

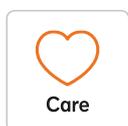


Our culture and governance

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.

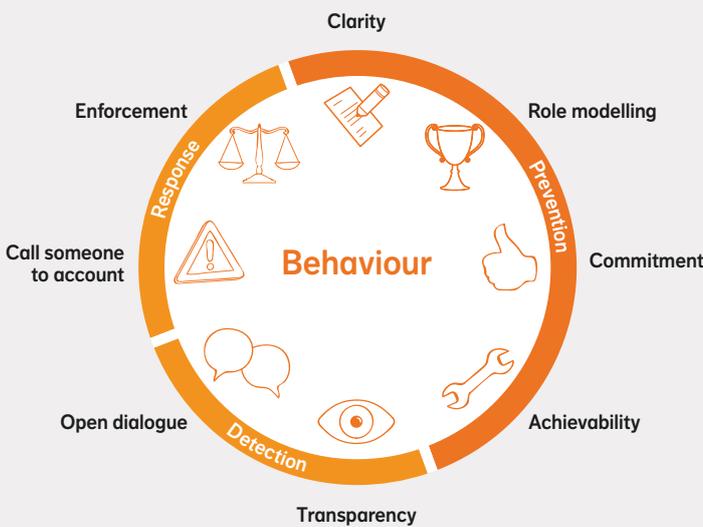
In 2018 NN recorded seven concerns filed through the Whistleblower Policy (in 2017: 11 concerns). In four reported concerns, Corporate Security & Investigations was involved for further investigation (in 2017, Corporate Security & Investigations

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.

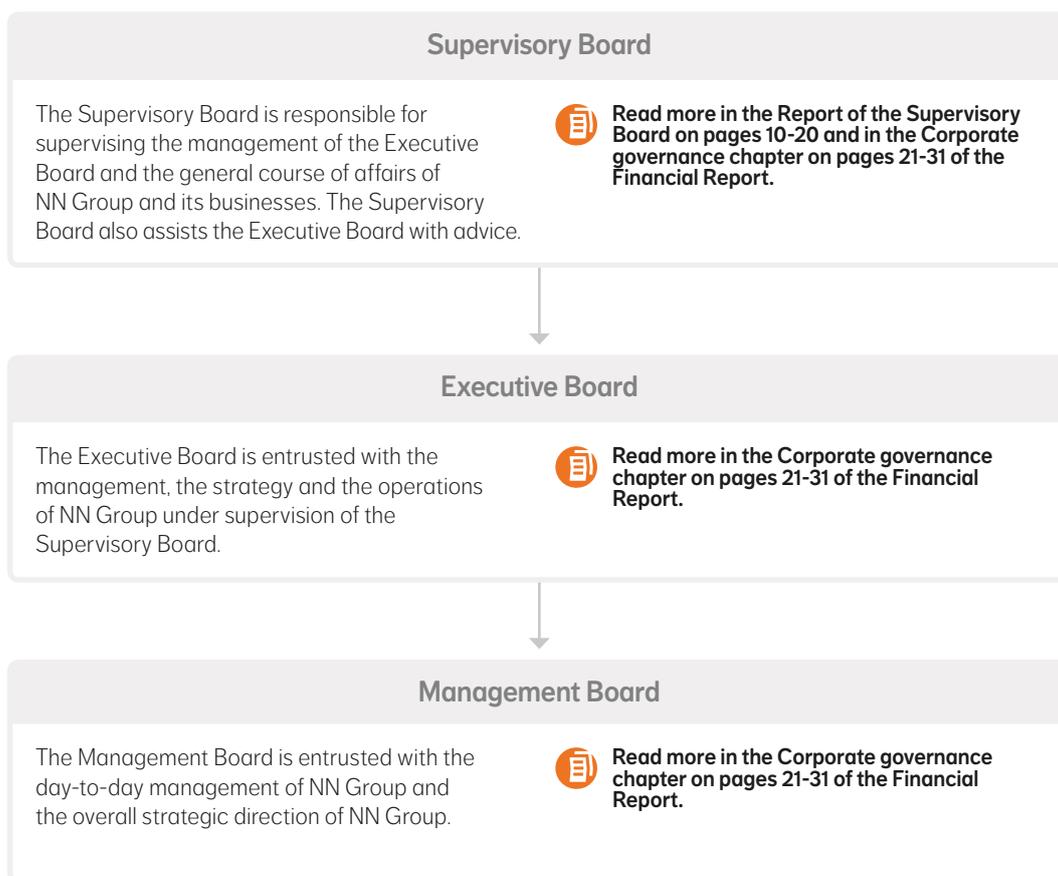
In 2018, we introduced the Conduct Drivers Methodology, and provided training to local teams with additional tooling.

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

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)

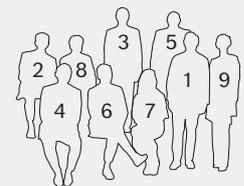
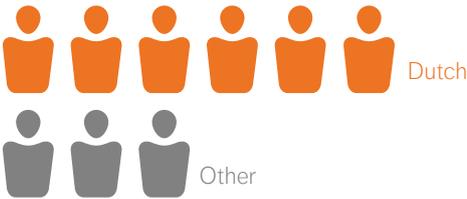
Chief Financial Officer

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.