios. At NN IP, assessing the materiality of ESG factors, such as climate change, is an integral part of the investment process, where the analysts identify material risks and opportunities within the investment case. In so doing, they make use of information from ESG research providers, including Sustainalytics, MSCI, Bloomberg and ISS-Ethix Climate Solutions.

In addition to analysing individual investment-level risks, we perform analysis at a portfolio level to assess potential climate risks, and inform the creation and implementation of a broader climate change strategy. An example being the calculation of the carbon footprint of our proprietary investments, which provides insights into our highest carbon risk exposure and is useful for, amongst other things, engagement purposes.

We consider engagement a tool for managing climate risks. This means we enter into a dialogue with companies and communicate which goals we would like them to achieve. Besides managing risks, we also believe it is our responsibility as long-term investors to influence companies and strive for a reduction in companies' carbon footprints.

Although we prefer to change behaviour through engagement, we may decide to exclude when a company is not willing to cooperate, or where we believe not enough progress is being made. Regarding environmental issues and climate change, several companies were placed on our exclusion list in 2018 due to their involvement in oil sands. Furthermore, we started working on a thermal coal policy, which we aim to introduce in 2019. This also helps limit our exposure to companies that are not taking sufficient steps to drive the transition to a low-carbon economy, as set out by the Paris Agreement.

Processes within insurance underwriting

Within our P&C insurance business, we manage climate risks in a few ways. By helping our customers to take precautionary measures, we prevent and minimise claims that are caused by storm, fire, or other events. Furthermore, we monitor claims experience. Because contracts are generally short-term, we have the ability to reprice or adjust contract conditions. Our underwriting process is guided by catastrophe models. We use external vendor models, which use meteorological modelling reflecting observed storms and patterns, to estimate the impact and damage caused by large natural catastrophes such as windstorms. NN uses a multi-year forward looking approach. These catastrophe models also inform the risk management process in terms of solvency/capital management.

Portfolio diversification and keeping track of concentration risks are other key risk-mitigating actions. Through its wide product range, NN offers a broad range of non-life insurance protection covers against damage and loss from a wide range of causes. Next to our P&C products, our portfolio is comprised of income products, such as disability and accident insurance, that are less sensitive to windstorm or climate change. Finally, 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 events. Both the applicability of the external vendor models, as well as the reinsurance structure and cover, are reviewed annually on renewal.

Metrics and targets

Own operations

NN Group is committed to reducing the environmental impact of our own operations. We have set quantitative targets to reduce our greenhouse gas (GHG) emissions and consumption of scarce resources. Read more on page 47.

Investments

NN Group measures the carbon footprint for the fixed income and equity securities that it holds on behalf of the own account. The carbon footprint, measured on EUR 108 billion or 58% of the total proprietary investment portfolio. This decrease is due to the alignment of the calculation of government bonds to the methodology recommended by the Platform Carbon Accounting Financials (PCAF). We now allocate emissions to a sovereign bond by taking into account the emissions that are directly caused by the government's own activity, as well as the emissions from government financing in other sectors within a country. This as opposed to the previous methodology where the emissions were allocated using a production based approach reflecting the direct GHG emissions stemming from all domestic production of goods and services within a country. This change results in a smaller ownership of sovereign carbon emissions, and was also the main reason behind the decline in the weighted average carbon intensity. Refer also to the table and information on page 72.

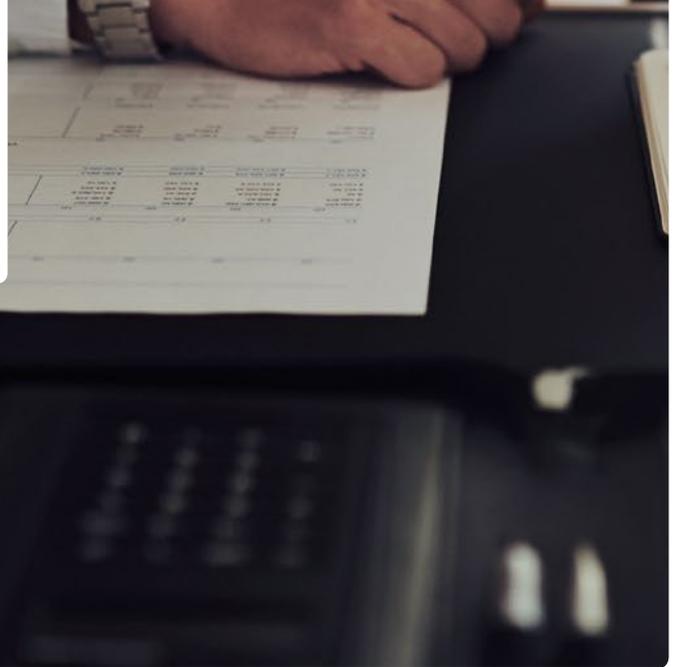
We continue to be committed to increasing our investment in those activities that are needed to support the transition to a lower-carbon and resource-efficient economy. In 2018, we signed EUR 100 million in new infrastructure debt investment into off-shore windfarms, district heating, and water and wastewater treatment facilities. NN Group also invests in green bonds. In total, our investments in climate-related infrastructure projects and green bonds amounted to EUR 663 million at year-end 2018.

In 2018, NN IP concluded a three-year carbon risk engagement with 20 power utility companies and, as part of the global Climate Action 100+ initiative, entered into dialogue with two major companies in the chemicals sector. More broadly, we engaged with 521 companies on ESG issues, and supported 95% of shareholder resolutions focused on environmental issues and climate change. Read more on voting and engagement on pages 44-45 and 71.



Facts and figures

Our facts and figures outline our financial and non-financial performance year-on-year, and offer an overview in line with our integrated reporting approach.



Our approach to reporting

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

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

We aim to strengthen our integrated reporting every year. Elements such as our value creation model and our materiality matrix are again included in the Annual Review. The same applies for our performance data regarding human capital, responsible investment, community investment and environmental footprint.

This review therefore aligns relevant information about our strategy, governance systems, performance and future prospects in a way that reflects the economic, environmental and social contexts in which we operate.

NN Group also publishes a Solvency and Financial Condition Report (SFCR), which includes public quantitative and qualitative disclosures on Solvency II. The SFCR is published on NN Group's corporate website in the Investors/Annual Report section.

We believe that this reporting strategy enables us to tailor our reporting for different stakeholders, many of whom require different depths of information. The online versions of the Annual Review and the Financial Report contain a number of links. Links to sources on the NN Group website are also included.

Reporting profile

This is NN Group's fifth Annual Report since our separation from ING Group and becoming a publicly listed company on 2 July 2014. It is published on 14 March 2019. We report annually, on a calendar year basis (1 January – 31 December).

Reporting process

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

Relevant topics

Relevant topics were selected for the 2018 Annual Report, more specifically the Annual Review, through a materiality assessment using internal and external research and other sources. In addition, a dialogue session was held with senior leaders from our organisation to help steer our focus. For more information, see page 13.

We aim to provide transparency and enhance the reliability of the reported content for our stakeholders. Therefore, our external auditor, KPMG, provided limited assurance on the non-financial information in the Annual Review. The non-financial information in scope of the assurance engagement of KPMG is defined as related to the material topics as defined on pages 13-15 of the Annual Review and include the indicators in the key financial and non-financial indicators related to these topics.

We provide evidence to our external auditor to support the statements we make in this report. Please refer to pages 75-79 for KPMG's Assurance report.

Boundary and scope of the data in the Annual Review

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

The scope of the reported data is the range of entities over which NN Group has management control. The aforementioned applies to all material items as depicted in the materiality matrix, unless otherwise stated. The scope for community investment and environmental data is all businesses with more than 100 FTE.

NN Group used an online system, Credit360, to gather the information and data for community investment and environmental footprint. We have tried to limit any uncertainties in the reported data through our internal validation process, including application of validation rules in Credit360. We sourced the Human Resources (HR) data directly from the HR data analytics department. The financial data reported in this review has been fully sourced and aligned with NN Group's 2018 Financial Report.

The acquisition of Delta Lloyd had an impact on our scope. All 2016 numbers are for NN Group standalone. The 2017 numbers include Delta Lloyd since 1 April 2017. All 2018 data include Delta Lloyd for the full year. The acquisition did not change our corporate citizenship ambition, strategy, definitions and reported data.

Reporting guidelines

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

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

Going forward

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

Facts and figures

Consolidated balance sheet

As at 31 December

Amounts in millions of euros, unless stated otherwise

	notes	2018	2017
Assets			
Cash and cash equivalents	2	8,886	9,383
Financial assets at fair value through profit or loss:	3		
– investments for risk of policyholders		30,230	33,508
– non-trading derivatives		5,096	5,116
– designated as at fair value through profit or loss		722	934
Available-for-sale investments	4	104,329	104,982
Loans	5	58,903	56,343
Reinsurance contracts	17	1,010	880
Associates and joint ventures	6	5,000	3,450
Real estate investments	7	2,374	3,582
Property and equipment	8	151	150
Intangible assets	9	863	1,841
Deferred acquisition costs	10	1,843	1,691
Deferred tax assets	33	131	125
Other assets	12	4,708	5,077
Total assets		224,246	227,062
Equity			
Shareholders' equity (parent)		22,850	22,718
Minority interests		234	317
Undated subordinated notes		1,764	1,764
Total equity	13	24,848	24,799
Liabilities			
Subordinated debt	14	2,445	2,468
Debt securities issued	15	1,990	1,988
Other borrowed funds	16	5,717	6,044
Insurance and investment contracts	17	161,118	163,639
Customer deposits and other funds on deposit	18	14,729	14,434
Financial liabilities at fair value through profit or loss:	19		
– non-trading derivatives		2,163	2,305
Deferred tax liabilities	33	1,809	1,830
Other liabilities	20	9,427	9,555
Total liabilities		199,398	202,263
Total equity and liabilities		224,246	227,062

References relate to the notes starting with note 1 'Accounting policies' of the Financial Report. These form an integral part of the Consolidated annual accounts.

Facts and figures continued

Consolidated profit and loss account

For the year ended 31 December

	notes	2018	2018	2017	2017
Gross premium income	21		13,272		12,060
Investment income	22		5,169		5,275
Result on disposals of group companies			60		-150
– gross fee and commission income		1,087		1,187	
– fee and commission expenses		-332		-382	
Net fee and commission income	23		755		805
Valuation results on non-trading derivatives	24		283		-513
Foreign currency results and net trading income			-56		-138
Share of result from associates and joint ventures	6		500		399
Other income			67		78
Total income			20,050		17,816
– gross underwriting expenditure		13,249		14,140	
– investment result for risk of policyholders		1,258		-1,622	
– reinsurance recoveries		-192		-187	
Underwriting expenditure	25		14,315		12,331
Intangible amortisation and other impairments	26		986		118
Staff expenses	27		1,521		1,517
Interest expenses	28		475		335
Other operating expenses	29		1,096		991
Total expenses			18,393		15,292
Result before tax			1,657		2,524
Taxation	33		524		392
Net result			1,133		2,132

Net result

For the year ended 31 December

		2018	2017
Net result attributable to:			
Shareholders of the parent		1,117	2,110
Minority interests		16	22
Net result		1,133	2,132

Key financial and non-financial indicators

Key financial indicators (in EUR million)

	2018	2017	2016
Operating result ongoing business	1,626	1,586	1,227
Net result (after minority interests)	1,117	2,110	1,189
Net operating ROE	8.9%	10.3%	8.1%
Solvency II ratio	230%	199%	241%
Value of new business	391	345	214
Assets under Management (end of period, in EUR billion)	246	246	195
Dividend proposal (per ordinary share, in EUR)	1.90	1.66	1.55
NN Group share price (last trading day of the year, in EUR)	34.80	36.12	32.20

Key non-financial indicators

	2018	2017	2016
Customer satisfaction and loyalty			
– insurance business units using NPS	100%	100%	100%
– insurance business units scoring on/above level previous year	42%	91%	95%
– insurance business units scoring on/above market average	67%	100%	n.a.
Assets under Management in sustainable and impact investing funds and mandates (end of period – in EUR million)	16,549	10,852	5,062
– as part of the total Assets under Management	6.7%	4.4%	2.6%
Women in Senior Leaders Group (%)	33%	32%	20%
Employee engagement score ¹	7.1	7.0	71%
– participation in the engagement survey	85%	73%	86%
Young people reached through NN Future Matters programme	38,536	37,208	27,529
Donations to charitable organisations (x EUR 1,000) ²	2,700	2,400	1,500

1 In 2018 we introduced a new metric for measuring engagement. The previous measurement for 2017 was 66%; with the new metric this is 70.

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

Sustainability indices and ratings

	2018	2017	2016
Indices			
Dow Jones Sustainability Index (out of 100)	77 (Included)	80 (Included)	77
FTSE4Good	Included	Included	Included
VigeoEiris Euronext: 120	Included	–	–
Bloomberg Gender-Equality Index	Included	–	–
Ratings			
CDP (Carbon Disclosure Project)	B	C	C
MSCI	A	AA	–
Oekom	C (Prime)	C (Prime)	C (Prime)
Sustainalytics (position/# insurance companies)	1/146 (Leader)	3/145 (Leader)	13/151 (Outperformer)
Transparency Benchmark Netherlands (out of 200) ³	–	183	176

3 Since 2017 published on a bi-annual basis.

Key financial and non-financial indicators continued

Customer-related indicators (in EUR million)

	2018	2017	2016
Total claims and benefits paid	15,171	15,772	11,681
New sales life insurance (APE)	1,640	1,791	1,386
Gross premium income	13,272	12,060	9,424

Responsible investment indicators (in EUR million)

	2018	2017	2016
Assets under Management in sustainable and impact investing funds and mandates (end of period)	16,549	10,852	5,062
– as part of total Assets under Management NN Investment Partners	6.7%	4.4%	2.6%
Equity			
– NN Duurzaam Aandelen Fonds	1,512	734	679
– NN (L) European Sustainable Equity Fund	267	308	91
– NN (L) Global Sustainable Equity Fund	1,496	1,717	673
– NN Global Sustainable Opportunities Fund	205	263	265
– NN (L) Global Equity Impact Opportunities	284	368	–
– NN Enhanced Index Sustainable Equity Fund ¹	2,749	2,942	–
– NN Equity Investment Fund	628	–	–
– European Sustainable Equity Mandates	342	387	349
– Global Sustainable Equity Mandates	1,129	1,612	1,121
Subtotal	8,611	8,331	3,179
Fixed income			
– NN (L) Euro Sustainable Credit (excluding Financials)	491	679	587
– NN (L) Euro Sustainable Credit	852	117	96
– NN (L) Euro Green Bond Fund	578	173	61
– Sustainable Fixed Income Mandates	1,639	1,319	1,038
– NN FMO Emerging Markets Loans Fund	94	–	–
Subtotal	3,654	2,288	1,782
Multi-asset			
– NN (L) Patrimonial Balanced European Sustainable	346	234	102
– Star Fund	3,938	–	–
Subtotal	4,284	234	102
Voting			
Shareholders meetings where we voted ²	2,118	1,507	1,437
– as % of total votable meetings	97%	97%	94%
Agenda items on which we voted	26,839	18,978	18,335
How we voted on agenda items (%)			
– for	87.5%	89.6%	90.1%
– against	12.2%	10.1%	9.6%
– abstain	0.3%	0.3%	0.3%
Countries where we voted	58	54	51
Shareholder resolutions on which we voted by topic	596	348	347
– environmental	40	56	54
– social	119	74	73
– governance	437	218	220
GRESB Real Estate Assessment scores³			
Private real estate – portfolio average (vs. benchmark average)	80 (66)	74 (61)	72 (59)

1 Previously: Delta Lloyd Equity Sustainable Global Fund.

2 Excludes voting related to Delta Lloyd assets.

3 NN calculates the GRESB scores on a value-weighted basis, and compares these to the relevant benchmark average. Scores are on a scale of 1 to 100. The real estate portfolios are part of NN Group's proprietary assets.

Key financial and non-financial indicators continued

Carbon footprint of NN Group's proprietary assets

	2018	2017	2016
Assessed Assets under Management (in EUR billion)	108	103	81
Fixed income	104	99	78
Equity	3	4	3
Carbon footprint (tCO₂e/EUR million invested)	146	273	309
Fixed income	146	278	316
Equity	153	120	146
Weighted average carbon intensity (tCO₂e/EUR million of revenue)	107	231	232
Government Bonds	42	233	232
Corporate Bonds	318	276	238
Equity	213	171	260

Carbon footprinting can help us understand carbon-related risks within our investment portfolio, and can also be useful to inform corporate engagement. In the context of an investment portfolio, a carbon footprint measures the amount of greenhouse gas (GHG) emissions and intensity associated with the underlying portfolio holdings. The footprint is measured in carbon dioxide equivalents (CO₂e).

Scope of our carbon footprint disclosure

The carbon footprint of NN Group's proprietary fixed income and listed equity holdings was measured as per 31 December 2018, and is based on the latest carbon dioxide emissions data for governments and companies available to us.

In 2018, the assessed AuM was EUR 108 billion. This represents 58% of NN Group's total proprietary investment portfolio. The main asset categories that were not in scope of this carbon footprint analysis included mortgages, real estate, private equity, and cash. The fixed income holdings that we assessed included government bonds and corporate fixed income securities. The Corporate Fixed Income portfolio comprised mainly corporate bonds, but also asset-backed securities and loans (although the data availability on these two asset categories was limited).

The analysis is based on emissions data provided by ISS-Ethix Climate Solutions, a leading global provider of investment climate data. The coverage, or the percentage of (assessed) portfolio assets for which (actual or estimated) emissions data was available, is 86%.

The methodology for the footprint measurement of Government bonds was changed compared to last year(s) reflecting an alignment to the methodology recommended by the Platform Carbon Accounting Financials (PCAF). We now allocate emissions to a sovereign bond by taking into account the emissions that are directly caused by the government's own activity, as well as the emissions from government financing in other sectors within a country.

More information on the results and insights can be found in NN's 'Carbon Footprint Disclosure' report, published on the NN Group website.

Human capital indicators

	2018	2017	2016
Workforce (end of year)			
Total full-time equivalents (FTEs)	14,492	14,853	11,545
Total number of employees (headcount) ¹	14,953	15,406	11,995
– Netherlands Life	2,620	2,924	2,162
– Netherlands Non-life	2,906	2,157	935
– Netherlands Bank	834	n.r.	n.r.
– Insurance Europe	4,688	4,847	4,254
– Insurance Japan	899	868	775
– Asset Management	1,017	1,165	1,098
– Other	1,989	3,445	2,771
Part-time employees	20.6%	22.0%	15.8%
Temporary employees	6.1%	5.8%	5.9%
Average years of service	12.8	11.8	n.r.
Male/female ratio	52/48	52/48	52/48
Male/female ratio managers	65/35	65/35	66/34
Male/female ratio Senior Leaders Group	67/33	68/32	80/20

¹ By further refining the segmentation of employees per business unit data may differ from the previous year (i.e. NN Bank is now separately presented where in 2016 and 2017 it was allocated to Other).

Key financial and non-financial indicators continued

Human capital indicators continued

	2018	2017	2016
Well-being and engagement			
Sick leave ²	3.6%	3.3%	2.4%
Engagement score ³	7.1	7.0	7.1%
Participation in engagement survey	85%	73%	86%
Grievances on labour practices ⁴	18	10	12
Employee participation			
Employees covered by Collective Labour Agreement (CLA)	76.9%	75.1%	70.1%
Employees represented by an employee representative body	85%	87%	n.r.
Formal meetings held with employee representative bodies	134	127	n.r.
Talent development			
Total spending on training and development (in EUR million)	21.5	21.4	13.7
Spending/average FTE	1,469	1,441	1,111
Human capital return on investment ⁵	2.3	2.3	2.3
Employees with completed standard performance process	93.1%	91.8%	98.4%
Employee turnover			
New hires	1,674	1,521	1,358
Employee turnover	15.0%	14.9%	10.2%
– voluntary employee turnover	7.9%	7.8%	5.8%
– involuntary employee turnover	7.1%	7.2%	4.4%
Open positions filled by internal candidates ⁶	46.7%	26.8%	29.2%
Whistleblower concerns filed	7	11	n.r.
Of which investigated by Corporate Security & Investigations	4	3	n.r.
Other incidents and concerns	100	71	n.r.
Measures taken, related to:	14	n.r.	n.r.
– Fraud (and alleged fraud)	7	n.r.	n.r.
– Unethical behaviour	6	n.r.	n.r.
– Conflict of interest	1	n.r.	n.r.
Employee compensation			
Total employee wages and benefits (in EUR million)	1,500	1,496	1,160
Ratio of CEO compensation to the average employee compensation ⁷	33:1	29:1	n.r.

2 Netherlands only; this counts for 60% of the total organisation.

3 In 2018 we introduced a new metric for measuring engagement. The previous measurement for 2017 was 66%; with the new metric this is 7.0.

4 The 2018 number covers data from our global organisation (where in 2017 and 2016 it accounted for the Netherlands only). It does not include the complaints received in relation to the integration process of Delta Lloyd and Nationale-Nederlanden, given the specific nature of these complaints.

5 Human capital ROI is calculated as: (operating result ongoing business + employee expenses)/employee expenses.

6 The increase is mainly due to a change of definition: number of employees with a change in position/(number of employees with a change in position + hired employees).

7 For more information, refer to the Remuneration report on pages 32-35 of the Financial Report.

n.r. indicates not reported.

Key financial and non-financial indicators continued

Community investment indicators

	2018	2017	2016
Total donations to charitable organisations (x EUR 1,000) ¹	2,700	2,400	1,500
Of which received by charitable organisations through our corporate foundations (country/name)			
– The Netherlands/Together for Society	189	218	182
– The Netherlands/From Debt to Opportunities	942	850	
– Romania/Foundation for Life	26	11	29
Total hours of volunteering work (in Future Matters focus areas)	13,236	14,099	5,685
Total number of young people reached through NN Future Matters programme ²	38,536	37,208	27,529

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

2 Numbers reached include partnership with JA and EP-Nuffic, the Future Matters anniversary donations and main Dutch programmes (excluding the From Debt to Opportunities programme).

Environmental indicators

	2018	2017	2016
CO₂ emissions of our direct operations			
% of CO ₂ emissions offset annually	100%	100%	100%
CO ₂ emissions (kilotonnes)	23	25	22
CO ₂ emissions from energy consumed on NN sites	10	11	9
– of which electricity	6	6	6
– of which natural gas	2	3	2
– of which district heating	2	2	1
CO ₂ emissions from air travel	5	4	4
CO ₂ emissions from car travel	8	10	9
CO ₂ emissions (tonnes)/FTE	1.6	1.7	1.9
Business travel			
Air travel (km x 1 million)	28	22	24
Car travel (km x 1 million)	44	56	45
Energy consumption			
Total energy consumption (MWh x 1,000)	53	59	37
Electricity	12	11	12
Renewable electricity	23	24	10
– Renewable electricity as % of total electricity	66%	69%	45%
Natural gas	8	13	11
District heating ¹	10	11	5
Paper			
Total paper use (kg)	457,139	776,380	830,409
– Sustainable paper (i.e FSC) (kg)	357,450	678,418	693,580
– Sustainable paper as % of total paper	78%	87%	84%
Waste			
Total waste (kg)	387,139	389,517	471,162
– Recycled waste (kg)	243,891	320,897	215,325
– Recycled waste as % of total waste	63%	82%	46%

1 Decrease in 2016 mainly caused by a reduction of office space in the Netherlands.

Assurance report of independent auditors



Assurance report of the independent auditor

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

Our conclusion

We have reviewed the Non-Financial Information in the Annual Review 2018 (hereafter: the Non-Financial Information) of NN Group N.V. (hereafter: NN Group) based in Amsterdam and headquartered in The Hague. A review is aimed at obtaining a limited level of assurance.

Based on our procedures performed, nothing has come to our attention that causes us to believe that the information relating to material non-financial topics (for selection of topics, see page 13) is not prepared, in all material respects, in accordance with the reporting criteria as described in 'Our approach to reporting' (page 67).

The Non-Financial Information comprises a representation of the policy of NN Group with regard to corporate responsibility, and the thereto related business operations, events and achievements during the year.

Basis for our opinion

We have performed our review on the Non-Financial Information in accordance with Dutch law, including Dutch Standard 3810N: 'Assurance-opdrachten inzake maatschappelijke verslagen' (Assurance engagements relating to sustainability reports).

We are independent of NN Group N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Reporting criteria

The Non-Financial Information needs to be read and understood together with the reporting criteria. NN Group is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

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The reporting criteria used for the preparation of the Non-Financial Information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied internal reporting criteria as disclosed on page 67 of the report.

Key review matter

Key review matters are those matters that, in our professional judgement, were of most significance in our review of the Non-Financial Information. We have communicated the key review matter to the Supervisory Board.

The key review matter is not a comprehensive reflection of all matters discussed.

This matter was addressed in the context of our review of the Non-Financial Information within the scope of our engagement as a whole and in forming our conclusion thereon, and we do not provide a separate opinion on this matter.

Key review matter: **Balanced reporting**

Description

NN Group applies the GRI Standards and the <IR> Framework for the Annual Review. These frameworks require amongst others that the report provides an unbiased and clear picture of NN Group's (non-financial) performance and that discussion of topics provides a complete view of the relevant aspects of these topics.

In 2018, the integration of the Delta Lloyd operations and personnel into the NN Group organisation was a key focus area for the Executive Board. Furthermore, NN Group strengthened its approach to responsible investing.

Therefore, we consider balanced and complete reporting on key topics (e.g. the Delta Lloyd integration and the responsible investment process) as significant to our review.

Our response

We have performed assurance procedures aimed at the balance and complete representation for key topics in the report of NN Group. Those procedures started by obtaining an understanding of the processes NN Group applied to collect and document information as the basis for preparing the Annual Review. We interviewed relevant staff responsible for preparing the Annual Review and assessed proper inclusion of both achievements and challenges in the reporting. Furthermore we have reviewed underlying documentation.

We have also assessed the Annual Review on the balance between the different material topics. For the Delta Lloyd integration and responsible investing, we reviewed the information in the report on whether this provides a balanced and a complete picture of the activities and occurrences for 2018 and future plans and activities of NN Group as applicable.



Finally we performed an overall assessment of the Annual Review based on our knowledge of the company and evidence obtained to determine whether the Annual Review presents a balanced overall picture of NN Group's (non-financial) performance and activities over the year.

Our observation

We concluded that the Annual Review reflects a sufficiently balanced and complete view of the performance and activities of NN Group for the year 2018 on selected key reporting topics (e.g. the Delta Lloyd integration and responsible investing).

Limitations to the scope of our review

The Non-Financial Information includes prospective information such as ambitions, strategy, plans, expectations and estimates, and risk assessments. Inherently the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the Non-Financial Information.

Responsibilities of the Executive Board and the Supervisory Board for the Non-Financial Information

The Executive Board of NN Group is responsible for the preparation of the Non-Financial Information in accordance with the GRI Standards and the applied supplemental reporting criteria as disclosed in 'Our approach to reporting' on page 67, including the identification of stakeholders and the definition of material matters. The choices made by the Executive Board regarding the scope of the Non-Financial Information and the reporting policy are summarised in 'Our approach to reporting' of the Annual Review. The Executive Board is also responsible for such internal control as it determines is necessary to enable the preparation of the Non-Financial Information that is free from material misstatement, whether due to fraud or error.

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

Our responsibilities for the review of the Non-Financial Information

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

Procedures performed to obtain a limited level of assurance are aimed to determining the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review engagements with a limited level of assurance is therefore substantially less than the assurance obtained in audit engagements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the Non-Financial Information.



The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS, Regulations on quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our review engagement included, among others, the following procedures:

- Performing an analysis of the external environment and obtaining an understanding of relevant societal themes and issues, and the characteristics of the company;
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the Non-Financial Information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by management;
- Obtaining an understanding of the reporting processes for the Non-Financial Information, including obtaining a general understanding of internal control relevant to our review;
- Identifying areas of the Non-Financial Information with a higher risk of misleading or unbalanced information or material misstatements, whether due to fraud or error. Designing and performing further assurance procedures aimed at determining the plausibility of the Non-Financial Information responsive to this risk analysis.

These procedures included among others:

- Interviewing management and relevant staff at corporate level responsible for the non-financial strategy, policy and results;
- Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the Non-Financial Information;
- Obtaining assurance information that the Non-Financial Information reconciles with underlying records of the company;
- Reviewing, on a limited test basis, relevant internal and external documentation;
- Performing an analytical review of the data and trends in the information submitted for consolidation at corporate level.
- Evaluating the consistency of the Non-Financial Information with the information in the report which is not included in the scope of our review;
- Evaluating the presentation, structure and content of the Non-Financial Information;

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Assurance report of independent auditors continued



— To consider whether the Non-Financial Information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the review and significant findings that we identify during our review.

Amstelveen, 13 March 2019

KPMG Accountants N.V.

P.A.M. de Wit RA

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Glossary

Agile	Our business units are investing in becoming more agile to secure long-term growth. In the agile methodology, people of different expertise and teams are given autonomy and work together towards a common goal. The goal of agile is faster product and service delivery.
Assets under Management (AuM) in sustainable and impact funds and mandates	Assets that are managed with a specific focus on sustainability. This includes our Socially Responsible Investing (SRI) funds and mandates.
Brand awareness	The extent to which consumers are familiar with the distinctive qualities or image of NN; the recognisability of the NN Brand in the general public.
CDP	Carbon Disclosure Project. A global disclosure system for companies, cities, states and regions to manage their environmental impacts and for investors or purchasers to access environmental information for use in financial decisions.
Central Works Council	The Central Works Council (CWC) is an entity required by the Dutch Works Council Act of 2013. It is a standing works council formed by representatives from eight Dutch work councils. The CWC is informed or consulted about important NN Group developments in the Netherlands and international developments to the extent that Dutch interests are influenced.
Climate Action 100+	A five-year initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.
COLI	Corporate-owned life insurance.
Corporate governance	Corporate governance relates to effective and responsible management of a company and the supervision of that management, as well as to internal control and the relations with the stakeholders of the company, such as customers, shareholders, employees, business partners and society at large.
Credit rating	Credit ratings, as assigned by rating agencies (such as Standard & Poor's and Fitch), are indicators of the likelihood of timely and complete repayment of interest and instalments of fixed income securities.
Data privacy	Data privacy, also called data protection or information privacy, is the aspect of information technology that deals with the ability of NN Group to protect the personal data of its customers and other stakeholders.
Diversity and inclusion	NN Group's approach to diversity includes hiring people of various race, ethnicity, gender, age, sexual orientation, physical abilities and personal philosophies, as well as creating an inclusive culture and diversity of thought – one that welcomes, acknowledges, respects, challenges and benefits from our differences.
Digitalisation	The process of adopting and integrating digital technologies and solutions by an industry or organisation. Digitalisation brings opportunities for NN to broaden and deepen product offerings and increase partnerships with insurtech startups.
Dutch Cyber Collective	The Dutch Cyber Collective, an initiative of Nationale-Nederlanden, is an overarching Dutch association committed to effectively reducing cybercrime for Dutch SMEs.
Emerging markets	An emerging market describes a nation's economy that is progressing toward becoming more advanced, usually by means of rapid growth and industrialisation. These countries experience an expanding role both in the world economy and on the political frontier.
Employee engagement	Employee engagement is a property of the relationship between an organisation and its employees, measured by NN Group through the Peakon employee survey.
Employee Value Proposition (EVP)	The EVP represents what our employees experience and benefit from during their employment period within NN and what we expect from them. It is the rational and emotional articulation of the tangible benefits employees receive as a result of working for NN Group. The EVP highlights the factors that make NN attractive to the labour market.
Environmental, social and governance (ESG) factors	ESG factors are a subset of non-financial performance indicators which include sustainable, ethical and corporate governance issues such as managing the company's carbon footprint and ensuring there are systems in place to ensure accountability.
Euronext Amsterdam	A conglomerate of the former entities: Amsterdam Stock Exchange, Brussels Stock Exchange and Paris Stock Exchange. Located in Amsterdam, the Netherlands.
European Works Council (EWC)	A standing works council body as required by the 2009 European Works Council Directive 2009/38 of the European Commission. The EWC is formed by chosen employee representatives of all 11 European countries where NN Group is active. EWC-members are informed about transnational matters twice a year.
Financial economic crime (FEC)	Any involvement in money laundering, the funding of terrorism, or other criminal activities that could harm stakeholder confidence in NN as a financial services provider.

Glossary continued

Financial sector oath or promise	Ethics statement introduced in early 2013 for employees in the Dutch financial sector, along with the introduction of a social charter and update of the Banking Code. The oath or promise applies not only to employees of banks but also to employees of other financial enterprises, including insurance companies, investment firms and financial service providers. By taking the oath or promise, employees proclaim that they are bound by the Code of Conduct attached to the oath or promise for the ethical and careful practice of their profession.
General Data Protection Regulation (GDPR)	Regulation by which the European Parliament, the Council of the European Union and the European Commission that aims to unify data protection for all individuals within the European Union. The GDPR came into effect on 25 May 2018.
Global Real Estate Sustainability Benchmark (GRESB)	An industry-driven organisation committed to assessing the sustainability performance of real assets globally, including real estate portfolios. On behalf of close to 60 institutional investors, GRESB Real Estate has assessed almost 1,000 property companies and funds globally.
Global Reporting Initiative (GRI)	An international independent standards organisation that helps businesses, governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption.
Green alternatives	Choices that NN Group makes with regards to energy, resource use and waste management that serve to protect the environment more so than traditional options.
Institutional investors	Entities which pool money to purchase securities, real property and other investment assets or originate loans. Institutional investors include banks, insurance companies, pension funds, hedge funds, investment advisors and endowments.
Integrated reporting	A process founded on integrated thinking that results in a periodic integrated report by NN Group about value creation over time and related communications regarding aspects of value creation.
International Integrated Reporting Council (IIRC)	A global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting.
Internet of Things (IoT)	A network of devices that can connect to the internet and to each other, allowing the devices to be controlled remotely and data to be transferred. The Internet of Things is among the technologies expected to spur a transformation of the financial services industry.
Junior Achievement Europe	Europe's largest provider of education programmes for entrepreneurship, work readiness and financial literacy.
KiFiD	The Dutch institute for consumer complaints about the financial services industry (Klachteninstituut Financiële Dienstverlening).
Longevity	Length or duration of life.
Materiality matrix	The materiality matrix presents the developments and topics which are important to our business and the relevance of these to our external stakeholders.
Net Promoter Score (NPS)	A management tool that can be used to gauge the loyalty of a firm's customer relationships. It serves as an alternative to traditional customer satisfaction research.
Non-Governmental Organisation (NGO)	An organisation that is neither a part of a government nor a conventional for-profit business. Usually set up by citizens, NGOs may be funded by governments, foundations, businesses, or private persons.
NN Future Matters	Future Matters is the global community investment programme for NN Group. It aims to empower people in the markets where we operate to improve their financial well-being, and to support them in growing their economic opportunities.
NN Group Compliance Charter & Framework	A policy set in place by NN Group to help businesses to effectively manage their compliance risks.
Ordinary share	An equity instrument that is subordinated to all other classes of equity instruments. Ordinary shares participate in the net profit for the financial year after other types of shares such as preference shares.
Partial Internal Model (PIM)	A method of calculating the Solvency Capital Requirement (SCR) that combines a standard formula and an approved, internally developed internal model. NN Group's PIM was approved by the Dutch Central Bank (DNB) in December 2015. In 2018, NN received approval from the DNB to expand the PIM to include the Delta Lloyd entities.
Peakon	The Peakon survey is a questionnaire measuring how NN Group's brand and values are experienced by our employees, how our leaders live up to the high standards we set and how we fulfil our EVP as an organisation. Peakon replaces the Yearly Engagement Survey (YES).

Glossary continued

Product Approval and Redesign Process (PARP)	The Product Approval and Redesign Process (PARP) refers to the assessment of a product in relation to its customer suitability, financial and non-financial risks and profitability. The PARP is conducted when NN Group introduces a new product, changes the characteristics of an existing product or reviews a product. This is to ensure that our products are acceptable for our company, our customers and our society in general.
Qredits	A microfinancing organisation assisting entrepreneurs with loans, mentoring and e-learning.
Remuneration	Reward to NN Group's employees in the form of salary or compensation, either fixed or variable, including benefits.
Report of the management board	The NN Group N.V. 2018 Report of the management board (Bestuursverslag), as referred to in section 2:391 of the Dutch Civil Code. Specific chapters to be mentioned in this matter are the Annual Review and the following chapters in the Financial Report: the Financial Developments, the Report of the Supervisory Board, Corporate Governance, the Remuneration Report and the Statements Dutch Financial Supervision Act and Dutch Corporate Governance Code.
Responsible Investment (RI) Framework policy	The Responsible Investment (RI) Framework policy sets out NN Group's vision, approach and key principles on responsible investment. NN Group defines RI as the systematic integration of relevant ESG factors into investment decision-making and active ownership practices.
Retail investors	An individual who purchases securities for his or her own personal account rather than for an organisation.
Robotisation	The automation of a system or process by use of robotic devices.
Settlement Date	The date on which a trade must be settled and the buyer must make payment. On 2 July 2014, ING Group offered part of its shares in the share capital of NN Group to the public and the shares in the capital of NN Group were listed on Euronext Amsterdam. Settlement Date of the offering was 7 July 2014.
SME	Small- and medium-sized enterprise.
SparkLab	NN innovation labs that work to foster innovative ideas by identifying and exploring growth opportunities. The concept was pioneered in the Netherlands in 2016 and has since been replicated in Hungary, Japan, Poland, Romania, Spain and Turkey.
Social Innovation Relay	The Social Innovation Relay is an initiative of Junior Achievement Europe supported by NN Group. It works to inspire secondary school students to develop innovative business concepts that address social challenges.
Socially Responsible Investment (SRI) funds	Socially Responsible Investment (SRI) funds are specialised sustainable investment products which cater to the increasing demand for products that not only generate good financial returns, but are also good for society and the environment.
Solvency II ratio	Measurement of NN Group's capital position, calculated as the ratio of Own Funds (OF) to the Solvency Capital Requirement (SCR) based on NN Group's approved Partial Internal Model.
Stakeholders	The groups and individuals who, directly or indirectly, influence – or are influenced by – the attainment of the company's objectives, such as shareholders and other lenders, employees, suppliers, customers and civil society.
Sustainable Development Goals (SDGs)	The SDGs, also known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.
Task Force on Climate-related Financial Disclosures (TCFD)	The Financial Stability Board launched the industry-led TCFD to develop recommendations on climate-related financial disclosures. The Task Force published its final recommendations in June 2017.
UN Global Compact	The United Nations Global Compact is an initiative of the United Nations to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. It is a principle-based framework for business, stating ten principles in the areas of human rights, labour, environment and anti-corruption.
Value creation model	An operating model which focuses on how NN Group can create revenue which exceeds expenses which results in a profit, or value, to the stakeholders.

Contact and legal information

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

Prepared by

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Contact us

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

Additional photography page 39: Maurice Mikkers

Disclaimer

NN Group's 2018 Annual Report consists of two documents: the 2018 Annual Review and the 2018 Financial Report. More information – for example the GRI Index Table and SFSCR – is available on the corporate website in the Investors/Annual report section.

Small differences are possible in the tables due to rounding.

Certain of the statements in this 2018 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Group's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) breakup of the euro or European Union countries leaving the European Union, (4) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (5) the frequency and severity of insured loss events, (6) changes affecting mortality and morbidity levels and trends, (7) changes affecting persistency levels, (8) changes affecting interest rate levels, (9) changes affecting currency exchange rates, (10) changes in investor, customer and policyholder behaviour, (11) changes in general competitive factors, (12) changes in laws and regulations and the interpretation and application thereof, (13) changes in the policies and actions of governments and/or regulatory authorities, (14) conclusions with regard to accounting assumptions and methodologies, (15) changes in ownership that could affect the future availability to NN Group of net operating loss, net capital and built-in loss carry forwards, (16) changes in credit and financial strength ratings, (17) NN Group's ability to achieve projected operational synergies, (18) catastrophes and terrorist-related events, (19) adverse developments in legal and other proceedings and (20) the other risks and uncertainties detailed in the Risk management section and/or contained in recent public disclosures made by NN Group and/or related to NN Group.

Any forward-looking statements made by or on behalf of NN Group in this Annual Report speak only as of the date they are made, and, NN Group assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

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