



# Careful financial management to maintain a strong balance sheet

In this chapter, we describe how our business model enables us to remain financially strong and competitive and create long term value for our different stakeholder groups, by closely managing our balance sheet.

### Creating value as a listed company

We raise the financial capital that we need to manage our business from our shareholders and investors, as the owners of our company. They invest their money in NN Group and expect to be compensated in a responsible way. Maintaining a strong balance sheet is key to absorbing market volatility and ensuring NN Group and our operating entities are sufficiently capitalised at all times.

We regularly inform the market of strategic, financial and commercial developments at NN Group. In doing so, we constantly strive to enhance our reputation as a solid, transparent and reliable company for all our stakeholders.

Our shares are included in four stock indices: MSCI Global Standard index (since 26 November 2014), STOXX Europe 600 index and FTSEurofirst 300 index (both since 22 December 2014), and Euronext AEX index (since 23 March 2015).

### Shareholder investment

NN Group strives for a strong and diversified shareholder base, as we believe this is in the interest of all our stakeholders. A diverse shareholder base allows for cost-effective access to capital and business support.

Besides the financial benefits of a broad shareholder base it also provides greater flexibility and strengthens the corporate reputation.

In April 2016, ING Group sold its remaining 14.1% stake in NN Group. This transaction was in line with ING's restructuring agreement with the European Commission to divest all of its insurance and investment management businesses, ultimately by the end of 2016. We are grateful to ING Group for their partnership and support in our journey to become a stand-alone company.

Shareholdings in Dutch listed companies of more than 3% must be notified to the Netherlands Authority for the Financial Markets (AFM).

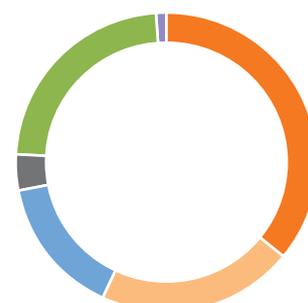
According to the AFM register as at 14 March 2017, the following shareholders have an interest of more than 3% in NN Group on the notification date: Thornburg Investment Management (3.03% – 7 Aug 2016), Norges Bank (3.22% – 27 Jun 2016), Franklin Mutual Series Fund Inc. (3.87% – 27 May 2015), Temasek Holdings (Private) Limited, (4.27% – 2 Feb 2016), BlackRock, Inc. (5.15% – 28 Oct 2016), and RRJ Capital II Ltd. (10.13% – 30 Jun 2016).

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.

### Relationship agreement RRJ

RRJ Capital II Ltd ('RRJ') and NN Group have entered into a relationship agreement which was signed on 3 October 2016 and has a term of four years. Prior to the expiry of this agreement, NN Group and RRJ will discuss its potential continuation in good faith. RRJ intends to be a long term shareholder in NN Group and has expressed its continuous support and confidence in NN Group's strategy and management.

### Diverse shareholder base (Nasdaq shareholder analysis as at 31 January 2017 (%))



United States	36
Asia	21
United Kingdom	15
The Netherlands	4
Rest of Europe	23
Rest of the World	1



## Our business model

### Our financial management continued

On 19 December 2016, RRJ, its owners and certain associated companies, received a Declaration of No Objection (DNO) from the Dutch Central Bank (DNB), as referred to in section 3:95 of the Dutch Financial Supervision Act (WfT), to hold an interest in NN Group not exceeding 12.5% of the issued share capital of NN Group.

On the date the DNO was issued by DNB, RRJ held an interest of 10.26% in the issued share capital of NN Group.

### Shareholder returns and dividends

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. We intend to pay interim dividends calculated at approximately 40% of the prior year's full year dividend. Barring unforeseen circumstances, we intend to declare the interim dividend with the disclosure of our second quarter results and to propose a final dividend at the Annual General Meeting of shareholders.

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 corporate opportunities. A clear example is our intention to combine Delta Lloyd with the Dutch and Belgian activities of NN Group, by way of a public tender offer for all issued and outstanding ordinary shares of Delta Lloyd, for EUR 5.40 in cash per ordinary share.

NN Group is committed to distributing excess capital in a form that is most appropriate and efficient for shareholders. Examples are our share buybacks as part of the ING sell-down in January 2016, and the share buyback programme announced in May 2016.

More information about the share buybacks is available in the Financial Report, pages 63, 146, and 151, or on our corporate website.

When proposing a dividend, NN Group will take into account, among other things, its capital position, leverage and liquidity position, regulatory requirements, and strategic considerations, as well as the expected developments thereof.

NN Group intends to pay dividends 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.

At the Annual General Meeting on 1 June 2017, a final dividend for 2016 will be proposed of EUR 0.95 per ordinary share. Together with the 2016 interim dividend of EUR 0.60 per ordinary share paid in September 2016, NN Group's total dividend for 2016 will be EUR 1.55 per ordinary share, which is equivalent to a dividend pay-out ratio of around 51% of NN Group's full-year 2016 net operating result of the ongoing business.

### Debt instruments

NN Group is borrowing subordinated and senior debt through debt capital markets to meet long term financing requirements. In March 2015, NN Group established a Debt Issuance Programme which facilitates the issuance of debt instruments.

NN Group targets a single A financial strength rating. The financial strength rating of NN Group by both Standard & Poor's and Fitch is A+.

On 7 October 2016, Standard & Poor's announced that it had placed the credit ratings of NN Group on 'CreditWatch negative' as a result of the proposed acquisition by NN Group of Delta Lloyd. On 4 January 2017, Standard & Poor's announced that it will maintain the credit ratings of NN Group on 'CreditWatch negative' and expects to resolve or update this assessment within 90 days.

On 23 December 2016, Fitch announced that it will not take any rating action as a result of the offer that NN Group has made for Delta Lloyd.

On 10 January 2017, NN Group issued EUR 500 million of senior unsecured debt with a fixed rate coupon of 0.875% per annum and a maturity of six years. The proceeds are planned to be used to repay EUR 476 million of subordinated debt of NN Group on its first call date in May 2017. This debt does not qualify as Own Funds under Solvency II.

On the same date NN Group issued EUR 850 million of subordinated debt with a maturity of 31 years and first callable after 11 years with a fixed rate coupon of 4.625% per annum until the first call date and a floating rate coupon thereafter. This subordinated debt qualifies as Tier 2 capital under Solvency II. The proceeds have been used to repay EUR 823 million of hybrids loans outstanding with ING Group which ceased to be grandfathered as Tier 1 capital under Solvency II from 1 January 2017.

To be able to remain competitive and continue to create value for stakeholders, we closely monitor our capital position including the use of debt instruments.

 More information on this programme and the debt instruments issued by NN Group is available on our corporate website.  
[www.nn-group.com/investors/debt-securities](http://www.nn-group.com/investors/debt-securities)

### Credit ratings

Credit ratings are indicators of the probability of timely and full repayment of interest and the principal amount of fixed-income securities. NN Group has been awarded credit ratings from Standard & Poor's and Fitch Ratings. The financial strength ratings of NN Group on 31 December 2016 were:

# A+

**Standard & Poor's**  
CreditWatch negative, 7 October 2016

**Fitch**  
Stable outlook, 23 December 2016

### Financial performance in EUR million

	2016	2015
Operating result ongoing business	1,227	1,435
Net result	1,189	1,565
Net operating ROE	8.1%	10.8%
Free cash flow to the holding	1,349	1,366

### Strong balance sheet in EUR million

	2016	2015
Solvency II ratio	241%	239%
Total assets	168,505	162,152
Shareholders' equity	22,706	20,469
Financial leverage ratio	21.1%	21.7%

## Our business model

### Our financial management continued

#### As a long term and active investor, NN Group is committed to investing responsibly

We strive to conduct our business in an environmentally and socially responsible way. This means managing our own assets, as well as those our customers entrust to us, in a responsible way. NN Group's Responsible Investment Policy Framework sets out our vision and approach on how we integrate Environmental, Social and Governance (ESG) aspects in our investment decision-making process and active ownership practices. It also addresses our investment restrictions and the offering of specialised SRI products.

#### Strengthening ESG integration processes and tools

To support the implementation of NN Group's Responsible Investment Policy Framework, we set out to create a series of guidance papers that address areas defined by the UN Global Compact. To help develop these papers, two workshops were organised related to human rights and the environment, involving the sector analysts of NN Investment Partners. The first paper published is on Human Rights, which can be downloaded from our website.

We continued to strengthen the integration of ESG factors in our investment processes. For example, NN Investment Partners in the Netherlands collaborated with our teams in Poland and Japan to leverage local expertise, ensuring that we make informed proxy voting decisions in the region, and strengthen the integration of ESG factors in the investment process across all our operations.

NN Group also developed responsible investment guidelines for Private Equity. These guidelines define our approach to integrate ESG factors in the selection, appointment and monitoring of our (external) private equity managers.

The full implementation of last year's introduced guidelines for Real Estate contributed to a further enhanced performance in the GRESB Real Estate assessment. In 2016, 90% of NN Group's EUR 5 billion proprietary real estate portfolio was measured in GRESB. The portfolio's (value-weighted) score in 2016 was 72 on a scale of 1 to 100, while the benchmark average (289 entities) was 59. This represented an improvement, both in absolute terms and relative to peers, from 2015 when the score was 66 versus the benchmark average of 55.

#### Influencing companies to take responsibility

We believe that active, engaged ownership contributes to generating long term value. It is an important part of our strategy to earn long term returns from the companies in which we invest. One of the most powerful tools of active ownership is well-informed proxy voting. Voting rights are exercised on behalf of: (i) the proprietary portfolio and (ii) the Dutch, Belgian, and Luxembourg funds with at least EUR 100 million assets under management.

As part of the information barriers (historically known as 'Chinese Walls'), there are separate voting committees for proprietary and client assets in place. During 2016, NN Investment Partners voted at 1,437 shareholder meetings (94% of total votable meetings) on 18,335 agenda items and 347 resolutions put forward by shareholders.

These resolutions focus on ESG issues. We supported shareholder resolutions related to environmental and social matters in a large number of cases. We voted against when these resolutions would not provide proportionate benefits to shareholders. Our voting record is summarised in the table on page 54.

Dialogue and engagement with companies are part of our fundamental approach to the investment process. Because of NN Investment Partners' active investment strategies, our analysts and portfolio managers are in continuous dialogue with investee companies. During company meetings, they also address ESG issues that may have a material impact for the company.

Furthermore, we have an in-house team that focuses in more detail on ESG issues that may have a material impact on our customers' holdings. The engagements they conduct are often in collaboration with other investors. For example, during 2016, we participated in two working groups of the Principles for Responsible Investment (PRI) that focused on human rights in the extractive industry, and on identifying good practices for companies' director nominations processes.

In 2016, we implemented a more detailed database which allows us to better track and report on ESG dialogues with investee companies. The chart on the next page shows the breakdown between environmental, social and governance issues as a topic of discussion during our company meetings. In total, 310 dialogues were logged by our equity analysts and ESG specialists in the database. These dialogues included 48 engagements conducted by our ESG specialists, which were often in collaboration with other institutional investors or supported by an external service provider.



#### Case study

##### ESG ratings lead to better performance

In 2016, a second study was conducted with the University of Maastricht's European Centre for Corporate Engagement (ECCE). This study aimed at understanding how ESG factors affect share price performance in emerging markets (EM) equities. The study finds that investing in EM equities with high ESG ratings leads to better performance when adjusted for country and sector factors. NN Investment Partners uses these results to improve the ESG integration in the investment process.



Link to full article:  
[www.nn-group.com/annual-report](http://www.nn-group.com/annual-report)

## Our business model

### Our financial management continued

NN Investment Partners reports in more detail on its proxy voting and on the progress and outcomes of engagements conducted in the Active Ownership and Responsible Investing reports, which are published on their website.

#### Increased focus on climate change

As long term investors, we are aware of the risks climate change presents to our investments, and as such we are committed to playing our part in addressing the issue of climate change.

By supporting the annual Climate Change Information Request that the Carbon Disclosure Project (CDP) sends to publicly listed companies worldwide, we encourage companies to adopt a long term mindset, and to provide better disclosure regarding climate change-related risks and opportunities. In 2016, we also joined CDP's Water programme, through which we will encourage companies to disclose better information about their water usage.

Climate change dominated the environmental shareholder proposals at AGMs in 2016. NN IP voted on 18 different shareholder proposals related to this topic, of which we voted in support of 17. We also continued our engagement in the utility sector focusing on ways to increase power generation from renewable energy sources and reduce their carbon footprint. These engagement activities, supported by engagement specialist GES, focus on a selection of 20 large companies worldwide.

The companies' responses to our engagement requests differ substantially as a reflection of how mature they are in addressing carbon risks. The range in responses is taken into account when future engagement efforts are calibrated to reach maximum effect.

#### Making a positive impact through our investments

By offering specialised SRI funds and responsible investment solutions, NN Investment Partners meets our customers' growing demand for products that generate solid financial returns and have a positive impact on society and the environment. NN Investment Partners has a long track record of managing sustainable products across asset classes. In addition to NN Investment Partners' flagship sustainable equity and credit funds, a number of new funds were introduced in 2016. This included a new sustainable balanced fund that invests in a mix of assets classes. NN Investment Partners also grew its presence in impact investment strategies through the launch of a euro green bond fund and a global impact fund focusing on listed equity. These offerings aim to generate measurable impact alongside financial return. The total assets under management in all our sustainable equity and fixed income products have grown with 12% to EUR 5,062 million at year-end 2016.

Guided by our responsible investment principles, we also consider opportunities on behalf of NN Group's proprietary assets that seek a positive impact on society whilst meeting our investment criteria. For example, we invested in green bonds, and provided debt financing for a wind park in Germany.

#### Advocacy on responsible investment

NN Investment Partners actively participated in the Investment committee and the Legal committee of the Dutch corporate governance network Eumedion, the Corporate governance committee of EFAMA as well as the Shareholder rights committee of the International Corporate Governance Network (ICGN).

Representatives of NN Investment Partners also spoke publicly about sustainability and corporate governance at various symposia and congresses around the world. On these occasions, they shared the results of NN Investment Partners' studies on the effect of ESG data on investment performance. For its European institutional client base, NN Investment Partners hosted several responsible investor conferences in Europe.

 [Read more about stakeholder engagement and international commitments on pages 48-49 of this Annual Review.](#)

 More information on NN's approach to responsible investment is available on our corporate website: [www.nn-group.com/In-society/Responsible-investment](http://www.nn-group.com/In-society/Responsible-investment)

#### Building environmental screening tools

Sound investment decisions start with having the right information. To better understand investment exposure to potential environmental risks, NN Investment Partners partnered with South Pole Group, one of the leading providers of carbon, waste and water data. By building an in-house portfolio screening tool, we are able to meet current and future information requirements of clients, enabling on-demand reporting across asset classes. Among the first requests, a carbon footprint report is being prepared for NN Group's proprietary portfolio.



# EUR 5bn

AuM in SRI funds and mandates

# 1,437

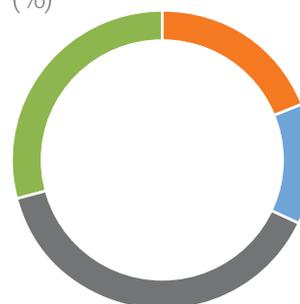
number of shareholder meetings at which we voted

# 310

number of ESG dialogues

#### Company dialogues on ESG<sup>1</sup>

(%)



	Environmental	19
	Social	13
	Governance	39
	ESG overlapping	29

<sup>1</sup> This represents the number of company dialogue and engagements conducted by NN IP's equity analysts and ESG specialists.