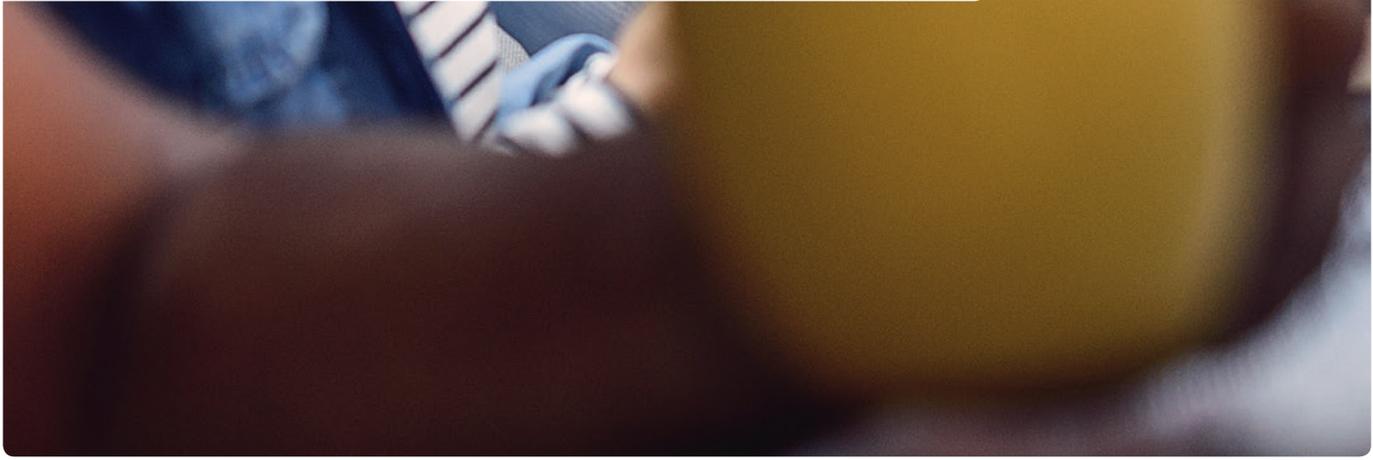




Our operating environment



The world around us

The world around us influences the financial services sector, our business and our stakeholders in various ways. Whether it is economic and political developments, changing regulations, or the increased use of digital technologies, all have an effect on how we interact and do business. These factors tend to change at a very fast pace, producing challenges for our business model and affecting the way we create long-term value for our stakeholders.

Economic and political factors

After a period of strong growth, the global economy is stabilising at somewhat lower levels. EU projections foresee annual real GDP increasing by a little over 1% up to and including 2022. Private consumption is steady, but trade and manufacturing are lagging. Tense trade relations, for example between the US and China, and Brexit on 31 January 2020, have kept markets unpredictable and volatile. Growth remains reasonably healthy in Central and Eastern Europe.

Interest rates have continued to drop and there are now negative interest rates in many countries. As a result, various new financial risks are emerging. For NN and our customers, this has implications, and we are looking into possible solutions, such as an accelerated shift to defined contribution pension products in the Netherlands, and a shift towards protection products in the market in general.

Changing regulations

An extensive package of regulation for the financial services industry has been put in place in recent years, which brings long-term financial stability and security to the sector and for society as a whole. These new regulations increasingly require greater capacity within financial institutions, for example around compliance.

For the European insurance industry, arguably the most important regulatory framework is Solvency II. It is being reviewed in 2020, including elements such as long-term guarantee measures, macro prudential issues, and reporting and disclosure. For NN, it is important that stability within the framework, including long-term guarantee measures, is maintained.

New rules and regulations have also been introduced in the area of sustainability, which are supported by NN. For example, the EU Action Plan on Sustainable Finance (including an EU Taxonomy), which is aimed at creating a greener and more sustainable economy. Greater transparency is at the heart of both the EU Directive on Non-Financial Disclosures and the recommendations of the Task Force on Climate-related Financial Disclosures.

Customer experience, new technologies and innovation

Technology is evolving rapidly and having a huge impact on society and the way companies do business. Consumers demand access to products and services anywhere, anytime. Transparency about products is key, as anyone can find products, compare different providers and purchase all with just a few clicks of the mouse.

Artificial intelligence, more extensive use of big data and the Internet of Things are just a few examples of technologies that are enabling companies to act faster, and deliver products and services that meet customer needs more precisely. At the same time, we are conscious that these opportunities require us to carefully assess the impact on our customers, for example, around data privacy and cybersecurity.

New consumer protection requirements are being introduced. And with new ethical dilemmas arising around how organisations use personal data, society expects that companies have policies and processes in place that protect people's privacy, something we take very seriously.

These developments also require different types of skills from employees, such as IT and data analytics, and new ways of working. We are doing our utmost to find the right people in these times of tight labour markets.

Transition towards a sustainable economy

Society is expecting more and more of companies, including those active in the financial services industry. Not only are citizens and businesses looking for products and services that suit their specific needs, they also expect companies to act responsibly.

Like the government, business has a role to play in the transition to a sustainable economy. Integrating environmental, social and governance (ESG) considerations into the way companies do business is becoming increasingly mainstream, and the financial industry is playing its part here. By integrating ESG factors into the investment and underwriting processes; by using its influence to support the transition to a sustainable economy by engaging with the companies in which it invests; and by offering clients sustainable finance solutions. In this context, there are a number of initiatives that NN has endorsed, such as the International Corporate Social Responsibility covenant for the Dutch insurance sector and the Commitment of the Financial sector to the Dutch Climate Agreement, both of which aim to encourage collaborative action to achieve more progress together.

Determining material topics

NN conducts a regular review of its operating environment to identify our material issues – that is, those issues that have the most impact on our business and/or stakeholders, and where we can potentially create the most value.

We use the results of this assessment as input for strategy development and risk management activities, and to bring more focus to our annual reporting.

Methodologically, a long list of around 100 topics was compiled, based on an analysis of internal and external sources. From this list, a shortlist of 13 topics was created using the following criteria: the impact of the topic on NN Group and/or on our different stakeholders; and the 'likelihood' and 'location' of the impact. The latter involves the key markets where NN is active. These criteria were applied with a timeframe in mind of the coming 12 months.

Compared with the 2018 assessment, the shortlist shows more emerging topics where we can potentially create the most value for our stakeholders, rather than business-as-usual activities such as risk management and compliance.

This is mainly due to the shift in our approach from 'importance' to 'impact' of the topics on us and/or our stakeholders.

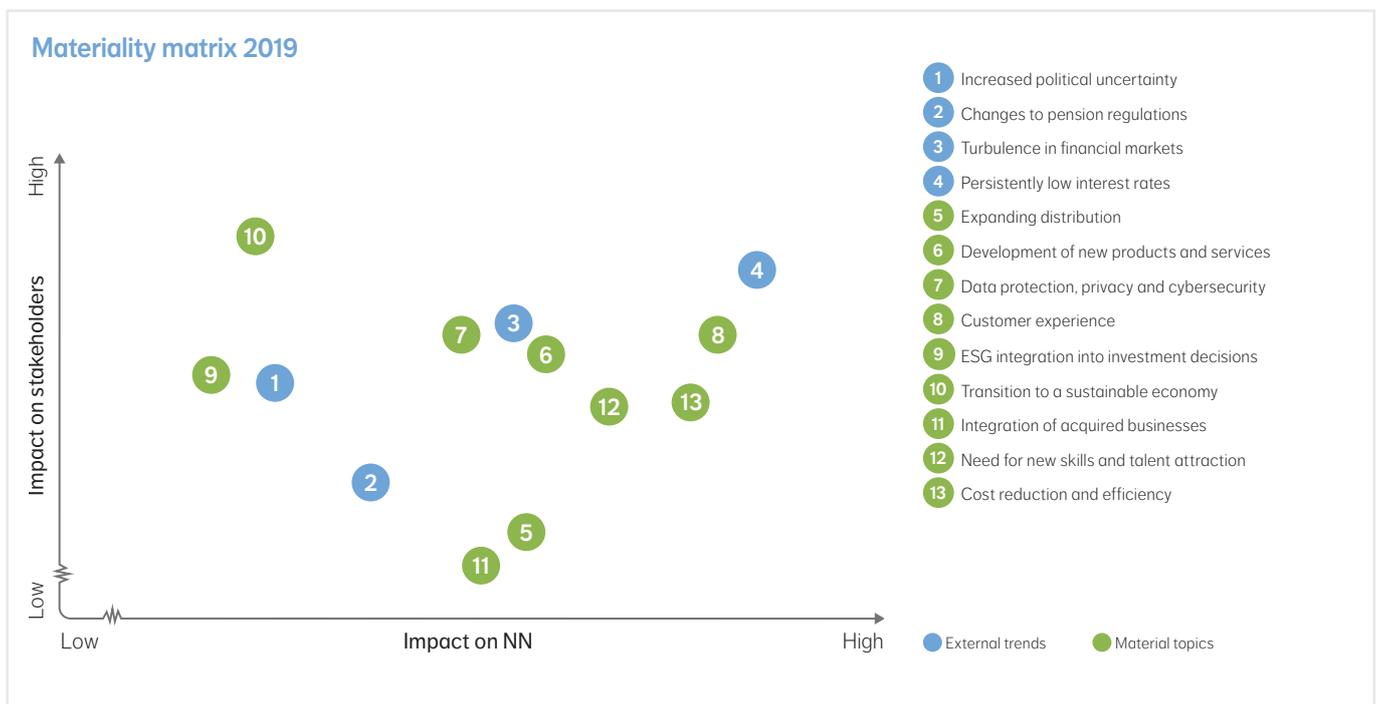
Through an online survey, stakeholders (including customers, employees, investors, regulators, business partners and societal organisations) were asked to rank the topics on the shortlist in order of their impact on them (y-axis). NN Group's senior management (the Management Board and their direct reports)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

The results presented in the matrix below show that our most material topics (upper right part of the matrix) are persistently low interest rates, customer experience, cost reduction and efficiency, development of new products and services, and the need for new skills and talent attraction.

The relatively lower score of the impact of the transition to a sustainable economy, may largely be explained by the 12-month timeframe of this materiality assessment, as the impact of the transition may have a longer horizon.

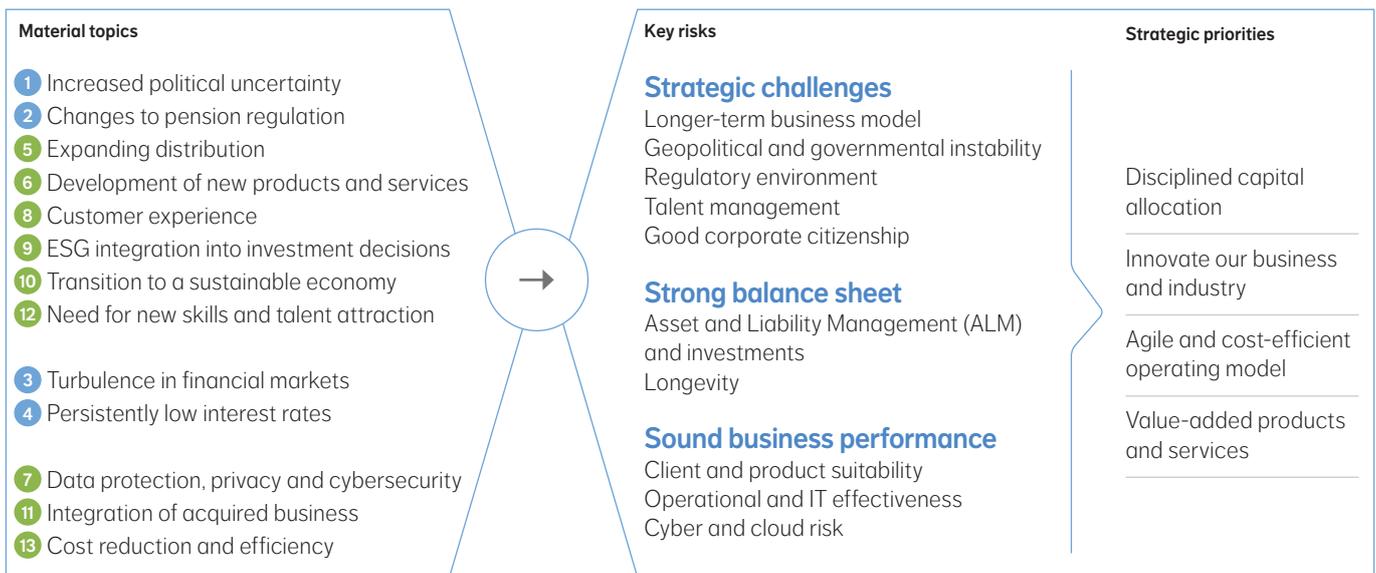
Nevertheless, we believe that all 13 shortlisted topics are material to us, because they have an impact either on NN Group and/or our stakeholders. This impact can relate to risks and/or creating opportunities. Therefore, we continuously assess our operating environment and strive to address our material topics in our strategy and business activities.

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



Managing our risks

Strong risk management is an essential link between our strategy, our capital plan and the successful execution of our business plan, while taking external developments into account. This helps us define and achieve our financial and non-financial objectives.



On an annual basis, we use a variety of inputs (including external trends and material topics) to identify the risks to our strategy. For each set of risks, we define how much risk we are willing to take, as described in Risk Appetite Statements covering three main areas: Strategic challenges, Strong balance sheet and Sound business performance.

Strategic challenges:	
We manage our businesses on a risk-return basis, so that we can meet strategic objectives while taking into account the interests of our stakeholders. Key risks identified:	
Risk description	Risk mitigation
Longer-term business model: risk of not timely adapting our business model to the changing world around us	<p>We anticipate the economic, technological, ecological and demographic developments that affect the strategic context in which we operate by managing in-force business while growing profitable new business. This also means anticipating on emerging risks, such as the impact of climate change.</p> <p>For our in-force business, we focus on managing our businesses efficiently, exploiting new technologies or economies of scale (for example, through the expected acquisition of VIVAT Non-life in the Netherlands).</p> <p>For new business, we focus on creating a much closer relationship with customers, by making use of new technologies and partnerships led by our Chief Transformation Officer. The product portfolio has also been significantly expanded through fee-based and protection products in the Insurance Europe units, and further development of NN Bank.</p> <p>Read more in section Our performance, pages 15-26, and in chapters Adding value for customers, pages 28-31, and Our response to the Task Force on Climate-related Financial Disclosures, pages 52-55.</p>

Our operating environment – Managing our risks continued

Risk description	Risk mitigation
Geopolitical and governmental instability: risk of disintegration of existing economic and political systems and structures, driven by shifting power balances or nationalism, leading to protectionist behaviour, reduced economic prospects or geopolitical instability.	We manage these risks by closely following developments in international markets, and by managing our asset exposures using a system of concentration limits on sovereign and country exposures, which are subject to regular review and monitoring.

Regulatory environment: risk of regulatory changes that negatively impact our business, products, regulatory solvency position and/or performance.	One of the major upcoming regulatory changes is the Solvency II 2020 review. This covers important items in the Solvency II framework, mainly focusing on long-term guarantee measures. At NN, we closely follow the development of future regulation, regularly assessing its potential impact on our solvency position. We actively manage our relationships with regulators and supervisors to ensure NN can make an effective contribution to legislative processes and that our concerns are consistently raised in relevant forums.
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Talent management: risk of being unable to attract, retain or pay world-class talent due to competition within and outside our industry, thus increasing the risk of being unable to manage our business effectively.	To attract and retain talent, NN proactively invests in personal and professional development throughout our people’s careers. To offer them learning opportunities, help them build valuable networks and allow them to explore career paths, we offer long- and short-term internal assignments, and job rotation schemes. We have also introduced agile working methods to give individuals and teams more responsibility. We monitor employee engagement through an annual survey and we perform benchmarks to ensure we offer suitable compensation packages. Read more in chapter Supporting our people in times of change, pages 32-34.
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Good corporate citizenship: risk that NN Group does not adequately balance stakeholder interests, or deviates from society’s evolving norms and values, in areas such as responsible investments, environmental protection, equality, inclusion, taxes and remuneration.	Society’s norms and values are evolving, and are not always codified in formal legislation. Responding inadequately to increased stakeholder expectations around doing business responsibly can lead to reputational damage, consumers buying fewer products and/or investors being unwilling to invest in our company. We integrate environmental, social and governance (ESG) criteria into our decision-making by formulating clear policies and monitoring adherence. Examples include our Responsible Investment Framework policy, Remuneration Framework and Tax Risk Management policy. Read more in chapters Creating a positive impact on society, pages 37-41, and Our response to the Task Force on Climate-related Financial Disclosures, pages 52-55.
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Strong balance sheet:
This 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. Key risks identified:

Risk description	Risk mitigation
ALM and investments: risk of reduced available capital due to financial market turmoil or missed investment opportunities.	Market risks are managed through a well-diversified portfolio, under a number of relevant policies within clearly defined and monitored limits and tolerances, and with the option to reduce downside risk through hedging programmes. In addition, our strategic asset allocation aims to optimise capital generation within the boundaries of adequate diversification, acceptable risk levels and cash flow matching mismatch limits (as justified, based on regular ALM studies). In recent years, given the illiquid nature of NN’s insurance liabilities, we have been rebalancing our asset portfolio. Partly replacing low-yielding liquid sovereign bonds with less-liquid assets, such as residential mortgages.

Our operating environment – Managing our risks continued

Risk description	Risk mitigation
<p>Longevity risk: risk of higher technical provisions or required capital if life expectancy increases quicker than anticipated.</p>	<p>NN Group’s pension and guarantee products are exposed to longevity risk, especially in the Netherlands. We expect that exposure to continue increasing for a relatively short period, then steadily decrease over time. We can achieve longer-term relief by a further move from defined benefit (DB) to defined contribution (DC) products, and repricing and renewing old DB products into new DC products. In the short term reduction can be achieved through risk transfer. To accelerate the reduction of longevity exposure, and create more flexibility in accepting new longevity risk, NN continues to work on putting reinsurance in place. Read more in the Financial Report, pages 128-159 (Note 49).</p>

Sound business performance:
 To achieve sound operational performance, we conduct business applying the NN values and treating customers fairly; we aim to avoid human or process errors in our operations, and limit the impact of any such errors when they do occur. Key risks identified:

Risk description	Risk mitigation
<p>Client and product suitability: risk of products failing to appropriately cover clients’ interests over the full product lifetime.</p>	<p>Product suitability is essential to our relationship with customers and creating longer-term value for stakeholders. NN’s Product Policy covers product risk-related requirements, including specific requirements on customer suitability. Our NN Code of Conduct makes clear to each employee what we expect of them in terms of behaviour, and we expect our external business partners to meet the same requirements. Throughout the company, a product approval and review process (PARP) and product risk committees are in place to oversee product design, client suitability, sound underwriting and claims management, and adequate pricing of all existing and new products.</p> <p>Read more in chapter Adding value for customers, pages 28-31.</p>

<p>Operational and IT effectiveness: risk of material failures in processes or IT systems leading to higher expenses, operational losses, disruption of operations and/or reputational damage.</p>	<p>NN wants to become a more agile organisation, able to move faster and encourage entrepreneurship. At the same time, risks must be managed well, and shown to be. We therefore use a risk control framework, which ensures that risks are understood and managed through effective controls, and that robust processes are in place that show effectiveness of controls, and compliance with policies, standards and governance.</p>
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<p>Cyber and cloud risk: risk of cybersecurity attacks, leading to misuse of information, discontinuity of operations, and/or financial or reputation loss.</p>	<p>Technical developments are reshaping our business model and impacting our operations. Increasing data volumes, mobilising data access, and making IT more agile and flexible have helped drive the adoption of cloud services. In addition, providing a customer experience that is digital, personalised and relevant, means our IT operations are increasingly connected to the outside world, and end users and endpoints (e.g. laptops, mobiles and tablets) are therefore more vulnerable to external threats.</p> <p>The Chief Information Officer function ensures business continuity management, cyber-risk management and business information security via standardised, internationally accepted frameworks, norms and technical guidelines as the basis for managing IT, cyber and cloud risk within NN Group.</p> <p>Our Information & Infrastructure Security function leads all efforts within the Group to enhance our information security, collaborating with business unit security officers to provide 24/7 protection against cyberthreats. Education and awareness raising are part of our security strategy at every organisational level.</p>
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