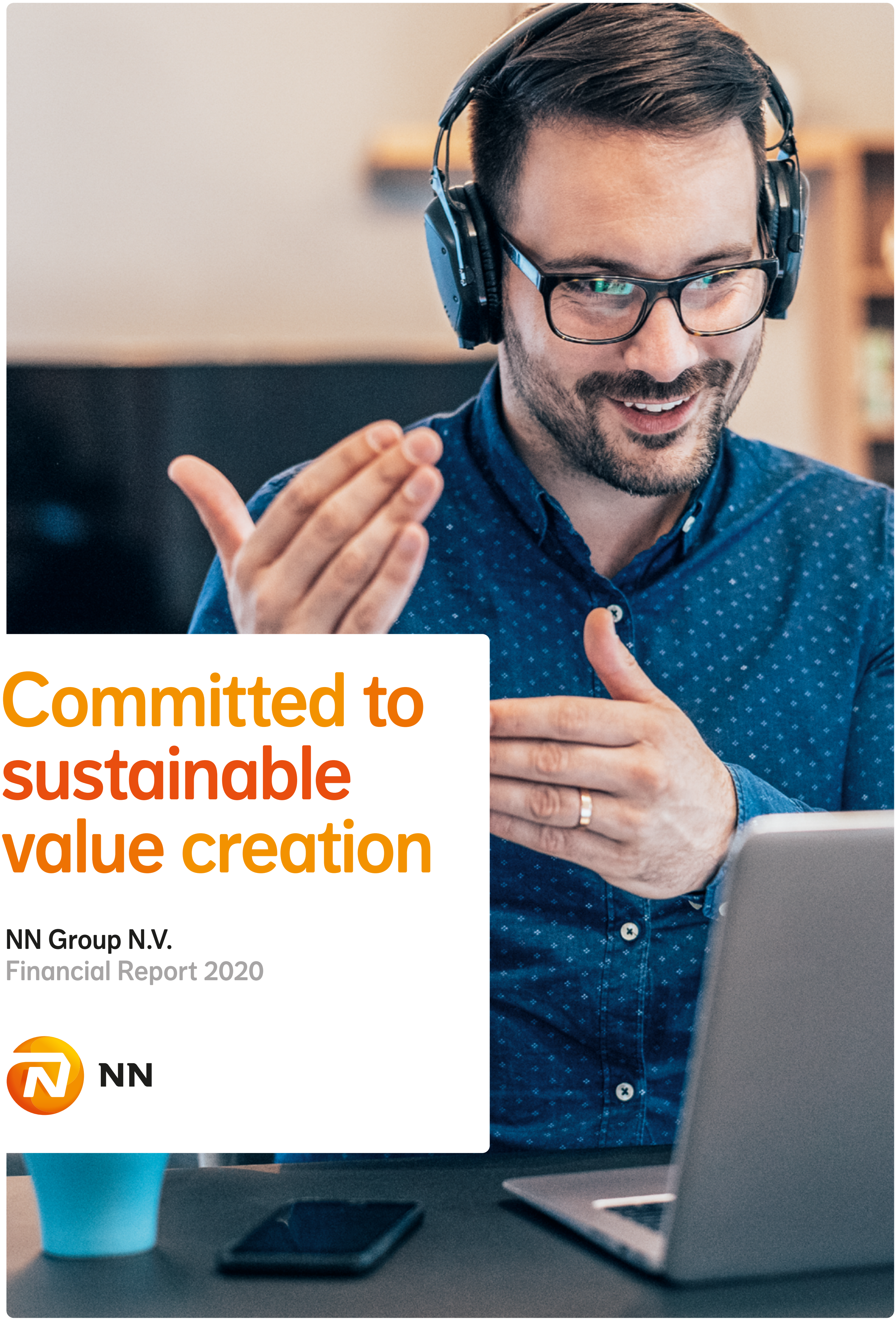


Committed to sustainable value creation

NN Group N.V.
Financial Report 2020

NN

Financial developments

Report of the Supervisory Board

Corporate governance

Annual accounts

Parent company annual accounts

Other information

The 2020 Annual Report consists of the 2020 Annual Review and the 2020 Financial Report. It provides an integrated review of the performance of NN Group.

The Annual Report aligns relevant information about our governance, strategy, performance and future prospects in a way that reflects the economic, environmental and social contexts in which we operate. It is prepared in accordance with Dutch law and relevant reporting standards.

Together with this report, NN Group publishes a Solvency and Financial Condition Report, a Total Tax Contribution Report, and a Carbon Footprint Report. Next to that, NN Investment Partners launches a Responsible Investing Report. All these reports are published on NN Group's corporate website in the Investors/Financial Report section.

Read more on our approach to reporting on pages 61-62 of the Annual Review.

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

Founded in 1845, NN Group is a financial services company, active in several European countries and Japan.

For 175 years, we have been dedicated to meeting and exceeding our customers' expectations.

Our purpose is to help people care for what matters most to them. What we do centres around people, professionalism, and trust. In our day-to-day activities we pursue the creation of long-term value for all stakeholders.

What matters to you, matters to us.

Financial developments

This Financial developments section includes the analysis of results and key figures of NN Group and its reporting segments. The results presented in this section are derived from the 2020 annual accounts where relevant. In explaining the financial results, NN Group uses Operating result, Administrative expenses and Adjusted allocated equity (as used in the calculation of Net operating ROE for the Segment Banking only). These are Alternative Performance Measures (APMs). Alternative performance measures are non-IFRS-EU measures that have a relevant IFRS-EU equivalent from which these are derived. For definitions of the Alternative Performance Measures and explanation of their use reference is made to Note 32 'Segments' in the section 'Alternative Performance Measures (Non-GAAP measures)' in the annual accounts. That section also includes a reconciliation between the Alternative Performance Measures and their IFRS equivalent. Furthermore, it includes definitions of other financial metrics used in this Financial developments section, including Operating Capital Generation.

The Solvency II ratios presented below are not final until filed with the regulators. The Solvency II ratios for NN Group and NN Life are based on the Partial Internal Model. The year-end 2019 NN Group Solvency II ratio was adjusted to reverse the deduction of the proposed 2019 final dividend following the decision to suspend dividend payments in light of the recommendations of EIOPA and the Dutch Central Bank (DNB). NN Bank is included in the calculation of the NN Group Solvency II ratio as of the end of 2020.

NN Group

Analysis of result

amounts in millions of euros	2020	2019
Netherlands Life	994	922
Netherlands Non-life	215	203
Insurance Europe	285	283
Japan Life	240	218
Asset Management	152	161
Banking	154	152
Other	-151	-144
Operating result	**1,889**	**1,794**
Non-operating items:	662	887
– of which gains/losses and impairments	640	335
– of which revaluations	337	827
– of which market and other impacts	-315	-275
Special items	-278	-262
Acquisition intangibles and goodwill	-24	1
Result on divestments	100	8
Result before tax	**2,349**	**2,429**
Taxation	422	444
Minority interests	22	23
Net result	**1,904**	**1,962**

Key figures

amounts in millions of euros	2020	2019
New sales life insurance (APE)	1,127	1,741
Value of new business	266	358
Total administrative expenses	2,121	2,076
Operating capital generation	993	1,349
Solvency II ratio	210%	224%

Operating result

The full-year 2020 operating result increased to EUR 1,889 million from EUR 1,794 million in 2019, which included a total of EUR 121 million of non-recurring benefits, versus a total of EUR 24 million of non-recurring benefits in 2020. Excluding these items, the increase mainly reflects the higher investment margin at Netherlands Life driven by the shift to higher yielding assets, partly offset by the negative impact of Covid-19 of around EUR 53 million.

Result before tax

The full-year 2020 result before tax decreased to EUR 2,349 million from EUR 2,429 million in 2019, reflecting lower non-operating results, partly compensated by the higher operating result and a higher result on divestments.

Net result

The full-year 2020 net result was EUR 1,904 million compared with EUR 1,962 million in 2019. The effective tax rate for the full-year 2020 was 18.0%.

Sales and Value of New Business

The full-year 2020 total new sales (APE) were EUR 1,127 million, down 34.6% at constant currencies, mainly due to lower sales at Japan Life following the revised tax regulations of COLI products, as well as Covid-19 restrictions, and at Netherlands Life where the 2019 sales benefited from a higher volume of group pension contracts.

Value of new business for full-year 2020 amounted to EUR 266 million, down 25.7% on 2019, reflecting lower sales at Japan Life, partly compensated by an improved product mix, as well as lower sales at Insurance Europe due to Covid-19 restrictions and lower interest rates.

Operating capital generation

Full-year 2020 operating capital generation decreased to EUR 993 million from EUR 1,349 million in 2019. The decrease reflects the negative impact of lower interest rates, the suspension of dividend payments from NN Bank and unfavourable developments in the D&A portfolio of Netherlands Non-life. This was partly compensated by a higher investment return mainly in Netherlands life reflecting the shift to higher-yielding assets.

Financial developments continued

Netherlands Life

Analysis of result

amounts in millions of euros	2020	2019
Investment margin	890	844
Fees and premium-based revenues	392	412
Technical margin	184	161
Operating income	**1,467**	**1,417**
Administrative expenses	440	462
DAC amortisation and trail commissions	33	33
Total expenses	**473**	**495**
Operating result	994	922
Non-operating items:	680	833
– of which gains/losses and impairments	620	205
– of which revaluations	371	864
– of which market and other impacts	-310	-237
Special items	-77	-57
Result on divestments		5
Result before tax	**1,597**	**1,703**
Taxation	330	308
Minority interests	8	8
Net result	**1,260**	**1,386**

Key figures

amounts in millions of euros	2020	2019
New sales life insurance (APE)	219	480
Value of new business	8	9
Administrative expenses	440	462
Operating capital generation	642	770
NN Life Solvency II ratio	220%	213%

The full-year 2020 operating result increased to EUR 994 million from EUR 922 million in 2019. The increase is driven by a higher investment margin, higher technical margin and lower administrative expenses, partly offset by lower fees and premium-based revenues. The investment margin in 2020 includes private equity and special dividends for a total amount of EUR 9 million, whereas 2019 included EUR 83 million of such items. Excluding these items, the investment margin increased as a result of the shift to higher-yielding assets. The technical margin in 2020 benefited from non-recurring benefits as well as favourable longevity results. Administrative expenses decreased to EUR 440 million from EUR 462 million in 2019, mainly driven by lower staff expenses.

The full-year 2020 result before tax decreased to EUR 1,597 million compared with EUR 1,703 million in 2019. The decrease mainly reflects lower non-operating items, partly compensated by the higher operating result.

New sales (APE) for full-year 2020 decreased to EUR 219 million from EUR 480 million in 2019. On a comparable basis, based on the new definition, new sales (APE) were down EUR 97 million compared with 2019 which benefited from a higher volume of group pension contracts.

The value of new business for full-year 2020 was EUR 8 million compared with EUR 9 million in 2019.

Full-year 2020 operating capital generation decreased to EUR 642 million from EUR 770 million in 2019. The decrease is mainly due to the net negative impact of the UFR drag and risk margin release as a result of lower interest rates as well as the negative impact of the longevity reinsurance transactions, partly compensated by a higher investment return reflecting the shift to higher-yielding assets.

Financial developments continued

Netherlands Non-life

Analysis of result

amounts in millions of euros	2020	2019
Earned premiums	3,418	2,941
Investment income	98	106
Other income	-1	-5
Operating income	**3,515**	**3,042**
Claims incurred, net of reinsurance	**2,350**	**2,045**
Acquisition costs	630	516
Administrative expenses	340	305
Acquisition costs and administrative expenses	**970**	**821**
Expenditure	**3,319**	**2,866**
Operating result insurance businesses	**196**	**176**
Operating result non-insurance businesses	19	28
Total operating result	**215**	**203**
Non-operating items:	3	61
– of which gains/losses and impairments		48
– of which revaluations	-9	12
– of which market and other impacts	12	1
Special items	-79	-67
Result before tax	**138**	**197**
Taxation	31	42
Minority interests	11	13
Net result	**97**	**143**

Key figures

amounts in millions of euros	2019	2018
Gross premium income	3,521	3,097
Total administrative expenses[1]	451	385
Combined ratio:[2]	95.3%	95.4%
– of which Claims ratio[2]	67.0%	67.4%
– of which Expense ratio[2]	28.4%	27.9%
Operating capital generation	76	132

1 Including non-insurance businesses (health business and broker business).
2 Excluding non-insurance businesses (health business and broker business).

The full-year 2020 operating result of Netherlands Non-life increased to EUR 215 million from EUR 203 million in 2019. The increase reflects a EUR 45 million contribution of VIVAT Non-life and lower claims in P&C, partly offset by lower underwriting results in D&A. The higher underwriting results in P&C reflect a favourable claims development including a positive impact from Covid-19 and favourable run-off results. Lower underwriting results in D&A include the reduction of the discount rate of the IFRS technical provisions to reflect the current low interest rate environment and an unfavourable claims development in the Group Income and Individual Disability portfolios, partly due to Covid-19.

The full-year 2020 result before tax decreased to EUR 138 million from EUR 197 million in 2019, reflecting lower non-operating items and higher special items, partly compensated by the higher operating result. Lower non-operating items include lower results on the sale of government bonds and lower revaluations on real estate and private equity. Special items mainly reflect integration expenses.

The combined ratio for 2020 was 95.3% compared with 95.4% in 2019.

Full-year 2020 operating capital generation decreased to EUR 76 million from EUR 132 million in 2019. The decrease is mainly due to a higher SCR following the termination of an internal reinsurance agreement in the Individual Disability portfolio, as well as a lower underwriting result in D&A, partly offset by better results in P&C and the acquisition of VIVAT Non-life.

Financial developments continued

Insurance Europe

Analysis of result

amounts in millions of euros	2020	2019
Investment margin	110	102
Fees and premium-based revenues	730	737
Technical margin	252	239
Operating income non-modelled business	1	1
Operating income Life Insurance	**1,093**	**1,080**
Administrative expenses	417	419
DAC amortisation and trail commissions	389	386
Expenses Life Insurance	**806**	**805**
Operating result Life Insurance	**287**	**275**
Operating result Non-life	-3	8
Operating result	**285**	**283**
Non-operating items:	-11	51
– of which gains/losses and impairments	4	73
– of which revaluations	-12	-20
– of which market and other impacts	-4	-2
Special items	-29	-35
Acquisition intangibles and goodwill		33
Result on divestments	-11	
Results before tax	**234**	**331**
Taxation	63	73
Net result	**171**	**259**

Key figures

amounts in millions of euros	2020	2019
New sales life insurance (APE)	644	674
Value of new business	183	204
Total administrative expenses (Life and Non-life)	432	431
Operating capital generation	253	251

The full-year 2020 operating result was broadly stable at EUR 285 million compared with EUR 283 million in 2019, reflecting higher technical margin across the region, higher pension fees in Romania and a higher investment margin in Belgium, partly offset by lower fees due to Covid-19 and lower Non-life results.

The result before tax for full-year 2020 decreased to EUR 234 million from EUR 331 million in 2019, which included gains on the sale of government bonds as well as negative goodwill arising from the acquired Czech and Slovak businesses.

Full-year 2020 new sales (APE) decreased to EUR 644 million from EUR 674 million in 2019, reflecting lower sales due to Covid-19 restrictions as well as negative currency impacts.

Value of new business for full-year 2020 decreased to EUR 183 million, down 10.3% from EUR 204 million in 2019, reflecting lower sales due to Covid-19 restrictions and lower interest rates.

Full-year 2020 operating capital generation was broadly stable at EUR 253 million compared with EUR 251 million in 2019, mainly reflecting a lower new business contribution in the first half of the year due to Covid-19 restrictions which was compensated by higher new business contribution in the second half.

Financial developments continued

Japan Life

Analysis of result

amounts in millions of euros	2020	2019
Investment margin	-14	-16
Fees and premium-based revenues	639	659
Technical margin	17	24
Operating income	**642**	**667**
Administrative expenses	144	148
DAC amortisation and trail commissions	258	302
Total expenses	**402**	**449**
Operating result	**240**	**218**
Non-operating items:	-27	-34
– of which gains/losses and impairments	-7	-6
– of which revaluations	-20	-28
Special items	-3	-4
Result before tax	**210**	**180**
Taxation	57	48
Net result	**152**	**131**

Key figures

amounts in millions of euros	2020	2019
New sales life insurance (APE)	263	587
Value of new business	75	146
Administrative expenses	144	148
Operating capital generation	133	173

The full-year 2020 operating result was EUR 240 million, up 9.3% compared with 2019, excluding currency effects. The increase was primarily driven by lower DAC amortisation and trail commissions reflecting the increased persistency as well as lower administrative expenses, partly offset by the negative impact of Covid-19 of EUR 13 million.

The result before tax for full-year 2020 was EUR 210 million, up 16.3% compared with 2019, excluding currency effects, reflecting the higher operating result and higher non-operating items.

New sales (APE) for full-year 2020 were EUR 263 million, down 55.9% from 2019, excluding currency effects, due to lower sales following the revised tax regulations of COLI products, as well as Covid-19 restrictions.

Full-year 2020 value of new business decreased to EUR 75 million from EUR 146 million in 2019, reflecting lower sales, partly offset by an improved product mix.

Full-year 2020 operating capital generation decreased to EUR 133 million from EUR 173 million in 2019, which benefited from the impact of a reinsurance transaction. The current period reflects the positive impact of lower new business strain as a result of lower sales following the revision of tax regulations of COLI products as well as Covid-19 restrictions, partly offset by a lower in-force contribution as a result of lower sales.

Financial developments continued

Asset Management

Analysis of result

amounts in millions of euros	2020	2019
Investment income	-3	1
Fees	440	443
Operating income	**438**	**444**
Administrative expenses	286	283
Operating result	**152**	**161**
Special items		-15
Result before tax	**152**	**146**
Taxation	37	35
Minority interests	4	2
Net result	**111**	**108**

Key figures

amounts in millions of euros	2020	2019
Administrative expenses	286	283
Operating capital generation	103	122

amounts in billions of euros	2020	2019
Assets under Management	300	276

The full-year 2020 operating result was EUR 152 million compared with EUR 161 million in 2019. The decrease reflects lower fees, as well as higher administrative expenses.

The result before tax for 2020 increased to EUR 152 million from EUR 146 million in 2019 driven by lower special items, partly offset by the lower operating result.

Full-year 2020 operating capital generation was EUR 103 million mainly reflecting the net result, compared with EUR 122 million in 2019 which included non-recurring benefits.

Financial developments continued

Banking

Analysis of result

amounts in millions of euros	2020	2019
Interest result	280	259
Commission income	48	35
Total investment and other income	45	67
Operating income	**373**	**361**
Operating expenses	195	192
Regulatory levies	20	17
Addition to loan loss provision	3	-1
Total expenses	**219**	**209**
Operating result	**154**	**152**
Non-operating items:	27	-14
– of which gains/losses and impairments	11	7
– of which market and other impacts	17	-21
Special items	-14	-15
Result before tax	**167**	**123**
Taxation	35	30
Net result	**132**	**93**

Key figures

amounts in millions of euros	2020	2019
Total administrative expenses[1]	216	210
Cost/income ratio[2]	52.4%	53.3%
Net operating RoE	13.8%	15.0%
Operating capital generation		82
amounts in billions of euros	**2020**	**2019**
Total assets	25	25

1 Operating expenses plus regulatory levies.
2 Cost/income ratio is calculated as Operating expenses divided by Operating income.

The full-year 2020 operating result increased to EUR 154 million from EUR 152 million in 2019, which included EUR 26 million of non-recurring premiums on mortgage sales to the NN IP Dutch Residential Mortgage Fund, while 2020 included EUR 7 million of such non-recurring benefits. Excluding these items, the higher 2020 operating result was mainly driven by a higher interest result, partly offset by higher operating expenses reflecting the impact of Covid-19.

The full-year 2020 result before tax increased to EUR 167 million from EUR 123 million in 2019, mainly reflecting higher non-operating items.

The full-year 2020 net operating RoE of Banking decreased to 13.8% compared with 15.0% for 2019, reflecting higher equity partly offset by a higher net operating result.

Full-year 2020 operating capital generation of nil compared with EUR 82 million in 2019 due to the suspension of dividend payments in 2020 in accordance with the recommendations of the Dutch regulator.

Financial developments continued

Other

Analysis of result

amounts in millions of euros	2020	2019
Interest on hybrids and debt[1]	-108	-108
Investment income and fees	107	105
Holding expenses	-142	-145
Amortisation of intangible assets		
Holding result	**-143**	**-148**
Operating result reinsurance business	-8	-5
Other results		10
Operating result	**-151**	**-144**
Non-operating items:	-10	-9
– of which gains/losses and impairments	12	8
– of which revaluations	7	-1
– of which market and other impacts	-29	-16
Special items	-75	-69
Acquisition intangibles and goodwill	-24	-32
Result on divestments	111	4
Result before tax	**-149**	**-251**
Taxation	-131	-92
Net result	**-18**	**-158**

Key figures

amounts in millions of euros	2020	2019
Total administrative expenses:	153	158
– of which reinsurance business	8	7
– of which corporate/holding	144	152
Operating capital generation	-214	-180

1 Does not include interest costs on subordinated debt treated as equity.

The full-year 2020 operating result was EUR -151 million compared with EUR -144 million in 2019 mainly due to lower other results.

The full-year 2020 holding result improved to EUR -143 million from EUR -148 million in 2019, reflecting lower holding expenses and higher investment income and fees.

The operating result of the reinsurance business for full-year 2020 was EUR -8 million compared with EUR -5 million in 2019. Claims related to Netherlands Non-life's Disability portfolio amounted to EUR 31 million in 2020 versus EUR 22 million in 2019, while 2019 also included a large claim from a legacy reinsurance portfolio.

Other results in 2020 were nil compared with EUR 10 million in 2019, which included a higher net release of provisions related to a legacy entity.

The full-year 2020 result before tax of the segment Other was EUR -149 million compared with EUR -251 million in 2019, mainly driven by the result on divestments reflecting a provision release following the completion of a tax audit on ING Australia Holdings.

Full-year 2020 operating capital generation was EUR -214 million compared with EUR -180 million in 2019, which benefited from a reinsurance transaction with Japan Life, while the current period reflects a release of SCR following the termination of an internal reinsurance agreement with Netherlands Non-life.

Report of the Supervisory Board

Introduction by the Supervisory Board Chair

The headlines in 2020 were dominated by Covid-19; this was true across the globe, no matter what country one lives in or the type of business one pursues. Covid-19 was definitely on the minds and the agenda of the Supervisory Board of NN Group too. After a few 'normal' physical meetings at the beginning of the year, the vast majority of our meetings, starting from March 2020, were held virtually. While practical aspects changed, the fundamental aspects of our work did not change. We stayed focused on fulfilling our duties to oversee and advise the Executive Board and Management Board, taking into account the interests of our various stakeholders, and taking the steps we could to support the health and safety of our customers, our partners and our employees.

In doing so, we particularly maintained a close eye on the long-term nature of NN Group's business model and our overall aim to create sustainable, long-term value for all stakeholders. Important elements of our company's values, our purpose statement, our ambitions and our strategic commitments are elaborated on throughout this year's Annual Report.

For a comprehensive overview of the Supervisory Board's activities during 2020, I invite you to read the full report that starts after this introduction.
At this point, I would like to mention four key developments the Supervisory Board particularly was closely involved in during 2020. These were (1) the refinement of NN Group's strategy and purpose;
(2) the impact of Covid-19 on our company, customers, partners and employees;
(3) ongoing regulatory developments; and
(4) ongoing succession planning.

Regarding the refinement of the strategy and purpose, throughout 2020 the Supervisory Board advised and supervised the Executive Board and the Management Board on decisions that prioritised resources and maintained a balance between addressing current needs and preparing the company for a healthy future. The Supervisory Board challenged and approved the plans supporting the redefined strategy and the June 2020 Capital Markets Day announcements, including relevant financial and non-financial key performance indicators as well as value creation targets for various stakeholders. In doing so, the Supervisory Board took into consideration, amongst other aspects, a broad and robust capital management approach, with attention for investments in future growth, an ongoing review of the company's business portfolio, and an adequate return on capital for shareholders.

Next to the strategy and purpose, the Supervisory Board spent a significant amount of its time and attention on the impact of Covid-19. Unprecedented as the pandemic has been, both in terms of length and magnitude, we especially monitored the impact on the well-being of our customers, agents, staff and management; the impact on the financial markets; and on NN Group's businesses, investments and operations. With the ultimate aim of financial and organisational stability in mind, we focused on meeting the needs and expectations of our customers, providing appropriate support to our employees to facilitate working from home while maintaining the integrity of our operations and control environment. During the second half of the year, we also assessed the impact of the pandemic on the long-term objectives of the company and of management, and decided these were still valid and adjustments were therefore not necessary.

In 2020, as in previous years, there was a continuing focus on regulatory and legal developments, which we closely monitored and assessed. These developments ranged from EIOPA's Solvency II 2020 review in Europe, to pension reforms in the Netherlands and Eastern Europe, tax reforms in Japan, and multiple regulations in the areas of conduct and compliance.

In addition, the Supervisory Board was engaged in succession planning for the various Boards. Regarding the new Management Board members and roles, the Supervisory Board was consulted in the appointments of Bernard Kaufmann as CRO, Leon van Riet as CEO Netherlands Life & Pensions and Tjeerd Bosklopper as CEO Netherlands Non-life, Banking & Technology. The Supervisory Board is confident that, with these appointments, the Management Board is well positioned to lead the company in this fast-paced and dynamic environment, delivering on the company's purpose and strategic priorities while ensuring sustainable long-term value creation for all stakeholders. Regarding the Supervisory Board itself, we were pleased to communicate on 10 February 2021, the nomination of Cecilia Reyes and Rob Lelieveld for appointment as new members of our Supervisory Board. Cecilia and Rob will both bring highly relevant experience and insights to our deliberations and will contribute toward performing our duty. The proposals for their appointment will be submitted for adoption at the annual general meeting, to be held on 20 May 2021.

The Supervisory Board would like to thank NN Group's employees for their commitment, flexibility and hard work during a very challenging 2020. It is due to the spirit and dedication demonstrated by our employees that NN was able to support customers uninterruptedly during the severe and prolonged Covid-19 situation and that the financial and non-financial results of our company held up so well.

Together with the Executive Board and Management Board, the Supervisory Board looks forward to continue contributing to NN's purpose to help people care for what matters most to them and to create long-term value for all of the NN Group's stakeholders.

Yours faithfully,

David A. Cole

David Cole
Chair Supervisory Board NN Group

Report of the Supervisory Board continued

Supervisory Board

The Supervisory Board is responsible for supervising the management of the Executive Board and the general course of affairs of NN Group and the businesses affiliated with it.

David Cole
Chair
Nationality: Dutch, American
Date of birth: 1961

Hélène Vletter-van Dort
Vice-chair
Nationality: Dutch
Date of birth: 1964

Heijo Hauser
Member
Nationality: German
Date of birth: 1955

Robert Jenkins
Member
Nationality: American
Date of birth: 1951

Hans Schoen
Member
Nationality: Dutch
Date of birth: 1954

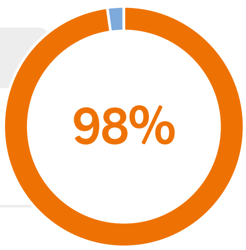
Clara Streit
Member
Nationality: German, American
Date of birth: 1968

Supervisory Board facts & figures

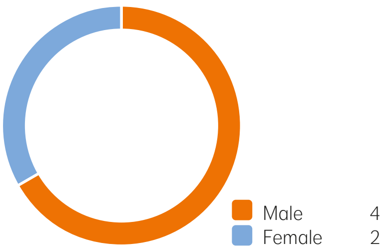
14
Supervisory Board meetings held in 2020

Attendance rate

Overall attendance of the Supervisory Board meetings



Supervisory Board composition (after 28 May 2020)



4
Supervisory Board Committees

17 hours
In total, 17 hours spent on Permanent Education sessions arranged by NN Group
Permanent Education attendance rate: 74.4%

Report of the Supervisory Board continued

Supervisory Board

The Supervisory Board is responsible for supervising the management of the Executive Board and the general course of affairs of NN Group and the businesses affiliated with it. The Supervisory Board also advises the Executive Board. In the performance of its duties, the Supervisory Board carefully considers and acts in accordance with the interests of NN Group and its affiliated businesses, taking into account the interests of all stakeholders.

This Supervisory Board Report section must be read in conjunction with the Corporate Governance section (pages 23-32) and the Remuneration Report section (pages 33-42) of this Financial Report.

Profile of the Supervisory Board

The composition of the Supervisory Board is such that the members are able to act critically and independently of one another, the Executive Board and any particular interests. The Supervisory Board operates as a collegial body and the knowledge, experience and background of its individual members is considered in the context of the Supervisory Board as a whole.

The overall composition of the Supervisory Board is balanced taking into account the members' (a) nationalities, gender, age, education, experience and work background, (b) affinity with the nature of the businesses and culture of NN Group, and (c) executive experience, experience in complex multinationals, and experience in the political and social environment in which such multinationals operate. This ensures a wide range of relevant perspectives and opinions on NN Group, and the opportunities and challenges it faces today and will face tomorrow.

The Supervisory Board strives to ensure that all its members are independent (as defined in the 2016 Corporate Governance Code).

The matrix on page 13 provides an overview of the range of knowledge, experience and backgrounds of the individual Supervisory Board members.

Supervisory Board meetings

The Supervisory Board held 14 Supervisory Board meetings in 2020. All meetings from March 2020 onwards were held virtually due to the Covid-19 pandemic. As a further result of the pandemic, the Supervisory Board did not visit one of the NN Group business units as is customary every year. The average attendance rate for Supervisory Board meetings was 98%. None of the Supervisory Board members were frequently absent from meetings, and at all meetings attendance was sufficient to constitute a valid quorum.

In addition to the formal meetings, the chair and other members of the Supervisory Board maintained regular contact with NN Group's Chief Executive Officer, other members of the Executive Board and Management Board, senior management, heads of staff, business unit CEOs, etc. The Supervisory Board met with the supervisory authorities as well, which meetings were also virtual as from March 2020. In these meetings, topical issues were discussed, as well as the general course of events at NN Group and its affiliated businesses. Finally, the chair and the Central Works Council-nominated members of the Supervisory Board were in contact with (representatives of) the Central Works Council.

The attendance rate of the individual Supervisory Board members was as follows:

Name	Supervisory Board	Audit Committee	Risk Committee	Remuneration Committee	NomGovCo Committee[1]	Combined RemCo/ NomGovCo
David Cole[2]	14/14	2/2	2/2	2/2	6/6	2/2
Dick Harryvan[3]	9/9	4/4		2/2	3/3	2/2
Heijo Hauser[4]	13/14	6/6	4/4		3/3	
Robert Jenkins[5]	14/14	2/2	4/4	2/2		2/2
Robert Ruijter[6]	6/7	3/3		1/1		2/2
Hans Schoen[7]	14/14	6/6	4/4	3/3		
Clara Streit[8]	12/12		3/4	2/2	2/2	2/2
Hélène Vletter-van Dort[9]	14/14		2/2	4/4	6/6	2/2
Total weighted average	98%	100%	95%	100%	100%	100%

1 Nomination and Corporate Governance Committee.

2 Mr Cole stepped down as member from the Risk Committee and Remuneration Committee and was appointed as a member of the Audit Committee on 14 July 2020.

3 Mr Harryvan's term of appointment ended at the close of the annual general meeting on 28 May 2020.

4 Mr Hauser was appointed as a member of the Nomination and Corporate Governance Committee on 14 July 2020.

5 Mr Jenkins' term ended at the close of the annual general meeting on 28 May 2020. He was reappointed at the annual general meeting on 28 May 2020. Mr Jenkins stepped down as a member from the Remuneration Committee and was appointed as a member of the Audit Committee on 14 July 2020.

6 Mr Ruijter's term of appointment ended on 12 April 2020.

7 Mr Schoen, who was considered as appointed pursuant to the enhanced recommendation right of the Central Works Council as of 12 April 2020, joined the Remuneration Committee.

8 Ms Streit's term of appointment ended on 12 April 2020. She was reappointed at the annual general meeting on 28 May 2020. On 14 July 2020, Ms Streit stepped down as a member of the Nomination and Corporate Governance Committee and was appointed as a member of the Remuneration Committee.

9 Ms Vletter-van Dort is a Works Council nominee, serves as Vice-chair of the Supervisory Board as of close of the annual general meeting on 28 May 2020 and stepped down as a member of the Risk Committee on 14 July 2020.

Report of the Supervisory Board continued

	D. Cole	H. Hauser	R. Jenkins	H. Schoen	C. Streit	H. Vletter-van Dort
Nationality	NL/US	DE	US	NL	US/DE	NL
Gender	Male	Male	Male	Male	Female	Female
Year of birth	1961	1955	1951	1954	1968	1964
Education	Business Administration	Mathematics	International Studies	Economics Auditing	Business Administration	Law
Insurance	√	√	√	√	√	√
Asset management	√	√		√		√
Banking	√				√	
Risk	√	√	√	√	√	√
Finance & Control	√	√	√	√	√	√
Law & Governance	√	√	√	√	√	√
Technology	√	√		√		
Organisation & Conduct	√	√	√	√	√	√
Executive maturity	√	√	√	√	√	√
Multinationals	√	√	√	√	√	√
Social antenna	√	√	√	√	√	√
International Business	√	√	√	√	√	√
Financial Expert[1]	√	√	√	√		
ESG Experience	√	√	√	√	√	√

1 As defined in article 39 (1) of Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

All members of the Supervisory Board are independent (as defined in the 2016 Dutch Corporate Governance Code).

Supervisory Board Committees

Four committees support the Supervisory Board: the Risk Committee, Audit Committee, Remuneration Committee, and Nomination and Corporate Governance Committee. The committees are responsible for preparing matters delegated to them. The chair of each committee verbally reports the main points of discussion and resulting recommendations to the Supervisory Board. This enables the Supervisory Board as a whole to make a decision on these matters. For each committee, the key inputs and underlying considerations leading to a recommendation are recorded.

Please refer to pages 16 to 22 of this Report of the Supervisory Board for the reports of each of the committees.

Key developments

In 2020, the Supervisory Board was involved in two key developments aimed at long-term value creation for NN Group and its affiliated businesses.

Redefining NN Group's long-term strategic direction, implementation of the new strategy and Capital Markets Day

Six years after NN Group's initial public offering and with the appointment of the new NN Group Chief Executive Officer in October 2019, 2020 was a logical moment to revisit NN Group's strategic framework to ensure a sustainable business strategy.

Throughout 2020, the Supervisory Board advised and supervised the Executive Board and the Management Board on decisions that prioritised resources and maintained a balance between addressing the current needs and preparing for a future proof company. The Supervisory Board was taken along in the journey of redefining NN Group's strategy and purpose statement. The Boards reflected on economic and other developments, the likely impact of and exposure to Covid-19, and market trends in the insurance industry, asset management and banking industry. The challenges being faced in the various industries and specifically by the businesses of NN Group were taken into account, also in light of portfolio assessment and management. Throughout the process, long-term value creation and the interests of all stakeholders remained an integral part of redefining NN Group's strategy.

The process was kicked off by interactive sessions between the Executive Board, Management Board, Supervisory Board and senior staff. Despite the Covid-19 restrictions many productive and interactive online sessions were held with the Supervisory Board leading up to the finalisation of the redefined strategy. In May-June 2020, the Executive Board and Management Board presented their conclusions on the redefined strategy and Capital Markets Day announcements, including new financial and non-financial key performance indicators and targets, which were appropriately challenged and approved by the Supervisory Board.

The new strategy is focused on sustainable value creation for all stakeholders and aims for resilient and growing long-term capital generation for shareholders. NN will continue to build on the solid foundations of the company, while becoming a more customer-centric and data-driven company, accelerating management actions to increase cash flow generation and driving profitable growth in attractive markets. Our purpose is to help people care for what matters most to them. We are committed to doing business in a way that is consistent with our values: care, clear, commit. It is our ambition to be an industry leader, known for our customer engagement, talented people and contribution to society.

The Executive Board and the Management Board ensure that the Supervisory Board is kept up to date on the implementation of the strategy as well as on the challenges being faced in the process of implementation on a regular basis.

Report of the Supervisory Board continued

Changes in the Management Board

On 30 April 2020, NN Group announced an update of the composition of the Management Board as of 1 June 2020. Mr Bernhard Kaufmann was appointed as Chief Risk Officer (CRO) of NN Group, following the departure of Mr Jan-Hendrik Erasmus. Furthermore, given the growth of activities following recent acquisitions in the Netherlands, the Netherlands portfolio was reviewed and divided into two portfolios with separate responsibilities. Mr Leon van Riet was appointed to the Management Board as CEO Netherlands Life & Pensions. Mr Tjeerd Bosklopper, who was already a member of the Management Board, assumed the role of CEO Netherlands Non-life, Banking & Technology.

The Executive Board is authorised to appoint members to the Management Board following consultation of the Supervisory Board.

The Executive Board followed an extensive selection process using a specialised agency with the close involvement of the Nomination and Corporate Governance Committee (and other members of the Supervisory Board) in relation to the appointment of the new CRO, Mr Kaufmann.

The Nomination and Corporate Governance Committee was also consulted in the reorganisation of the Netherlands portfolio, which led to the appointment of Mr Van Riet as CEO Netherlands Life & Pensions and Mr Bosklopper as CEO Netherlands Non-life, Banking & Technology.

The Supervisory Board is confident that, with these appointments, the Management Board is well positioned to lead the company in this fast-paced and dynamic environment, delivering on the strategic priorities and ensuring sustainable long-term value creation for all stakeholders.

Other discussion topics

Other important topics of discussion during the meetings of the Supervisory Board in 2020 included (i) Covid-19, (ii) culture, (iii) business plan and capital plan, (iv) responsible investment, (v) unit-linked products in the Netherlands, (vi) Executive Board and Management Board assessment, (vii) annual accounts and dividend, and (viii) follow-up on the VIVAT Non-life acquisition. Topics (i) – (viii) are addressed below in turn.

In addition, the Supervisory Board:

- actively followed developments, opportunities and challenges in the various insurance markets, the impact of continued low interest rates, impact of the European Insurance and Occupational Pensions Authority's (EIOPA) Opinion to the European Commission on the Solvency II review, and the Dutch pension legislation revision;
- was periodically updated by the Executive Board and Management Board on the overall commercial performance of NN Group and its affiliated businesses, the NN Life longevity transaction, the IT budget and benchmark, and engagement with stakeholders;
- discussed and/or approved the financial quarterly and semi-annual results of NN Group, the revised dividend policy and share buyback programme, temporary suspension of the 2019 final dividend payment and the share buyback programme which commenced on 2 March 2020 in line with the recommendations of EIOPA and the Dutch Central Bank published on 2 April 2020, NN Group's proposed 2020 interim dividend (which included the suspended 2019 final dividend and the regular 2020 interim dividend) and final dividend, to resume the suspended part of the open market share buyback programme, 2020 Key risks & risk appetite statement, NN Bank Wholesale Funding Transactions and Commercial Capital Target 2020, NN Bank's retained HYPENN RMBS VII transaction, the revised NN Group capital policy, and the new Dutch Central Bank requirements to reflect NN Bank in the NN Group Solvency II ratio;
- was regularly updated on the (ongoing) review of the internal governance and operating arrangements applicable within the group in order to contribute to the ambition of remaining competitive and delivering on the strategy by identifying and eliminating inefficiencies that can be facilitated by a change in our Governance and Operating Model;
- was regularly updated on the integration and decommissioning of the Delta Lloyd environment;
- was updated on and addressed matters concerning the review and update of the NN Group values and its new purpose, the results of the annual employee engagement survey, and the performance goals for the Executive Board and Management Board; and
- an item that received particular attention in different sessions were the non-financial key performance indicators and the monitoring thereof by the Purpose Council, a newly established body advising the Executive Board and the Management Board on determining company-specific metrics for fulfilling the Purpose and on setting performance indicators that drive behaviour throughout the organisation.

Covid-19

Following the outbreak of the Covid-19 pandemic, the Supervisory Board was regularly updated on the impact of the pandemic on various aspects of NN Group's business, employees, customers and the resulting operational crisis management.

A Corona Crisis team, a multi-disciplinary team consisting of various specialists, was formed to ensure the daily monitoring and proactive management of business continuity and employee safety.

The vast majority of employees were able to work from home as of March 2020 due to the health risks associated with Covid-19 and to comply with government health instructions in the countries in which NN Group operates. The morale of employees was monitored throughout this period by way of surveys, which results were shared with the Supervisory Board. Although the morale of employees remained good, employees felt well informed and appreciate the measures taken by NN, some groups of employees started missing the office interaction and environment. All relevant risks, financial and non-financial related to Covid-19 developments were monitored regularly via a Dashboard that was shared with the Executive Board, Management Board and Supervisory Board.

The Supervisory Board was also updated on and addressed several initiatives launched to support the different stakeholder groups during the Covid-19 pandemic.

Culture

The values of NN Group, described in the NN statement of Living our Values set the standard for conduct and provide a compass for decision-making within the group. In addition, the NN Code of Conduct clearly outlines minimum rules of conduct that NN Group employees must adhere to at all times, and which they are requested to formally acknowledge on an annual basis.

The Executive Board and Management Board are responsible for creating a culture aimed at long-term value creation, for which the statement and NN Code of Conduct form the foundation. The Executive Board and Management Board therefore periodically report to the Supervisory Board on how the NN statement of Living our Values is being put into practice within the group, and the effectiveness of and compliance with the Code of Conduct. The Supervisory Board supervises the Executive Board and Management Board on this matter.

Report of the Supervisory Board continued

The Supervisory Board was presented with the annual Living our Values Report 2020, which provided insight into how NN is living the values according to our employees, customers and the general public, addressed areas of concern, provided recommendations for improvement and shared the outcome of the annual review of the values. The assessment of the values was shared with the Supervisory Board and it was concluded to keep the values as they are. A refreshment of the value statement was done to align with the new purpose and make it more up to date and launched with the new strategy.

As a follow-up from the 2019 Values review, a key initiative was the introduction of a communication and culture programme around the theme 'Let's connect'. This 'Let's connect' communications programme was developed for our leadership when we launched our new strategy in June. It aims to enhance engagement around our purpose and strategy, and to further stimulate an open dialogue on how we help people care for what matters most to them.

Business plan and capital plan

In the first quarter of 2020, the Executive Board and Management Board presented the Supervisory Board with NN Group's business plan for 2020–2022 and capital plan for 2020–2024. This outlined, amongst other things, the projected growth of the operating result and value of new business, operating capital generation, capital flows, solvency development, administrative expense savings and investments (also within the integration scope), investments related to innovation, projected improvements to the combined ratio (non-life), return on equity (bank) and cost/income ratio (asset management), the capital and cash position over the plan period, and projected performance against various other financial parameters. After thorough analysis and discussion, the business plan for 2020–2022 and the capital plan for 2020–2024 were approved by the Supervisory Board in February 2020.

Ahead of the Capital Markets Day held in June 2020, the Executive Board and the Management Board provided the Supervisory Board with updates on the business plan 2020–2022 and capital plan for 2020–2024, including among other things the projected impact of the new strategy and Covid-19.

Throughout the year, the Supervisory Board was regularly updated on how NN Group was performing on its business and capital plan. Topics of particular focus included:

- the shift towards operating capital generation during the year as key performance indicator;
- digital transformation of the business and driving innovation across markets;
- investments versus capital return;
- the impact of the low interest rates and market volatility;
- performance improvement at Netherlands Non-life (taking into account the negative impact of storm Ciara and Covid-19);
- NN Life Japan showing significant signs in recovering from the changes to the fiscal legislation which, however, was offset by the impact of Covid-19;
- challenges faced by amongst others Movir, NN Spain Non-life and NN Belgium and the ongoing optimisation of the investment portfolio at NN Life; and
- the unprecedented circumstances for the asset management industry and the steps taken by NN Investment Partners to further embrace sustainability and the inclusion of environmental, social and governance (ESG) factors.

Responsible investment

For NN Group, as a large international financial services company, responsible investment is an important factor in what we do. In our role as investor we integrate environmental, social and governance (ESG) factors into our investment process. Our asset manager, NN Investment Partners has been integrating ESG factors into the investment process for over a decade. NN Group's Responsible Investment Framework policy describes the measures the group takes to responsibly invest its own assets and those entrusted to them by customers. Measures include integration of ESG factors in research/valuation, voting, engagement and as a measure of last resort restriction.

NN's responsible investment approach is guided by norms-based responsible investing criteria, which reflect our investment beliefs and values, relevant laws and internationally recognised standards from the United Nations Global Compact and OECD Guidelines for Multinational Enterprises. If we identify that a company severely and structurally breaches our norms-based criteria, we first assess the engagement potential to address the violation. Only when engagement is not considered feasible we will decide to remove the issuer from the eligible investment universe and place it on the Restricted List, which applies globally across the organisation. The Restricted List is updated four times a year and the Supervisory Board is informed on changes where relevant, for example, when it concerns the exclusion of specific sectors.

Unit-linked products in the Netherlands

See Note 44 in this Financial Report for a description of legal proceedings with respect to unit-linked products in the Netherlands. The Supervisory Board was periodically updated on relevant developments in the collective actions and individual legal proceedings pending against Nationale-Nederlanden.

Executive Board and Management Board assessment

The Executive Board and Management Board performance goals reflect both financial and non-financial objectives to safeguard the long-term success of the business. To demonstrate commitment to our corporate values (care, clear, commit), the Boards' performance is also assessed based on the NN Leadership Profile. In the fourth quarter of 2020, the Supervisory Board conducted this assessment of the Executive Board and Management Board and its members. To this end, the Supervisory Board members met with the Executive Board and Management Board members individually in a series of two-on-one meetings. Based on the outcome of the assessments no specific areas of concern were identified. For a detailed overview of the outcome of the Executive Board's performance assessment against the financial and non-financial objectives, please refer to pages 33-42 of the Remuneration Report.

Annual accounts and dividend

The Executive Board prepared the 2020 annual accounts and discussed these with the Supervisory Board. The 2020 annual accounts will be submitted for adoption by the General Meeting at the 2021 annual general meeting, as part of the 2020 Financial Report. NN Group will propose to pay a final dividend of EUR 1.47 per ordinary share, or approximately EUR 456 million in total, based on the number of outstanding shares on the date of this Financial Report, excluding the shares held by NN Group in its own capital in treasury.

Report of the Supervisory Board continued

Follow-up/update on VIVAT Non-life acquisition

The Supervisory Board was regularly updated on the status of the acquisition, that was completed on 1 April 2020, as a result of which NN Non-life became the leading player in the Dutch Non-life insurance market.

Despite Covid-19 good progress was made on the integration deliverables and from a Human Resources perspective all major milestones have been successfully completed and the first employees transitioned on 1 October 2020.

The VIVAT Non-life integration is of a complex nature and challenges will be encountered, but the Supervisory Board is confident that with the team in place success will be achieved.

Continuous learning

It is essential that the Supervisory Board is knowledgeable about how NN Group and its affiliated businesses are run. The Supervisory Board Induction Programme and Permanent Education Programme for Supervisory Board members therefore cover topics necessary to ensure the continuous learning of Supervisory Board members, both at the outset and after their appointment.

The Supervisory Board members followed the 2020 NN Group Permanent Education Programme, which was developed based on the input received from the 2019 annual Supervisory Board self-assessment and requests from the Supervisory Board members, the Executive Board and Management Board, and staff.

In total, 17 hours of general knowledge and deep-dive sessions were arranged by NN Group. These programmes cover the relevant developments within NN Group and in the financial sector, as well as the duty of care towards the client.

The general knowledge sessions included (in alphabetical order) Climate change – risks & opportunities disclosures and dialogue, Covid-19, Ecosystems, General insurance trends in Europe, Health/selfcare/longevity – future of medicine, IFRS 9 and 17, Introduction to the partial internal model with focus on risk aggregation and NN partial internal model major model change, Machine learning and life with artificial intelligence, NN Group and long-term value creation, Operating capital generation, Product profitability and suitability, and Role of large companies in the Netherlands versus society and politicians.

The business deep-dive sessions covered NN Insurance Belgium, NN Netherlands Strategy – Life & Pensions and NN Re. As part of these deep-dive sessions the Supervisory Board also focused on gaining a better understanding of the business in three themes (i) customer experience, (ii) operational excellence, and (iii) performance versus peers.

Aside from the Permanent Education Programme, the Supervisory Board members also met with NN Group colleagues and teams, as well as with some of the function heads of NN Group's support functions, in order to learn more about NN Group's businesses and activities. The Supervisory Board members also participated individually in several education and knowledge sessions organised by external organisations and took advantage of the different learning possibilities online to ensure that they kept themselves informed.

Self-assessment

The Supervisory Board decided, based on the outcome of the Nomination and Corporate Governance Committee evaluation of the Supervisory Board self-assessment process for 2019, to conduct the annual self-assessment in 2020 utilising the Diligent Board's valuation tool. As in previous years, in 2020 the Supervisory Board and each of its committees evaluated their performance. Each Supervisory Board member completed an array of online questionnaires covering the functioning of the Supervisory Board as a whole, its committees, the respective committee chairs, and the individual Supervisory Board members. The outcome of the 2020 self-assessment was discussed during a feedback session with the full Supervisory Board in January 2021 and in each of the committees during January and February 2021. The chair of the Supervisory Board also discussed the self-assessment results with each Supervisory Board member individually.

The performance of the Supervisory Board was considered to have been maintained at a good level, bearing in mind the challenges presented by Covid-19, especially not being able to meet in person since March 2020. In relation to the composition of the Supervisory Board it was noted, with regards to succession planning, attention should be paid to ensure an appropriate level of experience in relation to technology and transformation competencies, the broader insurance industry and listed large corporations. In general, interaction between Supervisory Board members and contacts within the organisation was rated good. The impact of Covid-19 was countered by using Microsoft Teams and having more bilateral meetings. However, should the restrictive lockdown measures be extended significantly into 2021, additional measures will be implemented to counter the negative impact on the Supervisory Board's obligation to obtain information.

Risk Committee

The Risk Committee assists the Supervisory Board in the performance of its duties. To this end, it prepares items for discussion and decision-making by the Supervisory Board, and recommends actions in various areas, including:

- NN Group's key risks and risk appetite statements, risk strategy and policies;
- risk exposures resulting from the business strategies and plans of NN Group and its affiliated businesses;
- the design, operation and effectiveness of the internal risk management and control systems of NN Group (the 'Risk Control Framework');
- NN Group's public disclosures on risk and risk management; and
- any Material Transactions, including an assessment of whether Ordinary Material Transactions have been entered into in the ordinary course of business and on terms that are customary for arm's length transactions in the relevant branch of business.

The Risk Committee works closely with the Audit Committee in order to avoid duplication and omissions in its activities. For this reason, the chair of the Risk Committee is also a member of the Audit Committee, and vice versa.

Composition and attendance

The members of the Risk Committee are Mr Hauser (chair), Mr Jenkins, Mr Schoen and Ms Streit. The Risk Committee met four times in 2020 with a 95% attendance rate. All meetings as of the end of March 2020 were virtual meetings due to the Covid-19 pandemic. Mr Ruijter attended the meeting held in February 2020 as observer. Mr Cole and Ms Vletter-van Dort stepped down as members from the Risk Committee on 14 July. Ms Vletter-van Dort attended the meeting in November 2020 as observer.

Report of the Supervisory Board continued

Other attendees were the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel, General Manager Corporate Audit Services, Head of Group Enterprise Risk Management and the external auditor (KPMG). Mr Erasmus stepped down as member of the Management Board and Chief Risk Officer of NN Group on 31 December 2019. Mr Rueda served as ad interim Chief Risk Officer until the appointment of Mr Kaufmann as a member of the Management Board and Chief Risk Officer on 1 June 2020. NN Group implemented mitigating governance measures for the interim period. Amongst others, the chair of the Risk Committee had regular interaction with the Heads of the Risk departments as well as with the NN Group CFO on risk related topics.

During 2020, the chair of the Risk Committee regularly liaised with the Chief Risk Officer and met with the external auditors, the Chief Compliance Officer and relevant subject-matter experts.

Discussion topics

During its meetings, the Risk Committee discussed, amongst other things: (i) the Risk Plan 2020, (ii) the Compliance Operational Plan 2020 and the NN Group Systematic Integrity Risk Assessment (SIRA), (iii) the Risk Control Framework, (iv) the risk management report, (v) information technology (IT) and security, and (vi) the performance and appropriateness of NN Group's Partial Internal Model (PIM). These topics are addressed below in turn. Following the outbreak of the Covid-19 pandemic, its impact on various aspects of NN Group's business was addressed in several Risk Committee topics and underlying documents.

The Risk Committee discussed the NN Group Own Risk and Solvency Assessment (ORSA) Report 2019 and its Covid-19 addendum, which included an assessment of the impact of the Covid-19 pandemic on the business/capital plan, risks and scenarios as reported previously in NN Group's 2019 ORSA. The Risk Committee reviewed the key risks and risk appetite statements 2020, which were prepared taking into account both the impact of the Covid-19 pandemic, as well as the updated NN Group strategy. The Risk Committee regularly addressed and monitored the progress of the Risk Mitigation Plan on IT Security, whose key objective is to illustrate the maturity level of the information security within NN Group with focus on IT compliancy, formal process and documentation. The Risk Committee also regularly addressed the potential impact of the 2020 Solvency II review request of the European Commission (EC) to the European Insurance and Occupational Pensions Authority (EIOPA) to provide technical advice for the EC's legislative proposal (Solvency II Review). Furthermore, the Risk Committee discussed the Preparatory Crisis Plan 2020, the Group Legal Operational Plan, Derivatives Counterparty Risk report, the Strategic Asset Allocation, the 2020 Actuarial Assumption Review which was performed by PWC, and was updated on the work performed with respect to the 2019 detailed risk assessment on Financial and economic crime (FEC). The potential improvements to NN Group's Risk Management function with respect to its organisation and processes were discussed in the Risk Committee meetings as well.

NN Group Risk Plan 2020

The NN Group Risk Plan 2020 outlines the ex-ante risk priorities for 2020, taking into account NN Group's strategic direction and risk profile, the Risk Control Framework, and external developments and regulations, and is consistent with the NN Group Business Plan 2020–2022. The Risk Plan 2020 focuses, amongst other things, on ensuring a transfer to business-as-usual for continuous quality improvement and maintenance of the Risk Control Framework; further embedding risk-return considerations in the decision-making process; and supporting the implementation of the NN Group Strategic Direction, including supporting technology and transformation, automating risk management activities, increasing efficiency and reducing costs.

Compliance Operational Plan 2020 and NN Group SIRA

The Compliance Operational Plan 2020 is the first Operational Plan under the approved Compliance Multi-Year Plan 2020–2022. The ambition level for the performance of the compliance function has been adjusted in order to ensure alignment with the strategic, business, regulatory and legislative developments. The Multi-Year Plan 2020–2022 focuses, amongst other things, on modernising IT to meet requirements of tomorrow and on further developing the existing knowledge and skills on Compliance topics.

The Compliance Operational Plan 2020 includes the planned activities supporting NN Group in reaching its overall objectives. These activities are also derived from the NN Group SIRA 2020, which forms the basis for the Compliance Operational Plan. The Compliance Operational Plan provides an overview of the achievements of 2019, including continuous development of the business in managing compliance and integrity risks, implementation of a full track and test cycle under the Risk Control Framework, maturity of all local compliance teams, and developing a new multi-year plan for the Compliance function, amongst other achievements. The Compliance Operational Plan also provides the outcome of an assessment of the maturity levels of the Compliance function.

The Compliance Operational Plan safeguards an integrated oversight approach through close collaboration with Risk and Legal functions to promote multi-disciplinary thinking and interaction, to enable better alignment at Group level with clear communication to business units, to ensure efficient use of resources and capacity, and to enable further cooperation under the Risk Control Framework. The main risks and attention areas addressed in the Compliance Operational Plan are based on the SIRA's of NN Bank, NN Life and NN Non-life, as well as on the SIRAs of NN Group's international business units, and include FEC risks, product customer value risk, product and client information risk, and risk of dealing with confidential information, amongst others.

Risk Control Framework

The objectives of the Risk Control Framework include ensuring that the management boards of the NN Group business units and function heads at head office:

- ensure relevant risks are understood at all levels of their organisation/department and mitigated through effective controls;
- have robust processes in place that demonstrate effectiveness of controls and compliance with governance, policies and standards;
- are appropriately informed about the levels of risks and effectiveness of controls; and
- can confirm they operate within the risk appetite and, if not, are aware of the issues and necessary mitigating actions.

Report of the Supervisory Board continued

In 2020, NN Group and its business units continued to make progress in further embedding and improving the Risk Control Framework and in performing their control tracking and testing activities. However, due to the Covid-19 pandemic, there were some delays in tracking and testing of the 2020 controls. Although first line ownership has improved, the quality and completeness of controls, monitoring and reporting require further improvement. The key focus areas for 2020 and 2021 include further maturing of the Risk Control Framework's processes, driving further efficiencies and increasing effectiveness of controls.

The risk management report

The quarterly risk management report of NN Group to the Supervisory Board reports risks against the risk appetite of NN Group and its affiliated businesses. It covers strategic, financial and non-financial risks.

The Risk Committee therefore periodically discussed the key strategic challenges facing the insurance, asset management and banking businesses of NN Group, NN Group strategy implementation, the 2020 Solvency II Review, operational and IT security risks, Delta Lloyd integration, VIVAT Non-life integration, the balance sheet and sound business performance, specific risk assessments carried out and their quality, specific measures adopted to mitigate risks, and the status of legal claims and incidents. As of the second quarter 2020, the risk management report includes an update on the Operating Capital Generation (OCG) reporting process, including related risks and the implementation and effectiveness of OCG controls. Moreover, in 2020 the report included an update on the current and forward-looking risks emanating from the Covid-19 pandemic, including measures taken and planned, and on the status of the ongoing monitoring and trend-developments.

Information technology and security

NN Group deems the reliability and security of IT and IT infrastructure paramount. Each quarter, the Risk Committee is therefore updated on developments, achievements and risks in the field of IT and security. In 2020, the IT team demonstrated extraordinary efforts and commitment to ensure NN Group's business continuity in these unprecedented times of working-at-home caused by the Covid-19 pandemic. The main challenges from an IT perspective in 2020 related to improving the availability of core systems, decreasing the number of incidents and overdue issues, cybersecurity, as well as the integration and decommissioning of the Delta Lloyd environment.

During 2020, good progress was achieved in the IT Availability Programme and the IT Security Programme. Going forward more attention is required to solve overdue issues and implement further IT security improvements. Work is ongoing with respect to implementing the IT Simplification Programme to ensure a resilient IT with future proof IT capabilities and lower costs. The maturity scores with respect to the Risk Mitigation Plan on IT Security have improved and the programme is heading towards closure. In 2020, almost all Delta Lloyd applications have been re-platformed or migrated to NN Group and the data centres have been decommissioned in a controlled way.

NN Group's Partial Internal Model (PIM)

The PIM is used to measure, manage and report the risks within the Group. It consists of many components, and is therefore widely employed for risk management, capital management and other business decisions such as product pricing and asset allocation. In 2020, NN Group developed a plan to improve the reporting on Own Funds and Solvency Capital Requirement. This plan includes the preparation of an annual report to the Executive Board and Management Board and the Supervisory Board on the performance and ongoing appropriateness of the PIM.

The report on the PIM performance complements the existing reporting on the performance and appropriateness of the internal model with an annual update to the Executive Board, Management Board and the Supervisory Board on the subject. NN Group also focuses on maintaining regular training for the Executive Board, Management Board and the Supervisory Board to ensure up to date knowledge on the internal model and its working.

Audit Committee

The Audit Committee assists the Supervisory Board in the performance of its duties. To this end, it prepares items for discussion and decision-making by the Supervisory Board, and recommends actions in various areas, including:

- the design, operation and effectiveness of the internal risk management and control systems related to financial reporting;
- the integrity and quality of the financial reporting process;
- periodic financial reports and any ad hoc financial information;
- the findings and outcomes of any audit work, by both the external auditor and Corporate Audit Services, the internal audit department of NN Group (e.g. as contained in the quarterly audit reports and yearly management letter/report); and
- establish a procedure for the selection and recommendation of the (re)appointment by the Supervisory Board of the external auditor.

The Audit Committee works closely with the Risk Committee to avoid duplication and omissions in its activities. For this reason, the chair of the Audit Committee is also a member of the Risk Committee, and vice versa.

Composition and attendance

The members of the Audit Committee are Mr Schoen (chair), Mr Cole, Mr Hauser and Mr Jenkins. The Audit Committee held six meetings during 2020 with a 100% attendance rate. All meetings as of the end of March 2020 were virtual meetings due to the Covid-19 pandemic. Mr Jenkins attended the meeting in February 2020 as observer. Mr Cole attended the meetings in January, February and March 2020 as observer. Mr Ruijter's term of appointment ended on 12 April 2020. Mr Harryvan's term of appointment ended at the close of the annual general meeting on 28 May 2020. Mr Cole was appointed as a member of the Audit Committee per 14 July 2020. Mr Jenkins was also appointed as a member of the Audit Committee per 14 July 2020.

Other attendees were the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel, General Manager Corporate Audit Services, Head of Group Finance & Reporting, Head of Performance & Analytics and the external auditor (KPMG). Subject-matter specialists also regularly attended the meetings.

Report of the Supervisory Board continued

During 2020, the chair of the Audit Committee separately met with the Chief Financial Officer, General Manager Corporate Audit Services, subject-matter experts and the external auditor to discuss topical issues.

In addition to the regular Audit Committee meetings, the Audit Committee also held closed sessions, which were only attended by the Audit Committee members, the General Manager Corporate Audit Services and the external auditor. In all its meetings, the Audit Committee encouraged open and interactive discussion, and the sharing of critical insights and observations.

Discussion topics

In 2020, the Audit Committee covered a variety of topics in its meetings with due consideration of the Covid-19 pandemic impact. These included recurring items that the Audit Committee deals with as a matter of course, typically in relation to the financial reports, press releases, accounting and regulatory developments, pending legal proceedings, interim dividend payment to shareholders and share buyback programme, the 2020 Audit Plans of Corporate Audit Services and of KPMG, the independence, remuneration and evaluation of both KPMG and the General Manager Corporate Audit Services, specific financial transactions, Solvency II developments, including 2020 Solvency II review performed by the European Commission based on advice of the European Insurance and Occupational Pensions Authority (EIOPA), Solvency II reporting, including a second line review opinion on Own Funds and the Solvency Capital Requirement (SCR) as part of NN Group Own Funds/SCR Report, the actuarial analyses on the outcome of the reserve adequacy tests in respect of the insurance liabilities, internal controls on financial reporting, and changes in financial reporting processes and systems. Moreover, NN Group's financial reporting for the first time included an analysis on Operating Capital Generation (OCG) and work is ongoing to improve OCG reporting. The Audit Committee was involved in the discussions and decision to change NN Group's external reporting frequency to semi-annually in 2020. The quarterly internal reporting process has, however, been maintained.

During 2020, the Audit Committee was regularly updated on the status and implementation of the IFRS 9 and 17 Programme and the key platforms and other initiatives in the 2020–2022 Finance Roadmap, and the integration of VIVAT Non-life. The impact of Covid-19 on the Finance Roadmap has been limited.

Annually, the Audit Committee performs a deep dive into the present position and future developments in respect of corporate income tax and any other relevant tax regulations, the Group's tax strategy and tax transparency developments. Group Tax updates the Audit Committee on the material tax risks and mitigating actions taken. In 2020, topics like the Dutch Governmental Budget plan 2021 and the Australian tax audit were presented and discussed with the Audit Committee.

In its meetings, the Audit Committee also assessed and discussed, amongst other things: (i) the quarterly reports of Corporate Audit Services, (ii) the quarterly reports of KPMG, (iii) information technology and cybersecurity, (iv) the annual KPMG Management Letter and annual standard of internal control report of Corporate Audit Services, and (v) whether there was reasonable assurance that the financial reporting did not contain any errors of material importance. These topics are addressed below in turn.

Quarterly reports of Corporate Audit Services

The quarterly reports of Corporate Audit Services included findings and observations regarding governance, risk management and internal control, focusing on significant internal control weaknesses noted in ongoing audit activities, and follow-up by the Executive Board and Management Board on agreed actions and weaknesses.

The reports categorised the findings and observations into six areas: (i) primary processes, (ii) information technology, cyber and physical security, (iii) financial risk management and reporting, (iv) integration activities, (v) the development of outstanding risks and their mitigation, and (vi) the key internal developments of Corporate Audit Services. The findings of Corporate Audit Services are summarised annually in a Report on the NN Group Standard of Internal Control.

During 2020, Corporate Audit Services observed prompt management actions in response to the Covid-19 pandemic to ensure workforce safety, business continuity, as well as continuous customer support. Throughout 2020, continued Covid-19 resilience in business operations and IT, as well as good progress in remediation of some core processes have been reported. The quarterly reports addressed continued progress in numerous integration and transformation initiatives, including further strengthening of IT. The progress of the integration and transformation agenda has proven challenging due to the large number of change initiatives. Additional management actions were taken to ensure structural operations and IT strengthening in key domains.

Quarterly reports of KPMG

As from 2020 onwards, NN Group changed to a semi-annual external financial reporting frequency but continued to prepare quarterly interim accounts for internal reporting purposes. Consequently, KPMG continued to perform quarterly review procedures as part of the audit of the 2020 annual accounts, but did not issue a formal review opinion on the 1Q 2020 and 3Q 2020 interim accounts.

In its quarterly reports, KPMG presented the outcome of its review of activities and findings in the areas of attention identified in its 2020 audit plan. The areas which are new compared to 2019 or follow-up from the 2019 audit plan relate to the Covid-19 pandemic, cybersecurity, increased external pressure on NN Group's management and VIVAT Non-life acquisition.

KPMG's assessment of the significant risks of material misstatement compared to 2019 resulted in several changes, in particular the increased risk in relation to the Covid-19 pandemic with regards to the valuation of the hard to value assets. The risks with respect to the application of hedge accounting and the Delta Lloyd integration were no longer considered significant audit risks but remained on KPMG's radar. The areas of significant audit risk which remained stable include the valuation of insurance contract liabilities and the reserve adequacy test (RAT), Solvency II capital and risk management disclosures, as well as the unit-linked exposure.

The KPMG reports addressed financial, business and operational impacts of the Covid-19 pandemic on NN Group. Observations on internal control and external developments relevant to NN Group, including the follow-up on recommendations in the KPMG Management Letter and earlier quarterly reports were provided. Once a year, the findings on internal control are summarised in the annual management letter (described below).

Report of the Supervisory Board continued

Information technology and cybersecurity
The quarterly reports of both Corporate Audit Services and KPMG encompass IT, and the current status and developments concerning the reliability, integrity and availability of data and assets across NN Group and its affiliated businesses. During the Audit Committee meetings, continuous attention was paid to further strengthening control levels and IT services and security management processes.

From the start of the Covid-19 pandemic, the Audit Committee observed tremendous support from IT by ensuring the availability of a stable work-from-home environment in order to ensure business continuity, notwithstanding the challenging circumstances. During 2020, the Audit Committee was regularly updated on the complex re-platforming and decommissioning of Delta Lloyd, the integration of VIVAT Non-life and a significant number of business initiatives that also put pressure on IT processes and budget. The Audit Committee was also updated on the IT simplification programme. The Audit Committee discussed progress and development of IT availability and security, including important security measures such as Multi Factor Authentication and implementation of the IT Control Framework.

KPMG Management Letter 2020
Each year, KPMG issues a management letter which contains observations on NN Group's internal control over financial reporting. The letter is based on the audit and the quarterly review procedures. The KPMG Management Letter 2020 contains (i) attention points for the year-end closing, (ii) improvement observations with regard to the internal control environment of NN Group and (iii) a follow-up on the KPMG Management Letter 2019. Section (ii) of the management letter contains areas where structural improvements of internal controls will help drive performance of NN Group. These relate to seven areas, including NN Group's strategic ambition, control over IT risk and investment processes, IFRS 17 and Operating Capital Generation, the fraud risk in payment processes and the increasing importance of non-financial information. Section (iii) includes ten observations from the prior year where good progress was made but further attention is needed to be fully closed. The management letter contains a list of concrete recommendations from KPMG and specific actions defined by management to address the areas in (ii) and (iii) above. In its January 2021 meeting, the Audit Committee discussed the KPMG Management Letter 2020 and the Executive Board and Management Board's response, and reflected extensively on the matters it covered.

No errors of material importance
The Audit Committee discussed on a quarterly basis the financial reporting topics, and related processes and controls. During these discussions, the Audit Committee evaluated these various topics, processes and other considerations for their potential impact on the quarterly reporting process. The Audit Committee determined that there is reasonable assurance that the financial reporting does not contain any errors of material importance, consistent with the conclusion of the Executive Board on internal control over financial reporting.

Remuneration Committee
The Remuneration Committee assists the Supervisory Board in the performance of its duties. To this end, it prepares items for discussion and decision-making by the Supervisory Board, and recommends actions in various areas, including the:
- remuneration policy for the Executive Board, as well as its implementation and evaluation;
- remuneration and concrete terms & conditions of engagement of individual Executive Board and Management Board members;
- remuneration policy of the Supervisory Board, as well as the remuneration of the Supervisory Board members;
- remuneration and remuneration policies with respect to Identified Staff (as defined);
- design and implementation of any stock-based compensation programmes;
- application of the remuneration policies within the company;
- compliance with statutory and legal requirements and regulations; and
- performance targets for the Executive Board and Management Board.

Composition and attendance
The members of the Remuneration Committee are Ms Vletter-van Dort (chair), Mr Schoen and Ms Streit. On 12 April 2020, Mr Ruijter's term of appointment ended. Mr Schoen, who was considered as appointed pursuant to the enhanced recommendation right of the Central Works Council as of 12 April 2020, joined the Remuneration Committee. Mr Harryvan's term of appointment ended at the close of the annual general meeting on 28 May 2020. On 14 July 2020, Mr Cole and Mr Jenkins stepped down as members of the Remuneration Committee and Ms Streit was appointed as a member of the Remuneration Committee.

The Remuneration Committee met four times in 2020 and had a 100% attendance rate. All meetings held since March 2020 were virtual meetings as a result of the Covid-19 pandemic. Mr Hauser attended the meeting in February 2020 as observer. The Chief Executive Officer and Chief Organisation & Corporate Relations also joined the meetings of the Remuneration Committee, unless the committee determined otherwise. The Head of Reward, or a representative, also attended. The chair and members of the Remuneration Committee were in regular contact with the Chief Organisation & Corporate Relations and the Head of Reward.

In addition to the regular Remuneration Committee meetings, two combined meetings with the Nomination and Corporate Governance Committee (Combined Meetings) were held with a 100% attendance rate. Mr Hauser attended the Combined Meeting in February 2020 as observer.

Discussion topics
Remuneration policies
The Remuneration Committee reviewed and evaluated the remuneration policies of NN Group as laid down in the NN Group Remuneration Framework, and the remuneration policies for the Executive Board and the Supervisory Board. The NN Group Remuneration Framework was updated to ensure full compliance with the latest applicable remuneration related regulations and standards as applicable to NN Group.

Part of the Dutch Law implementing the revised Shareholders' Rights Directive came into force on 1 December 2019. This required the remuneration policies of the Executive Board and the Supervisory Board to be reviewed and brought in line with the new legislation, and therefore the Supervisory Board, supported by the Remuneration Committee, reviewed these remuneration policies starting in 2019. The Supervisory Board held various consultation sessions with stakeholders, including shareholders, proxy advisors, shareholder interest groups, employee representation, regulators, customers and the general public, to obtain their feedback on the draft updated policies. Based on the outcome of these consultation

Report of the Supervisory Board continued

sessions the Executive Board Remuneration Policy and Supervisory Board Remuneration Policy were amended and approved by the Supervisory Board and adopted by the General Meeting in 2020.

Please refer to pages 40 and 42 of this Financial Report for more information on the remuneration of the Executive Board and Supervisory Board members.

Equal Pay
The Remuneration Committee discussed and addressed the outcomes of the analysis carried out on equal pay within NN Group, which was based on equal representation, gender pay gap, equal pay gap and pay for performance. This analysis was a follow-up of the equal pay analysis as executed in 2018. Please refer to page 39 for further insights in relation to the equal pay analysis.

Board objectives
The objectives for the Executive Board and Management Board for performance year 2020 were discussed and endorsed by the Remuneration Committee and the Nomination and Corporate Governance Committee in January 2020. The Remuneration Committee revisited these objectives in August 2020 to ensure alignment with the redefined strategic framework as announced at the Capital Markets Day on 24 June 2020 and to determine whether any changes were required in light of the Covid-19 pandemic. The Remuneration Committee concluded that based on the analysis done, the impact of Covid-19 and the redefined strategic framework did not prompt a need for change to the ambition levels as included in the objectives of the Executive Board and Management Board.

Other topics
As is required on an annual basis, the Remuneration Committee discussed the risk assessment carried out on the NN Group Remuneration Framework and related processes, which focused on the processes designed to avoid excessive risk-taking by NN Group staff. No risks with a critical or high managed risk level were identified. Identified Staff-related remuneration matters were reviewed and approved in line with the NN Group Remuneration Framework and governance, including the variable remuneration proposals for Identified Staff for performance year 2019, compensation adjustment proposals for the year 2020, and the 2020 Identified Staff selection.

Topics addressed during the Combined Meetings
The following matters were addressed during the Combined Meetings:
- The Remuneration Committee and the Nomination and Corporate Governance Committee discussed and endorsed the Executive Board Remuneration Policy and the Supervisory Board Remuneration Policy.
- The objectives of the Executive Board and the Management Board for performance year 2020 were discussed and endorsed by the Remuneration Committee and the Nomination and Corporate Governance Committee.
- The Remuneration Committee and the Nomination and Corporate Governance Committee assessed the functioning and performance of the Executive Board members and provided input for the Management Board's performance assessment. Individual meetings with Executive Board and Management Board members formed part of the assessments. The combined committee also reviewed and endorsed the remuneration proposals for the Executive Board and Management Board.

Nomination and Corporate Governance Committee
The Nomination and Corporate Governance Committee assists the Supervisory Board in the performance of its duties. To this end, it prepares items for discussion and decision-making by the Supervisory Board, and recommends actions concerning various areas, including:
- the policy of the Executive Board on the selection criteria and appointment procedures for Identified Staff;
- drafting the selection criteria and appointment procedures for Supervisory Board members and Executive Board members;
- the composition of the Supervisory Board and Executive Board; and
- the succession plan for Supervisory Board and Executive Board members.

Composition and attendance
The members of the Nomination and Corporate Governance Committee are Mr Cole (chair), Mr Hauser and Ms Vletter-van Dort. On 28 May 2020, Mr Harryvan's term of appointment ended at the close of the annual general meeting on 28 May 2020. On 14 July 2020, Ms Streit stepped down as a member of the Nomination and Corporate Governance Committee and Mr Hauser was appointed as a member of the Nomination and Corporate Governance Committee.

The Nomination and Corporate Governance Committee met six times in 2020 and had an attendance rate of 100%. All meetings held from March 2020 were virtual meetings as a result of the Covid-19 pandemic. Mr Jenkins attended the meetings in February and May 2020 as observer. The Chief Executive Officer and the Chief Organisation & Corporate Relations also joined the meetings of the Nomination and Corporate Governance Committee, unless the committee determined otherwise.

Discussion topics
Succession planning
The Nomination and Corporate Governance Committee discussed and evaluated the succession plan for the Executive Board and Management Board members and the appointment of the new Management Board members.

Appointments to the Management Board
The Nomination and Corporate Governance Committee and the Supervisory Board were consulted during the process of identifying and appointing Mr Kaufmann as Chief Risk Officer. Furthermore, they were also consulted on the reorganisation of the Netherlands portfolio which led to the appointment of the CEO Netherlands Non-life, Banking & Technology, Mr Bosklopper, and the CEO Netherlands Life & Pensions, Mr Van Riet.

Composition of the Supervisory Board
The rotation and succession plan for the Supervisory Board was discussed, to ensure amongst others sufficient business experience, transformation experience and requirements around gender diversity, and the Supervisory Board self-assessment process for 2019 evaluated. Based on the outcome of the self-assessment evaluation, the Supervisory Board decided to facilitate the annual self-assessment as from 2020 in-house.

Report of the Supervisory Board continued

The Nomination and Corporate Governance Committee evaluated, discussed and made recommendations to the Supervisory Board on the composition of the Supervisory Board and its committees, and individual Supervisory Board competencies and skills as at the date the terms of appointment of Mr Harryvan, Mr Jenkins, Mr Ruijter and Ms Streit ended. In this context, the Nomination and Corporate Governance Committee prepared the discussion for (i) the proposal to reappoint Mr Jenkins as a member of the Supervisory Board and designate him as a member of the Risk Committee and Remuneration Committee, and (ii) the proposal to reappoint Ms Streit as member of the Supervisory Board and designate her as a member of the Risk Committee and of the Nomination and Corporate Governance Committee. Based on a later and further evaluation done by the Nomination and Corporate Governance Committee and the resulting recommendation on the composition of the Supervisory Board Committees, the Supervisory Board approved to change the composition of the Supervisory Board Committees as follows (i) the Risk Committee is composed of Mr Hauser (chair), Mr Jenkins, Mr Schoen, and Ms Streit, (ii) the Audit Committee is composed of Mr Schoen (chair), Mr Cole, Mr Hauser and Mr Jenkins, (iii) the Remuneration Committee is composed of Ms Vletter-van Dort (chair), Mr Schoen and Ms Streit, and (iv) the Nomination and Corporate Governance Committee is composed of Mr Cole (chair), Mr Hauser and Ms Vletter-van Dort. These portfolio changes, to the extent required, were approved by the Dutch Central Bank on 14 July 2020.

On 10 February 2021, the Supervisory Board announced that it has decided to nominate Ms Cecilia Reyes and Mr Rob Lelieveld for appointment as members of the NN Group's Supervisory Board for a term of four years. These nominations have been made with the intention to further strengthen the composition of the Supervisory Board. The Nomination and Corporate Governance Committee followed an extensive process throughout 2020 supported by an external advisor, which resulted in the selection of the two nominees in 2021.

Other topics

As is required on an annual basis, the Nomination and Corporate Governance Committee reviewed and discussed the booklet on the application of the Dutch Corporate Governance Code for the financial year 2020. The Nomination and Corporate Governance Committee was further consulted in relation to the annual review and proposed changes in the Charters of the NN Group N.V. Executive Board, Management Board, Supervisory Board and Committees, and the Supervisory Board Profile (of which last mentioned was discussed at the annual general meeting held on 28 May 2020), and the NN Group N.V. Decision Structure.

Closing

2020 was an extraordinary and challenging year, which prompted long-term changes in our personal and professional lives. It was also a year of innovation, digitalisation and new ways of working together. The Covid-19 pandemic highlighted the importance of focusing on our values, care, clear, commit, and our purpose to help people care for what matters most to them, especially in these unprecedented and challenging times.

In the midst of the Covid-19 pandemic a new strategy, focused on sustainable value creation for all stakeholders, was formulated leading up to the Capital Markets Day in June 2020. At the same time it was business as usual while working from home. The continuous involvement of the Supervisory Board in this important journey and the open dialogue and constructive cooperation between the Executive Board, Management Board and the Supervisory Board of NN Group was much appreciated by the Supervisory Board.

The Supervisory Board would like to extend its gratitude to Mr Ruijter, member of the Supervisory Board whose term of appointment ended on 12 April 2020, and Mr Harryvan, vice-chair of the Supervisory Board whose term of appointment ended at the close of the annual general meeting on 28 May 2020, for their valuable contribution over the past years.

In closing, we wanted to welcome Mr Kaufmann and Mr Van Riet to the Management Board.

Together with the Executive Board and Management Board, the Supervisory Board looks forward to continuing to contribute to NN's ambition to be an industry leader, known for its customer engagement, talented people, and contribution to society. The Supervisory Board wishes to express its appreciation to the members of the Executive Board, the Management Board and all employees of NN Group and its businesses for their continued dedication and strong commitment in a remarkable 2020.

Corporate governance

General

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

NN Group was incorporated on 29 March 2011 under the name ING Insurance Topholding N.V. On 28 February 2014, NN Group entered into a legal merger with its wholly-owned subsidiary ING Verzekeringen N.V. (ING Verzekeringen), at that time a public limited company incorporated under the laws of the Netherlands. On 1 March 2014, the legal merger became effective. As a result of this merger, ING Verzekeringen ceased to exist, NN Group acquired all assets and liabilities of ING Verzekeringen under universal title of succession and was renamed NN Group N.V. At that time NN Group had one shareholder: ING Groep N.V. (ING Group), a public limited company incorporated under the laws of the Netherlands. On 2 July 2014, ING Group offered part of its shares in the share capital of NN Group to the public and the shares in the capital of NN Group were listed on Euronext Amsterdam (IPO). Settlement of the offering took place on 7 July 2014. ING Group completed its divestment of NN Group on 19 April 2016. As of 5 October 2015, NN Group voluntarily applied the full large company regime (volledig structuurregime). Effective 29 May 2015, NN Group filed a declaration with the commercial register in which it stated to meet the requirements of paragraph 2 of clause 153 of book 2 of the Dutch Civil Code. As a result, and effective 29 May 2018, NN Group mandatorily applies the full large company regime.

On 2 February 2017, NN Group announced a recommended public cash offer to all holders of issued and outstanding ordinary shares in the capital of Delta Lloyd N.V. (Delta Lloyd) to acquire their shares. On 26 April 2017, NN Group announced that following the settlement, NN Group – via its wholly-owned subsidiary NN Group Bidco B.V. (NN Group Bidco) – held 93.3% of the issued and outstanding ordinary shares in the capital of Delta Lloyd. On 31 May 2017, NN Group Bidco, NN Group and Delta Lloyd entered into a legal merger. On 1 June 2017, the legal merger became effective. As a result of this merger, remaining holders of Delta Lloyd ordinary shares received NN Group's ordinary shares, Delta Lloyd ceased to exist, and NN Group Bidco acquired all assets and liabilities of Delta Lloyd under universal title of succession. Subsequently, as part of the legal restructuring process, NN Group entered into a legal merger with NN Group Bidco, which became effective on 31 December 2017. As a result of this merger, NN Group Bidco ceased to exist and NN Group assumed all assets and liabilities of NN Group Bidco, including its subordinated notes of EUR 750 million and the Delta Lloyd legal entities.

Executive Board

Duties

The Executive Board is entrusted with the management, the strategy and the operations of NN Group under supervision of the Supervisory Board. In performing its duties, the Executive 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 working methods of the Executive Board are detailed in the charter of the Executive Board. This charter is available on the NN Group website.

Certain resolutions of the Executive Board require the approval of the Supervisory Board and/or general meeting of shareholders of NN Group (General Meeting). These resolutions are outlined in the articles of association of NN Group (Articles of Association), which are available on the NN Group website, and in the charter of the Executive Board.

Appointment, removal and suspension

In 2020, NN Group applied the full large company regime. Under this regime the members of the Executive Board are appointed by the Supervisory Board. Prior to appointing a member of the Executive Board, the Supervisory Board must notify the General Meeting of such an intended appointment.

Under the full large company regime, only the Supervisory Board may suspend or remove a member of the Executive Board. However, the Supervisory Board is only entitled to remove a member of the Executive Board after the General Meeting has been consulted on the intended removal.

Composition

The Executive Board must consist of two or more members, with the total number of members of the Executive Board determined by the Supervisory Board after consultation with the Executive Board. Guiding principles for the appointment of members and the composition of the Executive Board are provided in the profile of the Executive Board and Management Board which includes the diversity policy for the composition of these boards. The profile including the diversity policy is available on the NN Group website.

As at 31 December 2020, the Executive Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment	Termination/ reappointment	Tenure
David Knibbe	Chair, Chief Executive Officer (CEO)	15 March 1971	Male	Dutch	1 October 2019	2023*	1 year
Delfin Rueda	Vice-chair, Chief Financial Officer (CFO)	8 April 1964	Male	Spanish	1 March 2014, reappointment 31 May 2018	2022*	7 years

* Terms of appointment will end at the close of the annual general meeting (AGM) of NN Group in 2023 and 2022 respectively.

Corporate governance continued

David Knibbe was appointed to the Executive Board and designated as Chief Executive Officer of NN Group and chair of the Executive Board effective 1 October 2019. He is responsible for the business strategy, performance and day-to-day operations of NN Group. Mr Knibbe has already been a member of the Management Board since 7 July 2014. On 1 September 2014, Mr Knibbe was appointed Chief Executive Officer Netherlands. In this role Mr Knibbe was responsible for NN Group's insurance and banking business in the Netherlands and leading the integration of NN and Delta Lloyd. From 2013 until 2014, he served as Chief Executive Officer of ING Insurance International. In 2013, he became member of the NN Group Operating Committee. From 2011 to 2013, he served as Chief Executive Officer of ING Insurance Central and Rest of Europe. During 2010, Mr Knibbe was Chief Executive Officer Insurance Corporate Clients in the Netherlands. From 2007 to 2008, Mr Knibbe was General Manager of Nationale-Nederlanden Individual Life (retail life and individual pensions), which then became Intermediary Pensions and Retail Life with the addition of the SME pensions business in 2008. In 2009, Mr Knibbe became General Manager Pensions with the addition of corporate pensions and removal of retail life from his area of responsibility. Prior to that, from 2004 to 2007, Mr Knibbe was Director Disability and Accident Insurance of Nationale-Nederlanden. From 2002 to 2004, he was Managing Director of ING's life insurance and employee benefits joint venture with Piraeus Bank in Greece. Mr Knibbe was Head of Investments of Central-Holland of ING Bank from 2000 to 2002. Mr Knibbe started his professional career in 1997 when he joined ING, serving in various positions in investment management and banking. Mr Knibbe was chair of the board of the Dutch Association of Insurers (Verbond van Verzekeraars) from 9 December 2015 until 20 June 2018. From 20 July 2018 until 18 December 2019, he was vice-chair of the Dutch Association of Insurers. Mr Knibbe holds a Master's degree in monetary economics from the Erasmus University in Rotterdam (the Netherlands). Furthermore, Mr Knibbe is member of the board and treasurer of the Confederation of Netherlands Industry and Employers (VNO-NCW), as well as member of the Federative Board VNO-NCW and MKB NL. He is also member of the board of the Johan Cruyff Foundation and member of the advisory board of JINC.

Delfin Rueda was appointed to the Executive Board as Chief Financial Officer on 1 March 2014. As of 7 July 2014, he serves as vice-chair of the Executive Board. On 31 May 2018, he was reappointed as member of the Executive Board and again designated Chief Financial Officer of NN Group and vice-chair of the Executive Board. Mr Rueda is responsible for NN Group's finance departments and investor relations. From 1 January to 1 June 2020, he assumed the Chief Risk Officer portfolio ad interim. From 1 October 2013 until the legal merger between NN Group and ING Verzekeringen, which became effective on 1 March 2014, he was a member of the management board and Chief Financial Officer of ING Verzekeringen. Mr Rueda served as Chief Financial Officer and as a member of the management board of ING Insurance Eurasia from 1 November 2012 until 7 July 2014. Prior to joining ING in November 2012, Mr Rueda served as Chief Financial and Risk Officer and as a member of the management board at Atradius from 2005 to 2012. From 2000 to 2005, Mr Rueda served as Senior Vice-president of the Financial Institutions Group, Corporate Finance, at J.P. Morgan. Prior to that, from 1993 to 2000, he was Executive Director of the Financial Institutions Group, Corporate Finance, at UBS. Mr Rueda began his career with Andersen Consulting, which later became Accenture, where he undertook different advisory assignments in information systems and strategic management services from 1987 to 1991. Mr Rueda holds a Master's degree in economic analysis and quantitative economics from the Complutense University of Madrid (Spain) and an MBA with a finance major from the Wharton School, University of Pennsylvania (USA). Besides being a member of the Executive Board, Mr Rueda is supervisory board member and chairman of the audit committee of the supervisory board of Adyen N.V. and member of the Supervisory Committee of Alma Mundi Insurtech Fund. As of 23 December 2020, Mr Rueda serves as chair of the CFO Forum and as of 8 January 2021, Mr Rueda is also non-executive director of Allfunds Bank S.A.U.

Remuneration

Information on the remuneration policy for members of the Executive Board and on their individual remuneration can be found in the Remuneration Report, on pages 33-42.

Management Board

Role and duties

The Management Board is entrusted with the day-to-day management of NN Group and the overall strategic direction of NN Group. In performing its duties, the Management 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 authority to manage NN Group is vested in the Executive Board as a whole, notwithstanding that each of the members of the Management Board is responsible and accountable to the Executive Board and within the Management Board for the specific tasks as assigned. Being comprised of the Executive Board members as well as key leaders with a divisional or functional responsibility, the Management Board allows for integral and holistic decision-making at the highest level of NN Group with functions, the businesses and Executive Board members represented. Besides serving balanced, effective and timely decision-making, NN Group having a Management Board also provides for flexibility in terms of composition, allocation of tasks and responsibilities and required knowledge. In supervising the functioning of NN Group's corporate governance structure, including its checks and balances, the Supervisory Board pays specific attention to the dynamics and relationship between the Executive Board and the Management Board as well as the manner in which the Management Board operates. The Supervisory Board will be provided with all the information necessary for the proper performance of this duty. In principle, members of the Management Board are present at meetings with the Supervisory Board where topics are discussed that relate to their area of responsibility. Next to that, the Supervisory Board regularly meets with the full Management Board. The organisation, role, duties and working methods of the Management Board are detailed in the charter of the Management Board. The charter is available on the NN Group website.

Composition, appointment and removal

The Management Board consists of the members of the Executive Board and such other members as appointed by the Executive Board after consultation with the Supervisory Board. The number of members of the Management Board is determined by the Executive Board. Guiding principles for the appointment of members and the composition of the Management Board are provided in the profile of the Executive Board and Management Board which includes the diversity policy for the composition of these boards. The profile including the diversity policy is available on the NN Group website.

The members of the Management Board may be suspended and removed by the Executive Board after consultation with the Supervisory Board.

Corporate governance continued

As at 31 December 2020, the Management Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment	Tenure
David Knibbe	Chair, Chief Executive Officer (CEO) (as of 1 October 2019)	15 March 1971	Male	Dutch	7 July 2014	6 years
Delfin Rueda	Vice-chair, Chief Financial Officer (CFO)	8 April 1964	Male	Spanish	7 July 2014	6 years
Satish Bapat	CEO NN Investment Partners	23 June 1966	Male	Dutch and Indian	1 April 2017	3 years
Tjeerd Bosklopper	CEO Netherlands Non-life, Banking & Technology (as of 1 June 2020)	3 March 1975	Male	Dutch	1 September 2018	2 years
Bernhard Kaufmann	Chief Risk Officer (CRO)	19 April 1969	Male	German	1 June 2020	Less than 1 year
Dailah Nihot	Chief Organisation & Corporate Relations	12 June 1973	Female	Dutch	1 September 2018	2 years
Leon van Riet	CEO Netherlands Life & Pensions	2 September 1964	Male	Dutch	1 June 2020	Less than 1 year
Fabian Rupprecht	CEO International Insurance	22 December 1969	Male	German and Swiss	1 September 2018	2 years
Janet Stuijt	General Counsel	26 September 1969	Female	Dutch	1 September 2018	2 years

Information in respect of the members of the Management Board who are also members of the Executive Board, David Knibbe and Delfin Rueda, can be found under 'Executive Board – Composition', on page 23.

Satish Bapat was appointed to the Management Board as Chief Executive Officer NN Investment Partners as of 1 April 2017. Mr Bapat is responsible for NN Group's asset management business. From 2013 to 1 April 2017, he was Chief Executive Officer of NN Life Japan and, prior to this, Chief Executive Officer of Asia Pacific for ING Investment Management. From 2011 to 2012, Mr Bapat was Global Chief Financial Officer at ING Investment Management and from 2010 to 2011 he was Chief Financial Officer Europe for ING Investment Management. Before joining ING, Mr Bapat was Change Project Manager at RBS N.V. from 2009 to 2010. From 2008 to 2009, he served as Global Head of Finance at Robeco Asset Management, and from 2006 to 2008 as Global Head of Finance at ABN AMRO Asset Management. Prior to this, from 2005 to 2006 Mr Bapat was Group Financial Controller at TNT N.V. From 1998 to 2005, Mr Bapat served as Senior Manager at Deloitte & Touche in the Netherlands, after having held the role of Audit Senior at Deloitte & Touche in the USA since 1994. Mr Bapat holds a Master of Business Administration degree in finance from the Temple University of Philadelphia (USA) and a Bachelor's degree in Accounting from the University of Bombay (India). He is also a public accountant (USA).

Tjeerd Bosklopper was appointed CEO Netherlands Non-life, Banking & Technology as of 1 June 2020. In this role he is responsible for the Dutch Non-life and Banking business segments, Customer & Commerce, as well as for the Strategic Transformation Office and IT. Mr Bosklopper has been CEO Netherlands ad interim from 17 December 2019 until 1 June 2020. Mr Bosklopper was appointed to the Management Board as Chief Transformation Officer on 1 September 2018. In 2018, Mr Bosklopper was Head of Integration of Nationale-Nederlanden Netherlands and Belgium. From 2015 to 2018, Mr Bosklopper was Head of Individual Life at NN Group in the Netherlands. From 2012 to 2015, Mr Bosklopper was Chief Executive Officer at Nationale-Nederlanden Life & Pensions in Poland. From 2010 to 2012, he was Chief Information & Transformation Officer at Nationale-Nederlanden Netherlands. From 2006 to 2010, he was Director Product Management at Nationale-Nederlanden Non-life Netherlands. From 2004 to 2006, Mr Bosklopper was Executive Vice-president and Chief Marketing Officer at ING Life South Korea. From 2003 to 2004, he was Project Manager at ING Aetna Life Indonesia. From 2001 to 2003, he was Regional e-business Manager at ING Group's regional office in Hong Kong. From 1999 to 2001, he participated in the Global Management Programme (GMP) at ING Group. Mr Bosklopper holds a Master of Science in Business Information Technology from the University of Twente (the Netherlands). Besides being a member of the Management Board, Mr Bosklopper is a member of the board of the Dutch Association of Insurers (Verbond van Verzekeraars).

Bernhard Kaufmann was appointed Chief Risk Officer in the Management Board of NN Group as of 1 June 2020. In this role he is responsible for the overall risk framework with direct responsibility for the risk management departments. He is also responsible for the Actuarial function, reinsurance and procurement globally. From 2014 to 2020, Mr Kaufmann was Group Chief Risk Officer and Chief Risk Officer Reinsurance at Munich Re Group. From 2008 to 2013, he was Chief Risk Officer at ERGO Insurance Group. From 2000 to 2008, Mr Kaufmann worked at Munich Re Group holding various roles. From 2007 to 2008, he was Head of Treasury, from 2004 to 2007, he was Head of Asset Liability Management and from 2000 to 2004, he was Senior Consultant Financial Projects and Credit Risk Manager. From 1999 to 2000, Mr Kaufmann was Credit Risk Manager at HypoVereinsbank (UniCredit). From 1995 to 1999, he worked as a researcher in the Physics Department at the Technical University of Munich (Germany). Mr Kaufmann holds a PhD (Dr. rer. nat.) in theoretical physics, from the Technical University of Munich (Germany), an intermediate diploma in economics from the University of Hagen (Germany), and a diploma in theoretical physics from the Technical University of Munich (Germany). Besides being a member of the Management Board, Mr Kaufmann is a member of the CRO Forum.

Dailah Nihot was appointed to the Management Board as Chief Organisation & Corporate Relations as of 1 September 2018. Ms Nihot is responsible for human resources, corporate communications, sustainability and corporate citizenship, branding and sponsorship, public and government affairs, and facility management. From 2013 to 2018, she was Managing Director of Corporate Relations for NN Group. Prior to this, from 2006 to 2013, she was Global Head of Sustainability, and Director of the ING for Something Better Foundation at ING Group, which focuses on the company's global ethical, social and environmental strategy and performance. Ms Nihot started her professional career in the external communications department of ING Group, and was a corporate spokesperson and strategic communications advisor from 2001 to 2006. Ms Nihot serves as management representative in the Central Works Council of NN Group (Central Works Council). She holds a Master of European Studies from the University of Amsterdam (the Netherlands) and an Executive Master in Corporate Communication from the RSM Erasmus University in Rotterdam (the Netherlands).

Leon van Riet was appointed CEO Netherlands Life & Pensions and member of the Management Board of NN Group as of 1 June 2020. In this role, he is responsible for the Life and Pension businesses in the Netherlands. Mr Van Riet was CEO of Nationale-Nederlanden Non-life in the Netherlands from 2017 to May 2020. From 2016 to 2017, he was a member of the Board of Directors of Delta Lloyd, responsible for Delta Lloyd Life Insurance, Befrank N.V., Information Technology & Services, Concern Relations, Delta Lloyd Asset Management, KMD (Digital) and Delta Lloyd Life Belgium. From 2010 to 2016, he was Chief Executive Officer Delta Lloyd Life in the Netherlands. From 2007 to 2010, he was Chief Information Officer and Chief Information Technology at Delta Lloyd Group. From 1999 to 2007, Mr Van Riet was Chief Information Officer, Chief of Information Communications Technology and E-Business at Delta Lloyd Insurance. From 1997 to 1999, he was Director of Information Technology and Chain Logistics for Brocacef. From 1994 to 1997, he was a senior manager at KPMG Management Consulting. From 1993 to 1994, he was a project manager and consultant at Encompass Europe NV. From 1986 to 1993, he was a Senior Organisation Advisor at KPMG Management Consulting. Mr Van Riet holds a degree in electrical engineering from Delft University of Technology (TU Delft, the Netherlands).

Fabian Rupprecht was appointed to the Management Board as Chief Executive Officer International Insurance as of 1 September 2018. Mr Rupprecht is responsible for NN Group's insurance businesses outside the Netherlands: Insurance Europe, Japan Life and Japan Closed Block VA businesses. From 1996 to 2018, Mr Rupprecht worked for AXA. From 2016 to 2018, he was Chief Executive Officer Middle East & Africa, and Regional Chief Financial Officer and member of the regional executive committee at AXA Emerging Markets (CEE, MEA, LATAM). From 2013 to 2016, he was Regional Chief Financial Officer at AXA Mediterranean Holding, and member of the regional executive committee. From 2010 to 2013, he was Head of AXA Global Life, and member of the Global Life & Health board. From 2008 to 2010, he was Head of Individual Life, and member of the executive board of AXA-Winterthur. From 2001 to 2007, he was Head of Life & Annuity Offer at AXA Germany. From 1998 to 2000, Mr Rupprecht was Head of EquiVest Product Management at The Equitable Life Assurance (AXA) USA. From 1996 to 1998, he served as Head of Accounting for Health & Life Insurance at Colonia Konzern AG (AXA/UAP). From 1994 to 1996, he was assistant to the executive board at Colonia Konzern AG (UAP). Mr Rupprecht holds a Diploma in Business Administration, with majors in finance and controlling, from the WHU Otto Beisheim School of Management (Koblenz, Germany).

Janet Stuijt was appointed to the Management Board as General Counsel as of 1 September 2018. Ms Stuijt is responsible for NN Group's legal function and compliance function and holds the position of Company Secretary. Ms Stuijt joined ING Verzekeringen in 2011 in that same capacity. From 2008 to 2010, she was General Counsel Commercial Banking at ING Group. From 1998 to 2008, Ms Stuijt held various senior (global) management positions within ABN AMRO's legal department, primarily relating to ABN AMRO's corporate strategic and investment banking activities. In 1998, she was Regional Legal Counsel at ABN AMRO's regional office in Singapore. From 1993 to 1997, Ms Stuijt practised law as an associate at Loeff Claeys Verbeke/Allen Overy, Singapore office (1997) and De Brauw Blackstone Westbroek (1993–1997). Ms Stuijt holds a Master's in Civil law, from the University of Leiden (the Netherlands). Since 2016, she is a member of the supervisory board of N.V. Nederlandse Spoorwegen and a member of its risk & audit committee and chair of its nomination & remuneration committee.

Supervisory Board

Duties
The Supervisory Board is responsible for supervising the management of the Executive Board and the general course of affairs of NN Group and its businesses. The Supervisory Board may, on its own initiative, provide the Executive Board with advice and may request any information from the Executive Board that it deems appropriate. In performing its duties, the 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 relevant interests of all stakeholders of NN Group. The organisation, duties and working methods of the Supervisory Board are detailed in the charter of the Supervisory Board. The charter is available on the NN Group website.

Appointment, removal and suspension
The members of the Supervisory Board are appointed by the General Meeting upon nomination of the Supervisory Board. The General Meeting and the Central Works Council may recommend candidates for nomination to the Supervisory Board. The Supervisory Board must simultaneously inform the General Meeting and the Central Works Council of the nomination. The nomination must state the reasons on which it is based. The Supervisory Board is required to nominate one-third of the Supervisory Board members on the enhanced recommendation (versterkt aanbevelingsrecht) of the Central Works Council, unless the Supervisory Board objects to the recommendation on the grounds that the recommended candidate is not suitable to fulfil the duties of a member of the Supervisory Board or that the Supervisory Board will not be properly composed if the nominated candidate is appointed.

The General Meeting may reject the nomination of a Supervisory Board member by an absolute majority of the votes cast by shareholders representing at least one-third of NN Group's issued share capital. If the General Meeting resolves to reject the nomination by an absolute majority of the votes cast, but this majority does not represent at least one-third of NN Group's issued share capital, a new meeting can be convened in which the nomination can be rejected by an absolute majority of the votes cast, irrespective of the part of NN Group's issued share capital represented. If the General Meeting resolves to reject the recommendation, the Supervisory Board will then prepare a new nomination. If the General Meeting does not appoint the person nominated by the Supervisory Board and does not resolve to reject the nomination, the Supervisory Board will appoint the person nominated.

A member of the Supervisory Board is appointed for a maximum period of four years. A Supervisory Board member can be reappointed once for a term of four years. A Supervisory Board member can subsequently be reappointed again for a period of two years, which appointment can be extended by at most two years. In the event of a reappointment after an eight-year period, such reappointment shall be

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adequately motivated in the Supervisory Board Report. The members of the Supervisory Board retire periodically in accordance with a rotation schedule drawn up by the Supervisory Board. The rotation schedule is available on the NN Group website.

The Supervisory Board may suspend a member of the Supervisory Board. The suspension will lapse by law if NN Group has not submitted a petition to the Enterprise Chamber of the Amsterdam Court of Appeal (Ondernemingskamer van het Gerechtshof te Amsterdam) within one month after commencement of the suspension. The General Meeting can, by an absolute majority of votes cast, representing at least one-third of the issued share capital, resolve to abandon its trust (het vertrouwen opzeggen) in the entire Supervisory Board. A resolution to remove the Supervisory Board for lack of confidence cannot be adopted until the Executive Board has notified the Central Works Council of the proposal for the resolution and the reasons therefore. If the General Meeting removes the Supervisory Board members for lack of confidence, the Executive Board must request the Commercial Division of the Amsterdam Court of Appeal to temporarily appoint one or more Supervisory Board members.

Composition

The Supervisory Board must consist of three or more members, with the total number of members of the Supervisory Board determined by the Supervisory Board. As at 31 December 2020, the Supervisory Board consisted of six members, who are all independent within the meaning of best practice provision 2.1.8. of the Dutch Corporate Governance Code.

The profile of the Supervisory Board is available on the NN Group website.

As at 31 December 2020, the Supervisory Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment	Termination/ reappointment	Tenure
David Cole	Chair (as of the close of the AGM on 29 May 2019)	2 October 1961	Male	Dutch and American	1 January 2019	2022	2 years
Heijo Hauser	Member	23 June 1955	Male	German	7 July 2014, reappointment 31 May 2018	2022	6 years
Robert Jenkins	Member	17 January 1951	Male	American	2 February 2016, reappointment 28 May 2020	2024	5 years
Hans Schoen	Member (recommended by Central Works Council)	2 August 1954	Male	Dutch	7 July 2014, reappointment 31 May 2018	2022	6 years
Clara Streit	Member	18 December 1968	Female	German and American	1 June 2017, reappointment 28 May 2020	2024	3 years
Hélène Vletter-van Dort	Vice-chair (as of the close of the AGM on 28 May 2020) (recommended by Central Works Council)	15 October 1964	Female	Dutch	6 October 2015, reappointment 29 May 2019	2023	5 years

The term of appointment of **Dick Harryvan**, who had been appointed to the Supervisory Board on 6 October 2015, which became effective on 2 February 2016 and who served as vice-chair of the Supervisory Board as of 24 February 2016, ended at the close of the AGM on 28 May 2020.

The term of appointment of **Rob Ruijter** who had been appointed to the Supervisory Board on 1 June 2017 as Continuing Member – as described in the Offer Memorandum, issued in connection with the recommended public cash offer to all holders of issued and outstanding ordinary shares in the capital of Delta Lloyd – and pursuant to the enhanced recommendation of the Central Works Council, ended on 12 April 2020.

As announced on 10 February 2021, the Supervisory Board has decided to nominate **Cecilia Reyes** (1959, Filipino/Swiss) and **Rob Lelieveld** (1962, Dutch) for appointment as members of the Supervisory Board for a term of four years. The proposals for appointment will be submitted for adoption at the AGM, to be held on 20 May 2021. If adopted, the appointment of Cecilia Reyes will become effective immediately, and the appointment of Rob Lelieveld will become effective 1 September 2021.

David Cole was appointed to the Supervisory Board on 31 May 2018, which became effective on 1 January 2019. As of the close of the AGM on 29 May 2019, he serves as chair of the Supervisory Board. Mr Cole was chief financial officer and chief risk officer of Swiss Re Ltd., chief financial officer and chief risk officer of (former) ABN AMRO Holding (Bank) N.V. and member of the board of directors of FWD Group Management Holdings Ltd. Besides being a member of the Supervisory Board, Mr Cole is, amongst others, member of the board of directors of Vontobel Holding AG (Zürich) and of Swiss Re Asia Pte. Ltd (Singapore) and Swiss Re Corporate Solutions Brazil and chair of the supervisory board of IMC B.V.

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Heijo Hauser was appointed to the Supervisory Board as of 7 July 2014. On 31 May 2018, he was reappointed as Supervisory Board member. From January 1991 until June 2011, Mr Hauser was managing director of Towers Watson in Germany. He specialised in providing consulting services to insurance companies in areas such as strategy, distribution, product and risk management. He also managed Towers Watson's businesses in the German-speaking, Nordic and Central European countries. From September 1987 until December 1990, Mr Hauser was managing director of the travel and financial services subsidiaries of Metro in Germany. Other previous positions include sales director of Deutsche Krankenversicherung and marketing actuary of Victoria Lebensversicherung. Mr Hauser holds a Master's degree in mathematics from the Ruhr University of Bochum (Germany). Besides being a member of the Supervisory Board, Mr Hauser is chair of the board of Freundeskreis Elisabeth-Hospiz e.V.

Robert Jenkins was appointed to the Supervisory Board on 6 October 2015, which became effective on 2 February 2016. On 28 May 2020, he was reappointed as Supervisory Board member. Since 2009, he is adjunct professor of finance at London Business School where he teaches investment management. As of September 2020, he is also a member of the CFA Institute's The Future of Finance Advisory Council and on 1 December 2020, he became a strategic advisor to Carbon Cap Mgt LLP. From 2014 to 2016, he was founding chair of the AQR Asset Management Institute at LBS. From September 2013 through September 2019, Mr Jenkins was a member of the board of governors of CFA Institute. During his tenure he served as chairman of the board, chair of the audit and risk committee, chair of the remuneration committee and chair of the nominations committee. From 2009 until 2014, Mr Jenkins was a senior advisor to CVC Capital Partners and from 2011 until 2013 he was an external independent member of the interim Financial Policy Committee of the Bank of England. Mr Jenkins has served as chair of the Investment Management Association, UK, chair of the board of F&C Asset Management, plc (non-executive) and chief executive officer of the F&C Group. Other former positions include that of chief operating officer of Credit Suisse Asset Management Holding, UK, chief investment officer and head of asset management at Credit Suisse, Japan, and senior vice-president at Citigroup with executive assignments in the Middle East, Switzerland, United States and Japan. He was senior fellow at Better Markets, Washington, D.C.

Hans Schoen was appointed to the Supervisory Board as of 7 July 2014. On 31 May 2018, he was reappointed as Supervisory Board member. He is considered as appointed pursuant to the enhanced recommendation right of the Central Works Council as of 12 April 2020. From September 1977 until October 2008, Mr Schoen worked at KPMG Accountants and was a partner as of January 1989. He specialised in providing audit and advisory services to domestic and foreign insurance companies. Other former significant positions of Mr Schoen include member and chair of several insurance industry committees of the NIVRA and the Dutch Accounting Standards Board, member of the governmental advice committee Traas in respect of the financial and prudential reporting obligations of Dutch insurance companies, member of several advisory committees of the IASC/IASB on insurance company financial reporting requirements and member and part-time acting director of research of the Technical Expert Group of EFRAG in Brussels (Belgium). Until 27 April 2016, Mr Schoen served as chair of the EFRAG Insurance Accounting Working Group. Mr Schoen holds a degree in economics and a postdoctoral degree in accountancy from the University of Amsterdam (the Netherlands). In September 2015, he received a Doctorate (PhD) from the VU University Amsterdam (the Netherlands).

Clara Streit was appointed to the Supervisory Board on 1 June 2017. She is a former member of the supervisory board of Delta Lloyd N.V. and served as one of the Continuing Members until 12 April 2020. At the AGM on 28 May 2020, she was reappointed as Supervisory Board member. Clara Streit was senior partner at McKinsey & Company Inc. in Munich and Frankfurt. Until 12 April 2018, she was member of the board of directors of Unicredit S.p.A (Milan). Positions currently held by Ms Streit include membership of the board of directors of Vontobel Holding AG (Zürich) and membership of the supervisory board of Vonovia SE (Düsseldorf). Ms Streit is also a member of the board of directors of Jerónimo Martins SGPS S.A. (Lisbon) and member of the supervisory board of Deutsche Börse AG (Frankfurt).

Hélène Vletter-van Dort was appointed to the Supervisory Board on 6 October 2015 pursuant to the enhanced recommendation right of the Central Works Council. On 29 May 2019, she was reappointed as Supervisory Board member. As of the close of the AGM on 28 May 2020, Ms Vletter-van Dort serves as vice-chair of the Supervisory Board. In addition to being a member of the Supervisory Board, Ms Vletter-van Dort is, amongst others, a professor of financial law & governance at the Erasmus School of Law, chair of the supervisory board of Intertrust N.V. and chair of the board of Stichting Luchtmans. As of 1 May 2020, Ms Vletter also serves as member of the supervisory board of the Netherlands Public Broadcasting (NPO). Ms Vletter-van Dort is a former non-executive board member of Barclays Bank plc. Ms Vletter-van Dort also served as a member of the supervisory board of the Dutch Central Bank (DNB) and chair of its committee on supervisory policy. Other previous positions include, amongst others, visiting research professor at New York University, professor of securities law at the University of Groningen, judge at the Enterprise Chamber of the Amsterdam Court of Appeal, lawyer at Clifford Chance in Amsterdam (the Netherlands), member of the supervisory board of Fortis Bank Nederland (Holding) N.V. and Fortis Bank (Nederland) N.V., chair of the Appeal Panel of the Single Resolution Board and member of the Monitoring Committee Corporate Governance Code.

More information on the composition of the Supervisory Board can be found in the Report of the Supervisory Board, on pages 10-22.

Remuneration
Information on the remuneration of the members of the Supervisory Board can be found in the Remuneration Report, on pages 33-42.

Committees of the Supervisory Board
The Supervisory Board has established four committees: the Audit Committee, the Risk Committee, the Remuneration Committee, and the Nomination and Corporate Governance Committee. The organisation, duties and working methods of the Supervisory Board committees are detailed in a separate charter for each committee. These charters are available on the NN Group website. Information on the duties and responsibilities of the respective committees and their composition can also be found in the Report of the Supervisory Board on pages 10-22.

Diversity
NN Group aims to have an adequate and balanced composition of its boards. When composing a board, several relevant selection criteria need to be balanced.

In the Executive Board, no women have been appointed. Since 1 June 2020, the composition of the Management Board is 22% female and 78% male. As from the AGM on 28 May 2020, one-third of

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the Supervisory Board members is female and two-thirds is male. As announced on 10 February 2021, the Supervisory Board has decided to nominate two persons for appointment as members of the Supervisory Board. The proposals for appointment will be submitted for adoption at the AGM, to be held on 20 May 2021. If adopted, the composition of the Supervisory Board will be 37.5% female and 62.5% male, effective 1 September 2021.

In future appointments of board members, NN Group will continue to take into account all applicable laws and regulations and relevant selection criteria including but not limited to executive experience, experience in corporate governance of large stock-listed companies, and experience in the political and social environment in which such companies operate. In the selection of the members of the Executive Board and the Management Board considered as a whole, and in the selection of the members of the Supervisory Board, there will be a balance in terms of nationality, gender, age, experience, education and work background. In addition, there will be a balance in the affinity with the nature and culture of the business of the company and its subsidiaries.

In order to ensure that the Executive Board, the Management Board and the Supervisory Board are at all times adequately composed, appointments to these boards are made on the basis of harmonised policies and visions of the various corporate bodies of NN Group and in accordance with legal and regulatory requirements. Both the profile of the Executive Board and Management Board and the profile of the Supervisory Board include a diversity policy. The guiding principles included in the profiles are taken into account when (re)appointing board members.

NN Group strives to grow the diversity of its people and sets a target by having at least 40% women in senior management positions by 2023. These positions include the Management Board and Management Board minus one managerial positions. Talent management, succession planning and NN Group's Diversity & Inclusion Statement are key instruments in our approach and are part of the Human Capital Development processes of NN Group. More information can be found in the Diversity and inclusion section on page 31 of the 2020 Annual Review. Considering the current state and group size of the Executive Board and the Management Board, NN Group will initially aim to have a gender balance of at least one-third men and at least one-third women for both the Executive Board and the Management Board.

The composition of the Supervisory Board meets the intended statutory diversity quota of at least one-third for both women and men on supervisory boards of listed companies, to be introduced by the bill which was approved by the House of Representatives on 11 February 2021 and which is now to be discussed and approved by the Senate. New appointments to the Supervisory Board must further the gender balance of this board if and as long as the gender balance of having at least one-third men and one-third women is not met.

Conflicts of interest

No transactions were entered into in 2020 in which there were conflicts of interest with Executive Board members and/or Supervisory Board members that are of material significance to NN Group and/or to the relevant board members.

General meeting

Frequency, notice and agenda

Each year, not later than the month of June, a general meeting is held. Its general purpose is to discuss the Report of the management board, advise on the Remuneration Report, adopt the annual accounts, release the members of the Executive Board and the members of the Supervisory Board from liability for their respective duties, appoint and reappoint members of the Supervisory Board, decide on dividend to be declared, if applicable, and decide on other items that require shareholder approval under Dutch law. Extraordinary general meetings are held whenever the Supervisory Board or the Executive Board deems such to be necessary. In addition, one or more shareholders who jointly represent at least 10% of the issued share capital of NN Group may, on application, be authorised by the court in interlocutory proceedings of the district court to convene a general meeting.

General meetings are convened by a public notice via the NN Group website no later than on the 42nd day before the day of the general meeting. The notice includes the place and time of the meeting and the agenda items. Shareholders who, alone or jointly, represent at least 3% of the issued share capital of NN Group may request to place items on the agenda, provided that the reasons for the request are stated therein and the request is received by the chair of the Executive Board or the chair of the Supervisory Board in writing at least 60 days before the date of the general meeting.

Admission to the general meeting

Each holder of shares in the share capital of NN Group entitled to vote, and each other person entitled to attend and address the general meeting, is authorised to attend the general meeting, to address the general meeting and to exercise voting rights. For each general meeting a statutory record date will, in accordance with Dutch law, be set on the 28th day prior to the date of the general meeting, in order to determine whose voting rights and rights to attend and address the general meeting are vested. Those entitled to attend and address a general meeting may be represented at a general meeting by a proxy holder authorised in writing.

In view of the Covid-19 pandemic and pursuant to the Temporary Act COVID-19 Justice and Security (Tijdelijke Wet COVID-19 Justitie en Veiligheid), the 2020 AGM of NN Group was held virtually. Shareholders were able to follow the meeting via a live webcast. Questions could be submitted in advance and those shareholders who made use of this option could also ask follow-up questions during the meeting by electronic means. Voting rights could be exercised by providing an electronic proxy with voting instructions.

Voting and resolutions

Each share in the share capital of NN Group confers the right on the holder to cast one vote. At a general meeting all resolutions must be adopted by an absolute majority of the votes cast, except in those cases in which the law or the Articles of Association require a greater majority. If there is a tie in voting, the proposal concerned will be rejected.

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Powers of the General Meeting
The most important powers of the General Meeting are to:
- Powers of the General Meeting
- Appoint members of the Supervisory Board upon nomination of the Supervisory Board
- Recommend persons to the Supervisory Board for nomination as a member of that board
- Abandon its trust in the Supervisory Board
- Release the members of the Executive Board and the members of the Supervisory Board from liability for their respective duties
- Advise on the Remuneration Report
- Adopt the remuneration policy for the members of the Executive Board and the remuneration policy for the members of the Supervisory Board, including the remuneration for the Supervisory Board members, upon a proposal of the Supervisory Board
- Adopt the annual accounts
- Appoint the external auditor
- Approve resolutions of the Executive Board regarding important changes in the identity or character of NN Group or its business
- Issue shares, restrict or exclude pre-emptive rights of shareholders and delegate these powers to the Executive Board, upon a proposal of the Executive Board which has been approved by the Supervisory Board
- Authorise the Executive Board to repurchase shares
- Reduce the issued share capital, upon a proposal of the Executive Board which has been approved by the Supervisory Board
- Dispose the profit remaining after the payment of dividend on any outstanding preference shares and after a decision has been taken on the addition of all or part of the profits to the reserves, upon a proposal of the Executive Board which has been approved by the Supervisory Board
- Amend the Articles of Association, upon a proposal of the Executive Board which has been approved by the Supervisory Board

Shares and share capital

Classes of shares and NN Group Continuity Foundation
The authorised share capital of NN Group consists of ordinary shares and preference shares. Depositary receipts for shares are not issued with the cooperation of NN Group.

Currently, only ordinary shares are issued, while a call option to acquire preference shares is granted to the foundation (stichting): Stichting Continuiteit NN Group (NN Group Continuity Foundation). The objectives of NN Group Continuity Foundation are to protect the interests of NN Group, the business maintained by NN Group and the entities with which NN Group forms a group and all persons involved therein, in such a way that the interests of NN Group and those businesses and all persons involved therein are protected to the best of its abilities, and by making every effort to prevent anything which may affect the independence and/or the continuity and/or the identity of NN Group and of those businesses in violation of the interests referred above. NN Group Continuity Foundation shall pursue its objectives, inter alia, by acquiring and holding preference shares in the share capital of NN Group and by enforcing the rights, in particular the voting rights, attached to those preference shares. To this end, NN Group Continuity Foundation has been granted a call option by NN Group. According to the call option agreement concluded between NN Group and NN Group Continuity Foundation, NN Group Continuity Foundation has the right to subscribe for preference shares in the share capital of NN Group, consisting of the right to subscribe for such preference shares repeatedly. This may happen each time up to a maximum corresponding with 100% of the issued share capital of NN Group in the form of ordinary shares, as outstanding immediately prior to the exercise of the subscribed rights, less one share, from which maximum shall be deducted any preference shares already placed with NN Group Continuity Foundation at the time of the exercise of the subscribed rights. NN Group Continuity Foundation qualifies as a legal entity independent from NN Group, within the meaning of section 5:71, paragraph 1, subparagraph c of the Dutch Financial Supervision Act.

As at 31 December 2020, the board of NN Continuity Foundation consisted of three members who are independent from NN Group: Marc van Gelder (chair), Hessel Lindenbergh (treasurer) and Steven Perrick (secretary).

Issuance of shares and pre-emptive rights
The General Meeting may resolve to issue shares in the share capital of NN Group, or grant rights to subscribe for such shares, upon a proposal of the Executive Board which has been approved by the Supervisory Board. The Articles of Association provide that the General Meeting may delegate the authority to issue shares, or grant rights to subscribe for shares, to the Executive Board, upon a proposal of the Executive Board which has been approved by the Supervisory Board. If the Executive Board has been designated as the body authorised to resolve upon an issue of shares in the share capital of NN Group, the number of shares of each class concerned must be specified in such designation. Upon such designation, the duration of the designation shall be set, which shall not exceed five years. A resolution of the Executive Board to issue shares requires the approval of the Supervisory Board.

Upon the issue of new ordinary shares (or the granting of rights to subscribe for ordinary shares), each holder of ordinary shares in the share capital of NN Group has a pre-emptive right in proportion to the aggregate nominal value of his or her shareholding of ordinary shares. Holders of ordinary shares have no pre-emptive right upon (a) the issue of new ordinary shares (or the granting of rights to subscribe for ordinary shares): (i) against a payment in kind, (ii) to employees of NN Group or of a group company, or (iii) to persons exercising a previously-granted right to subscribe for ordinary shares and (b) the issue of preference shares.

Upon a proposal of the Executive Board which has been approved by the Supervisory Board, the General Meeting may resolve to limit or exclude the pre-emptive rights. According to the Articles of Association, the General Meeting may designate the Executive Board as the competent body to do so upon a proposal of the Executive Board which has been approved by the Supervisory Board. Both resolutions require a majority of at least two-thirds of the votes cast, if less than one-half of the issued share capital is represented at the general meeting. The designation to the Executive Board to resolve to limit or exclude the pre-emptive rights may be granted for a specified period of time of not more than five years and only if the Executive Board has also been designated or is simultaneously designated the authority to resolve to issue shares. A resolution of the Executive Board to limit or exclude the pre-emptive rights requires the approval of the Supervisory Board.

Designation of the Executive Board at the 2019 and 2020 AGM

Share issuance in the context of issuing Contingent Convertible Securities
On 29 May 2019, the General Meeting designated the Executive Board for a term of five years, from 29 May 2019 up to and including

Corporate governance continued

28 May 2024, as the competent body to resolve, subject to the approval of the Supervisory Board, on the issuance of ordinary shares in the share capital of NN Group (including the granting of rights to subscribe for ordinary shares) upon conversion of any Contingent Convertible Securities (CCS) instruments in accordance with its terms and conditions during the term of the CCS instruments. This authority of the Executive Board is limited to a maximum of 30% of the issued share capital of NN Group as at 29 May 2019. This designation enables the Executive Board to issue CCS instruments and to set the terms and conditions for any CCS instrument, including the limitation or exclusion of pre-emptive rights, the mechanism for the conversion and the conversion price.

Share issuance and limitation of pre-emptive rights

On 28 May 2020, the General Meeting designated the Executive Board for a term of 18 months, from 28 May 2020 up to and including 27 November 2021, as the competent body to resolve, subject to the approval of the Supervisory Board:

- on the issuance of ordinary shares in the share capital of NN Group and on the granting of rights to subscribe for such shares; and
- to limit or exclude the pre-emptive rights of existing shareholders with respect to such issue of ordinary shares in the share capital of NN Group and such granting of rights to subscribe for ordinary shares.

The authority of the Executive Board is limited to a maximum of 10% of the issued share capital of NN Group as at 28 May 2020.

Rights issue

On 28 May 2020, the General Meeting designated the Executive Board for a term of 18 months, from 28 May 2020 up to and including 27 November 2021, as the competent body to resolve, subject to the approval of the Supervisory Board, on the issuance of ordinary shares in the share capital of NN Group and on the granting of rights to subscribe for ordinary shares by way of a rights issue. This authority of the Executive Board is limited to a maximum of 20% of the issued share capital of NN Group as at 28 May 2020. This authority to issue shares may be used for any purpose, including but not limited to safeguarding or conserving the capital position of NN Group and mergers or acquisitions.

Acquisition of own shares

NN Group may acquire fully paid-up shares in its own share capital for no consideration (om niet) or if: (a) NN Group's shareholder's equity less the payment required to make the acquisition does not fall below the sum of called-up and paid-in share capital and any statutory reserves, and (b) the nominal value of the shares which NN Group acquires, holds or holds as pledge, or which are held by a subsidiary, does not exceed half of the issued share capital. The acquisition of its own shares by NN Group for consideration requires authorisation by the General Meeting. The authorisation is not required for the acquisition of shares for employees of NN Group or of a group company under a scheme applicable to such employees. The Executive Board may resolve, subject to the approval of the Supervisory Board, to alienate the shares acquired by NN Group in its own share capital. The resolution of the Executive Board to acquire shares in its own share capital for consideration requires the prior approval of the Supervisory Board. No voting rights may be exercised in the general meeting with respect to any share or depositary receipt for such share held by NN Group or by a subsidiary, and no payments will be made on shares which NN Group holds in its own share capital.

On 28 May 2020, the General Meeting authorised the Executive Board for a term of 18 months, from 28 May 2020 up to and including 27 November 2021, to acquire in the name of NN Group, subject to the approval of the Supervisory Board, fully paid-up ordinary shares in the share capital of NN Group. This authorisation is subject to the condition that following such acquisition the par value of the ordinary shares in the share capital of NN Group which are held by NN Group or for which NN Group holds a right of pledge, or which are held by its subsidiaries for their own account, shall not exceed 10% of the issued share capital of NN Group as at 28 May 2020. Shares may be acquired on the stock exchange or otherwise, at a price not less than the par value of the ordinary shares in the share capital of NN Group and not higher than 110% of the highest market price of the shares on Euronext Amsterdam on the date of the acquisition or on the preceding day of stock market trading.

Cancellation of own shares

On 28 May 2020, the General Meeting adopted the proposal to reduce the issued share capital of NN Group by cancellation of ordinary shares held by NN Group in its own share capital up to a maximum of 20% of the issued share capital of NN Group as at 28 May 2020. The cancellation may be executed in one or more tranches. The number of ordinary shares to be cancelled shall be determined by the Executive Board. Capital reduction shall take place with due observance of the applicable statutory provisions and the articles of association of NN Group.

Transfer of shares and transfer restrictions

The transfer of ordinary shares in the share capital of NN Group included in the Statutory Giro System must take place in accordance with the provisions of the Dutch Securities Giro Act (Wet giraal effectenverkeer). The transfer of shares in the share capital of NN Group not included in the Statutory Giro System requires an instrument intended for that purpose. To become effective, NN Group has to acknowledge the transfer, unless NN Group itself is a party to the transfer. The Articles of Association do not restrict the transfer of ordinary shares in the share capital of NN Group, while the transfer of preference shares in the share capital of NN Group requires the prior approval of the Executive Board. NN Group is not aware of the existence of any agreement pursuant to which the transfer of ordinary shares in the share capital of NN Group is restricted.

Significant shareholdings

Substantial shareholdings, gross and net short positions

Under the Dutch Financial Supervision Act each legal and natural person having a substantial holding or gross short position in relation to the issued share capital and/or voting rights of NN Group that reaches, exceeds or falls below any one of the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%, must immediately give written notice to the Dutch Authority for Financial Markets. These notifications will be made public via the Register substantial holdings and gross short positions (Register substantiële deelnemingen en bruto shortposities) of the Dutch Authority for Financial Markets.

Pursuant to EU regulation No 236/2012, each legal and natural person holding a net short position representing 0.2% of the issued share capital of NN Group must report this position and any subsequent increase by 0.1% to the Dutch Authority for Financial Markets. Each net short position equal to 0.5% of the issued share capital of NN Group and any subsequent increase of that position by 0.1% will be made public via the short selling register of the Dutch Authority for Financial Markets.

Corporate governance continued

In 2020, no legal or natural person held at least 10% of the shares in NN Group, therefore NN Group did not enter into any transaction with any such person.

Information on shareholders with an (indirect) holding and/or gross short position of 3% or more can be found in the Annual Review on page 35 and is deemed to be incorporated by reference herein.

Dutch Corporate Governance Code

NN Group is subject to the Dutch Corporate Governance Code (Code). The application of the Code by NN Group during the financial year 2020 is described in the publication 'Application of the Dutch Corporate Governance Code by NN Group', dated 10 March 2021, which is available on the website of NN Group. This publication is to be read in conjunction with this chapter and is deemed to be incorporated by reference herein. The Code is available on the website of the Dutch Corporate Governance Code Monitoring Committee (www.commissiecorporategovernance.nl).

Articles of Association

The General Meeting may pass a resolution to amend the Articles of Association with an absolute majority of the votes cast, but only on a proposal of the Executive Board, which has been approved by the Supervisory Board. NN Group's Articles of Association were last amended on 28 May 2020.

Change of Control

NN Group is not party to any material agreement that takes effect, alters or terminates upon a change of control of NN Group following a take-over bid as referred to in article 5:70 of the Dutch Financial Supervision Act, other than a revolving credit facility agreement entered into with a syndicate of lenders. The revolving credit facility agreement includes a change of control provision which entitles the lenders to cancel the commitment under the facility and declare any outstanding amounts under the facility immediately due and payable.

The assignment contracts with the members of the Executive Board provide for severance payments, which are to become due in case of termination of the contract in connection with a public bid as defined in article 5:70 of the Dutch Financial Supervision Act. Severance payments to the members of the Executive Board are limited to a maximum of one year's fixed salary, in line with the Code and the Dutch Financial Supervision Act.

External auditor

The external auditor is appointed by the General Meeting upon nomination of the Supervisory Board, after recommendation by the Audit Committee. On 28 May 2015, the General Meeting appointed KPMG Accountants N.V. as the external auditor of NN Group for the financial years 2016 through 2019. On 29 May 2019, KPMG Accountants N.V. was reappointed as the external auditor of NN Group for the financial years 2020 through 2022.

The external auditor may be questioned at the general meeting in relation to its audit opinion on the annual accounts. The external auditor will therefore attend and be entitled to address this meeting. The external auditor attended the meetings of the Audit Committee and the Risk Committee of the Supervisory Board in 2020.

More information on NN Group's policy on external auditor independence is available on the website of NN Group (NN Group - Auditor information (nn-group.com).

Risk management and control systems

A description of the main characteristics of the risk management and control systems of NN Group and its group companies can be found in Note 51 'Risk management' to the Consolidated annual accounts, which is deemed to be incorporated by reference herein.

The Executive Board is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the annual accounts in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets.
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of the annual accounts in accordance with generally accepted accounting principles (International Financial Reporting Standards as endorsed by the European Union and Part 9 of Book 2 of the Dutch Civil Code).
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the annual accounts.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Corporate Governance Statement

This chapter, including parts of this Annual Report incorporated by reference, together with the separate publication 'Application of the Dutch Corporate Governance Code by NN Group', dated 10 March 2021, which is available on the NN Group website, also serves as the corporate governance statement referred to in section 2a of the Decree contents of the management report (Besluit inhoud bestuursverslag).

Remuneration report

Opening statement

On behalf of the Supervisory Board, I am pleased to present NN Group's 2020 Remuneration report. 2020 was a challenging year in which the Remuneration Committee addressed several relevant topics. On 1 December 2019, part of the Dutch law implementing the revised EU Shareholders' Rights Directive entered into force, and the 2019 Remuneration report was drafted in line with these new legal requirements. The remuneration policies of the Executive Board and the Supervisory Board were reviewed and brought in line with the new legislation. The Supervisory Board held various consultation sessions with stakeholders, including shareholders, proxy advisors, shareholder interest groups, employee representation, regulators, customers and the general public to obtain their feedback on the draft updated policies. Based on the outcome of these consultation sessions, the Executive Board Remuneration Policy and Supervisory Board Remuneration Policy were amended. We are pleased that these policies were adopted by the General Meeting on 28 May 2020, with 94.60% of votes in favour for the proposed Remuneration policy for the members of the Executive Board, and 97.57% of votes in favour for the proposed remuneration policy for the members of the Supervisory Board. The proposal, to give a positive advice on the 2019 Remuneration report, was adopted with 93.17% of the votes in favour for the proposal.

2020 was also marked by the Covid-19 pandemic and the launch of the company's new strategy. In August 2020, the Remuneration Committee reviewed the performance objectives for the Executive Board, which were approved by the Supervisory Board in January 2020 to ensure alignment with the new strategy as announced at the Capital Markets Day in June and to determine whether any changes were required in light of the Covid-19 pandemic. The Remuneration Committee concluded that the approved 2020 objectives should be maintained for the remainder of the year. We further elaborate on this in the paragraph on the performance objectives.

In preparation for the Supervisory Board decision-making in relation to the execution of the remuneration policies, including establishing the 2020 variable remuneration award and the Base Salary levels for the year 2021 for members of the Executive Board, we reached out to various stakeholders, including shareholders, proxy advisors, shareholder interest groups, and employee representation. During the informal dialogue sessions, views were gathered on, among other things, how the Covid-19 pandemic should be reflected in executive remuneration decisions, and other elements important to the various stakeholders. Furthermore, consideration has been given to statements and views as expressed by (inter)national regulators. The input allowed the Supervisory Board to balance the interest of different stakeholders in the decision making processes with regard to the execution of the Executive Board Remuneration Policy. The outcome of this process can be found in this remuneration report. Another topic that was addressed during the consultation sessions was increased transparency in relation to the performance objectives. The Supervisory Board is pleased to present more detailed disclosures on the 2020 performance objectives in this report compared with previous years, and this will remain a focus area in the coming years.

H.M. (Hélène) Vletter-van Dort
Chair of the Remuneration Committee

Introduction

This remuneration report describes NN Group's remuneration policy and methodology. Furthermore, details are provided on the remuneration of the Supervisory Board and the Executive Board. This Report is divided into the following subsections:

I Remuneration in general
II Remuneration of the Executive Board
III Remuneration of the Supervisory Board

Reference is made to Note 48 'Key management personnel compensation' in the Consolidated annual accounts for more information on the remuneration of the Executive Board, Management Board and Supervisory Board, including loans and advances provided to the members of these Boards. This remuneration report serves as the report referred to in article 2:135b of the Dutch Civil Code and Best Practice Provision 3.4.1 of the Dutch Corporate Governance Code. The information provided in this remuneration report is based on the current applicable remuneration policies of NN Group.

I Remuneration in general

NN Group has an overall remuneration policy, as described in the NN Group Remuneration Framework, which sets out guidelines and principles for all country and business unit remuneration policies within NN Group. NN Group aims to apply a clear and transparent remuneration policy that is adequate to attract and retain expert leaders, senior staff and other highly qualified employees. The remuneration policy is also designed to support NN Group's employees to act with integrity and to carefully balance the interests of our stakeholders. It supports doing business with the future in mind, and aims to focus on creating long-term value for all stakeholders.

NN Group's remuneration policy for executives and senior staff is based on a total compensation approach, and is benchmarked on a regular basis with relevant national and international peers, both within the financial sector and outside the financial sector. Clear financial and non-financial performance objectives are set which are aligned with the overall strategy of NN Group, both in the short term and the long term, to ensure that remuneration is properly linked to individual, team and NN Group performance. The remuneration policy supports a focus on the company's long-term interests and the interests of its customers and various stakeholders by ensuring that there is careful management of risk and that staff are not encouraged, via remuneration, to take excessive risk. In addition, the remuneration policy ensures that NN Group complies with all the relevant (inter)national regulations on remuneration, such as the Act on the Remuneration Policies of Financial Undertakings (Wet beloningsbeleid financiële ondernemingen), as relevant to our business.

Remuneration report continued

With respect to performance year 2020, the total number of staff of NN Group eligible for variable remuneration is 6,264. The total amount of variable remuneration approved is EUR 71.3 million, which will be paid in March or April 2021. In 2020, five persons employed within NN Group and NN IP received a total remuneration of more than EUR 1 million. For this calculation, the individual base salary, awarded variable remuneration and, where applicable, life course savings schemes, individual saving allowances and pension contributions were included.

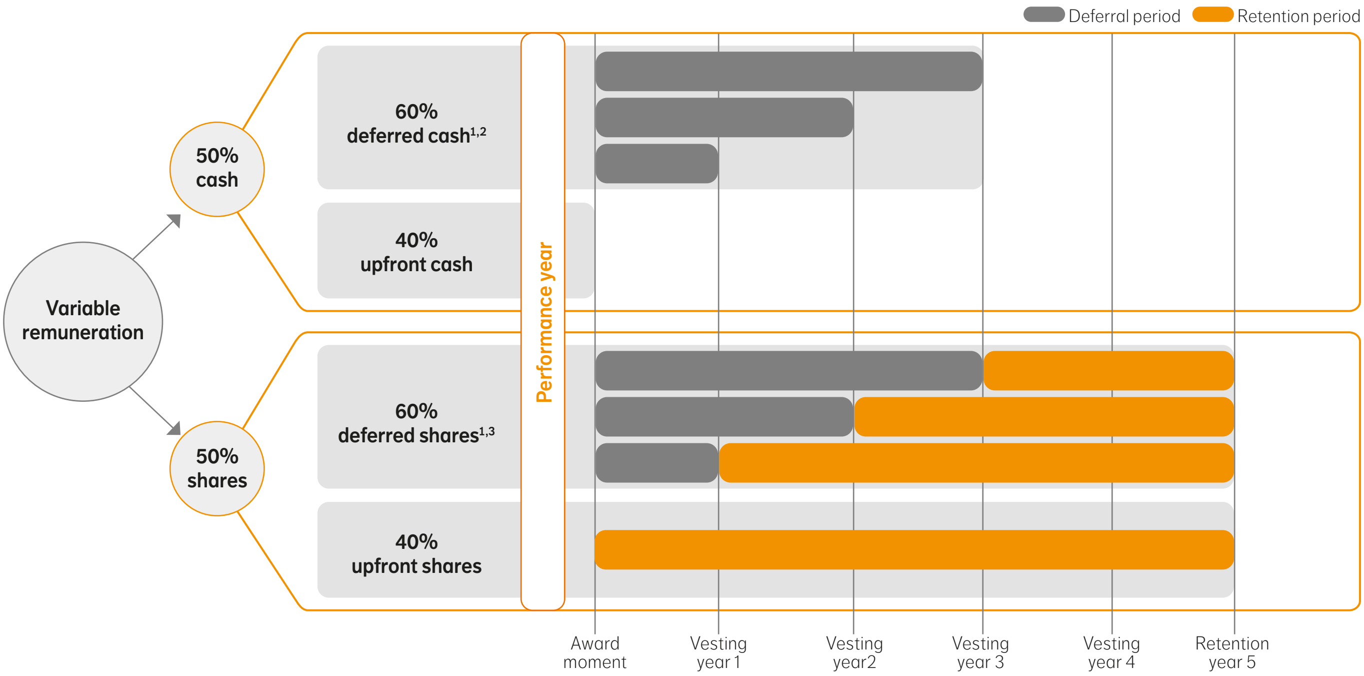
II Remuneration of the Executive Board

The Executive Board members have an assignment contract (in Dutch: overeenkomst van opdracht) with NN Group N.V. Mr Knibbe was appointed as member and chair of the Executive Board and CEO of NN Group by the Supervisory Board on 1 October 2019, after notification to the General Meeting of NN Group at an extraordinary general meeting (EGM) on 26 September 2019. The term of appointment of Mr Knibbe will end at the close of the annual general meeting to be held in 2023. Mr Rueda was appointed to the Executive Board as Chief Financial Officer and vice-chair on 1 March 2014 and as vice-chair of the Management Board on 7 July 2014. He was reappointed as member of the Executive Board and again designated as CFO of NN Group and as vice-chair of the Executive Board on 31 May 2018 for a term of four years. His term of appointment will end at the close of the annual general meeting to be held in 2022. Executive Board members can be reappointed by the Supervisory Board for consecutive periods of up to four years after notification to the General Meeting of NN Group. The remuneration policy for the Executive Board members was adopted by the General Meeting on 28 May 2020, effective as from 1 January 2020. The data presented in this report relates to remuneration awarded to the Executive Board members in respect of the whole of 2020. The 2020 total remuneration as provided to the members of the Executive Board is in line with the applicable remuneration policy. The Supervisory Board has not applied any deviation or derogation from the remuneration policy of the Executive Board.

The remuneration of the Executive Board members consists of a combination of fixed remuneration ('base salary'; of which 80% is paid in cash and 20% in shares) and base salary allowances, variable remuneration (of which 50% is paid in cash and 50% in shares), pension arrangements and other emoluments as described below. To support the long-term value creation, a retention period of five years starting from the date of award is applicable to all share awards. The detailed composition of the Executive Board remuneration is illustrated below.

Composition Executive Board remuneration

Remuneration elements	Portion	Split	Awarded	Retention period
Base salary in cash	80%			
Base salary in shares	20%			5 years
Total base salary	**100%**			
Variable remuneration	Min 0% Target 16% Max 20%	50% in cash	60% deferred	
			40% upfront	
		50% in shares	60% deferred	5 years
			40% upfront	5 years
Total direct remuneration	**Min 100% Target 116% Max 120%**			



1 One-third of the deferred cash and deferred shares awards vest each year.
2 Subject to 'Hold-Back and Claw-Back' clauses and leaver provisions during the deferral period up to the third anniversary award moment.
3 Subject to 'Hold-Back and Claw-Back' clauses and leaver provisions during the deferral period. Subsequently, the retention period applies until the 5th anniversary award moment.

Remuneration report continued

The total compensation of the Executive Board members is benchmarked on a regular basis against market data that includes peers both inside and outside the financial sector in the Netherlands and abroad. The peers are selected with reference to asset base, market capitalisation, revenue and number of employees. For 2020, the peer group consists of ABN AMRO Bank, Achmea, Aegon, Ageas, Akzo Nobel, Aviva, CNP Assurances, Koninklijke DSM, Legal & General Group, Munich Re, Rabobank, Randstad, Swiss Life Holding, Talanx and Wolters Kluwer. The Supervisory Board has determined to continue with this peer group in 2021.

In line with the remuneration policy as adopted by the General Meeting on 28 May 2020, the Supervisory Board aims to set the remuneration levels below market median. If, based on the annual benchmark, the remuneration level is not in line with the approved policy, appropriate measures will be considered. The Supervisory Board also takes into account all stakeholders' interests, including social context, before finalising executive pay levels.

Only in the event of an involuntary exit (e.g. a mutual agreement at NN Group's initiative where the Executive Board member has been requested to leave), Executive Board members are eligible to an exit arrangement limited to a maximum of one year base salary. Exit arrangements will in no way qualify as reward for failure (within the meaning of the applicable regulatory requirements).

Executive Board base salary

The Executive Board base salary is based on the remuneration policy of the Executive Board, and aims to reflect the balanced interests of stakeholders. No changes in the base salary of the Executive Board members of NN Group have been adopted throughout 2020.

Executive Board variable remuneration

The remuneration policy for the Executive Board members combines the short- and long-term variable components into one structure. This structure supports both long-term value creation and short-term company objectives. Performance objectives reflect NN Group's medium-term strategic priorities as communicated to the market and as such contribute to the long-term strategy of NN Group. Variable remuneration is based on both the financial and non-financial performance of the individual and the company. The Supervisory Board annually determines the performance objectives at the start of the performance year and defines the relevant 'at target' level. Following the performance year, the Supervisory Board determines the extent to which the financial performance objectives are met based on the full-year financial results. The extent to which non-financial performance objectives are met is also assessed by the Supervisory Board.

The emphasis on long-term performance indicators within the variable component of the compensation package is realised by means of deferral of 60% of the total variable remuneration. Furthermore, an annual re-evaluation by the Supervisory Board takes place with the option to hold back (i.e. prevent from ever vesting) and/or claw back vested and paid variable remuneration. The Supervisory Board has the authority to reclaim any variable remuneration allocated to an Executive Board member based on inaccurate data and/or behaviour that led to significant harm to the company. In addition, the Supervisory Board has the authority to adjust variable remuneration in the event that the application of the predetermined performance criteria would result in an undesired outcome.

The maximum variable remuneration of the Executive Board members for performance year 2015 onwards has been capped at 20% of the base salary and the on target level of the annual variable remuneration has been set at 16% of the base salary. This is in line with the requirements of the Dutch regulatory regime as applicable to NN Group.

Additionally, the short-term component of variable remuneration (the so called 'Upfront Portion') is 40% of the total variable remuneration and is equally divided between an award in cash and an award in stock. The Deferred Portion is also equally divided between an award in deferred cash and an award in deferred stock. Both the deferred cash and the deferred stock awards are subject to a tiered vesting on the first, second and third anniversary of the grant date (one-third per annum). Similar to the shares awarded as fixed remuneration, a retention period of five years starting from the date of award is applicable to all stock awards (both upfront and deferred), with the exception that part of the stock will be withheld at the relevant date of vesting to cover any income tax liability arising from the vested share award (withhold-to-cover). In addition to the general principles described above, more specific details on the 2020 variable remuneration of the Executive Board members are provided below.

Performance for the year 2020 is assessed based on a number of objectives, as outlined in the paragraph below. Estimated risks and capital adequacy were also taken into account when determining the award of variable remuneration.

Performance objectives of the Executive Board members

The performance of the Executive Board members is assessed annually against their financial and non-financial objectives as set by the company's Supervisory Board. When determining the objectives for a specific performance year, the Supervisory Board takes into account the medium-term financial, as well as the non-financial company targets. When determining relative weighting between the financial and non-financial performance objectives, the Supervisory Board takes into account the requirements of the Dutch regulatory regime as applicable to NN Group and the Executive Board remuneration policy as in place per 2020. At the end of the year, the Supervisory Board executes a performance assessment to determine to what extent the objectives have been met. The Supervisory Board is supported by various departments, such as Finance, Corporate Development, Compliance, Corporate Relations, Risk and HR, to provide relevant input.

To keep pace with relevant developments, we need to continuously adapt and evolve as a company. In June 2020, the company presented a new strategy, including a new purpose, ambition, and five strategic commitments.

Remuneration report continued

The ambition of our company describes what we want to achieve in the years to come. We want to be an industry leader, known for our customer engagement, customer centric products, talented people, and contribution to society. All our different business entities are expected to contribute to the delivery of our ambition.

To realise this ambition, we identified the following five strategic commitments:
- Customers and distribution – we see our customers as the starting point of everything we do
- Products and services – we develop and provide attractive products and services
- People and organisation – we empower our colleagues to be their best
- Financial strength – we are financially strong and seek solid long-term returns for shareholders
- Society – we contribute to the well-being of people and the planet

In January 2020, the Supervisory Board approved the performance objectives for the Executive Board members for the year 2020. In May 2020, the Supervisory Board requested a review of these objectives, taking into account the potential impact of Covid-19 and the new strategic framework. The outcome of this review, as discussed in the Remuneration Committee meeting on 5 August 2020, was to continue with the approved 2020 performance objectives for the remainder of the year, as they were considered to remain relevant and applicable in the context of Covid-19 and the new strategic framework. As a result, the performance objectives and ambition levels for the Executive Board members for the year 2020 did not change, and the Executive Board members' performance was assessed against these objectives.

Strategy, customer and society	Weight CEO	Weight CFO
Serve our customers' lifetime needs and contribute positively to society	35%	35%

We have the ambition to be a preferred brand; delivering value added propositions, engaging with customers to meet their life time needs, and offering solutions that create long-term value. These components are covered by the following objectives and contribute to the commitments Customers and distribution and Products and services in our new strategic framework.

With regard to our broader reputation, and track record and role in society, we also monitor how our performance in these areas is being perceived. As we incorporate ESG criteria in our investment decisions, offer products and services with social and environmental added value, further strengthen our sustainability performance, and invest in local communities through donations and volunteering, we set specific objectives (covered in the commitment on Society in our new strategic framework). It is our aim to contribute to the well-being of people and the planet, do business with the future in mind, and contribute to a world where people can thrive for many generations to come.

Key results areas and achievements:

i. Redefine the corporate strategy, translate into a clear roadmap with actions and metrics, followed-up by successful implementation

A new Group strategy was created, with close involvement of senior management from different parts of the organisation, and considering the inputs of many stakeholders, including shareholders. In June 2020, the new strategy and targets were shared with investors at the virtual Capital Markets Day, and a Group-wide engagement programme was launched for NN Group's employees. As part of the strategic process, comprehensive portfolio reviews were performed. Detailed business unit strategies were updated to reflect the new Group strategy and incorporated strategic initiatives in the long-term financial planning cycle. This process was completed in December 2020. To ensure the new strategy is being implemented and the desired outcomes are achieved, the Management Board held regular Strategy & Transformation meetings, performed deep-dives into specific related initiatives, and invested in collecting external viewpoints and dialogue. The objective which was set in relation to redefining the corporate strategy and the implementation hereof has been met.

ii. Increase customer engagement and brand consideration

Through customer feedback we learn about their preferences and views, helping us modify our services to meet their needs. We focus on several key metrics such as Net Promoter Score (NPS), Brand Awareness, Brand Consideration and preference. All these metrics combined is what we refer to as the NN Global Brand Health Monitor (GBHM). The GBHM is used to track how our brand is perceived externally, and to gain insights into brand performance and development over time.

Customer engagement

One of the key metrics of our GBHM is the internationally recognised NPS system to measure how likely it is that the customers recommend products and services to colleagues, friends, or family. There are different sorts of NPS. The relational NPS (NPS-r) is used to measure the strength of our relationship with customers, and to gain understanding of long-term customer satisfaction over time.

In 2020, NPS-r scores have been under pressure and decreased significantly in most markets. At the same time the scores of the market average also decreased. 4 (out of 11) insurance business units scored above market average NPS-r in 2020. The score is equal to the number of insurance business units that scored above market average in 2019. The overall objective to increase the NPS-r scores has not been met.

Brand Consideration

At least twice a year, key brand indicators are measured, such as brand consideration and brand preference. Brand consideration is measured to monitor the preferences of customers. Due to the pandemic many marketing communication plans had to be adjusted and activities were postponed. As a result most business units did not meet some of their brand targets. Overall, brand consideration has remained relatively stable for the majority of the business units.

Remuneration report continued

In order to improve our brand consideration scores over time, NN Group will continue to invest in a strong and relevant brand. In addition to brand consideration, the brand awareness, brand preference and the recognition of the brand promise are closely monitored. The overall objective to improve the brand consideration has not been met.

More information on how customers view our products and services can be found on page 28 of our Annual Review.

iii. Include in top 10% best performing companies in our sector
In line with the ambition to create long-term value creation for our stakeholders, policies and set KPIs and targets in the area of sustainability have been adopted. Internal management information processes and stakeholder dialogues are used to measure the progress and assess the performance. Valuable insight on our performance is provided from a variety of independent external organisations that perform sustainability ratings and benchmarks. This allows NN Group to keep track on the year-on-year progress we make and helps to identify areas for improvement.

NN Group remains within the top 10% of best performing companies in our sector according to various sustainability ratings and assessments. In 2020, NN Group prolonged its inclusion in the Dow Jones Sustainability Index (DJSI). Scores are given on three different dimensions: economic, environmental, and social. Overall NN scored 84 (out of 100), compared with the average industry score of 39. Furthermore, NN Group's scores improved in the FTSE4Good (from 4.9 to 5) and MSCI (from A to AA) indices, and our score increased significantly in the CDP (from C to A-) for the disclosure and action on climate change. NN's ESG ranking by Sustainalytics decreased slightly from position 4 to 12, out of 256 insurance companies. The overall objective in relation to be included in the top 10% best performing companies in the sector has been met.

iv. Support customers to address relevant societal challenges and increase monetary donations and/or hours volunteered
Support customers to address relevant societal challenges
In 2020, many different initiatives have been taken throughout the Group to support customers in addressing the challenges of the Covid-19 pandemic. For example, payment holidays for insurance premiums and mortgage interest to customers facing financial difficulties, and temporary coverage of delivery services for businesses that normally do not deliver products were provided. In the Netherlands, new products, services and partnerships were introduced to help customers address challenges in the area of sustainable housing (Powerly and Woonnu), loneliness (Klup) and household debt (Schuldhulproute) and these solutions have become an integral part of the new strategy going forward.

Increase monetary donations and/or hours volunteered
In 2020, the communities where we live and work were supported in different ways. Charitable donations increased from EUR 3.2 million in 2019 to EUR 4.7 million in 2020. This increase is mainly due to the donations given in response to emergencies and initiatives related to the pandemic. At the same time, because of the physical restrictions for volunteering caused by the Covid situation, the hours employees volunteered have decreased from approximately 12,000 to approximately 8,000. NN Group worked closely with external partners to find solutions by shifting to digital volunteering, which enabled NN Group to still donate valuable time to educate and coach young people and help people overcome financial difficulties.

The overall objective to support customers to address relevant societal challenges and increase monetary donations and/or hours volunteered has been met. NN Group will continue to put resources, expertise, and networks to use for the advancement of its communities and are committed to contribute to the well-being of people and the planet as part of the new strategy.

Financial targets	Weight CEO	Weight CFO
Attractive long-term return for our shareholders	40%	25%

We are committed to achieve a strong operation performance in our operating units, maintain a strong capital position, and deliver attractive and growing capital returns to shareholders. This is measured by the following objectives and contributes to the Financial strength commitment in our new strategic framework. We are focused on maintaining a strong balance sheet and creating solid financial returns for our shareholders by using our financial strength, scale and international footprint, and by efficiently managing our customers' assets, and our own insurance portfolios.

Key results areas and achievements:
i. Operating result
The full-year 2020 operating result amounted to EUR 1,889 million, up 5.3% on 2019. This was mainly driven by a higher investment margin due to the shift to higher yielding assets at Netherlands Life. The 2020 operating result has been achieved in the context of a negative impact from the reinsurance premium related to the longevity transactions completed in May 2020. The operating result objective has been met.

ii. Solvency II operating capital generation (OCG)
As expected, the operating capital generation of NN Group in 2020 was impacted by the exceptional market circumstances and low interest rates, as well as the suspension of bank dividends. On the other hand, the accelerated shift to higher-yielding assets provided some offset in the form of higher investment return. The full-year 2020 operating capital generation amounted to EUR 993 million, compared with EUR 1,349 million in 2019.

Remuneration report continued

The OCG objective, as determined in January 2020, has not been met. Although the decrease in OCG was mainly market driven and additional guidance on the development of OCG was provided at the Capital Markets Day, the initial objective has continued to be used to assess the performance of the Executive Board members for the year 2020. The final OCG outcome was in line with the guidance given at the Capital Markets Day.

iii. Free cash flow to holding
The free cash flow to the holding during 2020 amounted to EUR 1,070 million, compared with EUR 1,187 million in 2019. NN Group followed the request for prudence from regulators and limited dividend flows from subsidiaries to the holding. As such, the remittances were negatively impacted by these Covid-19 related restrictions, which were partially offset by management actions, such as the longevity deal, which led to an increase in dividends from NN Life. The free cash flow to holding objective has been met.

iv. Administrative expense reduction
NN Group remained committed to further reduce administrative expenses during the year 2020. The 2020 administrative expenses of the business units in the scope of the cost reduction target amounted to EUR 1,566 million. The administrative expenses have been reduced by EUR 44 million compared with 2019. This ultimately resulted in the realisation of the longer-term ambition of reducing the administrative expenses by EUR 400 million compared with the full-year 2016 administrative expense base, given that the actual reduction amounted to EUR 404 million. The administrative expense reduction objective was around target level.

For the CFO, additional consideration has been given to the budget discipline of the Finance department.

Sustainable business and prudent management of risks	Weight CEO	Weight CFO
Sustainable control environment & operational culture	15%	30%

We are committed to operate our businesses within the risk appetite, and in accordance with regulations. This will be covered by the following objectives and contributes to the Financial strength commitment in our new strategic framework. We are focused on maintaining a strong balance sheet, and creating solid financial returns for shareholders by using our financial strength, scale and international footprint, and by efficiently managing our customers' assets and our own insurance portfolios.

Key results areas and achievements:
i. Annual effective Control Framework (ECF) cycle with first and second line control monitoring materially completed in accordance with the Control Monitoring Standard, providing positive assurance for the conclusions
The annual ECF cycle was materially completed given sufficient first and second line control monitoring (following risk appetite setting and risk assessment) to enable conclusions whether NN Group and its units operate within risk appetite, despite some delay in control testing due to Covid-19.

ii. Understand business position relative to NN's Risk Appetite and either demonstrate through ECF that the business operates within NN's Risk Appetite or develop approved remediation plans
The business position relative to risk appetite is transparent through the ERM-ECF reporting. Relevant remediation actions resulting from the ERM-ECF Report are discussed in the MB, after which they are deemed approved.

A sound control environment is beneficial to customers and other stakeholders alike. The focus for 2020 was on further maturing a sustainable control environment and documenting the same in a single GRC (Governance, Risk & Control) application. Despite some delays due to Covid-19, this enabled to draw conclusions on whether or not NN Group and its units operated within risk appetite. Areas where units operate outside our risk appetite were, and are being, locally adequately addressed.

The overall objectives in relation to Sustainable business and prudent management of risks have been met.

Employee engagement	Weight CEO	Weight CFO
We empower our colleagues to be their best.	10%	10%

We are committed to empower our employees to bring our values, purpose and ambition to life for our customers. We encourage diversity of thinking and invest in new capabilities and personal development. These aspects will be covered by the following objectives and contribute to the People and organisation commitment in our new strategic framework. We nurture a culture aligned with our purpose, values and ambitions, which supports continuous learning, collaboration and diversity of thinking. We consider all colleagues to be talents and invest in an inclusive and inspiring environment, so we are together best equipped to take our business into the future.

Key results areas and achievements:
i. 2020 Employee engagement ≥ 7.4 as measured by Peakon. Execute three personal actions following up the 2019 survey results
The most recent employee engagement survey as measured by the external provider Peakon (November 2020) resulted in an employee engagement score of 7.9 versus a target of ≥ 7.4. This is an increase of +0.5 compared with year-end 2019 (7.4). The outcome of the survey shows that NN Group's employees work well together remotely and can achieve good results. 82% of our colleagues gave their opinions through the survey, providing meaningful insights to make NN an even better place to work. NN Group scored 0.1 higher on the driver engagement than the industry benchmark (which is composed of similar financial companies). The overall employee engagement objective has been met.

Remuneration report continued

ii. Solid process to have ready-now successors in place for key/critical roles
In 2020, NN Group further built on its talent management approach. Important steps have been taken to design a group wide key talent management process that nurtures a structured and integrated identification, development, cross-organisation mobilisation and retainment of senior management and critical positions. NN Group will start working according to the key talent management process as of 2021. This process will further improve the talent review, succession planning, and aims to stimulate ongoing dialogue and actionable development. The leadership development portfolio is strengthened by designing another leadership programme focusing on fast tracking potentials in order to build the internal succession pool. These processes are all based on the new behavioural profile, the i-LEAD profile, which NN Group developed with the launch of its new strategy in 2020. This objective has been met.

iii. Gender balanced appointments to maintain diversity level of 36% women in senior roles
In December 2020, NN's Statement on Diversity and Inclusion (D&I) was launched to explain what NN Group stands for, including the move towards a more inclusive work environment. The D&I approach focuses on different dimensions, of which gender diversity is one. A D&I target was set for gender diversity, aiming to reach 40% women in senior management positions by 2023. The male/female ratio across the company is well-balanced, but less so within senior management positions. A broader definition of senior management positions has been implemented in 2020, which increases the scope. In 2020, 33% of the senior management positions were fulfilled by women (based on the old definition: 34% in 2020 compared with 36% in 2019). There is still work to be done to reach the target of 40% by 2023.

NN Group therefore enhanced its focus on topics such as succession planning, talent review and leadership development. Different actions were taken to better balance the male/female ratio and to increase awareness. In 2020, balanced participation was carefully considered in the new leadership development programme and the NN Group traineeship. Furthermore, NN Group introduced the organisation wide inspirational Wo{men}talk sessions, and sponsored the TEDxWomenAmsterdam event.

Based on the second biennial equal pay statistical analysis in the Netherlands, when comparing similar compensation grades and job profiles, gender does not influence pay: equal pay is offered for equal work. From 2021, this will be measured annually and across more countries. NN Group believes remaining focused on equal pay is key to driving D&I. It is therefore a recurring topic on the agenda of the Management Board and Supervisory Board. This objective has not been met.

2020 Variable Remuneration award

The Supervisory Board concluded that the Executive Board delivered a strong performance in an unprecedented year. The majority of the financial objectives were scored above or at around target. The exception was the Operating Capital Generation objective that was impacted by the exceptional market circumstances and low interest rates, as well as the suspension of bank dividends. As a result, the overall score on the financial objectives was below target. The overall assessment in relation to the achievements on the non-financial objectives was above target.

When establishing these awards, additional consideration has been given to the views and interests of the various stakeholders of NN Group, with a special focus of the effects of the Covid-19 pandemic. More specifically, the following factors were deemed relevant in determining the 2020 variable remuneration award. For NN Group shareholders, dividend payments and the share buyback programme were temporarily suspended in April 2020 in response to regulatory restrictions, and were resumed in August 2020.

Many actions were taken to ensure an uninterrupted service to NN Group customers and to find tailored solutions for specific needs. For employees, the Covid-19 pandemic in 2020 required great flexibility, while at the same time it led to enhanced digitisation and new ways of working. The employees embraced these ongoing changes throughout the year, as evidenced by the increase in the engagement score. No Covid-19 related reorganisations have been introduced, and the company has focused on the vitality and well-being of the employees. From a societal perspective, NN Group did not apply for government support during the pandemic, and has continued to focus on supporting our communities during Covid-19 through various initiatives, for example by donations of medical supplies, or through donating computers which enabled children to participate in home schooling.

It is obvious that the Covid-19 pandemic provided for an exceptional leadership challenge, where many actions have been taken to minimise the impact of the pandemic. Even though 2020 was an extraordinary year, the Supervisory Board concluded that NN Group has succeeded in maintaining the ordinary course of business to a great extent and as such delivering ongoing value to its various stakeholders, including the shareholders, customers, employees and society at large. In the context as described above, the Supervisory Board did not change the performance objectives and ambition levels for the Executive Board members for the year 2020, and the Executive Board members' performance was assessed against these objectives. All-in-all, it was deemed appropriate to apply the Executive Board remuneration policy as adopted by the General Meeting, without invoking discretionary adjustments.

On the basis of the overall assessment, the Supervisory Board concluded to award the CEO a variable remuneration of 100% of target, which is EUR 284,000 and the CFO a variable remuneration of 109% of target, which is EUR 247,788. In 2020, there was no hold back applied to unvested deferred variable remuneration nor was claw back applied to paid or vested variable remuneration for any of the Executive Board members.

Executive Board pension arrangements

The pension arrangement for the Executive Board members is the same as the pension arrangement that is applicable to all staff of NN Group in the Netherlands and comprises a collective defined contribution (CDC) plan up to the annual tax limit (EUR 110,111 as from 1 January 2020) and a taxable individual savings allowance on pensionable fixed remuneration exceeding the tax limit.

The table on the next page provides details on the amount of contribution that was paid by NN Group to the pension arrangement of the Executive Board members.

Remuneration report continued

Executive Board other emoluments

The Executive Board members were eligible for a range of other emoluments, such as health care insurance, life cycle saving scheme, security, transportation, external tax advice and expat allowances (CFO only). The Executive Board members were also able to obtain banking and insurance services from NN Group in the ordinary course of business and on terms that apply to all employees of NN Group in the Netherlands. As at 31 December 2020, the Executive Board members had EUR 320,000 of loans outstanding with NN Group regulated entities. No guarantees or advanced payments were granted to the Executive Board members. The table below provides details on the amount of emoluments that was paid by NN Group to the benefit of the Executive Board members.

Remuneration of the Executive Board members (in EUR 1,000 and gross)

	David Knibbe		Delfin Rueda	
	2020	2019 (3 months' period)[3]	2020	2019
Base salary in cash	1,420	355	1,137	1,137
Base salary in shares	355	89	284	284
Total base salary	**1,775**	**444**	**1,421**	**1,421**
Variable remuneration	284	71	248	284
Total direct remuneration	**2,059**	**515**	**1,669**	**1,705**
Employer contribution to pension fund	24	6	24	25
Individual savings allowance[1]	388	97	305	339
Other emoluments	146	38	221	227
Employer cost social security[2]	72	18	59	61
Relative proportion base salary versus variable remuneration	86.2%/13.8%	86.2%/13.8%	85.1%/14.9%	83.3%/16.7%

1 The individual saving allowance scheme is applicable for both the Executive Board and staff of NN Group in the Netherlands.
2 The employer social security contributions do not impact the overall remuneration received by Executive Board members.
3 Mr Knibbe was appointed by the Supervisory Board as member and chair of the Executive Board and CEO of NN Group on 1 October 2019. His 2019 remuneration in the capacity of CEO of NN Group is shown in the table above, which covers a period of three months.

The total remuneration as disclosed in the table above (for 2020: EUR 5.0 million) includes all variable remuneration related to the performance year 2020. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in staff expenses in 2020 and therefore included in 'Total expenses' in 2020, relating to the fixed expenses of 2020 and the vesting of variable remuneration of 2020 and earlier performance years, is EUR 5.0 million.

2020 Variable remuneration of the Executive Board members (in EUR 1,000 and gross)

	Upfront cash paid	Deferred cash granted	Upfront shares granted	Deferred shares granted	Total
David Knibbe	57	85	57	85	284
Delfin Rueda	50	74	50	74	248

Long-term incentives awarded in previous years and in 2020 to the Executive Board members

The Executive Board members receive deferred cash and upfront and deferred share awards under NN Group's Aligned Remuneration Plan (ARP). The table below provides a summary of the number of NN Group shares awarded and vested for the Executive Board members during 2020 under the ARP.

Overview of number of NN Group shares awarded and vested for the Executive Board members during 2020

	Plan	Award Date	Outstanding and unvested per 1 January 2020	Awarded during 2020	Vested during 2020	Outstanding and unvested per 31 December 2020	Vesting price in euros
David Knibbe[1]	Deferred Shares Plan	20 March 2017	1,110		1,110	0	23.41
	Deferred Shares Plan	15 March 2018	2,114		1,056	1,058	21.11
	Deferred Shares Plan	18 March 2019	3,709		1,236	2,473	20.01
	Deferred Shares Plan	16 March 2020		3,439		3,439	
	Upfront Shares Plan	16 March 2020		2,293	2,293	0	21.11
Delfin Rueda	Deferred Shares Plan	20 March 2017	681		681	0	23.41
	Deferred Shares Plan	15 March 2018	1,214		606	608	21.11
	Deferred Shares Plan	18 March 2019	2,123		707	1,416	20.01
	Deferred Shares Plan	16 March 2020		2,379		2,379	
	Upfront Shares Plan	16 March 2020		1,586	1,586	0	21.11

1 The overview of shares awarded and vested of Mr Knibbe also includes shares awarded for his performance prior to his appointment as member of the Executive Board on 1 October 2019.

Remuneration report continued

The table below shows a summary of the (vested) NN Group shares held by the Executive Board members on 31 December 2020 (including the shares vested during 2020) and 31 December 2019.

NN Group shares held by the Executive Board members

	2020	2019
David Knibbe	31,920	22,224
Delfin Rueda	50,988	43,760

Remuneration of the Executive Board members, company performance and average employee remuneration (amounts in EUR 1,000 and gross)

	2020	2019	2018	2017	2016
Executive Board remuneration					
Total direct remuneration Mr Knibbe	2,059	515			
Total direct remuneration Mr Friese[1]		1,061	1,970	1,713	1,558
Total direct remuneration Mr Rueda	1,669	1,705	1,586	1,292	1,230
Company performance					
Operating capital generation	993	1,349			
Operating result	1,889	1,794	1,626	1,586	1,227
Solvency II ratio	210%	224%	230%	199%	241%
Average remuneration					
Average employee remuneration	90.3	88.6	85.1	83.7	84.3
Pay ratio[2]	30:1	26:1	30:1	29:1	26:1

1 Mr Friese stepped down as member and chair of the Executive Board and CEO of NN Group as of 12 August 2019. His remuneration in the capacity of CEO of NN Group is shown in the table above.

2 The ratio compares the total CEO compensation and the remuneration of all staff ('Pay ratio') as stated in the Dutch Corporate Governance Code. For the CEO, the total remuneration used in the pay ratio is the total remuneration as disclosed in the Remuneration report. For the staff members, the total remuneration used in the pay ratio is the total remuneration as disclosed in the Consolidated annual accounts Note 28 'Staff expenses'; in order to provide a meaningful comparison, the total remuneration of the staff population excludes external staff costs and the remuneration of the CEO of NN Group. NN Group adjusted the pay ratio calculation method in order to already align with the new prescribed method of the Dutch Monitoring Commission Corporate Governance, as published on 14 December 2020. Compared with previous years, the new pay ratio calculation includes components of variable remuneration under IFRS-EU and social security costs. The Supervisory Board takes the pay ratio into consideration when deciding on the remuneration for the Executive Board members.

III Remuneration of the Supervisory Board

The Supervisory Board was comprised of the following members in 2020: Mr Cole, Mr Harryvan (until the close of the annual general meeting on 28 May 2020), Mr Hauser, Mr Jenkins, Mr Ruijter (until 12 April 2020), Mr Schoen, Ms Streit and Ms Vletter-van Dort.

More information on the composition of the Supervisory Board and its Committees can be found in the Report of the Supervisory Board, on pages 10-22 of this Financial Report.

The remuneration policy of the Supervisory Board members and the remuneration for the individual members of the Supervisory Board were adopted by the General Meeting on 28 May 2020. The 2020 total remuneration as paid to each of the members of the Supervisory Board is in line with the adopted policy and the adopted remuneration for the individual members of the Supervisory Board.

NN Group does not grant variable remuneration, shares or options to the Supervisory Board members. This ensures the independence of the Supervisory Board, contributes to NN Group's long-term performance and is in line with the Dutch Corporate Governance Code. Supervisory Board members may obtain banking and insurance services from NN Group in the ordinary course of business and on terms that are customary in the sector. As from 31 December 2020, the Supervisory Board members do not have loans outstanding with NN Group regulated entities. No repayments were made during the year. No guarantees or advanced payments were granted to Supervisory Board members.

In line with market practice, a distinction is made between chair, vice-chair and other Supervisory Board members. A fixed annual expense allowance is payable to cover all out-of-pocket expenses. Travel and lodging expenses in relation to meetings are paid by NN Group.

The remuneration for the members of the Supervisory Board (in EUR)

	Chair	Vice-chair	Member
Fixed annual fee Supervisory Board	110,000	72,500	65,000
Fixed annual fee for position in Committee	17,000	n/a[1]	13,500
Fixed annual expense allowance to cover out of pocket expenses (travel and lodging will be paid)	9,000	9,000	9,000

1 There are no vice-chair positions in Supervisory Board Committees.

Remuneration report continued

Fees and allowances of Supervisory Board members[1]

In EUR and gross[1]	Fixed annual fees		Total fixed gross expense allowance		Total international attendance fees[2]		VAT		Total (including VAT)	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
D.A. (David) Cole (Chair)[3]	147,794	91,292	9,000	7,959	n/a	32,000	32,927	27,563	189,721	158,814
J.H. (Jan) Holsboer (Chair)[4]		47,500		3,750	n/a			10,763		62,013
D.H. (Dick) Harryvan[5]	47,083	90,000	3,750	6,500	n/a	4,000	10,675	21,105	61,508	121,605
H.J.G. (Heijo) Hauser	101,778	74,500	9,000	6,500	n/a	28,000	23,263	22,890	134,041	131,890
J.W. (Hans) Schoen	105,175	74,500	9,000	6,500	n/a	4,000	23,977	17,850	138,152	102,850
H.M. (Hélène) Vletter-van Dort[6]	107,133	74,584	9,000	6,500	n/a	4,000	24,388	17,868	140,521	102,952
R.W. (Robert) Jenkins	92,036	66,500	9,000	6,500	n/a	28,000	21,218	21,210	122,254	122,210
R.A. (Robert) Ruijter[7]	26,067	70,500	2,550	6,500	n/a	4,000	6,010	17,010	34,627	98,010
C.C.F.T. (Clara) Streit	92,036	66,500	9,000	6,500	n/a	28,000	21,218	21,210	122,254	122,210

1 This table shows the fixed fees, expense allowances and international attendance fees (applicable in 2019) for the members of the Supervisory Board of NN Group for 2020 and 2019. In addition, Mr Hauser was appointed as Supervisory Board member of Nationale-Nederlanden Schadeverzekering Maatschappij N.V., NN Non-life Insurance N.V., as from 21 January 2020, NN Re Netherlands N.V. as from 1 March 2020 and VIVAT Schadeverzekeringen N.V. as from 1 April 2020 and Mr Schoen was appointed as Supervisory Board member of Nationale-Nederlanden Levensverzekering Maatschappij N.V. as from 21 January 2020. The total fees (including VAT) for these roles were EUR 79,355.

2 In the remuneration policy of the Supervisory Board members, which was adopted by the General Meeting on 28 May 2020 and is effective from 1 January 2020, international attendance fees have been abolished.

3 Mr Cole was appointed as member of the Supervisory Board as per 1 January 2019. He was appointed Chair of the Supervisory Board as per 29 May 2019.

4 Mr Holsboer stepped down as member and Chair of the Supervisory Board as of 29 May 2019.

5 The term of appointment of Mr Harryvan ended at the close of the annual general meeting 28 May 2020. His remuneration in the capacity of vice-chair of the Supervisory Board of NN Group is shown in the table above.

6 Ms Vletter-van Dort was appointed Vice-chair of the Supervisory Board as per 28 May 2020.

7 The term of appointment of Mr Ruijter ended on 12 April 2020. His remuneration in the capacity of Supervisory Board member of NN Group is shown in the table above.

Works councils

Members Central Works Council 2020

Anne-Marieke Arendsen-Kramer		NN Leven
Casper Stokman		NN Group Staven
David Reijger		NN Investment Partners
Dennis Molenberg		Zicht
Dirk Meijer		NN Schade & Inkomen
Edwin Kramer		NN Schade & Inkomen
Frank Klein		NN Leven
Hans Grolle	Daily board member	NN Customer & Commerce
Henri Kruk		NN Group Staven
Jan Paul Rietveld	Daily board member	NN Bank
Koen van Vliet	Vice-chair	NN Bank
Marcel Naumann		NN Investment Partners
Moulay Yakoubi		AZL
Naomi Hoogstad	Secretary	NN Leven
Niels van Rosmalen		NN Schade & Inkomen
Robert Heinsbroek		ABN AMRO Verzekeringen
Sebastiaan van der Wal	Chair	NN Leven
Willem van der Hel		NN Group Staven

Members European Works Council 2020

EU country	Primary member	Deputy
Belgium	René de Meij (Secretary)	Wim Scheers
Bulgaria	Silvia Sabotinova	Iva Doskova
Czech Republic	Svetlana Kuznetcová (Chair)	Jaroslav Čepelka
Greece	Maria Tapini	Foteini Goublia
Hungary	Viktória Jeney-Schwartz	Fanni Graf-Sarosi
Netherlands	Willem van der Hel	Jan Paul Rietveld
	Anne Hesselman (Vice-chair)	
	Niels van Rosmalen	
Poland	Agnieszka Majerkiewicz	Anna Rejzler-Wojtyś
Romania	Oana Rotariu	Andreea Niculae
Slovakia	Mária Vitálošová	Marcela Šarlinová
Spain	Angel Otero	Trini Aguilar

Statements Dutch Financial Supervision Act and Dutch Corporate Governance Code

The Executive Board is required to prepare the annual accounts and the Report of the management board (bestuursverslag) of NN Group N.V. for each financial year in accordance with applicable Dutch law and the International Financial Reporting Standards (IFRS) as endorsed by the European Union.

As required by section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act, each of the signatories hereby confirms that to the best of his knowledge:

- The NN Group N.V. 2020 annual accounts, as referred to in section 2:361 of the Dutch Civil Code including the relevant additional information as referred to in section 2:392 paragraph 1 of the Dutch Civil Code, give a true and fair view of the assets, liabilities, financial position and profit or loss of NN Group N.V. and the enterprises included in the consolidation taken as a whole.
- The NN Group N.V. 2020 Report of the management board (bestuursverslag), as referred to in section 2:391 of the Dutch Civil Code, gives a true and fair view of the position at the balance sheet date, and the development and performance of the business during the 2020 financial year of NN Group N.V. and the enterprises included in the consolidation taken as a whole, together with a description of the principal risks NN Group N.V. is confronted with.

With reference to best practice provision 1.4.3(i), (iii) and (iv) of the Dutch Corporate Governance Code, the Executive Board hereby confirms that, to the best of its knowledge:

- The NN Group N.V.'s description of its risk management organisation and framework as described in the Report of the management board (bestuursverslag) including Note 51 'Risk management' to the Consolidated annual accounts provides sufficient insights into any material failings in the effectiveness of the internal risk management and control systems,
- Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis, and
- The NN Group N.V. 2020 Report of the management board (bestuursverslag) includes those material risks and uncertainties that are relevant to the expectation of NN Group N.V.'s continuity for the period of 12 months after the preparation of the report.

The Executive Board of NN Group N.V. assessed the effectiveness of the internal control over financial reporting during 2020. Based on the Executive Board's assessment, with reference to best practice provision 1.4.3(ii) of the Dutch Corporate Governance Code, the Executive Board of NN Group N.V. concluded that the risk management and control systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies.

The Hague, 10 March 2021

David Knibbe
CEO, Chair of the Executive Board

Delfin Rueda
CFO, Vice-chair of the Executive Board

Annual accounts contents

Consolidated balance sheet Amounts in millions of euros, unless stated otherwise

Consolidated balance sheet

As at 31 December	notes	2020	2019
Assets			
Cash and cash equivalents	3	12,382	6,436
Financial assets at fair value through profit or loss:	4		
– investments for risk of policyholders		34,797	34,433
– non-trading derivatives		14,833	10,189
– designated as at fair value through profit or loss		1,336	1,184
Available-for-sale investments	5	118,175	117,644
Loans	6	65,428	61,768
Reinsurance contracts	18	1,063	988
Associates and joint ventures	7	5,673	5,457
Real estate investments	8	2,444	2,571
Property and equipment	9	448	465
Intangible assets	10	1,063	995
Deferred acquisition costs	11	1,871	1,913
Assets held for sale	12	113	
Deferred tax assets	34	73	84
Other assets	13	4,039	4,470
Total assets		**263,738**	**248,597**
Equity			
Shareholders' equity (parent)		36,731	30,768
Minority interests		277	260
Undated subordinated notes		1,764	1,764
Total equity	14	**38,772**	**32,792**
Liabilities			
Subordinated debt	15	2,383	2,409
Debt securities issued	16	1,694	1,992
Other borrowed funds	17	7,542	7,614
Insurance and investment contracts	18	170,672	168,251
Customer deposits and other funds on deposit	19	15,803	15,161
Financial liabilities at fair value through profit or loss:	20		
– non-trading derivatives		4,012	3,232
Liabilities held for sale	12	93	
Deferred tax liabilities	34	6,329	4,030
Other liabilities	21	16,438	13,116
Total liabilities		**224,966**	**215,805**
Total equity and liabilities		**263,738**	**248,597**

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

Consolidated profit and loss account

Consolidated profit and loss account

For the year ended 31 December	notes		2020		2019
Gross premium income	22		13,822		14,508
Investment income	23		4,574		4,373
Result on disposals of group companies			100		8
– gross fee and commission income		1,042		1,037	
– fee and commission expenses		-338		-328	
Net fee and commission income:	24		704		709
Valuation results on non-trading derivatives	25		901		166
Foreign currency results			-434		-9
Share of result from associates and joint ventures	7		219		619
Other income			74		84
Total income			**19,960**		**20,458**
– gross underwriting expenditure		17,316		20,024	
– investment result for risk of policyholders		-1,733		-4,794	
– reinsurance recoveries		-1,095		-237	
Underwriting expenditure:	26		14,488		14,993
Amortisation of intangible assets and other impairments	27		27		32
Staff expenses	28		1,621		1,564
Interest expenses	29		511		519
Other operating expenses	30		964		921
Total expenses			**17,611**		**18,029**
Result before tax			**2,349**		**2,429**
Taxation	34		423		444
Net result			**1,926**		**1,985**

Net result

For the year ended 31 December	2020	2019
Net result attributable to:		
Shareholders of the parent	1,904	1,962
Minority interests	22	23
Net result	**1,926**	**1,985**

Earnings per ordinary share

For the year ended 31 December and amounts in euros	2020	2019
Earnings		
Basic earnings	5.88	5.76
Diluted earnings	5.87	5.75

Reference is made to Note 31 ‘Earnings per ordinary share’ for the disclosure on the Earnings per ordinary share.

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

For the year ended 31 December		2020		2019
Net result		**1,926**		**1,985**
– unrealised revaluations available-for-sale investments and other	3,110		4,487	
– realised gains/losses transferred to the profit and loss account	-574		-286	
– changes in cash flow hedge reserve	3,422		4,284	
– deferred interest credited to policyholders	-750		-1,403	
– share of other comprehensive income of associates and joint ventures	5		-4	
– exchange rate differences	-110		53	
Items that may be reclassified subsequently to the profit and loss account:		5,103		7,131
– remeasurement of the net defined benefit asset/liability	6		-38	
– unrealised revaluations property in own use	-3		3	
Items that will not be reclassified to the profit and loss account:		3		-35
Total other comprehensive income		**5,106**		**7,096**
Total comprehensive income		**7,032**		**9,081**
Comprehensive income attributable to:				
Shareholders of the parent		7,009		9,039
Minority interests		23		42
Total comprehensive income		**7,032**		**9,081**

Reference is made to Note 34 ‘Taxation’ for the disclosure on the income tax effects on each component of comprehensive income.

Consolidated statement of cash flows

Consolidated statement of cash flows

For the year ended 31 December	2020	2019
Result before tax	2,349	2,429
Adjusted for:		
– depreciation and amortisation	157	146
– deferred acquisition costs and value of business acquired	63	-41
– underwriting expenditure (change in insurance liabilities)	39	-277
– realised results and impairments of Available-for-sale investments	-654	-347
– other	188	15
Taxation paid (received)	-250	37
Changes in:		
– non-trading derivatives	2,276	2,433
– other financial assets at fair value through profit or loss	-54	-493
– loans	-864	-2,140
– other assets	781	437
– customer deposits and other funds on deposit	522	464
– financial liabilities at fair value through profit or loss – non-trading derivatives	-886	-1,899
– other liabilities	3,337	3,177
Net cash flow from operating activities	**7,004**	**3,941**
Investments and advances:		
– group companies, net of cash acquired	-539	-104
– available-for-sale investments	-24,928	-26,437
– loans	-7,589	-5,652
– associates and joint ventures	-349	-531
– real estate investments	-66	-120
– property and equipment	-51	-144
– investments for risk of policyholders	-10,005	-6,430
– other investments	-82	-43
Disposals and redemptions:		
– group companies		38
– available-for-sale investments	28,717	19,750
– loans	4,903	4,465
– associates and joint ventures	121	497
– real estate investments	176	6
– property and equipment	2	2
– investments for risk of policyholders	10,240	7,182
– other investments		414
Net cash flow from investing activities	**550**	**-7,107**
Repayments of subordinated debt		-12
Repayments of debt securities issued	-300	
Proceeds from other borrowed funds	5,144	4,704
Repayments of other borrowed funds	-5,249	-2,827
Dividend paid	-400	-411
Purchase/sale of treasury shares and warrants	-621	-697
Coupon on undated subordinated notes	-78	-78
Net cash flow from financing activities	**-1,504**	**679**
Net cash flow	**6,050**	**-2,487**

Consolidated statement of cash flows continued

Included in Net cash flow from operating activities

For the year ended 31 December	2020	2019
Interest received	4,272	4,410
Interest paid	-574	-533
Dividend received	533	512

Cash and cash equivalents

For the year ended 31 December	2020	2019
Cash and cash equivalents at beginning of the period	6,436	8,886
Net cash flow	6,050	-2,487
Effect of exchange rate changes on cash and cash equivalents	-96	37
Cash and cash equivalents at end of the period	**12,390**	**6,436**

Consolidated statement of changes in equity

Consolidated statement of changes in equity (2020)

	Share capital	Share premium	Reserves	Total Shareholders' equity (parent)	Minority interest	Undated subordinated notes	Total equity
Balance at 1 January 2020	**41**	**12,572**	**18,155**	**30,768**	**260**	**1,764**	**32,792**
Unrealised revaluations available-for-sale investments and other			3,109	3,109	1		3,110
Realised gains/losses transferred to the profit and loss account			-574	-574			-574
Changes in cash flow hedge reserve			3,422	3,422			3,422
Deferred interest credited to policyholders			-750	-750			-750
Share of other comprehensive income of associates and joint ventures			5	5			5
Exchange rate differences			-110	-110			-110
Remeasurement of the net defined benefit asset/liability			6	6			6
Unrealised revaluations property in own use			-3	-3			-3
Total amount recognised directly in equity (Other comprehensive income)	**–**	**–**	**5,105**	**5,105**	**1**	**–**	**5,106**
Net result for the period			1,904	1,904	22		1,926
Total comprehensive income	**–**	**–**	**7,009**	**7,009**	**23**	**–**	**7,032**
Changes in share capital	-2	2		–			–
Dividend			-394	-394	-6		-400
Purchase/sale of treasury shares			-622	-622			-622
Employee stock option and share plans			1	1			1
Coupon on undated subordinated notes			-59	-59			-59
Changes in the composition of the group and other changes			28	28			28
Balance at 31 December 2020	**39**	**12,574**	**24,118**	**36,731**	**277**	**1,764**	**38,772**

Consolidated statement of changes in equity continued

Consolidated statement of changes in equity (2019)

	Share capital	Share premium	Reserves	Total Shareholders' equity (parent)	Minority interest	Undated subordinated notes	Total equity
Balance at 1 January 2019	**41**	**12,572**	**10,237**	**22,850**	**234**	**1,764**	**24,848**
Unrealised revaluations available-for-sale investments and other			4,468	4,468	19		4,487
Realised gains/losses transferred to the profit and loss account			-286	-286			-286
Changes in cash flow hedge reserve			4,284	4,284			4,284
Deferred interest credited to policyholders			-1,403	-1,403			-1,403
Share of other comprehensive income of associates and joint ventures			-4	-4			-4
Exchange rate differences			53	53			53
Remeasurement of the net defined benefit asset/liability			-38	-38			-38
Unrealised revaluations property in own use			3	3			3
Total amount recognised directly in equity (Other comprehensive income)	**–**	**–**	**7,077**	**7,077**	**19**	**–**	**7,096**
Net result for the period			1,962	1,962	23		1,985
Total comprehensive income	**–**	**–**	**9,039**	**9,039**	**42**	**–**	**9,081**
Dividend			-387	-387	-24		-411
Purchase/sale of treasury shares			-707	-707			-707
Employee stock option and share plans			2	2			2
Coupon on undated subordinated notes			-59	-59			-59
Changes in the composition of the group and other changes			30	30	8		38
Balance at 31 December 2019	**41**	**12,572**	**18,155**	**30,768**	**260**	**1,764**	**32,792**

Notes to the Consolidated annual accounts

NN Group N.V. (NN Group) is a public limited liability company (naamloze vennootschap) incorporated under Dutch law. NN Group has its official seat in Amsterdam, the Netherlands and its office address in The Hague, the Netherlands. NN Group is recorded in the Commercial Register no. 52387534. The principal activities of NN Group are described in the section 'About NN'. Amounts in the annual accounts are in millions of euros, unless stated otherwise.

1 Accounting policies

NN Group prepares its Consolidated annual accounts in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS-EU) and Part 9 of Book 2 of the Dutch Civil Code. In the Consolidated annual accounts, the term IFRS-EU is used to refer to these standards, including the decisions NN Group made with regard to the options available under IFRS-EU. IFRS-EU provides a number of options in accounting policies. The key areas, in which IFRS-EU allows accounting policy choices and the related NN Group accounting policy, are summarised as follows:

- Under IFRS 4, an insurer may continue to apply its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS in 2005, NN Group decided to continue the then existing accounting principles for insurance contracts. NN Group operates in different countries and the accounting principles for insurance contracts follow local practice in these countries. For NN Group's businesses in the Netherlands, NN Group for example applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its insurance liabilities. Changes in those local accounting standards (including Dutch GAAP) subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policy under IFRS-EU.
- NN Group's accounting policy for real estate investments is fair value, with changes in the fair value reflected immediately in the Consolidated profit and loss account.
- NN Group's accounting policy for property in own use is fair value, with changes in the fair value reflected, after tax, in the 'Revaluation reserve' in 'Other comprehensive income' (equity). A net negative revaluation on individual properties is reflected immediately in the Consolidated profit and loss account.

NN Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU.

NN Group's accounting policies under IFRS-EU and its decision on the options available are included below. Except for the options included above, the principles are IFRS-EU and do not include other significant accounting policy choices made by NN Group. The accounting policies that are most significant to NN Group are included in the section 'Critical accounting policies'.

The preparation of the Consolidated annual accounts requires the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual outcome may differ from these estimates.

Changes in IFRS-EU effective in 2020

Interest rate benchmark reform

In September 2019, the International Accounting Standards Board (IASB) issued amendments to IAS 39, IFRS 7 and IFRS 9 in relation to the interest rate benchmark reform. These amendments eliminate the impact, if any, of anticipated interest rate benchmark reforms on derivatives qualifying for hedge accounting under IFRS. The amendments are effective for NN Group as of 1 January 2020.

In August 2020, the IASB issued additional amendments regarding actual interest rate benchmark reforms that are effective as of 1 January 2021, but may be adopted early. NN Group adopted these amendments as of 1 January 2020.

There was no material impact on NN Group as a result of these amendments.

Other changes in accounting policies

Japan Closed Block VA

As of 2020 NN Group changed its accounting for the Japan Closed Block VA portfolio, part of the reporting segment Other. Under the revised accounting, further elements of the portfolio are accounted for at fair value through profit or loss in order to better align with the accounting of the related hedging derivatives. The impact of this change as at 1 January 2020, which was not material for NN Group, is included directly in shareholders' equity.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Upcoming changes in IFRS-EU
The most relevant upcoming changes in IFRS-EU that are relevant for NN Group relate to IFRS 9 'Financial instruments' and IFRS 17 'Insurance contracts'.

IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' was issued by the IASB in July 2014. IFRS 9 replaces most of the current IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement
The classification and measurement of financial assets under IFRS 9 will depend on NN Group's business model and the instrument's contractual cash flow characteristics. These may result in financial assets being recognised at amortised cost, at fair value through other comprehensive income (equity) or at fair value through profit or loss. In many instances, the classification and measurement under IFRS 9 will be similar to IAS 39, although changes in classification will occur. The classification of financial liabilities remains unchanged.

Impairment
The recognition and measurement of impairments under IFRS 9 is intended to be more forward-looking than under IAS 39. The new impairment requirements will apply to all financial assets measured at amortised cost and at fair value through other comprehensive income (equity). Initially, a provision is required for expected credit losses resulting from default events that are expected within the next twelve months. In the event of a significant increase in credit risk, a provision is required for expected credit losses resulting from all possible default events over the expected life of the financial assets.

Hedge accounting
The hedge accounting requirements of IFRS 9 aim to simplify hedge accounting. IFRS 9 includes the option to continue applying IAS 39 for hedge accounting.

IFRS 9 is effective as of 2018. However, in September 2016 the IASB issued an amendment to IFRS 4 'Insurance Contracts' (the 'Amendment'). This Amendment addresses the issue arising from the different effective dates of IFRS 9 and the new standard on accounting for insurance contracts (IFRS 17). The Amendment allows applying a temporary exemption from implementing IFRS 9, so that it can be implemented together with IFRS 17. This exemption is only available to entities whose activities are predominantly connected with insurance.

NN Group's activities are predominantly connected with insurance as defined in this Amendment as more than 90% of liabilities are connected with insurance activities. Liabilities connected with insurance activities of NN Group include insurance liabilities within the scope of IFRS 4, certain investment contract liabilities and other liabilities relating to insurance entities and activities. Liabilities of NN Group that are not related to insurance activities represent mainly the liabilities of the Banking operations. NN Group qualified for the temporary exemption at the reference date (31 December 2015) and continued to qualify for the temporary exemption after the acquisition of Delta Lloyd in 2017.

NN Group applies the temporary exemption and, therefore, NN Group expects to implement IFRS 9 together with IFRS 17.

The Amendment requires certain additional disclosures on whether financial assets that remain accounted for under IAS 39 meet the definition of 'solely payments of principal and interest on the principal amount outstanding' in IFRS 9 as well as additional information on the credit rating of such assets and whether such assets are 'low credit risk'. In this context, 'low credit risk' is equivalent to 'investment grade' as defined by ratings agencies (generally a rating of BBB- or better). These additional disclosures are included in Note 35 'Fair value of financial assets and liabilities' and in Note 51 'Risk management'. These disclosures reflect the current business models and the current accounting choices and interpretations. These may therefore change when IFRS 9 and IFRS 17 are implemented.

Certain subsidiaries within NN Group (mainly NN Bank) do not qualify under the Amendment. Therefore, the financial information of these entities is based on IFRS 9 in the statutory IFRS reporting of these entities, but not in the consolidated financial reporting of NN Group. The impact of applying IFRS 9 for these entities would not have been significant to NN Group. NN Group does not have associates or joint ventures for which IFRS 9 has a significant impact.

IFRS 17 'Insurance Contracts'
IFRS 17 'Insurance Contracts' was issued in May 2017 and a revised version was issued in June 2020. IFRS 17 covers the recognition and measurement, presentation and disclosure of insurance contracts and replaces the current IFRS 4. IFRS 17 will fundamentally change the accounting for insurance liabilities and deferred acquisition costs (DAC) for all insurance companies, including NN Group and its subsidiaries. IFRS 17 is not yet endorsed in the EU. If and when endorsed, IFRS 17 will be effective as of 1 January 2023.

NN Group will implement IFRS 17 together with IFRS 9 (see above). NN Group initiated an implementation project and is performing impact assessments and parallel reporting runs. NN Group expects that the implementation of IFRS 9 and IFRS 17 will result in significant changes to its accounting policies and will have a significant impact on shareholders' equity, net result, presentation and disclosure. At this moment it is too early to disclose quantitative impact of the implementation as of 2023.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

The main features of IFRS 17 are:

- Measurement of the insurance liabilities in the balance sheet at current fulfilment value, being the sum of the present value of future cash flows and a risk adjustment
- Remeasurement of the current fulfilment value every reporting period using current assumptions and discount rates
- A Contractual Service Margin (CSM) recognised in the balance sheet that is equal to the unearned profit in the insurance contract at issue and is subsequently recognised as result in the profit and loss account over the remaining life of the portfolio
- Certain changes in the insurance liability are adjusted against the CSM and thereby recognised in the profit and loss account over the remaining life of the portfolio
- The effect of changes in discount rates is recognised either in the profit and loss account or in equity (OCI)
- The presentation of the profit and loss account and the disclosures in the notes will change fundamentally

IFRS 17 must be implemented retrospectively with amendment of comparative figures. However, several simplifications may be used on transition.

Changes in presentation

The presentation of and certain terms used in the Consolidated balance sheet, Consolidated profit and loss account, Consolidated statement of cash flows, Consolidated statement of changes in equity and the notes was changed to provide additional and more relevant information or (for changes in comparative information) to better align with the current period presentation. The impact of these changes is explained in the respective notes when significant.

Critical accounting policies and significant judgements

NN Group has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those which involve the most complex or subjective judgements and assumptions and relate to insurance contracts, acquisition accounting, deferred acquisition costs, the determination of the fair value of real estate and financial assets and liabilities and impairments. In each case, the determination of these items is fundamental to the financial condition and results of operations and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce significantly different results. All valuation techniques used are subject to internal review and approval. For further details on the application of these accounting policies, reference is made to the applicable notes to the Consolidated annual accounts and the information below.

Reference is made to Note 51 'Risk management' for a sensitivity analysis of certain assumptions as listed below.

Acquisition accounting, goodwill and other intangible assets

NN Group's acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of acquisition) of assets acquired, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquiree. Assets acquired include intangible assets such as brand names, client relationships and distribution channels. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Goodwill, being the positive difference between the cost of the acquisition (including assumed debt) and NN Group's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. In case there is a negative difference between the cost of the acquisition (including assumed debt) and NN Group's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, this is referred to as negative goodwill and is recognised in profit and loss in the reporting period the acquisition is finalised. Acquisition-related costs are recognised in the profit and loss account as incurred and presented in the profit and loss account as 'Other operating expenses'.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

The initial accounting for the fair value of the net assets of the companies acquired during the year may be determined only provisionally as the determination of the fair value can be complex and the time between the acquisition and the preparation of the annual accounts can be limited. The initial accounting shall be completed within a year after acquisition.

Valuation techniques are subjective in nature and significant judgement is involved in establishing the fair value for certain financial assets and liabilities. Valuation techniques involve various assumptions. The use of different valuation techniques and assumptions could produce significantly different estimates of the fair value.

Goodwill is allocated to cash generating units (reporting units) for the purpose of impairment testing of goodwill and other intangible assets. These cash generating units (reporting units) represent the lowest level at which goodwill is monitored for internal management purposes, which is either at the segment level or at a level below. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the cash generating units (reporting units including goodwill) is compared to its recoverable amount which is the higher of its fair value less costs to sell and its value in use.

The identification of cash generating units and impairments is an inherently uncertain process involving various assumptions and factors, including expected future cash flows, discount rates, etc. Estimates and assumptions are based on management's judgement and other information available. Significantly different results can occur as circumstances change and additional information becomes known.

Insurance liabilities and deferred acquisition costs (DAC)

The determination of insurance liabilities and DAC is an inherently uncertain process, involving assumptions about factors such as social, economic and demographic trends, inflation, investment returns, policyholder behaviour, court decisions, changes in laws and other factors and, in the life insurance business, assumptions concerning mortality and morbidity trends. Specifically, assumptions that could have a significant impact on financial results include interest rates, mortality, morbidity, property and casualty claims, investment yields on equity and real estate and foreign currency exchange rates.

Insurance liabilities also include the impact of minimum guarantees which are contained within certain products. This impact is dependent upon the difference between the potential minimum benefits payable and the total account balance, expected mortality and surrender rates. The determination of the potential minimum benefits payable also involves the use of assumptions about factors such as inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors.

The use of different assumptions could have a significant effect on insurance liabilities, DAC and underwriting expenditure. Changes in assumptions may lead to changes in insurance liabilities over time.

The adequacy of the insurance liabilities, net of DAC, is evaluated each reporting period by each business unit for the business originated in that business unit. The test involves comparing the established insurance liability with current best estimate actuarial assumptions. The use of different assumptions in this test could lead to a different outcome.

Fair value of real estate

Real estate investments are reported at fair value. The fair value of real estate investments is based on regular appraisals by external, qualified valuers. The fair value is established using valuation methods such as comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analysis and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rent-free periods. The cash flows are discounted using market-based interest rates that appropriately reflect the risk characteristics of real estate investments.

Reference is made to Note 36 'Fair value of non-financial assets' for more disclosure on fair value of real estate investments at the balance sheet date.

The use of different assumptions and techniques could produce significantly different valuations.

Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is based on unadjusted quoted market prices at the balance sheet date where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available, market prices may be obtained from external market vendors, brokers or market makers. In general, positions are valued taking the bid price for a long position and the offer price for a short position. In some cases, positions are marked at mid-market prices.

When markets are less liquid there may be a range of prices for the same security from different price sources; selecting the most appropriate price requires judgement and could result in different estimates of the fair value.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques, based on market conditions existing at each balance sheet date. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour are taken into account.

Valuation techniques are subjective in nature and significant judgement is involved in establishing the fair value for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of the fair value.

Reference is made to Note 35 'Fair value of financial assets and liabilities' for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

Impairments

All debt and equity securities and loans (other than those carried at fair value through profit or loss) are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due. Equity securities are impaired when management believes that, based on a significant or prolonged decline of the fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities. Generally, 25% and six months are used as triggers. Upon impairment of available-for-sale debt and equity securities, the full difference between the (acquisition) cost and fair value is removed from equity and recognised in net result. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event after the impairment. Impairments on equity securities cannot be reversed.

The identification of impairments is an inherently uncertain process involving various assumptions and factors, including financial condition of the counterparty, expected future cash flows, statistical loss data, discount rates, observable market prices, etc. Estimates and assumptions are based on management's judgement and other information available. Significantly different results can occur as circumstances change and additional information becomes known.

General accounting policies

Consolidation

NN Group comprises NN Group N.V. and all its subsidiaries. The Consolidated annual accounts of NN Group comprise the accounts of NN Group N.V. and all entities over which NN Group has control. NN Group has control over an entity when NN Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The assessment of control is based on the substance of the relationship between NN Group and the entity and considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

For interests in investment entities, the existence of control is determined taking into account both NN Group's financial interests for own risk and its role as asset manager. Financial interests for risk of policyholders are not taken into account when the policyholders decide on the investment allocations of their insurance policies (i.e. the policyholder has the 'power') and assume all risks and benefits of these investments (i.e. the policyholder assumes the variable returns).

The results of the operations and the net assets of subsidiaries are included in the profit and loss account and the balance sheet from the date control is obtained until the date control is lost. Minority interests are initially measured at their proportionate share of the subsidiaries' identifiable net assets at the date of acquisition. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in net result.

A subsidiary which NN Group has agreed to sell but is still legally owned by NN Group may still be controlled by NN Group at the balance sheet date and, therefore, still be included in the consolidation. Such a subsidiary may be presented as held for sale if certain conditions are met.

All intercompany transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with NN Group policies. In general, the reporting dates of subsidiaries are the same as the reporting date of NN Group N.V.

A list of principal subsidiaries is included in Note 33 'Principal subsidiaries and geographical information'.

Foreign currency translation

Functional and presentation currency

Items included in the annual accounts of each NN Group entity are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Consolidated annual accounts are presented in euros, which is NN Group's functional and presentation currency.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as part of qualifying cash flow hedges or qualifying net investment hedges.

Exchange rate differences on non-monetary items, measured at fair value through profit or loss, are reported as part of the 'Fair value gain or loss'. Exchange rate differences on non-monetary items measured at fair value through other comprehensive income (equity) are included in the 'Revaluation reserve' in equity.

Exchange rate differences in the profit and loss account are generally included in 'Foreign currency results and net trading income'. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in 'Investment income'. As mentioned below in Group companies, on disposal of group companies, any exchange rate difference deferred in equity is recognised in the profit and loss account in 'Result on disposals of group companies'.

Group companies

The results and financial positions of all group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities included in each balance sheet are translated at the closing rate at the date of that balance sheet
- Income and expenses included in each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions)
- All resulting exchange rate differences are recognised in a separate component of equity in 'Currency translation reserve'

On consolidation, exchange rate differences arising from the translation of a monetary item that forms part of the net investment in a foreign operation and of borrowings and other instruments designated as hedges of such investments are taken to shareholders' equity. When a foreign operation is sold the corresponding exchange rate differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the balance sheet date.

Recognition and derecognition of financial instruments

Financial assets and liabilities are generally (de)recognised at trade date, which is the date on which NN Group commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which NN Group receives or delivers the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where NN Group has transferred substantially all risks and rewards of ownership. If NN Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset.

Realised gains and losses on investments are determined as the difference between the sales proceeds and (amortised) cost. For equity securities, the cost is determined using a weighted average per portfolio. For debt securities, the cost is determined by specific identification (generally FIFO).

Fair value of financial assets and liabilities

The fair values of financial instruments are based on unadjusted quoted market prices at the balance sheet date where available. The quoted market price used for financial assets held by NN Group is the current bid price; the quoted market price used for financial liabilities is the current offer price.

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques, based on market conditions existing at each balance sheet date. An active market for the financial instrument is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Assessing whether a market is active requires judgement, considering factors specific to the financial instrument.

Reference is made to Note 35 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial instruments.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when NN Group has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability at the same time.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Impairments of financial assets

NN Group assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the specific case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities; generally, 25% and six months are used as triggers.

In certain circumstances NN Group may grant borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns it is also referred to as 'forbearance'. In general, forbearance represents an impairment trigger under IFRS-EU. In such cases, the net present value of the postponement and/or reduction of loan principal and/or interest payments is taken into account in the determination of the appropriate level of loan loss provisioning as described below. If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date.

In determining the impairment loss, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio. NN Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and then individually or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has occurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account (loan loss provisions) and the amount of the loss is recognised in the profit and loss account in 'Investment income'. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When a loan is uncollectable, it is written off against the related loan loss provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the profit and loss account.

If there is objective evidence that an impairment loss on available-for-sale debt and equity investments has occurred, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in net result – is removed from equity and recognised in the profit and loss account.

Impairment losses recognised on equity instruments can never be reversed. If, in a subsequent period, the impairment loss on a loan or a debt instrument classified as available-for-sale reverses, which can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

Maximum credit risk exposure

The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items, the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 43 'Contingent liabilities and commitments' for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure. The manner in which NN Group manages credit risk and determines credit risk exposures is explained in Note 51 'Risk management'.

Leases

The leases entered into by NN Group as a lessee are primarily operating leases. At inception of a contract, NN Group assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The net present value of operating lease commitments is recognised on the balance sheet as a 'right of use asset' under Property and equipment or Real estate investments and a lease liability is recognised under Other liabilities. NN Group does not recognise a right of use asset and a lease liability for short-term leases that have a lease term of 12 months or less and for leases of low value assets. The lease payments associated with these leases are recognised as an expense.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Taxation

Income tax on the result for the year comprises current and deferred tax. Income tax is generally recognised in the profit and loss account, but is recognised directly in equity if the tax relates to items that are recognised directly in equity.

Current tax consists of the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the balance sheet. Deferred tax is determined using tax rates (and laws) applicable in the jurisdictions in which NN Group is liable to taxation, that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses carried forward where it is probable that future taxable profits will be available against which the temporary differences can be used. Unrecognised deferred tax assets are reassessed periodically and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by NN Group and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be used.

Offsetting deferred tax assets with deferred tax liabilities is allowed as long as there is a legally enforceable right to offset current tax assets against current tax liabilities together with the intention to do so and the deferred taxes relate to income taxes levied by the same taxation authority on the same entity or on the same fiscal unity.

Employee benefits

Defined benefit pension plans

The net defined benefit asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date. Plan assets are measured at fair value at the balance sheet date. For determining the pension expense, the expected return on plan assets is determined using a high quality corporate bond rate identical to the discount rate used in determining the defined benefit obligation.

Defined contribution pension plans

For defined contribution plans, NN Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. NN Group has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit and loss account when they are due.

Other post-employment obligations

Some NN Group companies provide post-employment benefits to certain employees and former employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

Share-based payments

Share-based payment expenses are recognised as staff expenses over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date. For cash-settled share-based payment transactions, a liability is recognised at fair value; this fair value is remeasured at every balance sheet date.

Interest income and expenses

Interest income and expenses are recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or financial liability. When calculating the effective interest rate, NN Group estimates cash flows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income and expenses from non-trading derivatives are classified as interest income and interest expenses in the profit and loss account, except for interest income/expense on derivatives for which no hedge accounting is applied. The latter is classified in 'Valuation results on non-trading derivatives', together with the changes in the (clean) fair value of these derivatives.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Fiduciary activities

NN Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions when conducting asset management activities. The assets and income arising thereon are excluded from these annual accounts, as they are not assets or income of NN Group. Fees received acting as trustee and in other fiduciary capacities are recognised as income.

Statement of cash flows

The Consolidated statement of cash flows is prepared in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the net cash flow from operating activities, the result before tax is adjusted for those items in the profit and loss account and changes in balance sheet items, which do not result in actual cash flows during the year.

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition. Investments qualify as a cash equivalent if they are readily convertible into a known amount of cash and are not subject to significant risk of changes in value.

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

The difference between the net cash flow in accordance with the statement of cash flows and the change in 'Cash and cash equivalents' in the balance sheet is due to exchange rate differences and is accounted for separately as part of the reconciliation of the net cash flow and the balance sheet change in 'Cash and cash equivalents'.

Cash flows arising from the issue of mortgage loans held in the banking operations are recognised under Net cash flows from operating activities, whereas cash flows related to mortgage loans held as investment in the insurance operations are recognised under Net cash flow from investing activities.

Accounting policies for specific items

Financial assets and liabilities at fair value through profit or loss (Notes 4 and 20)

A financial asset or liability is classified as at fair value through profit or loss if it is acquired principally for the purpose of selling in the short-term or if designated by management as such. Management will make this designation only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis.

Transaction costs on initial recognition are expensed as incurred. Interest income from debt securities and loans and receivables classified as at fair value through profit or loss is recognised in the profit and loss account using the effective interest method. Dividend income from equity instruments classified as at fair value through profit or loss is recognised in the profit and loss account when the dividend has been declared.

Investments for risk of policyholders

Investments for risk of policyholders are investments against insurance liabilities for which all changes in the fair value of invested assets are offset by similar changes in insurance liabilities. Investments for risk of policyholders are recognised at fair value; changes in fair value are recognised in the profit and loss account.

Derivatives and hedge accounting

Derivatives are recognised at fair value. Derivatives are presented as assets when the fair value is positive and as liabilities when the fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. NN Group designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge), hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge), or hedges of a net investment in a foreign operation. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the hedge transaction NN Group documents the relationship between hedging instruments and hedged items, its risk management objectives, together with the methods selected to assess hedge effectiveness. In addition, NN Group documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of the hedged items. NN Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income (equity) in 'Cash flow hedge reserve'. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in equity are recycled to the profit and loss account in the periods in which the hedged item affects Net result. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously reported in equity is transferred immediately to the profit and loss account.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the profit and loss account, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortised through the profit and loss account over the remaining term of the original hedge or recognised directly when the hedged item is derecognised. For non-interest bearing instruments, the cumulative adjustment of the hedged item is recognised in the profit and loss account only when the hedged item is derecognised.

Net investment hedges

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income (equity) and the gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Gains and losses in equity are included in the profit and loss account when the foreign operation is disposed.

Non-trading derivatives that do not qualify for hedge accounting

Derivatives that are used by NN Group as part of its risk management strategies, that do not qualify for hedge accounting under NN Group's accounting policies, are presented as non-trading derivatives. Non-trading derivatives are measured at fair value with changes in the fair value taken to 'Valuation results on non-trading derivatives' in the profit and loss account.

Certain derivatives embedded in other contracts are measured as separate derivatives if:
- Their economic characteristics and risks are not closely related to those of the host contract
- The host contract is not carried at fair value through profit or loss
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative (unless the embedded derivative meets the definition of an insurance contract)

These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when NN Group first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

Available-for-sale investments (Note 5)

Available-for-sale financial assets include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in the profit and loss account in 'Investment income'. Dividend income from equity instruments classified as available-for-sale is recognised in the profit and loss account in 'Investment income' when the dividend has been declared.

Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income (equity). On disposal, the related accumulated fair value adjustments are included in the profit and loss account as 'Investment income'. For impairments of available-for-sale financial assets reference is made to the section 'Impairments of financial assets'.

Loans (Note 6)

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from loans is recognised in the profit and loss account in 'Investment income' using the effective interest method.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Associates and joint ventures (Note 7)

Associates are all entities over which NN Group has significant influence but not control. Significant influence generally results from a shareholding of 20% or more of the voting rights, but also the ability to participate in the financial and operating policies through situations including, but not limited to, one or more of the following:
- Representation on the board of directors
- Participation in the policy making process
- Interchange of managerial personnel

Joint ventures are all entities in which NN Group has joint control.

Associates and joint ventures are initially recognised at cost (including goodwill) and subsequently accounted for using the equity method of accounting. Subsequently, NN Group's share of profits or losses is recognised in the profit and loss account and its share of changes in reserves is recognised in other comprehensive income (equity).

The cumulative changes are adjusted against the carrying value of the investment. When NN Group's share of losses in an associate or joint venture equals or exceeds the book value of the associate or joint venture, NN Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains and losses on transactions between NN Group and its associates and joint ventures are eliminated to the extent of NN Group's interest. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies of NN Group. The reporting dates of all significant associates and joint ventures are consistent with the reporting date of NN Group.

For interests in investment entities the existence of significant influence is determined taking into account both NN Group's financial interests for own risk and its role as asset manager.

Associates include interests in real estate funds and private equity funds. The underlying assets of both the real estate and the private equity funds are measured at fair value through profit or loss (i.e. no revaluations in other comprehensive income). The fair value of underlying real estate in real estate funds is determined as set out below for Real estate investments. The fair value of underlying private equity investments in private equity funds is generally based on a forward-looking market approach. This approach uses a combination of company financials and quoted market multiples. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and by reference to market valuations for similar entities quoted in an active market. Valuations of private equity investments are mainly based on an 'adjusted multiple of earnings' methodology on the following basis:
- Earnings: reported earnings are adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, for run-rate adjustments to arrive at maintainable earnings. The most common measure is earnings before interest, tax, depreciation and amortisation (EBITDA). Earnings used are usually management forecasts for the current year, unless data from management accounts for the 12 months preceding the reporting period or the latest audited annual accounts provide a more reliable estimate of maintainable earnings.
- Earnings multiples: earnings multiples are derived from comparable listed companies or relevant market transaction multiples for companies in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus. Adjustments are made for differences in the relative performance in the group of comparable companies.
- Adjustments: a marketability or liquidity discount is applied based on factors such as alignment with management and other investors and NN Group's investment rights in the deal structure.

Real estate investments (Note 8)

Real estate investments under construction are included in 'Real estate investments'. Real estate investments are held for long-term rental yields and are not occupied by NN Group. Real estate investments are initially measured at cost, including transaction cost and are subsequently measured at fair value. Changes in the carrying value resulting from revaluations are recognised in the profit and loss account. On disposal the difference between the sales proceeds and carrying value is recognised in the profit and loss account. The fair value of real estate investments is based on regular appraisals by independent qualified valuers. For each reporting period every property is valued by an external valuer. Market transactions and disposals made by NN Group are monitored as part of the validation procedures to test the valuations. Valuations performed earlier in the year are updated if necessary to reflect the situation at the year-end. All real estate investments are appraised externally at least annually.

The fair value represents the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an at-arm's-length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The fair value is based on appraisals using valuation methods such as comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analysis and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rent-free periods. The cash flows are discounted using market-based interest rates that reflect appropriately the risk characteristics of real estate. The valuation of real estate investments takes (expected) vacancies into account.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Occupancy rates differ significantly from investment to investment. For real estate investments held through (minority shares in) real estate investment funds, the valuations are performed under the responsibility of the funds' asset manager.

Subsequent expenditures are recognised as part of the asset's carrying value only when it is probable that future economic benefits associated with the item will flow to NN Group and the cost of an item can be measured reliably. All other repairs and maintenance costs are recognised immediately in the profit and loss account. Borrowing costs on real estate investments under construction are capitalised until completion.

Property and equipment (Note 9)

Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying value are recognised in other comprehensive income (equity). Decreases in the carrying value that offset previous increases of the same asset are charged against other comprehensive income (equity); all other decreases are recognised in the profit and loss account. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the profit and loss account. Depreciation is recognised based on the fair value and the estimated useful life (in general 20-50 years). On disposal, the related revaluation reserve in equity is transferred within equity to 'Retained earnings'.

The fair value of land and buildings is based on regular appraisals by independent, qualified valuers or internally, similar to appraisals of real estate investments. All significant holdings of land and buildings are appraised at least annually. Subsequent expenditure is included in the asset's carrying value when it is probable that future economic benefits associated with the item will flow to NN Group and the cost of the item can be measured reliably.

Equipment is stated at cost less accumulated depreciation and any impairment losses. The estimated useful lives are generally as follows: two to five years for data processing equipment and four to ten years for fixtures and fittings. Expenditure incurred on maintenance and repairs is recognised in the profit and loss account as incurred. Expenditure incurred on major improvements is capitalised and depreciated. The difference between the proceeds on disposal and net carrying value is recognised in the profit and loss account in 'Other income'.

Methods of depreciation and amortisation

Items of property and equipment are depreciated, intangible assets with finite useful lives are amortised. The carrying values of the assets are depreciated/amortised on a straight-line basis over the estimated useful lives. Methods of depreciation and amortisation, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets (Note 10)

Goodwill

NN Group's acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of acquisition) of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquiree. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Goodwill, being the positive difference between the cost of the acquisition (including assumed debt) and NN Group's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. Negative goodwill is recognised immediately in the profit and loss account as income. The results of the operations of the acquired companies are included in the profit and loss account from the date control is obtained.

Where a business combination is achieved in stages, NN Group's previously held interests in the assets and liabilities of the acquired entity are remeasured to fair value at the acquisition date (i.e. the date NN Group obtains control) and the resulting gain or loss, if any, is recognised in the profit and loss account. Amounts arising from interests in the acquiree before the acquisition date that have previously been recognised in other comprehensive income (equity) are reclassified to the profit and loss account, where such treatment would be appropriate if that interest were disposed of.

Acquisition-related costs are recognised in the profit and loss account as incurred and presented in the profit and loss account as 'Other operating expenses'.

Until 2009, before IFRS 3 'Business Combinations' was revised, the accounting of previously held interests in the assets and liabilities of the acquired entity were not remeasured at the acquisition date and the acquisition-related costs were considered to be part of the total consideration. Goodwill is only capitalised on acquisitions after the implementation date of IFRS-EU (1 January 2004). Accounting for acquisitions before that date has not been restated; goodwill and internally generated intangibles on these acquisitions were recognised directly in shareholders' equity.

The initial accounting for the fair value of the net assets of the companies acquired during the year may be determined only provisionally as the determination of the fair value can be complex and the time between the acquisition and the preparation of the annual accounts can be limited. The initial accounting shall be completed within a year after acquisition.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Goodwill is allocated to cash generating units (reporting units) for the purpose of impairment testing. These cash generating units (reporting units) represent the lowest level at which goodwill is monitored for internal management purposes, which is either at the segment level or at a level below. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the cash generating units (reporting units including goodwill) is compared to its recoverable amount which is the higher of its fair value less costs to sell and its value in use.

Computer software

Computer software that has been purchased or generated internally for own use is stated at cost less amortisation and any impairment losses. The expected useful life of computer software will generally not exceed three years. Amortisation is included in 'Other operating expenses'.

Value of business acquired (VOBA)

VOBA is an asset that represents the present value of estimated net cash flows embedded in the insurance contracts of an acquired company, which exists at the time the company was acquired. It represents the difference between the fair value of insurance liabilities and their carrying value. VOBA is amortised in a similar manner to the amortisation of the deferred acquisition costs as described in the section 'Deferred acquisition costs'.

Other intangible assets

Other intangible assets include brand names, client relationships and distribution channels. These assets are stated at cost less amortisation and any impairment losses. The expected useful life is between 2 and 17 years.

Impairment

Impairment reviews with respect to goodwill and intangible assets are performed at least annually and more frequently if events indicate that impairments may have occurred. Goodwill is tested for impairment by comparing the carrying value of the cash generating unit (reporting unit) to which the goodwill was allocated to the best estimate of the recoverable amount of that cash generating unit (reporting unit). The carrying value is determined as the IFRS-EU net asset value including goodwill and acquisition intangibles. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. A cash generating unit (reporting unit) is the lowest level at which goodwill is monitored. Other intangible assets are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount of the individual intangible asset.

Deferred acquisition costs (Note 11)

Deferred acquisition costs (DAC) represent costs of acquiring insurance and investment contracts that are deferred and amortised. The deferred costs, all of which vary with (and are primarily related to) the production of new and renewal business, consist principally of commissions, certain underwriting and contract issuance expenses and certain agency expenses.

For traditional life insurance contracts, certain types of flexible life insurance contracts and non-life contracts, DAC is amortised over the premium payment period in proportion to the premium revenue recognised.

For other types of flexible life insurance contracts DAC is amortised over the lives of the policies in relation to the emergence of estimated profits. Amortisation is adjusted when estimates of current or future profits, to be realised from a group of products, are revised.

DAC amortisation is included in the Underwriting expenditure in the profit and loss account.

DAC is evaluated for recoverability at issue. Subsequently it is tested on a regular basis together with the life insurance liabilities. The test for recoverability is described in the section 'Insurance and investment contracts, reinsurance contracts'.

For certain products DAC is adjusted for the impact of unrealised results on allocated investments through equity.

Assets and liabilities held for sale (Note 12)

Assets and liabilities of a business are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is only the case when the sale is highly probable, the business is available for immediate sale in its present condition and management is committed to the sale, which is expected to occur within one year from the date of classification as held for sale. Classification into or out of held for sale does not result in restating comparative amounts in the balance sheet.

Subordinated debt, debt securities issued and other borrowed funds (Notes 15, 16 and 17)

Subordinated debt, debt securities issued and other borrowed funds are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between proceeds, net of transaction costs and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

If NN Group purchases its own debt, it is derecognised from the balance sheet and the difference between the carrying value of the liability and the consideration paid is recognised in the profit and loss account.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Financial liabilities include only instruments of which the terms and conditions represent a contractual obligation to pay interest and/or principal. Instruments that are similar in substance, but of which the terms and conditions do not include a contractual obligation to pay interest and principal are classified as equity.

Insurance and investment contracts, reinsurance contracts (Note 18)

Insurance liabilities are established in accordance with IFRS 4 'Insurance Contracts'. Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS-EU in 2005, NN Group decided to continue the then existing accounting principles for insurance contracts under IFRS-EU. NN Group operates in many different countries and the accounting principles for insurance contracts follow local practice in these countries. For NN Group's businesses in the Netherlands, NN Group applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its insurance contracts. Changes in those local accounting standards (including Dutch GAAP) subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policies under IFRS-EU.

In addition, for certain specific products or components thereof, NN Group applies the option in IFRS 4 to measure (components of) insurance liabilities using market consistent interest rates and other current estimates and assumptions. This relates mainly to certain guarantees embedded in insurance contracts in Japan.

Insurance contracts

Insurance policies which bear significant insurance risk and/or contain discretionary participation features (including investment contracts with discretionary participation features) are presented as insurance contracts. Insurance liabilities represent estimates of future pay-outs that will be required for life and non-life insurance claims, including expenses relating to such claims. For some insurance contracts the measurement reflects current market assumptions. Unless indicated otherwise below, changes in the insurance liabilities are recognised in the profit and loss account.

Life insurance liabilities

The life insurance liabilities are generally calculated on the basis of a prudent prospective actuarial method. Specific methodologies may differ between business units as they may reflect local regulatory requirements and local practices for specific product features in the local markets.

Insurance liabilities on traditional life policies are calculated using various assumptions, including assumptions on mortality, morbidity, expenses, investment returns and surrenders. Assumptions for insurance liabilities for traditional life insurance contracts, including traditional whole-life and term-life insurance contracts, are based on best estimate assumptions including margins for adverse deviations. Generally, these assumptions are set initially at the policy issue date and remain constant throughout the life of the policy. For the insurance liabilities that were taken over in the Delta Lloyd acquisition, these assumptions are set as at the date of acquisition, 1 April 2017.

Insurance liabilities for universal life, variable life and annuity contracts, unit-linked contracts, etc. are generally set equal to the balance that accrues to the benefit of the policyholders.

Certain contracts contain minimum (interest) guarantees on the amounts payable upon death and/or maturity. The insurance liabilities include the impact of these minimum (interest) guarantees, taking into account the difference between the potential minimum benefit payable and the total account balance, expected mortality and surrender rates.

Unamortised interest rate rebates on periodic and single premium contracts are deducted from the life insurance contract liabilities. Interest rate rebates granted during the year are amortised in conformity with the anticipated recovery pattern and are recognised in the profit and loss account.

Liabilities for unearned premiums and unexpired insurance risks

The liabilities are calculated in proportion to the unexpired periods of risk. For insurance policies covering a risk increasing during the term of the policy at premium rates independent of age, this risk is taken into account when determining the liability. Further liabilities are formed to cover claims under unexpired insurance contracts, which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims liabilities

Claims liabilities are calculated either on a case-by-case basis or by approximation on the basis of experience. Liabilities have also been recognised for claims incurred but not reported (IBNR) and for future claims handling expenses. IBNR liabilities are set to recognise the estimated cost of losses that have occurred but which have not yet been notified to NN Group. The adequacy of the claims liabilities is evaluated each year using standard actuarial techniques.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Deferred interest credited to policyholders

For insurance contracts and investment contracts with discretionary participation features, 'Deferred interest credited to policyholders' is recognised for the full amount of the unrealised revaluations on allocated investments. Upon realisation, the 'Deferred interest credited to policyholders' regarding unrealised revaluations is reversed and a deferred profit sharing amount is recognised for the share of realised results on allocated investments that is expected to be shared with policyholders. The amount of deferred profit sharing is reduced by the actual allocation to individual policyholders. The change in the amount of 'Deferred interest credited to policyholders' on unrealised revaluations (net of tax) is recognised in the 'Revaluation reserve' in other comprehensive income (equity).

Liabilities for life insurance for risk of policyholders

Liabilities for life insurance for risk of policyholders are generally shown at the balance sheet value of the related investments.

Reinsurance contracts

Reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of insurance contracts are accounted for in the same way as the original contracts for which the reinsurance was concluded. If the reinsurers are unable to meet their obligations, NN Group remains liable to its policyholders for the portion reinsured. Consequently, provisions are recognised for receivables on reinsurance contracts which are deemed uncollectable. Both reinsurance premiums and reinsurance recoveries are included in 'Underwriting expenditure' in the profit and loss account.

Adequacy test

The adequacy of the insurance liabilities is evaluated at each reporting period by each business unit for the business originated in that business unit. The test involves comparing the established insurance liability (gross of reinsurance and net of DAC and VOBA) to a liability based on current best estimate actuarial assumptions. The assumed investment returns are a combination of the run-off of current portfolio yields on existing assets and reinvestment rates in relation to maturing assets and anticipated new premiums, as a result (part of) the revaluation reserve in shareholders equity is taken into account in assessing the adequacy of insurance liabilities.

If, for any business unit, the established insurance liability is lower than the liability based on current best estimate actuarial assumptions the shortfall is recognised immediately in the profit and loss account.

If the insurance liabilities are determined to be more than adequate no reduction in the insurance liabilities is recognised.

Investment contracts

Insurance policies without discretionary participation features which do not bear significant insurance risk are presented as Investment contracts. Investment contract liabilities are determined at amortised cost, using the effective interest method (including certain initial acquisition expenses), or at fair value.

Other liabilities (Note 21)

Provisions

Other liabilities include reorganisation provisions, litigation provisions and other provisions. Reorganisation provisions include employee termination benefits when NN Group is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Provisions are discounted when the effect of the time value of money is significant, using a before tax discount rate. The determination of provisions is an inherently uncertain process involving estimates regarding amounts and timing of cash flows.

Gross premium income (Note 22)

Premiums from insurance policies are recognised as income when due from the policyholder. Receipts under investment contracts are not recognised as gross premium income; instead, deposit accounting is applied. When applying deposit accounting, the amounts contributed by policyholders are recognised as direct increases in the provision for investment contracts, not as premium income and payments are deducted directly from the provision.

Net fee and commission income (Note 24)

Fees and commissions are generally recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Notes to the Consolidated annual accounts continued

1 Accounting policies continued

Earnings per ordinary share (Note 31)

Earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares outstanding. In calculating the weighted average number of ordinary shares outstanding, own shares held by group companies are deducted from the total number of ordinary shares in issue.

Changes in the number of ordinary shares outstanding without a corresponding change in resources are taken into account, including if these changes occurred after the reporting date but before the annual accounts are authorised for issue.

Diluted earnings per share data are computed as if all convertible instruments outstanding at the year-end were exercised at the beginning of the period. It is also assumed that NN Group uses the assumed proceeds received to buy its own shares against the average market price in the financial year. The net increase in the number of shares resulting from the exercise is added to the average number of shares used to calculate diluted earnings per share.

Segments and Principal subsidiaries and geographical information (Notes 32 and 33)

A segment is a distinguishable component of NN Group, engaged in providing products or services, subject to risks and returns that are different from those of other segments. A geographical area is a distinguishable component of NN Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analysis is based on the location of the business unit from which the transactions are originated.

2 Covid-19 pandemic

Since early 2020, the spread of the Covid-19 pandemic is causing significant disruption to society and the world-wide economy, impacting NN Group, its employees, its customers and its suppliers. Financial markets have been severely impacted by significant volatility in interest rates, equity prices and spreads and the world-wide economy has been significantly impacted as well. Governments and central banks worldwide are responding to this crisis with aid packages and further supporting measures. At the date of this report, the depth and length of this crisis is unknown. NN Group is constantly monitoring the developments and the (potential) impact on NN Group. The most significant risks that NN Group is facing in this context are related to the financial markets (including interest rates, equity prices and spreads), insurance risk (including mortality and policyholder behaviour) and operational risk (continuity of business processes). Note 51 'Risk management' includes extensive disclosure on the exposure to such risks and the risk management thereof.

The Covid-19 pandemic, and the related impact on the financial markets, impacted the results of NN Group in 2020 mainly in the following areas:

- Increased amount of impairments on investments in equity securities, reflected in Investment income - Impairments of available-for-sale equity securities.
- Negative revaluations on real estate and private equity investments in certain market sectors, reflected in Investment income - Change in fair value of real estate investments and Share of result from associates and joint ventures.
- In Non-life, higher claims in Disability & Accident were partly compensated by lower claims in Property & Casualty. There was no significant net impact from the Covid-19 pandemic on the technical provisions for insurance contracts of NN Group.
- Additional uncertainties in the determination of the fair value of illiquid assets, including real estate investments and private equity investments. NN Group uses quarterly appraisals by external valuers as main input for the determination of fair value of its real estate investments. Uncertainties in the current environment have led to the inclusion of 'material valuation uncertainty' clauses in certain external valuation reports. Such clauses do not imply that the valuation cannot be relied upon, but are used to indicate that – in the current extraordinary circumstances – less certainty can be attached to valuations than would otherwise be the case.

In 2020, there were no significant impairments of other assets (including debt securities, loans and intangible assets).

Postponements of interest and/or principal payments have been offered on an individual basis to retail borrowers who face temporary payment difficulties on their mortgage loans or consumer loans. The number of cases is limited and the financial impact for NN Group was not significant.

At the date of this report, it is too early to determine the structural impact of the Covid-19 pandemic on results, capitalisation and funding, long term assumptions and actual cash flows, if any. Also the amount and profitability of new sales may be impacted but, at the date of this report, it is too early to assess any (potential) structural impact.

NN Group has established a business continuity plan to help ensure the continuity of its businesses, the well-being of its staff and its capability to support its customers, whilst maintaining financial and operational resilience.

Notes to the Consolidated annual accounts continued

3 Cash and cash equivalents

Cash and cash equivalents

	2020	2019
Cash and bank balances	6,157	4,900
Money market funds	4,568	1,362
Short-term deposits	1,657	174
Cash and cash equivalents	**12,382**	**6,436**
Cash and cash equivalents classified as assets held for sale	8	
Cash and cash equivalents at the end of the year	**12,390**	**6,436**

As at 31 December 2020, NN Group held EUR 2,586 million (31 December 2019: EUR 1,660 million) at central banks.

NN Group invests in several types of money market funds, some qualifying as cash equivalents and some as investments. Short-term investments in money market funds are presented as cash equivalents only if these are highly liquid and quoted in an active market and have low investment risk.

4 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

	2020	2019
Investments for risk of policyholders	34,797	34,433
Non-trading derivatives	14,833	10,189
Designated as at fair value through profit or loss	1,336	1,184
Financial assets at fair value through profit or loss	**50,966**	**45,806**

Investments for risk of policyholders

	2020	2019
Equity securities	31,992	31,534
Debt securities	1,786	1,695
Loans and receivables	1,019	1,204
Investments for risk of policyholders	**34,797**	**34,433**

Investments in investment funds (with underlying investments in debt and equity securities, real estate and derivatives) are included in equity securities.

Non-trading derivatives

	2020	2019
Derivatives used in:		
– fair value hedges	1	52
– cash flow hedges	10,530	7,365
Other non-trading derivatives	4,302	2,772
Non-trading derivatives	**14,833**	**10,189**

Other non-trading derivatives includes derivatives for which no hedge accounting is applied.

Notes to the Consolidated annual accounts continued

4 Financial assets at fair value through profit or loss continued

Designated as at fair value through profit or loss

	2020	2019
Equity securities	425	333
Debt securities	28	31
Money market funds	883	820
Designated as at fair value through profit or loss	**1,336**	**1,184**

5 Available-for-sale investments

The net increase in Available-for-sale investments from EUR 117,644 million as at 31 December 2019 to EUR 118,175 million as at 31 December 2020 includes EUR 1,517 million recognised on the acquisition of VIVAT Non-life. For more information reference is made to Note 45 'Companies and businesses acquired and divested'.

Available-for-sale investments

	2020	2019
Equity securities:		
– shares in NN Group managed investment funds	2,539	2,096
– shares in third-party managed investment funds	2,774	1,552
– other	5,986	4,430
Equity securities	**11,299**	**8,078**
Debt securities	106,876	109,566
Available-for-sale investments	**118,175**	**117,644**

Changes in Available-for-sale investments

	Equity securities		Debt securities		Total	
	2020	2019	2020	2019	2020	2019
Available-for-sale investments – opening balance	8,078	6,734	109,566	97,595	117,644	104,329
Additions	4,545	1,582	20,383	24,855	24,928	26,437
Amortisation			-453	-485	-453	-485
Transfers and reclassifications	-100	-29	-1	-1	-101	-30
Changes in unrealised revaluations	1,341	976	3,660	5,780	5,001	6,756
Impairments	-338	-93	-6		-344	-93
Disposals and redemptions	-2,245	-1,099	-26,472	-18,651	-28,717	-19,750
Changes in the composition of the group and other changes	40		1,419	51	1,459	51
Exchange rate differences	-22	7	-1,220	422	-1,242	429
Available-for-sale investments – closing balance	**11,299**	**8,078**	**106,876**	**109,566**	**118,175**	**117,644**

Transfers and reclassifications mainly relate to the transfer of certain investments in real estate funds to associates and joint ventures due to an increase in level of influence.

Reference is also made to Note 23 'Investment income' for details on impairments by segment.

Notes to the Consolidated annual accounts continued

5 Available-for-sale investments continued

NN Group's total exposure to debt securities is included in the following balance sheet lines:

Total exposure to debt securities

	2020	2019
Available-for-sale investments	106,876	109,566
Loans	667	1,251
Available-for-sale investments and loans	**107,543**	**110,817**
Investments for risk of policyholders	1,786	1,695
Designated as at fair value through profit or loss	28	31
Financial assets at fair value through profit or loss	**1,814**	**1,726**
Total exposure to debt securities	**109,357**	**112,543**

NN Group's total exposure to debt securities included in 'Available-for-sale investments' and 'Loans' is specified as follows by type of exposure:

Debt securities by type

	Available-for-sale investments		Loans		Total	
	2020	2019	2020	2019	2020	2019
Government bonds	70,716	74,271			70,716	74,271
Corporate bonds	20,544	19,024			20,544	19,024
Financial institution and Covered bonds	12,247	13,318			12,247	13,318
Bond portfolio (excluding ABS)	**103,507**	**106,613**	**–**	**–**	**103,507**	**106,613**
US RMBS	517	552			517	552
Non-US RMBS	2,318	1,987	575	1,138	2,893	3,125
CDO/CLO		6			–	6
Other ABS	534	408	92	113	626	521
ABS portfolio	**3,369**	**2,953**	**667**	**1,251**	**4,036**	**4,204**
Debt securities – Available-for-sale investments and Loans	**106,876**	**109,566**	**667**	**1,251**	**107,543**	**110,817**

For more details, reference is made to Note 51 'Risk management'.

Available-for-sale equity securities

	2020	2019
Listed	6,431	5,354
Unlisted	4,868	2,724
Available-for-sale equity securities	**11,299**	**8,078**

6 Loans

Loans

	2020	2019
Loans secured by mortgages	55,310	51,382
Loans related to savings mortgages	1,532	1,672
Loans to or guaranteed by public authorities	1,830	1,879
Asset-backed securities	667	1,251
Policy loans	947	666
Other loans	5,324	5,084
Loans – before loan loss provisions	**65,610**	**61,934**
Loan loss provisions	-182	-166
Loans	**65,428**	**61,768**

Changes in Loans secured by mortgages

	2020	2019
Loans secured by mortgages – opening balance	51,382	47,605
Additions/origination	9,188	7,513
Amortisation	-170	-199
Redemption	-4,909	-3,699
Disposals	-520	-299
Impairments and write-offs		-2
Fair value changes recognised on hedged items	341	402
Changes in the composition of the group and other changes	-2	61
Loans secured by mortgages – closing balance	**55,310**	**51,382**

NN Group has sold mortgage loans to securitisation entities that, in turn, issued notes to investors that are collateralised by the purchased assets. These mortgage loans continue to be recognised on NN Group's balance sheet as NN Group retained all or substantially all of the risks and rewards of the mortgage loans. Reference is made to Note 46 'Structured entities'.

Changes in Loan loss provisions

	2020	2019
Loan loss provisions – opening balance	166	211
Write-offs	-6	-52
Increase/decrease in loan loss provisions	19	11
Changes in the composition of the group and other changes	3	-4
Loan loss provisions – closing balance	**182**	**166**

Notes to the Consolidated annual accounts continued

7 Associates and joint ventures

Associates and joint ventures (2020)

	Interest held	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Vesteda Residential Fund FGR	24%	1,531	7,333	1,050	558	103
CBRE Dutch Office Fund FGR	19%	370	2,709	718	154	67
CBRE European Industrial Fund C.V.	26%	240	1,344	416	148	37
CBRE Retail Property Fund Iberica L.P.	50%	218	518	82	-34	30
CBRE Dutch Residential Fund FGR	9%	209	2,562	108	175	31
Lazora S.I.I. S.A.	22%	209	1,531	588	86	41
NRP Nordic Logistic Fund AS	42%	203	501	18	36	11
CBRE Dutch Retail Fund FGR	20%	201	1,382	392	-32	36
CBRE UK Property Fund PAIF	10%	163	1,605		-46	5
Dutch Urban Living Venture FGR	45%	127	384	105	61	7
Allee center Kft	50%	126	276	24	5	10
Achmea Dutch Health Care Property Fund	23%	121	543	14	23	3
Dutch Student and Young Professional Housing fund FGR	49%	120	323	79	34	8
Parcom Buy-Out Fund V CV	21%	119	579	15	-38	5
Robeco Bedrijfsleningen FGR	26%	117	451	1	15	2
Rivage Euro Debt infrastructure 3	34%	104	306	1	5	3
Fiumaranuova s.r.l.	50%	100	234	34	8	10
Siresa House S.L.	49%	96	490	293	39	47
DPE Deutschland III (Parallel) GmbH & Co	17%	93	575	21	83	4
Boccaccio - Closed-end Real Estate Mutual Investment Fund	50%	88	238	61		3
The Fizz Student Housing Fund SCS	50%	87	250	75	11	1
Parcom Buy Out Fund IV B.V.	100%	82	96	14		5
CBRE Dutch Retail Fund II FGR	10%	69	703	12	-36	11
Delta Mainlog Holding GmbH & Co. KG	50%	64	129	1	16	
CBRE Property Fund Central and Eastern Europe FGR	50%	60		-119	9	9
DPE Deutschland II B GmbH & Co KG	37%	56	196	45	-19	1
Parquest Capital II B FPCI	28%	54	197	4		8
NL Boompjes Property 5 C.V.	50%	54	108		6	
Other		592				
Associates and joint ventures		**5,673**				

The above associates and joint ventures mainly consist of non-listed investment entities investing in real estate and private equity.

Notes to the Consolidated annual accounts continued

7 Associates and joint ventures continued

Significant influence exists for certain associates in which the interest held is below 20%, based on the combination of NN Group's financial interest for own risk and other arrangements, such as participation in the relevant boards.

NN Group holds associates over which it cannot exercise control despite holding more than 50% of the share capital. For this reason, these are classified as associates and are not consolidated.

Other includes EUR 389 million of associates and joint ventures with an individual balance sheet value of less than EUR 50 million and EUR 203 million of receivables from associates and joint ventures.

The amounts presented in the table above could differ from the individual annual accounts of the associates due to the fact that the individual amounts have been brought in line with NN Group's accounting principles.

The reporting dates of all significant associates and joint ventures are consistent with the reporting date of NN Group.

The associates and joint ventures of NN Group are subject to legal and regulatory restrictions regarding the amount of dividends that can be paid to NN Group. These restrictions are, for example, dependent on the laws in the country of incorporation for declaring dividends or as a result of minimum capital requirements imposed by industry regulators in the countries in which the associates and joint ventures operate. In addition, the associates and joint ventures also consider other factors in determining the appropriate levels of equity needed. These factors and limitations include, but are not limited to, rating agency and regulatory views, which can change over time.

Associates and joint ventures (2019)

	Interest held	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Vesteda Residential Fund FGR	24%	1,467	7,333	1,313	955	103
CBRE Dutch Office Fund FGR	19%	361	2,664	720	405	61
CBRE Retail Property Fund Iberica L.P.	50%	265	616	84	78	33
CBRE Dutch Retail Fund FGR	20%	218	1,601	529	60	40
Lazora S.I.I. S.A.	22%	205	1,435	508	154	42
CBRE Dutch Residential Fund FGR	10%	200	2,024	56	255	29
NRP Nordic Logistic Fund AS	42%	190	454	2	58	10
CBRE UK Property Fund PAIF	10%	182	1,890		27	
CBRE European Industrial Fund C.V.	19%	151	1,145	370	169	33
Allee center Kft	50%	129	277	20	37	8
Achmea Dutch Health Care Property Fund	27%	119	446	10	50	5
DPE Deutschland II B GmbH & Co KG	35%	117	378	47	16	
Dutch Student and Young Professional Housing fund FGR	49%	113	296	68	43	9
Robeco Bedrijfsleningen FGR	26%	112	434		11	1
Fiumaranuova s.r.l.	50%	101	238	36	17	9
Siresa House S.L.	49%	96	512	314	56	53
Parcom Buy-Out Fund V CV	21%	96	481	26	18	5
Boccaccio - Closed-end Real Estate Mutual Investment Fund	50%	93	249	64	17	4
Parcom Investment Fund III B.V.	100%	91	91		15	1
Parcom Buy Out Fund IV B.V.	100%	89	89		18	8
The Fizz Student Housing Fund SCS	50%	83	227	59	18	6
CBRE Dutch Retail Fund II FGR	10%	74	759	15	18	11
Dutch Urban Living Venture FGR	42%	71	221	50	17	1
CBRE Property Fund Central and Eastern Europe FGR	50%	62	170	46	36	8
Delta Mainlog Holding GmbH & Co. KG	50%	61	122	1	16	2
DPE Deutschland III (Parallel) GmbH & Co	17%	56	341	1	18	1
Parquest Capital II B FPCI	29%	53	190	5	1	7
Other		602				
Associates and joint ventures		**5,457**				

Notes to the Consolidated annual accounts continued

7 Associates and joint ventures continued

Changes in Associates and joint ventures

	2020	2019
Associates and joint ventures – opening balance	5,457	5,000
Additions	349	531
Transfers to/from available-for-sale investments	19	14
Share in changes in equity (Revaluations)	8	-4
Share of result	219	619
Dividends received	-277	-212
Disposals	-121	-497
Changes in the composition of the group and other changes	21	
Exchange rate differences	-2	6
Associates and joint ventures – closing balance	**5,673**	**5,457**

Transfers to/from available-for-sale investments mainly relate to the transfer of certain investments in real estate funds to associates and joint ventures due to an increase in level of influence.

Disposals mainly relate to the sale of investments in real estate funds.

8 Real estate investments

Changes in Real estate investments

	2020	2019
Real estate investments – opening balance	2,571	2,374
Additions	66	158
Transfers to/from other assets	3	3
Fair value gains/losses	-21	42
Disposals	-176	-6
Exchange rate differences	1	
Real estate investments – closing balance	**2,444**	**2,571**

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2020 is EUR 163 million (2019: EUR 146 million). The Real estate investments include properties that are leased (ground lease). At 31 December 2020, the corresponding right of use assets amount to EUR 45 million (2019: EUR 38 million).

The total amount of direct operating expenses (including repairs and maintenance) in relation to real estate investments recognised in rental income for the year ended 31 December 2020 is EUR 54 million (2019: EUR 46 million).

Real estate investments by year of most recent appraisal

	2020	2019
Most recent appraisal in current year	100%	100%
	100%	**100%**

NN Group's total exposure to real estate is included in the following balance sheet lines:

Real estate exposure

	2020	2019
Real estate investments	2,444	2,571
Available-for-sale investments	1,950	1,116
Associates and joint ventures	4,834	4,631
Property and equipment – property in own use	74	82
Real estate exposure	**9,302**	**8,400**

Furthermore, the exposure is impacted by third-party interests, leverage in funds and off-balance commitments. Reference is made to Note 51 'Risk management'.

Notes to the Consolidated annual accounts continued

9 Property and equipment

Property and equipment

	2020	2019
Property in own use	74	82
Equipment	93	79
Property and equipment owned	**167**	**161**
Right of use assets	281	304
Property and equipment total	**448**	**465**

Changes in Property in own use

	2020	2019
Property in own use – opening balance	82	75
Additions	1	4
Revaluations	-4	4
Depreciation	-2	-2
Reversal of impairments		1
Changes in the composition of the group and other changes	-2	
Exchange rate differences	-1	
Property in own use – closing balance	**74**	**82**
Gross carrying value	118	120
Accumulated depreciation, revaluations and (reversal of) impairments	-44	-38
Net carrying value	**74**	**82**
Revaluation surplus – opening balance	16	12
Revaluation in year	-4	4
Revaluation surplus – closing balance	**12**	**16**

Changes in Equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2020	2019	2020	2019	2020	2019
Equipment – opening balance	28	23	51	53	79	76
Additions	13	17	37	14	50	31
Disposals	-1		-1	-1	-2	-1
Depreciation	-13	-12	-19	-15	-32	-27
Exchange rate differences	-1		-1		-2	-
Equipment – closing balance	**26**	**28**	**67**	**51**	**93**	**79**
Gross carrying value	147	137	229	194	376	331
Accumulated depreciation	-121	-109	-162	-143	-283	-252
Net carrying value	**26**	**28**	**67**	**51**	**93**	**79**

Changes in Right of use assets

	Property		Equipment		Total	
	2020	2019	2020	2019	2020	2019
Right of use assets – opening balance	281		23		304	-
Additions	33	321	14	36	47	357
Disposals	-8		-1		-9	-
Depreciation	-45	-39	-12	-13	-57	-52
Exchange rate differences	-4	-1			-4	-1
Right of use assets – closing balance	**257**	**281**	**24**	**23**	**281**	**304**
Gross carrying value	341	320	49	36	390	356
Accumulated depreciation	-84	-39	-25	-13	-109	-52
Net carrying value	**257**	**281**	**24**	**23**	**281**	**304**

Notes to the Consolidated annual accounts continued

10 Intangible assets

Intangible assets (2020)

	Goodwill	Value of business acquired	Software	Other	Total
Intangible assets – opening balance	539	149	79	228	995
Additions			47	12	59
Capitalised expenses			4		4
Amortisation		-66	-39	-27	-132
Disposals			-1		-1
Changes in the composition of the group and other changes		129		21	150
Exchange rate differences	-6	-2	-3	-1	-12
Intangible assets – closing balance	**533**	**210**	**87**	**233**	**1,063**
Gross carrying value	1,506	306	900	675	3,387
Accumulated amortisation		-96	-747	-394	-1,237
Accumulated impairments	-973		-66	-48	-1,087
Net carrying value	**533**	**210**	**87**	**233**	**1,063**

Intangible assets (2019)

	Goodwill	Value of business acquired	Software	Other	Total
Intangible assets – opening balance	532		73	258	863
Additions	8		37	5	50
Amortisation		-30	-33	-33	-96
Changes in the composition of the group and other changes		178	2	-2	178
Exchange rate differences	-1	1			-
Intangible assets – closing balance	**539**	**149**	**79**	**228**	**995**
Gross carrying value	1,512	179	853	643	3,187
Accumulated amortisation		-30	-708	-367	-1,105
Accumulated impairments	-973		-66	-48	-1,087
Net carrying value	**539**	**149**	**79**	**228**	**995**

Other intangible assets include the intangibles recognised upon the acquisition of VIVAT Non-life and the remaining part of the intangibles recognised in 2017 on the acquisition of Delta Lloyd. The acquisition intangibles comprise:

- Brand names – with an average expected remaining useful life at the acquisition date of approximately 10 years
- Client relationships – with an average expected remaining useful life at the acquisition date of approximately 6 years
- Distribution channels/agreements – with an average expected remaining useful life at the acquisition date of approximately 18 years

The increase in 2020 in Value of business acquired includes the impact of the acquisition of VIVAT Non-life. The increase in 2019 in Value of business acquired includes the impact of the acquisitions in Czech Republic and Slovakia. Reference is made to Note 45 'Companies and businesses acquired and divested'.

Amortisation of software and other intangible assets is included in the profit and loss account in 'Other operating expenses' and 'Amortisation of intangible assets and other impairments' respectively.

Goodwill by cash generating unit (reporting unit)

	2020	2019
Netherlands Non-life	90	90
Insurance Europe	70	76
Asset Management	311	311
Bank	62	62
Goodwill	**533**	**539**

Reference is made to Note 45 'Companies and businesses acquired and divested'.

Notes to the Consolidated annual accounts continued

10 Intangible assets continued

Goodwill impairment

Goodwill is tested for impairment at the lowest level at which it is monitored for internal management purposes. This level is defined as the cash generating unit (reporting unit) as set out above. Goodwill is tested for impairment by comparing the carrying value of the cash generating unit (reporting unit) to the best estimate of the recoverable amount of that cash generating unit (reporting unit). The carrying value is determined as the IFRS-EU book value including goodwill and certain acquisition intangibles. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount.

The identification of impairment is an inherently uncertain process involving various assumptions and factors. Estimates and assumptions (including unobservable Level 3 inputs) are based on management's judgement and other information available.

For the goodwill recognised there is a significant excess of recoverable amount over book value for the cash generating units (reporting units) to which goodwill is allocated.

There was no impairment of goodwill in 2020.

11 Deferred acquisition costs

Changes in Deferred acquisition costs

	Life insurance		Non-life insurance		Total	
	2020	2019	2020	2019	2020	2019
Deferred acquisition costs – opening balance	1,838	1,766	75	77	1,913	1,843
Capitalised expenses	388	497	591	478	979	975
Amortisation and unlocking	-398	-424	-578	-480	-976	-904
Changes in the composition of the group and other changes		4	2		2	4
Exchange rate differences	-47	-5			-47	-5
Deferred acquisition costs – closing balance	**1,781**	**1,838**	**90**	**75**	**1,871**	**1,913**

12 Assets and liabilities held for sale

As at 31 December 2020 assets and liabilities held for sale relate to NN Group's Bulgarian Pension and Life businesses. For more information on the agreed sale of NN's Bulgarian operations (part of the segment Insurance Europe), reference is made to Note 45 'Companies and businesses acquired and divested'.

Assets held for sale

	2020
Cash and cash equivalents	8
Financial assets at fair value through profit or loss	38
Available-for-sale investments	59
Loans	1
Property and equipment	1
Deferred acquisition costs	1
Other assets	5
Total assets	**113**

Liabilities held for sale

	2020
Insurance and investment contracts	90
Other liabilities	3
Total liabilities	**93**

Notes to the Consolidated annual accounts continued

13 Other assets

Other assets

	2020	2019
Insurance and reinsurance receivables	724	824
Income tax receivables	55	29
Accrued interest and rents	1,467	1,512
Other accrued assets	249	258
Cash collateral amounts paid	1,000	1,326
Other	544	521
Other assets	**4,039**	**4,470**

Insurance and reinsurance receivables

	2020	2019
Receivables on account of direct insurance from:		
– policyholders	454	566
– intermediaries	115	161
Reinsurance receivables	155	97
Insurance and reinsurance receivables	**724**	**824**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 36 million as at 31 December 2020 (2019: EUR 25 million). The receivable is presented net of this allowance.

14 Equity

Total equity

	2020	2019
Share capital	39	41
Share premium	12,574	12,572
Revaluation reserve	20,468	15,269
Currency translation reserve	-97	3
Net defined benefit asset/liability remeasurement reserve	-138	-144
Other reserves	3,885	3,027
Shareholders' equity (parent)	**36,731**	**30,768**
Minority interests	277	260
Undated subordinated notes	1,764	1,764
Total equity	**38,772**	**32,792**

Changes in Equity (2020)

	Share capital	Share premium	Reserves	Total shareholders' equity (parent)
Equity – opening balance	41	12,572	18,155	30,768
Total amount recognised directly in equity (Other comprehensive income)			5,105	5,105
Net result for the period			1,904	1,904
Changes in share capital	-2	2		-
Dividend			-394	-394
Purchase/sale of treasury shares			-622	-622
Employee stock option and share plans			1	1
Coupon on undated subordinated notes			-59	-59
Changes in the composition of the group and other changes			28	28
Equity – closing balance	**39**	**12,574**	**24,118**	**36,731**

Notes to the Consolidated annual accounts continued

14 Equity continued

Purchase/sale of treasury shares (2020)

In 2020, 21,817,879 ordinary shares for a total amount of EUR 627 million were repurchased under an open market share buyback programme, including repurchases to neutralise the dilutive effect of stock dividends. Treasury shares for an amount of EUR 5 million were delivered under Employee share plans. The repurchased shares are held by NN Group and the amount was deducted from Other reserves (Purchase/sale of treasury shares).

In 2020, 23,289,558 NN Group treasury shares were cancelled.

As at 31 December 2020, 19,822,194 treasury shares were held by NN Group.

Issue of ordinary shares (2020)

In 2020, 10,011,647 NN Group shares were issued for the interim dividend.

Coupon paid on undated subordinated notes (2020)

The undated subordinated notes have optional annual coupon payments in June and July. The annual coupons resulted in a deduction of EUR 59 million (net of tax) from equity.

Changes in Equity (2019)

	Share capital	Share premium	Reserves	Total shareholders' equity (parent)
Equity – opening balance	41	12,572	10,237	22,850
Total amount recognised directly in equity (Other comprehensive income)			7,077	7,077
Net result for the period			1,962	1,962
Dividend			-387	-387
Purchase/sale of treasury shares			-707	-707
Employee stock option and share plans			2	2
Coupon on undated subordinated notes			-59	-59
Changes in the composition of the group and other changes			30	30
Equity – closing balance	**41**	**12,572**	**18,155**	**30,768**

Purchase/sale of treasury shares (2019)

In 2019, 20,996,349 ordinary shares for a total amount of EUR 712 million were repurchased under open market share buyback programmes to neutralise the dilutive effect of stock dividends and treasury shares for an amount of EUR 5 million were delivered under Employee share plans. The repurchased shares are held by NN Group and the amount was deducted from Other reserves (Purchase/sale of treasury shares).

In 2019, 5,850,000 NN Group treasury shares were cancelled.

As at 31 December 2019, 21,485,285 treasury shares were held by NN Group.

Issue of ordinary shares (2019)

In 2019, 4,807,859 NN Group shares (for the shareholders that opted to receive a stock dividend) were issued for the final dividend and 3,539,191 NN Group shares were issued for the interim dividend.

Coupon paid on undated subordinated notes (2019)

The undated subordinated notes have optional annual coupon payments in June and July. The annual coupons resulted in a deduction of EUR 59 million (net of tax) from equity.

Shareholders' equity (parent)

Share capital

	Ordinary shares (in number)		Ordinary shares (amounts in millions of euros)	
	2020	2019	2020	2019
Authorised share capital	700,000,000	700,000,000	84	84
Unissued share capital	369,721,790	356,443,879	45	43
Issued share capital	**330,278,210**	**343,556,121**	**39**	**41**

Ordinary shares

The authorised ordinary share capital consists of 700,000,000 ordinary shares with a par value of EUR 0.12 per share. At 31 December 2020 issued and fully paid ordinary share capital consists of 330,278,210 ordinary shares with a par value of EUR 0.12 per share.

Notes to the Consolidated annual accounts continued

14 Equity continued

Distributable reserves

NN Group N.V. is subject to legal restrictions regarding the amount of dividends it can pay to its shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to total shareholders' equity less the paid-up and called share capital and less the reserves required pursuant to law or the Articles of Association. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

In addition, NN Group's ability to pay dividends is dependent on the dividend payment ability of its subsidiaries, associates and joint ventures. NN Group is legally required to create a non-distributable reserve insofar profits of its subsidiaries, associates and joint ventures are subject to dividend payment restrictions. Such restrictions may among others be of a similar nature as the restrictions which apply to NN Group.

Legally distributable reserves, determined in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, from NN Group's subsidiaries, associates and joint ventures are as follows:

Distributable reserves based on the Dutch Civil Code

	2020	2020	2019	2019
Total shareholders' equity		36,731		30,768
– share capital	39		41	
– revaluation reserve	20,468		15,269	
– currency translation reserve			3	
– share of associates reserve	1,412		1,271	
– other non-distributable reserves	208		198	
Total non-distributable part of shareholders' equity:		22,127		16,782
Distributable reserves based on the Dutch Civil Code		**14,604**		**13,986**

The Dutch supervisory rules and regulations stemming from the Dutch Financial Supervision Act (Wet op het financieel toezicht) provide a second restriction on the possibility to distribute dividends. Total freely distributable reserves is the minimum of freely distributable capital on the basis of solvency requirements and freely distributable capital on the basis of capital protection.

Freely distributable reserves

	2020	2020	2019	2019
Solvency requirement under the Financial Supervision Act	9,534		8,154	
Reserves available for financial supervision purposes	20,028		18,240	
Total freely distributable reserves on the basis of solvency requirements		10,494		10,086
Total freely distributable reserves on the basis of the Dutch Civil Code		14,604		13,986
Total freely distributable reserves (lower of the values above)		**10,494**		**10,086**

Reference is made to Note 52 'Capital and liquidity management' for more information on solvency requirements.

Other restrictions

There are other restrictions to the ability of subsidiaries, associates and joint ventures to distribute reserves to NN Group as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the group companies operate. Reference is made to Note 52 'Capital and liquidity management' for the minimum capital requirements.

In addition to the legal and regulatory restrictions on distributing dividends from subsidiaries, associates and joint ventures to NN Group there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity in the Group's subsidiaries, associates and joint ventures. These considerations and limitations include, but are not restricted to, rating agency and regulatory views, which can change over time; it is not possible to disclose a reliable quantification of these limitations.

Without prejudice to the authority of the Executive Board to allocate profits to reserves and to the fact that the ordinary shares are the most junior securities issued by NN Group, no specific dividend payment restrictions with respect to ordinary shares exist.

Furthermore, NN Group is subject to legal restrictions with respect to repayment of nominal share capital to holders of ordinary shares. Nominal share capital may be repaid to the holders of ordinary shares pursuant to an amendment of NN Group's Articles of Association whereby the ordinary shares are written down. Pursuant to the Dutch Civil Code, capital may only be repaid if none of NN Group's creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

Notes to the Consolidated annual accounts continued

14 Equity continued

Preference shares

As at 31 December 2020, none of the preference shares had been issued. The authorised number of preference shares is 700,000,000 shares.

Changes in Revaluation reserve (2020)

	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – opening balance	12	6,459	8,798	15,269
Unrealised revaluations	-3	3,104		3,101
Realised gains/losses transferred to the profit and loss account		-574		-574
Changes in cash flow hedge reserve			3,422	3,422
Deferred interest credited to policyholders		-750		-750
Revaluation reserve – closing balance	**9**	**8,239**	**12,220**	**20,468**

Changes in Revaluation reserve (2019)

	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – opening balance	9	3,675	4,514	8,198
Unrealised revaluations	3	4,473		4,476
Realised gains/losses transferred to the profit and loss account		-286		-286
Changes in cash flow hedge reserve			4,284	4,284
Deferred interest credited to policyholders		-1,403		-1,403
Revaluation reserve – closing balance	**12**	**6,459**	**8,798**	**15,269**

Deferred interest credited to policyholders reflects the change in the deferred profit sharing liabilities (net of deferred tax). Reference is made to Note 18 'Insurance and investment contracts, reinsurance contracts'.

Changes in Currency translation reserve

	2020	2019
Currency translation reserve – opening balance	3	-34
Unrealised revaluations after taxation	10	-16
Exchange rate differences for the period	-110	53
Currency translation reserve – closing balance	**-97**	**3**

Unrealised revaluations relate to changes in the value of hedging instruments that are designated as net investment hedges.

Changes in Other reserves (2020)

	Retained earnings	Share of associates reserve	Total
Other reserves – opening balance	1,756	1,271	3,027
Net result for the period	1,904		1,904
Transfers to/from share of associates reserve	-141	141	-
Dividend	-394		-394
Purchase/sale of treasury shares	-622		-622
Employee stock option and share plans	1		1
Coupon on subordinated notes	-59		-59
Changes in the composition of the group and other changes	28		28
Other reserves – closing balance	**2,473**	**1,412**	**3,885**

Notes to the Consolidated annual accounts continued

14 Equity continued

Changes in Other reserves (2019)

	Retained earnings	Share of associates reserve	Total
Other reserves – opening balance	1,432	747	2,179
Net result for the period	1,962		1,962
Transfers to/from share of associates reserve	-524	524	-
Dividend	-387		-387
Purchase/sale of treasury shares	-707		-707
Employee stock option and share plans	2		2
Coupon on subordinated notes	-59		-59
Changes in the composition of the group and other changes	37		37
Other reserves – closing balance	**1,756**	**1,271**	**3,027**

Dividends

	2020	2019
Dividend distributed from Other reserves:		
Dividend paid in cash (interim current year)	394	144
Dividend paid in cash (final previous year)		243
Stock dividend (interim current year)	311	106
Stock dividend (final previous year)		172
Total dividend	**705**	**665**

Interim dividend 2020

In September 2020, NN Group paid a 2020 interim dividend of EUR 2.26 per ordinary share, or approximately EUR 705 million in total. This amount comprises (i) EUR 1.40 per ordinary share, equal to the amount of the 2019 final dividend that was suspended in April 2020 plus ii) EUR 0.86 per ordinary share, equal to the regular 2020 interim dividend calculated in accordance with the NN Group dividend policy. The 2020 interim dividend was paid either in cash, after deduction of withholding tax if applicable, or ordinary shares at the election of the shareholder. As a result, an amount of EUR 394 million was distributed out of Other reserves (cash dividend) and 10,011,647 ordinary shares, with a par value of EUR 0.12 per share, were issued (EUR 311 million stock dividend). To neutralise the dilutive effect of the interim stock dividend, NN Group repurchased ordinary shares for an amount equivalent to the stock dividend.

Proposed final dividend 2020

At the annual general meeting on 20 May 2021, a final dividend will be proposed of EUR 1.47 per ordinary share, or approximately EUR 456 million in total based on the current number of outstanding shares. The final dividend will be paid either in cash, after deduction of withholding tax if applicable, or in ordinary shares, at the election of the shareholders. Dividends paid in the form of ordinary shares will be delivered from NN Group treasury shares or issued from the share premium reserve. To neutralise the dilutive effect of the stock dividend, NN Group will repurchase ordinary shares for an amount equivalent to the stock dividend. This is subject to adoption by the General Meeting at the annual general meeting to be held on 20 May 2021.

Interim dividend 2019

In September 2019, NN Group paid a 2019 interim dividend of EUR 0.76 per ordinary share, or approximately EUR 250 million in total. The 2019 interim dividend was paid either in cash, after deduction of withholding tax if applicable, or ordinary shares at the election of the shareholder. As a result, an amount of EUR 144 million was distributed out of Other reserves (cash dividend) and 3,539,191 ordinary shares, with a par value of EUR 0.12 per share, were issued (EUR 106 million stock dividend). To neutralise the dilutive effect of the interim stock dividend, NN Group repurchased ordinary shares for an amount equivalent to the stock dividend.

14 Equity continued

2019 Final dividend

On 6 April 2020 NN Group announced that it would act in accordance with the recommendations of EIOPA and the Dutch Central Bank (DNB) published on 2 April 2020, which urged insurers to temporarily suspend their dividend distributions and share buyback programmes as a consequence of the Covid-19 pandemic.

Although NN Group is well capitalised and has a strong liquidity position, it decided to postpone the payment of dividends on its ordinary shares in line with the EIOPA and DNB recommendations. The proposal to pay a 2019 final dividend that was included in the 2019 Annual Accounts was not included in the agenda of the annual general meeting of 28 May 2020. In addition, the EUR 250 million share buyback programme, which commenced on 2 March 2020, was suspended. Up to and including 3 April 2020, shares for a total amount of EUR 183 million had been repurchased under this programme and were deducted from shareholders' equity and own funds in 2020.

Proposed appropriation of result

The result is appropriated pursuant to Article 34 of the Articles of Association of NN Group N.V., of which the relevant provisions state that the appropriation of result shall be determined by the General Meeting, on the proposal of the Executive Board, as approved by the Supervisory Board. It is proposed to add the 2020 net result less the (interim and final) cash dividends to the retained earnings.

Minority interest

Through the acquisition of Delta Lloyd, NN Group owns 51% of the shares of ABN AMRO Verzekeringen Holding B.V. (ABN AMRO Verzekeringen). ABN AMRO Verzekeringen's principal place of business is Zwolle, the Netherlands. ABN AMRO Verzekeringen is fully consolidated by NN Group, with a minority interest recognised of 49%.

At 31 December 2020, the minority interest relating to ABN AMRO Verzekeringen recognised in equity was EUR 259 million (2019: EUR 241 million).

Summarised information ABN AMRO Verzekeringen[1]

	2020	2019
Total assets	4,706	4,867
Total liabilities	4,176	4,375
Total income	546	561
Total expenses	489	503
Net result recognised in period	37	42
Other comprehensive income recognised in period	6	46
Dividends paid	5	49

1 All on 100% basis.

Undated subordinated notes

In July 2014, NN Group N.V. issued fixed to floating rate undated subordinated notes with a par value of EUR 1,000 million. The notes are undated, but are callable after 11.5 years and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 4.5% per annum for the first 11.5 years and will be floating thereafter. As these notes are undated and include optional deferral of interest at the discretion of NN Group, these are classified under IFRS-EU as equity. Coupon payments are distributed out of equity if and when paid or contractually due. The discount to the par value and certain issue costs were deducted from equity at issue, resulting in a balance sheet value equal to the net proceeds of EUR 986 million.

In June 2014, fixed to floating rate undated subordinated notes with a par value of EUR 750 million were originally issued by Delta Lloyd which are classified as equity under IFRS-EU. The notes are undated, but are callable as from 13 June 2024 and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 4.375% per annum until 13 June 2024 and will be floating thereafter. Coupon payments are distributed out of equity if and when paid or contractually due. These notes were recognised upon acquisition of Delta Lloyd for an amount of EUR 778 million.

Notes to the Consolidated annual accounts continued

15 Subordinated debt

Subordinated debt

				Notional amount		Balance Sheet Value	
Interest rate	Year of issue	Due date	First call date	2020	2019	2020	2019
4.625%	2014	8 April 2044	8 April 2024	1,000	1,000	994	993
4.625%	2017	13 January 2048	13 January 2028	850	850	840	839
9.000%	2017	29 August 2042	29 August 2022	500	500	549	577
Subordinated debt						**2,383**	**2,409**

The above subordinated debt instruments have been issued to raise hybrid capital. Under IFRS-EU these debt instruments are classified as liabilities. They are considered capital for regulatory purposes. All subordinated debt is euro denominated.

16 Debt securities issued

Debt securities issued

				Notional amount		Balance Sheet Value	
Interest rate	Year of issue	Due date	First call date	2020	2019	2020	2019
1.000%	2015	18 March 2022	Not applicable	600	600	600	599
0.875%	2017	13 January 2023	13 October 2022	500	500	498	497
0.250%	2017	1 June 2020	1 March 2020		300		300
1.625%	2017	1 June 2027	1 March 2027	600	600	596	596
Debt securities issued						**1,694**	**1,992**

17 Other borrowed funds

Other borrowed funds

	2020	2019
Credit institutions	1,402	1,556
Other	6,140	6,058
Other borrowed funds	**7,542**	**7,614**

Other borrowed funds includes the funding of the consolidated securitisation programmes as disclosed in Note 46 'Structured entities' and unsecured Debt Issuance.

During 2020, NN Bank issued EUR 1.3 billion bonds under its Covered Bond Programme, backed by Dutch prime residential mortgage loans (2019 EUR 1.1 billion).

Notes to the Consolidated annual accounts continued

18 Insurance and investment contracts, reinsurance contracts

The increase in Insurance and investment contracts, reinsurance contracts from EUR 167,263 million as at 31 December 2019 to EUR 169,609 million as at 31 December 2020. It includes EUR 1,278 million Insurance and investment contracts and EUR 70 million reinsurance contracts recognised on the acquisition of VIVAT Non-life. For more information, reference is made to Note 45 'Companies and businesses acquired and divested'.

Insurance and investment contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance and investment contracts	
	2020	2019	2020	2019	2020	2019
Non-participating life policy liabilities	55,968	57,376	284	225	56,252	57,601
Participating life policy liabilities	55,451	54,114	397	454	55,848	54,568
Investment contracts with discretionary participation features	5,601	6,073			5,601	6,073
Liabilities for (deferred) profit sharing and rebates	9,822	8,526			9,822	8,526
Life insurance liabilities excluding liabilities for risk of policyholders	**126,842**	**126,089**	**681**	**679**	**127,523**	**126,768**
Liabilities for life insurance for risk of policyholders	33,287	32,979	36	34	33,323	33,013
Investment contract with discretionary participation features for risk of policyholders	245	245			245	245
Life insurance liabilities	**160,374**	**159,313**	**717**	**713**	**161,091**	**160,026**
Liabilities for unearned premiums and unexpired risks	**443**	**390**	**16**	**15**	**459**	**405**
Reported claims liabilities	4,908	3,991	255	203	5,163	4,194
Claims incurred but not reported (IBNR)	1,632	1,409	75	57	1,707	1,466
Claims liabilities	**6,540**	**5,400**	**330**	**260**	**6,870**	**5,660**
Insurance liabilities and investment contracts with discretionary participation features	**167,357**	**165,103**	**1,063**	**988**	**168,420**	**166,091**
Investment contracts	1,002	1,025			1,002	1,025
Investment contracts for risk of policyholders	1,250	1,135			1,250	1,135
Investment contracts liabilities	**2,252**	**2,160**			**2,252**	**2,160**
Insurance and investment contracts, reinsurance contracts	**169,609**	**167,263**	**1,063**	**988**	**170,672**	**168,251**

The liabilities for insurance and investment contracts are presented gross in the balance sheet as 'Insurance and investment contracts'. The related reinsurance is presented as 'Reinsurance contracts' under Assets in the balance sheet.

Deferred interest credited to policyholders is included in the 'Liabilities for (deferred) profit sharing and rebates' and amounts to EUR 9,538 million as at 31 December 2020 (2019: EUR 8,245 million).

Notes to the Consolidated annual accounts continued

18 Insurance and investment contracts, reinsurance contracts continued

Changes in Life insurance liabilities (2020)

	Net life insurance liabilities[1]	Net liabilities for risk of policyholders[2]	Reinsurance contracts	Life insurance liabilities
Life insurance liabilities – opening balance	126,089	33,224	713	160,026
Deferred interest credited to policyholders	1,298			1,298
Current year liabilities	5,713	2,059	855	8,627
Prior years liabilities:				
– benefit payments to policyholders	-8,539	-2,258	-853	-11,650
– interest accrual and changes in fair value of liabilities	2,351		7	2,358
– valuation changes for risk of policyholders		1,731		1,731
– effect of changes in discount rate assumptions	14		1	15
– effect of changes in other assumptions	-105	-24		-129
Changes in the composition of the group and other changes	752	-964	5	-207
Exchange rate differences	-731	-236	-11	-978
Life insurance liabilities – closing balance	**126,842**	**33,532**	**717**	**161,091**

1 Net of reinsurance and liabilities for risk of policyholders.
2 Net of reinsurance.

Changes in Life insurance liabilities (2019)

	Net life insurance liabilities[1]	Net liabilities for risk of policyholders[2]	Reinsurance contracts	Life insurance liabilities
Life insurance liabilities – opening balance	123,243	29,186	738	153,167
Deferred interest credited to policyholders	1,905			1,905
Current year liabilities	7,092	2,207	16	9,315
Prior years liabilities:				-
– benefit payments to policyholders	-9,347	-2,910	-45	-12,302
– interest accrual and changes in fair value of liabilities	2,525		7	2,532
– valuation changes for risk of policyholders		4,792		4,792
– effect of changes in discount rate assumptions	-4		1	-3
– effect of changes in other assumptions	-97	-31		-128
Changes in the composition of the group and other changes	328	-66	-8	254
Exchange rate differences	444	46	4	494
Life insurance liabilities – closing balance	**126,089**	**33,224**	**713**	**160,026**

1 Net of reinsurance and liabilities for risk of policyholders.
2 Net of reinsurance.

Where discounting is used in the calculation of life insurance liabilities, the discount rate for the main units in the Netherlands was in a range of 1.0% to 4.0% (2019: 1.0% to 4.0%). The range of discount rates in the international entities was -1.0% to 8.0% (2019: 0.0% to 6.0%). The 8.0% relates to NN Turkey.

Changes in the composition of the group and other changes includes insurance contracts for risk of policyholders with guarantees that were extended as general account contracts and the transfer of certain insurance contracts.

Longevity reinsurance

In May 2020, NN Group entered into three reinsurance agreements to reinsure the full longevity risk associated with in total approximately EUR 13.5 billion of pension liabilities in NN Life in the Netherlands. This reinsurance reduces NN Group's exposure to longevity risk and, consequently, the required capital under Solvency II. The three reinsurance agreements are similar in nature but are agreed with three different assuming reinsurers, Canada Life, Munich Re and Swiss Re. The risk transfer is effective as of 1 January 2020 and will continue until the relevant portfolio has run off.

Notes to the Consolidated annual accounts continued

18 Insurance and investment contracts, reinsurance contracts continued

The relevant portfolio continues to be included in the Life insurance provisions in the IFRS balance sheet. There is no impact from the reinsurance on the recognition and measurement of the life insurance provisions in the balance sheet. NN Group will recognise premiums due to the reinsurers in Reinsurance and retrocession premiums and will recognise recoveries from the reinsurers in Reinsurance recoveries, both part of Underwriting expenditure in the profit and loss account. Reinsurance premiums and recoveries are settled with the reinsurers on an annual basis. In addition, a reinsurance asset is recognised under Reinsurance contracts for any reinsurance share of the underlying insurance liability based on NN Group's accounting policies for insurance contracts under IFRS. The reinsurance does not impact NN Group's liabilities towards its policyholders; to the extent that the assuming reinsurers would be unable to meet their obligations, NN Group remains liable to its policyholders for the portion reinsured. Consequently, provisions will be made for receivables on reinsurance contracts which are deemed uncollectable if and when relevant; no provision was recognised at 31 December 2020. There is no impact on the Reserve Adequacy Test, which is performed on the insurance liability gross of reinsurance.

The best estimate of all premiums and benefits due under the reinsurance are directly reflected in Solvency II Own Funds. The reduction of the longevity risk is reflected in a lower Solvency Capital Requirement. In combination, the lower risk profile resulted in an increase in the Solvency II ratio of NN Group of approximately 17%-points at the announcement of the reinsurance.

The premium payable to the assuming reinsurers is fixed and includes a margin of approximately EUR 451 million over the best estimate at inception of the reinsurance contract of benefits payable under the related portfolios. This margin, which represents a cost of reinsurance to NN Group is recognised in the profit and loss account over the duration of the reinsurance. An amount of EUR 25 million was recognised in Underwriting expenditure in the profit and loss account in 2020. An amount of approximately EUR 426 million (undiscounted) remains to be recognised in future periods.

Changes in Liabilities for unearned premiums and unexpired risks

	Liabilities net of reinsurance		Reinsurance contracts		Liabilities for unearned premiums and unexpired risk	
	2020	2019	2020	2019	2020	2019
Liabilities for unearned premiums and unexpired risks – opening balance	390	401	15	13	405	414
Premiums written	3,363	2,990	216	164	3,579	3,154
Premiums earned during the year	-3,478	-3,001	-216	-162	-3,694	-3,163
Changes in the composition of the group and other changes	168		1		169	–
Liabilities for unearned premiums and unexpired risks – closing balance	**443**	**390**	**16**	**15**	**459**	**405**

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2020	2019	2020	2019	2020	2019
Claims liabilities – opening balance	5,400	5,282	260	259	5,660	5,541
Additions:						
– for the current year	2,391	2,071	95	35	2,486	2,106
– for prior years	-125	-126	-15	7	-140	-119
– interest accrual of liabilities	61	70		-8	61	62
Additions	**2,327**	**2,015**	**80**	**34**	**2,407**	**2,049**
Claim settlements and claim settlement costs:						
– for the current year	-918	-805	-30	20	-948	-785
– for prior years	-1,306	-1,093	-49	-53	-1,355	-1,146
Claim settlements and claim settlement cost	**-2,224**	**-1,898**	**-79**	**-33**	**-2,303**	**-1,931**
Changes in the composition of the group and other changes	1,040		69		1,109	–
Exchange rate differences	-3	1			-3	1
Claims liabilities – closing balance	**6,540**	**5,400**	**330**	**260**	**6,870**	**5,660**

Where discounting is used in the calculation of the claims liabilities the rate is within the range of -1.0% to 4.0% (2019: 1.0% to 4.0%).

Notes to the Consolidated annual accounts continued

18 Insurance and investment contracts, reinsurance contracts continued

Changes in Investment contracts

	2020	2019
Investment contracts – opening balance	2,160	1,996
Current year liabilities	209	268
Prior years liabilities:		
– payments to contract holders	-179	-261
– interest accrual	10	27
– valuation changes investments	52	130
Investment contracts – closing balance	**2,252**	**2,160**

Gross claims development table

											Accident year
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimate of cumulative claims											
At the end of accident year	2,771	2,943	2,789	2,669	2,546	2,709	2,602	2,837	2,640	2,675	
1 year later	2,913	2,869	2,874	2,687	2,596	2,721	2,598	2,792	2,648		
2 years later	2,865	2,828	2,839	2,661	2,615	2,699	2,539	2,795			
3 years later	2,821	2,788	2,814	2,680	2,611	2,715	2,555				
4 years later	2,797	2,778	2,778	2,656	2,577	2,658					
5 years later	2,779	2,770	2,762	2,655	2,569						
6 years later	2,764	2,779	2,769	2,670							
7 years later	2,763	2,770	2,772								
8 years later	2,751	2,757									
9 years later	2,751										
Estimate of cumulative claims	**2,751**	**2,757**	**2,772**	**2,670**	**2,569**	**2,658**	**2,555**	**2,795**	**2,648**	**2,675**	**26,850**
Cumulative payments	-2,550	-2,502	-2,467	-2,290	-2,154	-2,210	-1,926	-1,940	-1,615	-974	-20,628
	201	**255**	**305**	**380**	**415**	**448**	**629**	**855**	**1,033**	**1,701**	**6,222**
Effect of discounting	-21	-26	-25	-26	-32	-31	-38	-49	-54	-38	-340
Liabilities recognised	**180**	**229**	**280**	**354**	**383**	**417**	**591**	**806**	**979**	**1,663**	**5,882**
Liabilities relating to accident years prior to 2011											988
Gross claims											**6,870**

To the extent that the assuming reinsurers are unable to meet their obligations, NN Group is liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts if and when they are deemed uncollectable.

As at 31 December 2020, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in Note 13 'Other assets') amounts to EUR 1,218 million (2019: EUR 1,085 million).

19 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit

	2020	2019
Savings	7,278	6,718
Bank annuities	8,521	8,443
Corporate deposits	4	
Customer deposits and other funds on deposit	**15,803**	**15,161**

Customers have not entrusted any funds to NN Group on terms other than those prevailing in the normal course of business. All customer deposits and other funds on deposit are interest bearing.

Notes to the Consolidated annual accounts continued

19 Customer deposits and other funds on deposit continued

Changes in Customer deposits and other funds on deposit

	2020	2019
Customer deposits and other funds on deposit – opening balance	15,161	14,729
Deposits received	4,220	3,877
Withdrawals	-3,549	-3,413
Amortisation	-29	-32
Customer deposits and other funds on deposit – closing balance	**15,803**	**15,161**

20 Financial liabilities at fair value through profit or loss

Non-trading derivatives

	2020	2019
Derivatives used in:		
– fair value hedges	547	691
– cash flow hedges	159	375
– hedges of net investments in foreign operations	12	3
Other non-trading derivatives	3,294	2,163
Non-trading derivatives	**4,012**	**3,232**

Other non-trading derivatives includes derivatives for which no hedge accounting is applied.

21 Other liabilities

Other liabilities

	2020	2019
Income tax payable	92	83
Net defined benefit liability	167	175
Other post-employment benefits	14	17
Other staff-related liabilities	124	106
Other taxation and social security contributions	169	133
Deposits from reinsurers	327	321
Lease liabilities	335	345
Accrued interest	240	245
Costs payable	324	289
Amounts payable to policyholders	1,002	1,052
Provisions	158	292
Amounts to be settled	1,126	1,290
Cash collateral amounts received	11,594	7,978
Other	766	790
Other liabilities	**16,438**	**13,116**

Other staff-related liabilities include vacation leave provisions, variable compensation provisions, jubilee provisions and disability/illness provisions.

Cash collateral amounts received relate to collateralised derivatives. The increase is a result of the increase in fair value of outstanding collateralised derivatives following declines in market interest rates.

Other mainly relates to year-end accruals in the normal course of business.

Net defined benefit liability

	2020	2019
Fair value of plan assets	76	26
Defined benefit obligation	243	201
Net defined benefit liability recognised in the balance sheet (funded status)	**167**	**175**

21 Other liabilities continued

Changes in Provisions

	2020	2019
Provisions – opening balance	292	293
Additions	99	97
Releases	-135	-16
Charges	-95	-82
Exchange rate differences	-3	
Provisions – closing balance	**158**	**292**

Provisions relate to reorganisation provisions, litigation provisions and other provisions.

Provisions in 2019 include the provision relating to ING Australia Holdings. Following a settlement in 2020, NN Group made a final payment and released the remainder of the provision. Reference is made to Note 44 'Legal proceedings'.

Reorganisation provisions were recognised for operations in the Netherlands for the cost of workforce reductions. Additions to the reorganisation provision were recognised in 2020 and 2019 due to additional initiatives announced during the year. During 2020 EUR 65 million was charged to the reorganisation provision for the cost of workforce reductions (2019: EUR 76 million).

22 Gross premium income

Gross premium income

	2020	2019
Gross premium income from life insurance policies	10,243	11,354
Gross premium income from non-life insurance policies	3,579	3,154
Gross premium income	**13,822**	**14,508**

Gross premium income is presented before deduction of reinsurance and retrocession premiums. Gross premium income excludes premium received for investment contracts, for which deposit accounting is applied.

Premiums written – net of reinsurance

	Life		Non-life		Total	
	2020	2019	2020	2019	2020	2019
Direct gross premiums written	10,209	11,320	3,576	3,152	13,785	14,472
Reinsurance assumed gross premiums written	34	34	3	2	37	36
Gross premiums written	**10,243**	**11,354**	**3,579**	**3,154**	**13,822**	**14,508**
Reinsurance ceded	-1,119	-298	-216	-164	-1,335	-462
Premiums written net of reinsurance	**9,124**	**11,056**	**3,363**	**2,990**	**12,487**	**14,046**

Non-life premiums earned – net of reinsurance

	2020	2019
Direct gross premiums earned	3,692	3,162
Reinsurance assumed gross premiums earned	2	1
Gross premiums earned	**3,694**	**3,163**
Reinsurance ceded	-216	-162
Non-life premiums earned – net of reinsurance	**3,478**	**3,001**

Reinsurance ceded is included in Underwriting expenditure. Reference is made to Note 26 'Underwriting expenditure'.

Notes to the Consolidated annual accounts continued

23 Investment income

Investment income

	2020	2019
Interest income from investments in debt securities	1,752	1,781
Interest income from loans	1,604	1,594
Interest income from investments in debt securities and loans	**3,356**	**3,375**
Realised gains/losses on disposal of available-for-sale debt securities	595	330
Impairments of available-for-sale debt securities	-6	
Realised gains/losses and impairments of available-for-sale debt securities	**589**	**330**
Realised gains/losses on disposal of available-for-sale equity securities	403	109
Impairments of available-for-sale equity securities	-338	-93
Realised gains/losses and impairments of available-for-sale equity securities	**65**	**16**
Interest income on non-trading derivatives	239	221
Increase in loan loss provisions	-19	-11
Income from real estate investments	109	100
Dividend income	256	300
Change in fair value of real estate investments	-21	42
Investment income	**4,574**	**4,373**

Impairments on investments by segment

	2020	2019
Netherlands Life	-283	-73
Netherlands Non-life	-24	-9
Insurance Europe	-4	-7
Japan Life	-17	-3
Other	-16	-1
Impairments on investments	**-344**	**-93**

24 Net fee and commission income

Net fee and commission income

	2020	2019
Asset management fees	758	764
Insurance brokerage and advisory fees	134	118
Other	150	155
Gross fee and commission income	**1,042**	**1,037**
Trailer fees	173	175
Asset management fees	41	43
Commission expenses and other	124	110
Fee and commission expenses	**338**	**328**
Net fee and commission income	**704**	**709**

Notes to the Consolidated annual accounts continued

25 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2020	2019
Change in fair value of derivatives relating to:		
– fair value hedges	-670	-1,395
– cash flow hedges (ineffective portion)	2	11
– other non-trading derivatives	883	163
Net result on non-trading derivatives	**215**	**-1,221**
Change in fair value of assets and liabilities (hedged items)	678	1,385
Valuation results on assets and liabilities designated as at fair value through profit or loss	8	2
Valuation results on non-trading derivatives	**901**	**166**

Included in 'Valuation results on non-trading derivatives' are the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. These derivatives hedge exposures in insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as share prices, interest rates and currency exchange rates. The change in fair value of the derivatives is partly offset by changes in insurance contract liabilities, which are included in 'Underwriting expenditure' and partly offset by foreign currency results. Reference is made to Note 26 'Underwriting expenditure' and the line Foreign currency results in the consolidated profit and loss account.

Valuation results on non-trading derivatives are reflected in the Consolidated statement of cash flows in the section 'Result before tax', in the line item 'Adjusted for: other'.

Reference is made to Note 37 'Derivatives and hedge accounting'.

26 Underwriting expenditure

Underwriting expenditure

	2020	2019
Gross underwriting expenditure:		
– before effect of investment result for risk of policyholders	15,583	15,230
– effect of investment result for risk of policyholders	1,733	4,794
Gross underwriting expenditure	**17,316**	**20,024**
Investment result for risk of policyholders	-1,733	-4,794
Reinsurance recoveries	-1,095	-237
Underwriting expenditure	**14,488**	**14,993**

The investment income and valuation results regarding investments for risk of policyholders is EUR 1,733 million (2019: EUR 4,794 million). This amount is recognised in 'Underwriting expenditure'. As a result, it is shown together with the equal amount of related change in insurance liabilities for risk of policyholders.

Notes to the Consolidated annual accounts continued

26 Underwriting expenditure continued

Underwriting expenditure by class

	2020	2019
Expenditure from life underwriting:		
– reinsurance and retrocession premiums	1,119	298
– gross benefits	11,426	11,973
– reinsurance recoveries	-1,007	-157
– change in life insurance liabilities	-828	-597
– costs of acquiring insurance business	499	445
– other underwriting expenditure	182	278
– profit sharing and rebates	81	70
Expenditure from life underwriting	**11,472**	**12,310**
Expenditure from non-life underwriting:		
– reinsurance and retrocession premiums	216	164
– gross claims	2,238	1,934
– reinsurance recoveries	-88	-80
– changes in the liabilities for unearned premiums	-115	-11
– changes in claims liabilities	110	118
– costs of acquiring insurance business	676	552
– other underwriting expenditure	-32	-23
Expenditure from non-life underwriting	**3,005**	**2,654**
Expenditure from investment contracts:		
– costs of acquiring investment contracts	1	1
– other changes in investment contract liabilities	10	28
Expenditure from investment contracts	**11**	**29**
Underwriting expenditure	**14,488**	**14,993**

Profit sharing and rebates

	2020	2019
Distributions on account of interest or underwriting results	18	8
Bonuses added to policies	63	62
Profit sharing and rebates	**81**	**70**

The total costs of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 1,176 million (2019: EUR 998 million). This includes amortisation and unlocking of DAC of EUR 976 million (2019: EUR 904 million) and the net amount of commissions paid of EUR 1,179 million (2019: EUR 1,069 million) and commissions capitalised in DAC of EUR 979 million (2019: EUR 975 million).

The total amount of commission paid and commission payable amounted to EUR 1,288 million (2019: EUR 1,294 million). This includes the commissions recognised in 'costs of acquiring insurance business' of EUR 1,179 million (2019: EUR 1,069 million) referred to above and commissions recognised in 'other underwriting expenditure' of EUR 109 million (2019: EUR 225 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 81 million (2019: EUR 63 million).

As set out in the section 'Accounting policies for specific items – Insurance and investment contracts, reinsurance contracts', NN Group applies, for certain specific products or components thereof, the option in IFRS 4 to measure (components of) the liabilities for insurance contracts using market-consistent interest rates and other current estimates and assumptions. This relates mainly to certain guarantees embedded in insurance contracts in Japan. The impact of these market-consistent assumptions is reflected in 'Underwriting expenditure – change in life insurance liabilities'.

This impact is largely offset by the impact of related hedging derivatives. As disclosed in Note 25 'Valuation results on non-trading derivatives', the valuation results on non-trading derivatives include the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. For insurance operations, these derivatives hedge mainly exposures in Insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates. The change in fair value of the derivatives is partly offset by changes in insurance contract liabilities, which are included in 'Underwriting expenditure'.

Notes to the Consolidated annual accounts continued

27 Amortisation of intangible assets and other impairments

Amortisation of intangible assets and other impairments

	2020	2019
Property and equipment		-1
Other impairments and reversals of other impairments	**–**	**-1**
Amortisation of other intangible assets	27	33
Amortisation of intangible assets and other impairments	**27**	**32**

Impairment on debt securities, equity securities and loans are included in Note 23 'Investment income'.

28 Staff expenses

Staff expenses

	2020	2019
Salaries	887	831
Variable salaries	76	78
Pension costs	134	126
Social security costs	134	144
Share-based compensation arrangements	8	12
External staff costs	300	301
Education	13	19
Other staff costs	69	53
Staff expenses	**1,621**	**1,564**

Pension costs

	2020	2019
Current service cost	9	7
Net interest cost	-6	-3
Defined benefit plans	**3**	**4**
Defined contribution plans	131	122
Pension costs	**134**	**126**

Defined contribution plans
Certain group companies sponsor defined contribution pension plans. The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in 'Other assets' or 'Other liabilities'.

Number of employees
Reference is made to Note 33 'Principal subsidiaries and geographical information' for information on the average number of employees.

Remuneration of Executive Board, Management Board and Supervisory Board
Reference is made to Note 48 'Key management personnel compensation'.

Share plans
NN Group has granted shares to a number of senior executives (members of the Management Board, general managers and other officers nominated by the Management Board). The purpose of the share schemes is to attract, retain and motivate senior executives and staff.

Share awards comprise upfront shares and deferred shares. The entitlement to the deferred shares is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. A retention period applies from the moment of vesting these awards (five years for Management Board and one year for Identified Staff).

Notes to the Consolidated annual accounts continued

28 Staff expenses continued

Share awards

Changes in Share awards outstanding

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2020	2019	2020	2019
Share awards outstanding – opening balance	478,058	613,118	36.38	33.38
Granted	292,189	267,338	20.78	38.96
Vested	-298,899	-362,048	32.02	34.00
Forfeited	-16,610	-40,350	34.55	29.35
Share awards outstanding – closing balance	**454,738**	**478,058**	**29.29**	**36.38**

In 2020, 40,278 (2019: 30,801) share awards on NN Group shares were granted to the members of the Executive and Management Board. In 2020, 251,911 (2019: 236,537) share awards on NN Group shares were granted to senior management and other employees.

As at 31 December 2020, the share awards on NN Group shares consist of 427,305 (2019: 449,781) share awards relating to equity-settled share-based payment arrangements and 27,433 (2019: 28,277) share awards relating to cash-settled share-based payment arrangements.

The fair value of share awards granted is allocated over the vesting period of the share awards as an expense under staff expenses.

As at 31 December 2020, total unrecognised compensation costs related to share awards amount to EUR 4 million (2019: EUR 6 million). These costs are expected to be recognised over a weighted average period of 1.3 years (2019: 1.5 years).

29 Interest expenses

Interest expenses

	2020	2019
Interest expenses on non-trading derivatives	228	177
Other interest expenses	283	342
Interest expenses	**511**	**519**

In 2020, total interest income and total interest expenses for items not valued at fair value through profit or loss were EUR 3,356 million (2019: EUR 3,375 million) and EUR 283 million (2019: EUR 342 million) respectively.

Interest income and expenses are included in the following profit and loss account lines.

Total net interest income

	2020	2019
Investment income	3,595	3,596
Interest expenses on non-trading derivatives	-228	-177
Other interest expenses	-283	-342
Total net interest income	**3,084**	**3,077**

30 Other operating expenses

Other operating expenses

	2020	2019
Depreciation of property and equipment	91	81
Amortisation of software	39	33
Computer costs	311	309
Office expenses	70	68
Travel and accommodation expenses	7	21
Advertising and public relations	68	87
External advisory fees	195	175
Addition/(releases) of provisions for reorganisation and relocations	72	55
Other	111	92
Other operating expenses	**964**	**921**

Notes to the Consolidated annual accounts continued

31 Earnings per ordinary share

Earnings per ordinary share shows earnings per share amounts for profit or loss attributable to shareholders of the parent. Earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares outstanding. In calculating the weighted average number of ordinary shares outstanding, own shares held by group companies are deducted from the total number of ordinary shares in issue.

Changes in the number of ordinary shares outstanding without a corresponding change in resources are taken into account, including if these changes occurred after the reporting date but before the annual accounts are authorised for issue.

Diluted earnings per share is calculated as if the share plans had been exercised at the beginning of the period and assuming that the cash received from exercised share plans and warrants was used to buy own shares against the average market price during the period. The net increase in the number of shares resulting from exercising share plans and warrants is added to the average number of shares used for the calculation of diluted earnings per share.

Earnings per ordinary share

	Amounts (in millions of euros)		Weighted average number of ordinary shares (in millions)		Per ordinary share (in euros)	
	2020	2019	2020	2019	2020	2019
Net result	1,904	1,962				
Coupon on undated subordinated notes	-59	-59				
Basic earnings	**1,845**	**1,903**	**314.1**	**330.5**	**5.88**	**5.76**
Dilutive instruments:						
– Share plans			0.5	0.5		
Dilutive instruments			**0.5**	**0.5**		
Diluted earnings	**1,845**	**1,903**	**314.6**	**331.0**	**5.87**	**5.75**

32 Segments

The reporting segments for NN Group, based on the internal reporting structure, are as follows:

- Netherlands Life (Group life and individual life insurance products in the Netherlands)
- Netherlands Non-life (Non-life insurance in the Netherlands including disability and accident, fire, motor and transport insurance)
- Insurance Europe (Life insurance, pension products and to a small extent non-life insurance and retirement services in Central and Rest of Europe)
- Japan Life (Life insurance primarily Corporate Owned Life Insurance (COLI) business)
- Asset Management (Asset management activities)
- Banking
- Other (Operating segments that have been aggregated due to their respective size; including Japan Closed Block VA (Closed block single premium variable annuity individual life insurance portfolio in Japan, including the internally reinsured minimum guarantee risk, which has been closed to new business and which is being managed in run-off), reinsurance and items related to capital management and the head office)

The Executive Board and the Management Board set the performance targets and approve and monitor the budgets prepared by the reporting segments. The segments formulate strategic, commercial and financial policies in conformity with the strategy and performance targets set by the Executive Board and the Management Board.

The accounting policies of the segments are the same as those described in Note 1 'Accounting policies'. Transfer prices for inter-segment transactions are set at arm's length. Corporate expenses are allocated to segments based on time spent by head office personnel, the relative number of staff, or on the basis of income and/or assets of the segment. Intercompany loans that qualify as equity instruments under IFRS-EU are presented in the segment reporting as debt; related coupon payments are presented as income and expenses in the respective segments.

Notes to the Consolidated annual accounts continued

32 Segments continued

Operating result (before tax) is used by NN Group to evaluate the financial performance of its segments.

The operating result for the life insurance business is analysed through a margin analysis, which includes the investment margin, fees and premium-based revenues and the technical margin. Disclosures on comparative years also reflect the impact of current year's divestments. Operating result as presented below is an Alternative Performance Measure (non-GAAP financial measure) and is not a measure of financial performance under IFRS-EU. Because it is not determined in accordance with IFRS-EU, operating result as presented by NN Group may not be comparable to other similarly titled measures of performance of other companies. The net result on transactions between segments is eliminated in the net result of the relevant segment. Operating result is calculated as explained below in the section Alternative Performance Measures.

Segments (2020)

2020	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Banking	Other	Total segments
Investment margin	890		110	-14	-3			983
Fees and premium-based revenues	392		730	639	440			2,202
Technical margin	184		252	17				454
Operating income non-modelled life business			1					1
Operating income	**1,467**	**–**	**1,093**	**642**	**438**	**–**	**–**	**3,640**
Administrative expenses	440		417	144	286			1,286
DAC amortisation and trail commissions	33		389	258				680
Expenses	**473**	**–**	**806**	**402**	**286**	**–**	**–**	**1,966**
Operating result non-life		215	-3					212
Operating result banking						154		154
Operating result other							-151	-151
Operating result	**994**	**215**	**285**	**240**	**152**	**154**	**-151**	**1,889**
Non-operating items:								
– gains/losses and impairments	620		4	-7		11	12	640
– revaluations	371	-9	-12	-20			7	337
– market and other impacts	-310	12	-4			17	-29	-315
Special items before tax	-77	-79	-29	-3		-14	-75	-278
Acquisition intangibles and goodwill							-24	-24
Result on divestments			-11				111	100
Result before tax	**1,597**	**138**	**234**	**210**	**152**	**167**	**-149**	**2,349**
Taxation	330	31	63	57	37	35	-131	423
Minority interests	8	11			4			22
Net result	**1,260**	**97**	**171**	**152**	**111**	**132**	**-18**	**1,904**

Special items in 2020 mainly reflect integration expenses and other project related expenses such as the implementation of IFRS 17.

Notes to the Consolidated annual accounts continued

32 Segments continued

Segments (2019)

2019	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Banking	Other	Total segments
Investment margin	844		102	-16	1			931
Fees and premium-based revenues	412		737	659	443			2,251
Technical margin	161		239	24				425
Operating income non-modelled life business			1					1
Operating income	**1,417**	**–**	**1,080**	**667**	**444**	**–**	**–**	**3,607**
Administrative expenses	462		419	148	283			1,311
DAC amortisation and trail commissions	33		386	302				721
Expenses	**495**	**–**	**805**	**449**	**283**	**–**	**–**	**2,032**
Operating result non-life		203	8					211
Operating result banking						152		152
Operating result other							-144	-144
Operating result	**922**	**203**	**283**	**218**	**161**	**152**	**-144**	**1,794**
Non-operating items:								
– gains/losses and impairments	205	48	73	-6		7	8	335
– revaluations	864	12	-20	-28			-1	827
– market and other impacts	-237	1	-2			-21	-16	-275
Special items before tax	-57	-67	-35	-4	-15	-15	-69	-262
Acquisition intangibles and goodwill			33				-32	1
Result on divestments	5						4	8
Result before tax	**1,703**	**197**	**331**	**180**	**146**	**123**	**-251**	**2,429**
Taxation	308	42	73	48	35	30	-92	444
Minority interests	8	13			2			23
Net result	**1,386**	**143**	**259**	**131**	**108**	**93**	**-158**	**1,962**

Special items in 2019 reflect restructuring expenses incurred in respect of the cost reduction target and other project related expenses, such as the implementation of IFRS 17. Acquisition intangibles and goodwill in Insurance Europe includes negative goodwill on the acquisitions in the Czech Republic and Slovakia in 2019. Reference is made to Note 45 'Companies and businesses acquired and divested'.

Gross premium income and investment income by segment (2020)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Banking	Other	Total segments
Gross premium income	3,544	3,521	3,001	3,728			27	13,822
Investment income	3,203	123	443	177	-1	648	-18	4,574

Gross premium income and investment income by segment (2019)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Banking	Other	Total segments
Gross premium income	4,373	3,097	3,073	3,939			26	14,508
Investment income	2,858	173	525	173	2	660	-18	4,373

Interest income and interest expenses by segment (2020)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Banking	Other	Total segments
Interest income	2,279	109	423	181	-1	640	-36	3,595
Interest expenses	-207	-15	-20	-4		-307	42	-511
Interest income and interest expenses	**2,072**	**94**	**403**	**177**	**-1**	**333**	**6**	**3,084**

Notes to the Consolidated annual accounts continued

32 Segments continued

Interest income and interest expenses by segment (2019)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Banking	Other	Total segments
Interest income	2,257	109	436	173	2	652	-33	3,596
Interest expenses	-204	-10	-16	-2	-1	-320	34	-519
Interest income and interest expenses	**2,053**	**99**	**420**	**171**	**1**	**332**	**1**	**3,077**

Total assets and Total liabilities by segment

	Total assets 2020	Total liabilities 2020	Total assets 2019	Total liabilities 2019
Netherlands Life	168,228	137,173	155,358	130,164
Netherlands Non-life	9,704	8,039	7,523	6,449
Insurance Europe	31,783	28,945	31,231	28,515
Japan Life	21,370	18,879	21,259	18,617
Asset management	579	219	570	239
Banking	25,381	24,471	24,569	23,793
Other	64,267	25,428	54,063	21,232
Total segments	**321,312**	**243,154**	**294,573**	**229,009**
Eliminations	-57,574	-18,188	-45,976	-13,204
Total assets and Total liabilities	**263,738**	**224,966**	**248,597**	**215,805**

Alternative Performance Measures (Non-GAAP measures)

NN Group uses three Alternative Performance Measures (APMs, also referred to as Non-GAAP measures) in its external financial reporting: Operating result, Adjusted allocated equity and Administrative expenses.

Operating result

Operating result (before tax) is used by NN Group to evaluate the financial performance of its segments. Each segment's operating result is calculated by adjusting the reported result before tax for the following items:

- Non-operating items: related to (general account) investments that are held for own risk (net of policyholder profit sharing):
  - Gains/losses and impairments: realised gains and losses as well as impairments on financial assets that are classified as Available-for-sale and debt securities that are classified as loans. These investments include debt and equity securities (including fixed income and equity funds), private equity (< 20% ownership), real estate funds and loans quoted in active markets.
  - Revaluations: revaluations on assets marked-to-market through the Consolidated profit and loss account. These investments include private equity (associates), real estate (property and associates), derivatives unrelated to product hedging programmes (i.e. interest rate swaps, foreign exchange hedges) and direct equity hedges.
  - Market & other impacts: these impacts mainly include movements in the liability for guarantees on separate account pension contracts and unit-linked guarantee provisions in the Netherlands and related hedges, the accounting volatility related to the reinsurance of minimum guaranteed benefits of Japan Closed Block VA and the changes in valuation of certain inflation linked liabilities and related derivatives.
- Special items: items of income or expense before tax that are significant and arise from events or transactions that are clearly distinct from the ordinary business activities and therefore are not expected to recur frequently or regularly. This includes, for example, restructuring expenses, rebranding costs, results related to early redemption of debt, and gains/losses from employee pension plan amendments or curtailments.
- Acquisition intangibles and goodwill: At the acquisition date, all assets and liabilities (including investments, loans and funding liabilities) were remeasured to fair value. Acquisition related intangible assets (mainly brand names, distribution agreements and client relationships) were recognised and will be amortised through the profit and loss account over their useful life. Goodwill on acquisition was also recognised; goodwill is not amortised but tested annually for impairment. Any amortisation and goodwill impairment is recognised in the line 'Amortisation of acquisition intangibles and other impairments'.
- Result on divestments: result before tax related to divested operations.

The operating result for the life insurance business is analysed through a margin analysis, which includes the investment margin, fees and premium-based revenues and the technical margin. Disclosures on comparative years also reflect the impact of current year's divestments. Operating result as presented below is an Alternative Performance Measure (non-GAAP financial measure) and is not a measure of financial performance under IFRS-EU. Because it is not determined in accordance with IFRS-EU, operating result as presented by NN Group may not be comparable to other similarly titled measures of performance of other companies. The net result on transactions between segments is eliminated in the net result of the relevant segment.

32 Segments continued

Adjusted allocated equity

NN Group evaluates the efficiency of the operational deployment of its equity of its banking operations by calculating Return On Equity (ROE). The net operating ROE is calculated using Net operating result in the numerator and average Adjusted allocated equity in the denominator. Net operating result of NN Group is the Net operating result, adjusted to reflect the deduction of the accrued coupon on undated subordinated notes classified in equity. Adjusted allocated equity is derived from IFRS equity by adjusting for:

- Revaluation reserves
- Undated subordinated notes classified as equity under IFRS
- Goodwill and Intangible assets recognised upon acquisitions

Allocated equity per segment represents the part of equity that is economically deployed by the segments. This allocation does not impact equity in total for NN Group. Adjusted allocated equity is an Alternative Performance Measure that is not a measure under IFRS-EU. Adjusted allocated equity as applied by NN Group may not be comparable to other similarly titled measures of other companies. Adjusted allocated equity is reconciled to IFRS Total equity as follows:

Adjusted allocated equity

	2020	2019
IFRS Total equity	38,772	32,792
Revaluation reserves, Goodwill and Intangible assets recognised upon acquisitions	-21,079	-15,900
Undated subordinated notes	-1,764	-1,764
Adjusted allocated equity	**15,929**	**15,128**

Administrative expenses

NN Group monitors the level of expenses and assesses cost savings through the Administrative expenses. Administrative expenses are the expenses included in operating result, unless already included in the technical margin or the investment margin in the margin analysis of the operating result.

Administrative expenses

	2020	2019
Staff expenses	1,621	1,564
Other operating expenses	964	923
IFRS operating expenses	**2,585**	**2,487**
Presented in non-operating items (including special items)	-289	-277
Presented in the Technical margin (claims handling expenses)	-140	-102
Presented in the Investment margin (investment expenses)	-35	-19
Other		-13
Administrative expenses	**2,121**	**2,076**

Administrative expenses are calculated as the total of IFRS Staff expenses and IFRS Other operating expenses, adjusted for expenses already recognised in the technical margin and the investment margin and for expenses that are not included in operating result (non-operating expenses and special items). From the total administrative expenses of EUR 2,121 million (2019: EUR 2,076 million), EUR 1,287 million (2019: EUR 1,311 million) relates to the segments Netherlands Life, Insurance Europe Life, Japan Life and Asset Management. The remainder of EUR 834 million (2019: EUR 765 million) is included in the operating result non-life, banking and other.

In addition, NN Group discloses a number of other metrics (that are not defined in IFRS and/or not defined in regulatory capital legislation). As these are not derived from comparable metrics under IFRS, these cannot be reconciled to an IFRS equivalent. These include the following:

- Operating Capital Generation (OCG): NN Group analyses the change in the excess of Solvency II Own Funds over the Solvency Capital Requirement ('SCR') in the following components: Operating Capital Generation, Market variance, Capital flows and Other. Operating Capital Generation is the movement in the Solvency II surplus (Own Funds before eligibility over SCR at 100%) in the period due to operating items, including the impact of new business, expected investment returns in excess of the unwind of liabilities, release of the risk margin, operating variances, non-life underwriting result, contribution of non-Solvency II entities and holding expenses and debt costs and the change in the SCR. It excludes economic variances, economic assumption changes and non-operating expenses.
- Annual Premium Equivalent (APE): the total of the IFRS annual recurring premiums and 10% of the IFRS single premiums received in a given period
- Assets under Management (AuM): the total market value of all investments being managed by NN Group's asset management segment on behalf of NN Group entities and clients
- Combined ratio: the sum of the claims ratio (claims incurred, net of reinsurance, excluding unwind of interest accrual, divided by net earned premiums) and the expense ratio (sum of acquisition costs and administrative expenses, divided by net earned premiums)
- Financial leverage ratio: the percentage of financial leverage in the total of financial leverage and equity
- Fixed cost coverage ratio: the ability of Earnings Before Interest and Tax (EBIT) to cover funding costs on financial leverage; calculated on a last 12-months basis

Notes to the Consolidated annual accounts continued

32 Segments continued

- Free cash flow: the change in the cash capital position at the holding company over the period, excluding acquisitions and capital transactions with shareholders and debtholders
- Cash capital position at the holding company: net current assets available at the holding company
- Net interest margin (NIM): interest result of the banking operations divided by the average total interest bearing assets of the banking operations
- Net operating ROE: the (annualised) net operating result of the banking operations, adjusted to reflect the deduction of the accrued coupon on undated subordinated notes classified in equity, divided by (average) adjusted allocated equity of the banking operations
- Value of New Business (VNB): the additional economic value created through writing new business during the period

33 Principal subsidiaries and geographical information

The table below provides additional information on principal subsidiaries, the nature of the main activities and employees by country. Information on guarantees issued by NN Group N.V. to subsidiaries under article 403 of Book 2 of the Dutch Civil Code is filed with the Chamber of Commerce.

Principal subsidiaries and geographical information (2020)

Name of principal subsidiaries / Country	Main activity	Average number of employees[1]	Total income	Total assets	Result before tax	Taxation[2]	Income tax paid
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	Life insurance						
Nationale-Nederlanden Bank N.V.	Banking						
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	General insurance						
REI Investment I B.V.	Real estate						
NN Re (Netherlands) N.V.	Reinsurance						
ABN AMRO Levensverzekering N.V.	Life insurance						
The Netherlands		**8,595**	**12,272**	**207,640**	**1,799**	**285**	**87**
NN Life Insurance Company, Ltd.	Life insurance						
Japan		**901**	**3,887**	**21,999**	**206**	**57**	**81**
NN Insurance Belgium nv	Life insurance						
Belgium		**666**	**1,114**	**17,901**	**55**	**19**	**6**
Nationale Nederlanden Vida, Compania de Seguros y Reaseguros. S.A.	Life insurance						
Nationale Nederlanden Generales, Compania de Seguros y Reaseguros, S.A.	General insurance						
Spain		**536**	**657**	**4,785**	**7**	**2**	**4**
Nationale-Nederlanden Towarzystwo Ubezpieczeń na Życie S.A.	Life insurance						
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	Pensions						
Poland		**1,022**	**499**	**2,300**	**88**	**19**	**37**
NN Hellenic Life Insurance Co. S.A.	Life insurance						
Greece		**419**	**506**	**2,234**	**15**	**6**	
NN Životní pojišťovna N.V. (pobočka pro Českou republiku)	Life insurance						
Czech Republic		**649**	**220**	**1,402**	**28**	**7**	**7**
NN Biztosító Zártkörûen Mûködõ Részvénytársaság	Life insurance						
Hungary		**374**	**271**	**1,332**	**12**	**3**	**3**
NN Asigurari de Viata S.A.	Life insurance						
Romania		**457**	**229**	**1,065**	**39**	**7**	**4**
Slovak Republic		**349**	**161**	**799**	**18**	**5**	**5**
Germany		**10**	**25**	**704**	**22**	**6**	**8**
France		**9**	**58**	**689**	**43**	**6**	**1**
Italy		**6**	**-10**	**241**	**-9**	**-2**	**2**
Denmark			**5**	**238**	**3**		
United Kingdom		**12**	**-4**	**192**	**2**		**3**
Bulgaria		**135**	**25**	**113**	**3**		**1**
Turkey		**395**	**43**	**62**	**-3**		
Ireland				**21**			
Singapore		**31**	**1**	**12**	**10**	**2**	

Notes to the Consolidated annual accounts continued

33 Principal subsidiaries and geographical information continued

Name of principal subsidiaries				Main activity		
Country	Average number of employees[1]	Total income	Total assets	Result before tax	Taxation[2]	Income tax paid
Mexico	1		4			
United States	13		2	1		1
Luxembourg		1	1			
Switzerland	8		1	9	1	
Argentina	2		1			
Uruguay	2			1		
Total	**14,592**	**19,960**	**263,738**	**2,349**	**423**	**250**

1 The average number of employees is on a full-time equivalent basis.

2 Taxation is the taxation amount charged to the profit and loss account.

Principal subsidiaries and geographical information (2019)

Name of principal subsidiaries				Main activity		
Country	Average number of employees[1]	Total income	Total assets	Result before tax	Taxation[2]	Income tax paid
Nationale-Nederlanden Levensverzekering Maatschappij N.V.				Life insurance		
Delta Lloyd Levensverzekering N.V.				Life insurance		
Nationale-Nederlanden Bank N.V.				Banking		
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.				General insurance		
Delta Lloyd Schadeverzekering N.V.				General insurance		
REI Investment I B.V.				Real estate		
NN Re (Netherlands) N.V.				Reinsurance		
The Netherlands	**8,344**	**12,319**	**192,195**	**1,793**	**283**	**-26**
NN Life Insurance Company, Ltd.				Life insurance		
Japan	**900**	**4,088**	**22,708**	**170**	**46**	**-64**
NN Insurance Belgium nv				Life insurance		
Belgium	**672**	**1,361**	**17,480**	**114**	**29**	**5**
Nationale Nederlanden Vida, Compania de Seguros y Reaseguros. S.A.				Life insurance		
Nationale Nederlanden Generales, Compania de Seguros y Reaseguros, S.A.				General insurance		
Spain	**525**	**676**	**5,054**	**40**	**13**	**6**
Nationale-Nederlanden Towarzystwo Ubezpieczeń na Życie S.A.				Life insurance		
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.				Pensions		
Poland	**961**	**497**	**2,281**	**97**	**21**	**12**
NN Hellenic Life Insurance Co. S.A.				Life insurance		
Greece	**415**	**444**	**2,010**	**8**	**6**	
NN Životní pojišťovna N.V. (pobočka pro Českou republiku)				Life insurance		
Czech Republic	**572**	**232**	**1,447**	**24**	**5**	**3**
NN Biztosító Zártkörûen Mûködõ Részvénytársaság				Life insurance		
Hungary	**351**	**263**	**1,325**	**12**	**3**	**3**
Romania	**448**	**206**	**985**	**23**	**4**	**4**
Slovak Republic	**291**	**166**	**788**	**15**	**3**	**4**
Germany	**10**	**38**	**718**	**37**	**7**	**2**
France	**9**	**69**	**697**	**54**	**16**	
Italy	**6**	**5**	**259**	**9**	**3**	**2**
United Kingdom	**10**	**3**	**226**	**16**	**4**	**4**
Denmark		**12**	**194**	**11**	**1**	
Bulgaria	**134**	**24**	**99**	**2**		
Turkey	**503**	**51**	**84**	**-6**	**-1**	

Notes to the Consolidated annual accounts continued

33 Principal subsidiaries and geographical information continued

Name of principal subsidiaries	Main activity					
Country	Average number of employees[1]	Total income	Total assets	Result before tax	Taxation[2]	Income tax paid
Ireland			21			
Singapore	31	1	12	4	1	1
United States	13		6	4	1	2
Mexico	1	1	4	-1		
Switzerland	11	1	3	1		1
Argentina	2		1			
Luxembourg	20	1				2
Uruguay	1			2		
Total	14,230	20,458	248,597	2,429	444	-37

1 The average number of employees is on a full-time equivalent basis.

2 Taxation is the taxation amount charged to the profit and loss account.

Notes to the Consolidated annual accounts continued

34 Taxation

Deferred tax (2020)

	Net liability 2019	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2020
Investments	3,378	1,310	-58	17	-9	4,638
Real estate investments	777		149			926
Financial assets and liabilities at fair value through profit or loss	22		1		-1	22
Deferred acquisition costs	422		-7	35	-11	439
Fiscal reserves	10		2			12
Depreciation	23			-1	-1	21
Insurance liabilities	-3,155	-544	-160	81		-3,778
Cash flow hedges	2,473	1,600				4,073
Pension and post-employment benefits	5	1	-2		1	5
Other provisions	-44		-7	-4	1	-54
Receivables	-24		5	32	-1	12
Loans	-20		-13	-54		-87
Unused tax losses carried forward	-77		3	-3		-77
Other	156	14	13	-76	-3	104
Deferred tax	**3,946**	**2,381**	**-74**	**27**	**-24**	**6,256**
Presented in the balance sheet as:						
Deferred tax liabilities	4,030					6,329
Deferred tax assets	-84					-73
Deferred tax	**3,946**					**6,256**

Notes to the Consolidated annual accounts continued

34 Taxation continued

Deferred tax (2019)

	Net liability 2018	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2019
Investments	2,884	646	-85	-77	10	3,378
Real estate investments	709		69	-1		777
Financial assets and liabilities at fair value through profit or loss	21			1		22
Deferred acquisition costs	387		13	13	9	422
Fiscal reserves	10					10
Depreciation	-2		25			23
Insurance liabilities	-2,646	-500	-63	54		-3,155
Cash flow hedges	1,170	1,303				2,473
Pension and post-employment benefits	20	-11		-4		5
Other provisions	-51	1	-22	28		-44
Receivables	-25		1			-24
Loans	-8	2	-14			-20
Unused tax losses carried forward	-915		832	6		-77
Other	124	4	25	1	2	156
Deferred tax	**1,678**	**1,445**	**781**	**21**	**21**	**3,946**
Presented in the balance sheet as:						
Deferred tax liabilities	1,809					4,030
Deferred tax assets	-131					-84
Deferred tax	**1,678**					**3,946**

Deferred tax on unused tax losses carried forward

	2020	2019
Total unused tax losses carried forward	527	566
Unused tax losses carried forward not recognised as a deferred tax asset	-221	-252
Unused tax losses carried forward recognised as a deferred tax asset	**306**	**314**
Average tax rate	25.3%	24.6%
Deferred tax asset	**77**	**77**

Tax losses carried forward will expire as follows as at 31 December:

Total unused tax losses carried forward analysed by term of expiration

	No deferred tax asset recognised		Deferred tax asset recognised	
	2020	2019	2020	2019
Within 1 year	22	13	2	11
More than 1 year but less than 5 years	40	56	12	1
More than 5 years but less than 10 years		16		7
Unlimited	159	167	292	295
Total unused tax losses carried forward	**221**	**252**	**306**	**314**

Deferred tax assets are recognised for temporary deductible differences, for tax losses carried forward and unused tax credits only to the extent that realisation of the related tax benefit is probable.

Notes to the Consolidated annual accounts continued

34 Taxation continued

Taxation on result

	2020	2019
Current tax	497	-337
Deferred tax	-74	781
Taxation on result	**423**	**444**

NN Group N.V., together with certain of its subsidiaries, is a part of a fiscal unity for Dutch income tax purposes. The members of the fiscal unity are jointly and severally liable for any income taxes payable by the Dutch fiscal unity.

Reference is made to Note 33 'Principal subsidiaries and geographical information' for more information on the taxation per country.

Reconciliation of the weighted average statutory tax rate to NN Group's effective tax rate

	2020	2019
Result before tax	2,349	2,429
Weighted average statutory tax rate	24.6%	24.8%
Weighted average statutory tax amount	**578**	**602**
Participation exemption	-112	-100
Other income not subject to tax and other		-5
Expenses not deductible for tax purposes	8	3
Impact on deferred tax from change in tax rates	25	-39
Deferred tax benefit for previously not unrecognised amounts	-1	5
Tax for non-recognised losses	2	1
Write-off/reversal of deferred tax assets	3	
Adjustments to prior periods	-80	-23
Effective tax amount	**423**	**444**
Effective tax rate	**18.0%**	**18.3%**

In 2020, the effective tax rate of 18.0% was lower than the weighted average statutory tax rate of 24.6%. This is mainly a result of tax exempt results of associates and participations, including the tax exempt release of the provision related to ING Australia as well as a benefit following a reassessment of prior year tax liabilities in the Netherlands as a result of the filing of the relevant tax return. This was partly offset by a change in the Dutch corporate income tax rate. In 2019, the effective tax rate of 18.3% was lower than the weighted average statutory tax rate of 24.8%. This was mainly a result of tax exempt results of associates and participations.

In 2019, the Dutch corporate income tax rates were amended, so that the enacted tax rate for 2020 was 25% and for 2021 21.7%. As most of NN Group's deferred tax assets and liabilities are expected to materialise over a long period, the largest part of the deferred tax position was remeasured to the 21.7% rate that would apply as of 2021. This enacted tax rate reduction was cancelled in 2020 by the Dutch government. The impact of this cancellation is recognised in 2020. The impact related to the Dutch tax rate changes in the 2020 profit and loss account was EUR 28 million negative.

Notes to the Consolidated annual accounts continued

34 Taxation continued

Taxation on components of other comprehensive income

	2020	2019
Unrealised revaluations property in own use	1	-1
Unrealised revaluations available-for-sale investments and other	-1,157	-1,203
Realised gains/losses transferred to the profit and loss account	80	61
Changes in cash flow hedge reserve	-1,600	-1,303
Deferred interest credited to policyholders	544	501
Remeasurement of the net defined benefit asset/liability	-1	10
Income tax	**-2,133**	**-1,935**

35 Fair value of financial assets and liabilities

The following table presents the estimated fair value of NN Group's financial assets and liabilities. Certain balance sheet items are not included in the table, as they do not meet the definition of a financial asset or liability. The aggregation of the fair value presented below does not represent and should not be construed as representing, the underlying value of NN Group.

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2020	2019	2020	2019
Financial assets				
Cash and cash equivalents	12,382	6,436	12,382	6,436
Financial assets at fair value through profit or loss:				
– investments for risk of policyholders	34,797	34,433	34,797	34,433
– non-trading derivatives	14,833	10,189	14,833	10,189
– designated as at fair value through profit or loss	1,336	1,184	1,336	1,184
Available-for-sale investments	118,175	117,644	118,175	117,644
Loans	70,124	66,018	65,428	61,768
Total financial assets	**251,647**	**235,904**	**246,951**	**231,654**
Financial liabilities				
Subordinated debt	2,734	2,807	2,383	2,409
Debt securities issued	1,781	2,079	1,694	1,992
Other borrowed funds	7,701	7,725	7,542	7,614
Investment contracts with discretionary participation features for risk of policyholders	245	245	245	245
Investment contracts for risk of company	1,057	1,063	1,002	1,025
Investment contracts for risk of policyholders	1,250	1,135	1,250	1,135
Customer deposits and other funds on deposit	16,585	15,799	15,803	15,161
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	4,012	3,232	4,012	3,232
Total financial liabilities	**35,365**	**34,085**	**33,931**	**32,813**

For the other financial assets and financial liabilities not included in the table above, including short-term receivables and payables, the carrying amount is a reasonable approximation of fair value.

Reference is made to Note 1 'Accounting policies' for the upcoming changes as a result of IFRS 9 'Financial instruments'. One of the requirements in IFRS 9 is to assess whether investments in debt securities and loans meet the definition of 'Solely Payments of Principal and Interest', also referred to as 'SPPI assets'. SPPI assets are financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (as defined in IFRS 9), excluding assets that are held for trading and/or that are managed and whose performance is evaluated on a fair value basis. The table below provides a split of the fair value of financial assets into three categories: SPPI assessment applicable under IFRS 9 and conditions met (SPPI compliant assets), SPPI assessment applicable under IFRS 9 and conditions not met (SPPI non-compliant assets), and SPPI assessment not applicable. Whilst IFRS 9 becomes effective for NN Group on the same date as IFRS 17, the information in the table below is based on the assets held, and business models in place, on 31 December 2020.

Notes to the Consolidated annual accounts continued

35 Fair value of financial assets and liabilities continued

Fair value of financial assets – SPPI assessment

	SPPI compliant assets		SPPI non-compliant assets		SPPI assessment not applicable	
	2020	2019	2020	2019	2020	2019
Cash and cash equivalents					12,382	6,436
Financial assets at fair value through profit or loss:						
– investments for risk of policyholders					34,797	34,433
– non-trading derivatives					14,833	10,189
– designated as at fair value through profit or loss					1,336	1,184
Available-for-sale investments	105,565	108,174	4,513	4,858	8,097	4,612
Loans	68,944	65,110	190	219	990	689
Financial assets	**174,509**	**173,284**	**4,703**	**5,077**	**72,435**	**57,543**

The estimated fair value represents the price at which an orderly transaction to sell the financial asset or to transfer the financial liability would take place between market participants at the balance sheet date (exit price). The fair value of financial assets and liabilities is based on unadjusted quoted market prices, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available market prices are obtained from independent market vendors, brokers or market makers. Because substantial trading markets do not exist for all financial instruments, various techniques have been developed to estimate the approximate fair value of financial assets and liabilities that are not actively traded. The fair value presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of the future fair value.

The following methods and assumptions were used by NN Group to estimate the fair value of the financial instruments:

Cash and cash equivalents

Cash and cash equivalents are recognised at their nominal value which approximates the fair value.

Financial assets and liabilities at fair value through profit or loss

Derivatives

Derivative contracts can either be exchange-traded or over the counter (OTC). The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and those derivatives are classified in Level 1 of the fair value hierarchy. For those instruments that are not actively traded, the fair value is estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques because quoted market prices in an active market are not available for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. The principal techniques used to value these instruments are based on discounted cash flows, Black-Scholes option models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows, based on 'no arbitrage' principles. These models are commonly used in the financial industry. Inputs to valuation models are determined from observable market data where possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via valuation model calibration procedures. The inputs used include prices available from exchanges, dealers, brokers or providers of pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

Available-for-sale investments

Equity securities

The fair value of publicly traded equity securities is determined using quoted market prices when available. Where no quoted market prices are available, fair value is determined based on quoted prices for similar securities or other valuation techniques. The fair value of private equity is based on quoted market prices, if available. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and revenue multiples and by reference to market valuations for similar entities quoted in an active market.

Debt securities

The fair value for debt securities is based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, industry group, pricing service or regulatory service. If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which may include values obtained from one or more pricing services or by a valuation technique that discounts expected future cash flows using market interest rate curves, referenced credit spreads, maturity of the investment and estimated prepayment rates where applicable.

Notes to the Consolidated annual accounts continued

35 Fair value of financial assets and liabilities continued

Loans
For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying values represent a reasonable estimate of the fair value. The fair value of other loans is estimated by discounting expected future cash flows using a discount rate that reflects credit risk, liquidity and other current market conditions. The fair value of mortgage loans is estimated by taking into account prepayment behaviour. Loans with similar characteristics are aggregated for calculation purposes.

Subordinated debt and debt securities issued
The fair value of subordinated debt and debt securities issued is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments.

Other borrowed funds
The fair value of other borrowed funds is generally based on quoted market prices or, if not available, on estimated prices by discounting expected future cash flows using a current market interest rate and credit spreads applicable to the yield, credit quality and maturity.

Investment contracts
For investment contracts for risk of the company the fair value has been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts for risk of policyholders the fair value generally equals the fair value of the underlying assets. For other investment-type contracts, the fair value is estimated based on the cash surrender values.

Customer deposits and other funds on deposit
The carrying values of customer deposits and other funds on deposit with no stated maturity approximate their fair value. The fair values of deposits with stated maturities have been estimated based on discounting future cash flows using a discount rate that reflects credit risk, liquidity and other current market conditions.

Financial assets and liabilities at fair value
The fair value of the financial instruments carried at fair value was determined as follows:

Methods applied in determining the fair value of financial assets and liabilities at fair value (2020)

2020	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	33,521	489	787	34,797
Non-trading derivatives		14,811	22	14,833
Financial assets designated as at fair value through profit or loss	1,217	119		1,336
Available-for-sale investments	79,118	36,377	2,680	118,175
Financial assets	**113,856**	**51,796**	**3,489**	**169,141**
Financial liabilities				
Investment contracts with discretionary participation features for risk of policyholders		245		245
Investment contracts (for contracts at fair value)	1,250			1,250
Non-trading derivatives	30	3,940	42	4,012
Financial liabilities	**1,280**	**4,185**	**42**	**5,507**

Notes to the Consolidated annual accounts continued

35 Fair value of financial assets and liabilities continued

Methods applied in determining the fair value of financial assets and liabilities at fair value (2019)

2019	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	33,406	225	802	34,433
Non-trading derivatives	18	10,121	50	10,189
Financial assets designated as at fair value through profit or loss	1,045	139		1,184
Available-for-sale investments	77,468	38,842	1,334	117,644
Financial assets	**111,937**	**49,327**	**2,186**	**163,450**
Financial liabilities				
Investment contracts with discretionary participation features for risk of policyholders		245		245
Investment contracts (for contracts at fair value)	1,135			1,135
Non-trading derivatives	11	3,162	59	3,232
Financial liabilities	**1,146**	**3,407**	**59**	**4,612**

NN Group has categorised its financial instruments that are either measured in the balance sheet at fair value or for which the fair value is disclosed, into a three level hierarchy based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques supported by unobservable inputs. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.

The fair value hierarchy consists of three levels, depending on whether the fair value is determined based on (unadjusted) quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3). Financial assets in Level 3 include, for example, illiquid debt securities, complex OTC and credit derivatives, certain complex loans (for which current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model is not available), mortgage loans and consumer lending, private equity instruments and investments in real estate funds.

Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs which are based on NN Group's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads. Transfers into and transfers out of levels in the fair value hierarchy are recognised on the date of the event or change of circumstances that caused the transfer.

Level 1 – (Unadjusted) Quoted prices in active markets
This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market that NN Group can access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.

Level 2 – Valuation technique supported by observable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable the instrument is still classified in this category, provided that the impact of those unobservable inputs elements on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices but for which there was insufficient evidence of an active market.

Level 3 – Valuation technique supported by unobservable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model) for which more than an insignificant part of the inputs in terms of the overall valuation are not market observable. This category also includes financial assets and liabilities whose fair value is determined by reference to price quotes but for which the market is considered inactive. An instrument is classified in its entirety as Level 3 if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which the price at which an orderly transaction would likely occur can be derived.

Notes to the Consolidated annual accounts continued

35 Fair value of financial assets and liabilities continued

Changes in Level 3 financial assets (2020)

2020	Investments for risk of policyholders	Non-trading derivatives	Available-for-sale investments	Total
Level 3 Financial assets – opening balance	802	50	1,334	2,186
Amounts recognised in the profit and loss account	-2	-28	-69	-99
Revaluations recognised in other comprehensive income (equity)			54	54
Purchase			1,425	1,425
Sale	-13		-46	-59
Maturity/settlement			-2	-2
Other transfers and reclassifications			-19	-19
Transfers into Level 3			18	18
Exchange rate differences			-15	-15
Level 3 Financial assets – closing balance	**787**	**22**	**2,680**	**3,489**

Changes in Level 3 financial assets (2019)

2019	Investments for risk of policyholders	Non-trading derivatives	Available-for-sale investments	Total
Level 3 Financial assets – opening balance	788	85	1,087	1,960
Amounts recognised in the profit and loss account	21	-35	-55	-69
Revaluations recognised in other comprehensive income (equity)			-2	-2
Purchase			334	334
Sale	-7		-9	-16
Maturity/settlement			-15	-15
Exchange rate differences			-6	-6
Level 3 Financial assets – closing balance	**802**	**50**	**1,334**	**2,186**

Changes in Level 3 financial liabilities (2020)

2020	Non-trading derivatives
Level 3 Financial liabilities – opening balance	59
Amounts recognised in the profit and loss account	-19
Other transfers and reclassifications	2
Level 3 Financial liabilities – closing balance	**42**

Changes in Level 3 financial liabilities (2019)

2019	Non-trading derivatives
Level 3 Financial liabilities – opening balance	99
Amounts recognised in the profit and loss account	-29
Sale	-11
Level 3 Financial liabilities – closing balance	**59**

Notes to the Consolidated annual accounts continued

35 Fair value of financial assets and liabilities continued

Level 3 – Amounts recognised in the profit and loss account during the year (2020)

2020	Held at balance sheet date	Derecognised during the period	Total
Financial assets			
Investments for risk of policyholders	-2		-2
Non-trading derivatives	-28		-28
Available-for-sale investments	-69		-69
Financial assets	**-99**	**–**	**-99**
Financial liabilities			
Non-trading derivatives	-19		-19
Financial liabilities	**-19**	**–**	**-19**

Level 3 – Amounts recognised in the profit and loss account during the year (2019)

2019	Held at balance sheet date	Derecognised during the period	Total
Financial assets			
Investments for risk of policyholders	21		21
Non-trading derivatives	-35		-35
Available-for-sale investments	-55		-55
Financial assets	**-69**	**–**	**-69**
Financial liabilities			
Non-trading derivatives	-29		-29
Financial liabilities	**-29**	**–**	**-29**

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2020 of EUR 169,141 million (2019: EUR 163,450 million) include an amount of EUR 3,489 million (2.1%) that is classified as Level 3 (2019: EUR 2,186 million (1.3%)). Changes in Level 3 are disclosed above in the table 'Level 3 Financial assets'.

Financial assets in Level 3 include both assets for which the fair value was determined using valuation techniques that incorporate unobservable inputs and assets for which the fair value was determined using quoted prices, but for which the market was not actively trading at or around the balance sheet date. Unobservable inputs are inputs which are based on NN Group's own assumptions about the factors that market participants would use in pricing an asset, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads. Fair values that are determined using valuation techniques using unobservable inputs are sensitive to the inputs used. Fair values that are determined using quoted prices are not sensitive to unobservable inputs, as the valuation is based on unadjusted external price quotes. These are classified in Level 3 as a result of the illiquidity in the relevant market, but are not significantly sensitive to NN Group's own unobservable inputs.

Unrealised gains and losses that relate to 'Level 3 Financial assets' are included in the profit and loss account as follows:
- Those relating to Investments for risk of policyholders are included in 'Underwriting expenditure'
- Those relating to Non-trading derivatives are included in 'Valuation results on non-trading derivatives'
- Those relating to financial assets designated as at fair value through profit or loss are included in 'Valuation results on non-trading derivatives – Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)'

Unrealised gains and losses that relate to available-for-sale investments are recognised in other comprehensive income (equity) and included in reserves in 'Unrealised revaluations available-for-sale investments and other'.

Investments for risk of policyholders

Investments for risk of policyholders classified as 'Level 3 Financial assets' amounted EUR 787 million as at 31 December 2020 (2019: EUR 802 million). Net result is unaffected when reasonable possible alternative assumptions would have been used in measuring these investments.

Non-trading derivatives

Non-trading derivatives classified as 'Level 3 Financial assets' are mainly used to hedge the fair value risk of the mortgage loan portfolio at NN Bank. These derivatives classified as Level 3 amounted EUR 22 million as at 31 December 2020 (2019: EUR 50 million).

Notes to the Consolidated annual accounts continued

35 Fair value of financial assets and liabilities continued

Available-for-sale investments

The available-for-sale investments classified as 'Level 3 Financial assets' amounted EUR 2,680 million as at 31 December 2020 (2019: EUR 1,334 million) mainly consists of investments in debt securities and shares in real estate investment funds and private equity investment funds of which the fair value is determined using (unadjusted) quoted prices in inactive markets for the securities or quoted prices obtained from the asset managers of the funds. It is estimated that a 10% change in valuation of these investments would have no significant impact on net result but would increase or reduce shareholders' equity by EUR 268 million (2019: EUR 133 million), being approximately 0.7% (before tax) (2019: 0.4% (before tax)), of total equity.

Level 3 Financial liabilities at fair value

Non-trading derivatives

The total amount of financial liabilities classified as Level 3 at 31 December 2020 of EUR 42 million (2019: EUR 59 million) relates to non-trading derivative positions. In 2020, EUR 22 million (2019: EUR 50 million) relates to derivatives used to hedge the interest rate risk associated with the funding position of NN Bank. EUR 17 million (2019: EUR 9 million) relates to longevity hedges closed by NN Group. It is estimated that a 5% increase in mortality assumptions for these longevity hedges reduces result and equity before tax by EUR 13 million (2019: EUR 17 million) and a 5% decrease in mortality assumptions increases result and equity before tax by EUR 18 million (2019: EUR 16 million).

Financial assets and liabilities at amortised cost

The fair value of the financial instruments carried at amortised cost in the balance sheet (where fair value is disclosed) was determined as follows:

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (2020)

2020	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	12,382			12,382
Loans	5	4,456	65,663	70,124
Financial assets	**12,387**	**4,456**	**65,663**	**82,506**
Financial liabilities				
Subordinated debt	2,734			2,734
Debt securities issued	1,781			1,781
Other borrowed funds	5,243	2,456	2	7,701
Investment contracts for risk of company	46		1,011	1,057
Customer deposits and other funds on deposit	9,792	6,793		16,585
Financial liabilities	**19,596**	**9,249**	**1,013**	**29,858**

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (2019)

2019	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	6,436			6,436
Loans	5	5,038	60,975	66,018
Financial assets	**6,441**	**5,038**	**60,975**	**72,454**
Financial liabilities				
Subordinated debt	2,807			2,807
Debt securities issued	2,079			2,079
Other borrowed funds	4,242	3,481	2	7,725
Investment contracts for risk of company	43		1,020	1,063
Customer deposits and other funds on deposit	9,136	6,663		15,799
Financial liabilities	**18,307**	**10,144**	**1,022**	**29,473**

Notes to the Consolidated annual accounts continued

36 Fair value of non-financial assets

The following table presents the estimated fair value of NN Group's non-financial assets that are measured at fair value in the balance sheet. Reference is made to Note 1 'Accounting policies' in the sections 'Real estate investments' and 'Property and equipment' for the methods and assumptions used by NN Group to estimate the fair value of the non-financial assets.

Fair value of non-financial assets

	Estimated fair value		Balance sheet value	
	2020	2019	2020	2019
Real estate investments	2,444	2,571	2,444	2,571
Property in own use	74	82	74	82
Fair value of non-financial assets	**2,518**	**2,653**	**2,518**	**2,653**

The fair value of the non-financial assets were determined as follows:

Methods applied in determining the fair value of non-financial assets at fair value (2020)

	Level 1	Level 2	Level 3	Total
Real estate investments			2,444	2,444
Property in own use			74	74
Non-financial assets	**–**	**–**	**2,518**	**2,518**

Methods applied in determining the fair value of non-financial assets at fair value (2019)

	Level 1	Level 2	Level 3	Total
Real estate investments			2,571	2,571
Property in own use			82	82
Non-financial assets	**–**	**–**	**2,653**	**2,653**

Changes in Level 3 non-financial assets (2020)

	Real estate investments	Property in own use
Level 3 non-financial assets – opening balance	2,571	82
Amounts recognised in the profit and loss account during the year	-21	-2
Purchase	66	1
Revaluation recognised in equity during the year		-4
Sale	-176	
Changes in the composition of the group and other changes	3	-2
Exchange rate differences	1	-1
Level 3 non-financial assets – closing balance	**2,444**	**74**

Changes in Level 3 non-financial assets (2019)

	Real estate investments	Property in own use
Level 3 non-financial assets – opening balance	2,374	75
Amounts recognised in the profit and loss account during the year	42	-2
Purchase	158	4
Revaluation recognised in equity during the year		4
Sale	-6	
Changes in the composition of the group and other changes	3	1
Level 3 non-financial assets – closing balance	**2,571**	**82**

Notes to the Consolidated annual accounts continued

36 Fair value of non-financial assets continued

Level 3 – Amounts recognised in the profit and loss account during the year on non-financial assets (2020)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	16	-37	-21
Property in own use	-2		-2
Level 3 Amounts recognised in the profit and loss account during the year on non-financial assets	**14**	**-37**	**-23**

Level 3 – Amounts recognised in the profit and loss account during the year on non-financial assets (2019)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	52	-10	42
Property in own use	-2		-2
Level 3 Amounts recognised in the profit and loss account during the year on non-financial assets	**50**	**-10**	**40**

Real estate investments and Property in own use

Valuation methodology

The fair value of real estate is based on regular appraisals by independent, qualified valuers. The fair value is established using valuation methods that take into account recent comparable market transactions (CMT), capitalisation of income (CI) methods and/or discounted cash flow (DCF) calculations.

The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. Future rental income is taken into account in accordance with the terms in existing leases, (expected) vacancies, estimations of the rental values for new leases when leases expire and incentives like rent-free periods. These estimated cash flows are discounted using market-based discount rates that reflect appropriately the risk characteristics of the real estate investments.

Notes to the Consolidated annual accounts continued

36 Fair value of non-financial assets continued

Key assumptions

Key assumptions in the valuation of real estate include the estimated current rental value per square metre, the estimated future rental value per square metre (ERV), the net initial yield and the vacancy rate. These assumptions were in the following ranges:

Significant assumptions

	Fair value	Valuation technique	Current rent/m²	ERV/m²	Net initial yield %	Vacancy %	Average lease term in years
The Netherlands							
Office	155	DCF	330-339	330-352	3.8-4.2	0-4	6.05
Residential	61	DCF	210	236	3.3		
Industrial	67	DCF	51-56	52-55	4.3-4.4		5.0
Retail	13	DCF	214	215	5.2	37.1	7.2
Germany							
Retail	247	DCF	167-360	168-316	4.4-5.2		4.4
Industrial	240	DCF	46-87	44-81	3.4-4.6	7.6	7.9
France							
Office	67	DCF	619	610	3.8		6.4
Residential	197	Comparison approach	309-487	309-487	4.0-5.1	4.6	n/a - 11.9
Industrial	123	Income Capitalisation	21-54	36-53	4.3-5.3	2.9	3.4
Industrial	160	DCF	0-69	45-67	3.5-6.4	5.6	3.1
Spain							
Retail	241	DCF	186-236	194-239	5.6-6.7	6.0	7.7
Industrial	113	DCF	30-45	28-42	4.8-6.6	9.6	3.0
Italy							
Retail	231	DCF	55-816	183-800	-7.6-6.7	5.0	6.8
Denmark							
Industrial	58	DCF	155-167	128-157	5.1-5.4		12.9
Residential	163	DCF	203-235	276-287	3.8-3.9	5.4	
Belgium							
Retail	120	DCF	66-351	95-325	4.5-6.5	6.4	3.4
Industrial	29	DCF	44	43	5.3		2.7
Office	8	Income Capitalisation	227	196	5.4	19.2	6.9
Poland							
Retail	84	DCF	141	160	7.1	12.0	3.6
Real estate under construction and other	67						
Total real estate	**2,444**						

Additional uncertainties

NN Group uses quarterly appraisals by external valuers as main input for the determination of fair value of its real estate investments. Uncertainties in the current environment related to the Covid-19 pandemic have led to the inclusion of 'material valuation uncertainty' clauses in certain external valuation reports. Such clauses do not imply that the valuation cannot be relied upon, but are used to indicate that – in the current extraordinary circumstances – less certainty can be attached to valuations than would otherwise be the case. This is primarily the case for real estate investments in the retail sector.

Sensitivities

Significant increases (decreases) in the estimated rental value and rent growth in isolation would result in a significantly higher (lower) fair value of the real estate investments. Significant increases (decreases) in the long-term vacancy rate and discount rate in isolation would result in a significantly lower (higher) fair value of the real estate investments.

37 Derivatives and hedge accounting

Use of derivatives and hedge accounting

NN Group uses derivatives for effective portfolio management and the management of its asset and liability portfolios. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS-EU hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS-EU are classified and reported in accordance with the nature of the hedged item and the type of IFRS-EU hedge model that is applicable. The three models applicable under IFRS-EU are: cash flow hedge accounting, fair value hedge accounting and net investment hedge accounting. The company's detailed accounting policies for these three hedge models are set out in Note 1 'Accounting policies' in the section on 'Accounting policies for specific items'.

To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the profit and loss account. However, in certain cases, NN Group mitigates the profit and loss account volatility by designating hedged assets and liabilities at fair value through profit or loss. If hedge accounting is applied under IFRS-EU, it is possible that a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the profit and loss account may be higher than would be expected from an economic point of view.

With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however, they do not represent amounts at risk.

In 2017, NN Group entered into a longevity hedge, based on a general index of Dutch mortality. The maximum pay-out of the hedge amounts to EUR 100 million, payable after 20 years. The hedge is financed by annual premium payments to the counterparty. The longevity hedge is accounted for as derivative. The hedge reduces the impact of longevity trend scenarios implying more improvement in life expectancy. The regulator gave approval to include the effects of this specific hedge on the SCR. The purpose of the hedge is to reduce the longevity risk.

Interest rate benchmark reform

Almost all hedge accounting applied by NN Group relates to interest rate risk based on Euribor. The calculation method of Euribor changed during 2019 and Euribor will continue to be used after the benchmark reform. As a result, NN Group expects that Euribor will continue to exist as a benchmark and does not anticipate replacing Euribor in its interest rate risk management and related hedge accounting. Furthermore, all of NN Groups Euribor based hedging instruments which are settled via clearing houses (the majority of NN Groups hedging instruments) have changed in July 2020 from EONIA to the Euro Short-Term Rate '€STR' as a reference rate to discount the future cash flows of the respective contracts in line with market practice. The remainder of NN Groups hedging instruments are only expected to execute this change when induced by market practice. This change does not impact the cash flows of the individual contracts, but only the calculation method of the fair value of the contracts.

Cash flow hedge accounting

NN Group's hedge accounting consists mainly of cash flow hedge accounting. NN Group's cash flow hedges principally consist of Euribor based (forward) interest rate swaps and cross-currency interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults.

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in Shareholders' equity. Interest income and expenses on these derivatives are recognised in the profit and loss account consistent with the manner in which the forecast cash flows affect Net result. The gains and losses on ineffective portions of such derivatives are recognised immediately in the profit and loss account.

For the year ended 31 December 2020, NN Group recognised EUR 3,422 million (2019: EUR 4,284 million) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2020 is EUR 16,293 million (2019: EUR 11,272 million) gross and EUR 12,220 million (2019: EUR 8,798 million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value of the underlying derivatives and will be reflected in the profit and loss account under Interest income/ expenses over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 50 years with the largest concentrations in the range 1 year to 14 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in EUR 2 million income (2019: EUR 11 million income) which was recognised in the profit and loss account.

As at 31 December 2020, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 10,371 million (2019: EUR 6,990 million), presented in the balance sheet as EUR 10,530 million (2019: EUR 7,365 million) positive fair value under assets and EUR 159 million (2019: EUR 375 million) negative fair value under liabilities.

Notes to the Consolidated annual accounts continued

37 Derivatives and hedge accounting continued

As at 31 December 2020 and 2019, there were no non-derivatives designated as hedging instruments for cash flow hedge accounting purposes.

Included in 'Interest income and Interest expenses on non-trading derivatives' is EUR 192 million (2019: EUR 179 million) and EUR 88 million (2019: EUR 50 million), respectively, relating to derivatives used in cash flow hedges.

Fair value hedge accounting

NN Group's fair value hedges principally consist of interest rate swaps and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates.

Gains and losses on derivatives designated under fair value hedge accounting are recognised in the profit and loss account. The effective portion of the fair value change on the hedged item is also recognised in the profit and loss account. As a result, only the net accounting ineffectiveness has an impact on the net result.

For the year ended 31 December 2020, NN Group recognised EUR -670 million (2019: EUR -1,395 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR 678 million (2019: EUR 1,385 million) fair value changes recognised on hedged items. This resulted in EUR 8 million (2019: EUR -10 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2020, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR -546 million (2019: EUR -639 million), presented in the balance sheet as EUR 1 million (2019: EUR 52 million) positive fair value under assets and EUR 547 million (2019: EUR 691 million) negative fair value under liabilities.

NN Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' for macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. NN Group applies the IFRS-EU 'carve-out' to hedge the interest rate risk of mortgage loans. The hedging activities are designated under a portfolio fair value hedge on the mortgages, under IFRS-EU.

38 Assets by contractual maturity

Amounts presented in these tables by contractual maturity are the amounts as presented in the balance sheet.

Assets by contractual maturity (2020)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	10,021	2,361					12,382
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]						34,797	34,797
– non-trading derivatives	44	187	42	284	14,276		14,833
– designated as at fair value through profit or loss	887		1	24	-1	425	1,336
Available-for-sale investments	1,373	2,093	5,937	25,485	71,988	11,299	118,175
Loans	329	182	1,235	6,503	57,164	15	65,428
Reinsurance contracts	21	27	117	184	639	75	1,063
Intangible assets	5	16	45	238	226	533	1,063
Deferred acquisition costs	41	22	105	277	1,424	2	1,871
Assets held for sale			113				113
Deferred tax assets		1	3	7	56	6	73
Other assets	2,213	1,057	613	98	56	2	4,039
Remaining assets (for which maturities are not applicable)[3]						8,565	8,565
Total assets	**14,934**	**5,946**	**8,211**	**33,100**	**145,828**	**55,719**	**263,738**

1 Includes assets on demand.

2 Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Group.

3 Included in remaining assets for which maturities are not applicable are Property and equipment, Real estate investments and Associates and joint ventures. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Notes to the Consolidated annual accounts continued

38 Assets by contractual maturity continued

Assets by contractual maturity (2019)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	5,305	1,131					6,436
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]						34,433	34,433
– non-trading derivatives	3	69	77	336	9,704		10,189
– designated as at fair value through profit or loss	821		1	3		359	1,184
Available-for-sale investments	1,254	2,075	6,300	26,196	73,739	8,080	117,644
Loans	176	169	1,064	4,685	55,534	140	61,768
Reinsurance contracts	19	49	89	160	590	81	988
Intangible assets	6	13	58	241	138	539	995
Deferred acquisition costs	40	18	90	386	1,379		1,913
Deferred tax assets		5	14	35	27	3	84
Other assets	2,424	1,283	484	101	158	20	4,470
Remaining assets (for which maturities are not applicable)[3]						8,493	8,493
Total assets	**10,048**	**4,812**	**8,177**	**32,143**	**141,269**	**52,148**	**248,597**

1 Includes assets on demand.

2 Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Group.

3 Included in remaining assets for which maturities are not applicable are Property and equipment, Real estate investments and Associates and joint ventures. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

39 Liabilities by maturity

The tables below include all financial liabilities by maturity based on contractual, undiscounted cash flows. Furthermore, the undiscounted future coupon interest on financial liabilities payable is included in a separate line and in the relevant maturity bucket. Derivative liabilities are included on a net basis if cash flows are settled net. For other derivative liabilities the contractual gross cash flow payable is included.

Non-financial liabilities, including insurance and investment contracts, are included based on a breakdown of the (discounted) balance sheet amounts by expected maturity. Reference is made to the Liquidity risk paragraph in Note 51 'Risk management' for a description on how liquidity risk is managed.

Notes to the Consolidated annual accounts continued

39 Liabilities by maturity continued

Liabilities by maturity (2020)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment[1]	Total
Liabilities								
Subordinated debt[2]				1,500	850		33	2,383
Debt securities issued				1,100	600		-6	1,694
Other borrowed funds	124	303	1,254	3,373	2,488			7,542
Customer deposits and other funds on deposit	9,915	128	595	2,188	2,977			15,803
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	71	361	290	1,036	2,630		-376	4,012
Financial liabilities	**10,110**	**792**	**2,139**	**9,197**	**9,545**	**–**	**-349**	**31,434**
Insurance and investment contracts	1,148	1,063	4,523	17,744	112,395	33,799		170,672
Liabilities held for sale			93					93
Deferred tax liabilities	17	-4	-22	55	6,024	259		6,329
Other liabilities	14,093	526	640	400	710	69		16,438
Non-financial liabilities	**15,258**	**1,585**	**5,234**	**18,199**	**119,129**	**34,127**	**–**	**193,532**
Total liabilities	**25,368**	**2,377**	**7,373**	**27,396**	**128,674**	**34,127**	**-349**	**224,966**
Coupon interest due on financial liabilities	65	30	119	709	2,007	–	–	2,930

1 This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to valuation differences, the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).

2 Subordinated debt maturities are presented based on the first call date. For the legal date of maturity reference is made to Note 15 'Subordinated debt'.

Liabilities by maturity (2019)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment[1]	Total
Liabilities								
Subordinated debt[2]				1,500	850		59	2,409
Debt securities issued			300	1,100	600		-8	1,992
Other borrowed funds	65	273	1,618	3,447	2,211			7,614
Customer deposits and other funds on deposit	9,238	137	586	2,333	2,867			15,161
Financial liabilities at fair value through profit or loss:								–
– non-trading derivatives	19	270	212	1,552	4,445		-3,266	3,232
Financial liabilities	**9,322**	**680**	**2,716**	**9,932**	**10,973**	**–**	**-3,215**	**30,408**
Insurance and investment contracts	830	1,154	4,927	17,647	110,278	33,415		168,251
Deferred tax liabilities	13	30		140	3,599	248		4,030
Other liabilities	10,741	481	608	328	899	59		13,116
Non-financial liabilities	**11,584**	**1,665**	**5,535**	**18,115**	**114,776**	**33,722**	**–**	**185,397**
Total liabilities	**20,906**	**2,345**	**8,251**	**28,047**	**125,749**	**33,722**	**-3,215**	**215,805**
Coupon interest due on financial liabilities	58	28	169	747	2,118	–	–	3,120

1 This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).

2 Subordinated debt maturities are presented based on the first call date. For the legal date of maturity reference is made to Note 15 'Subordinated debt'.

Notes to the Consolidated annual accounts continued

40 Assets not freely disposable

Assets not freely disposable of EUR 161 million (2019: EUR 196 million) relates to the mandatory reserve deposit at De Nederlandsche Bank and cash balances held at BNG Bank regarding the structured entities Arena NHG, Hypenn RMBS entities and the Covered Bond companies.

Assets relating to securities lending are disclosed in Note 41 'Transferred, but not derecognised financial assets'. Assets in securitisation programmes originated by NN Bank are disclosed in Note 46 'Structured entities'.

41 Transferred, but not derecognised financial assets

The majority of NN Group's financial assets that have been transferred, but do not qualify for derecognition, are debt instruments used in securities lending. NN Group retains substantially all risks and rewards of those transferred assets. The assets are transferred in return for cash collateral or other financial assets. Non-cash collateral is not recognised in the balance sheet. Cash collateral is recognised as an asset and an offsetting liability is established for the same amount as NN Group is obligated to return this amount upon termination of the lending arrangement.

Transfer of financial assets not qualifying for derecognition

	2020	2019
Transferred assets at carrying value		
Available-for-sale investments	17,514	12,582
Associated liabilities at carrying value		
Other borrowed funds	247	247

The table above does not include assets transferred to consolidated securitisation entities, as these related assets are not transferred from a consolidated perspective. Reference is made to Note 46 'Structured entities'.

42 Offsetting of financial assets and liabilities

The following tables include information about rights to offset and the related arrangements. The amounts included consist of all recognised financial instruments that are presented net in the balance sheet under the IFRS-EU offsetting requirements (legal right to offset and intention to settle on a net basis) and amounts presented gross in the balance sheet but subject to enforceable master netting arrangements or similar arrangement.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2020)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial assets	Gross financial liabilities offset in the balance sheet	Net financial assets in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	14,776		14,776	-3,214	-11,368	194
Financial assets at fair value through profit or loss		**14,776**	**–**	**14,776**	**-3,214**	**-11,368**	**194**
Other items where offsetting is applied in the balance sheet		**157**	**–**	**157**	**-63**	**-93**	**1**
Total financial assets		**14,933**	**–**	**14,933**	**-3,277**	**-11,461**	**195**

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2019)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial assets	Gross financial liabilities offset in the balance sheet	Net financial assets in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	10,124		10,124	-2,180	-7,774	170
Financial assets at fair value through profit or loss		**10,124**	**–**	**10,124**	**-2,180**	**-7,774**	**170**
Other items where offsetting is applied in the balance sheet		**144**	**–**	**144**	**-60**	**-81**	**3**
Total financial assets		**10,268**	**–**	**10,268**	**-2,240**	**-7,855**	**173**

Notes to the Consolidated annual accounts continued

42 Offsetting of financial assets and liabilities continued

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2020)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	3,726		3,726	-3,214	-500	12
Financial liabilities at fair value through profit or loss		**3,726**	**–**	**3,726**	**-3,214**	**-500**	**12**
Other items where offsetting is applied in the balance sheet		**84**		**84**	**-63**	**-21**	**–**
Total financial liabilities		**3,810**	**–**	**3,810**	**-3,277**	**-521**	**12**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2019)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	2,764		2,764	-2,180	-577	7
Financial liabilities at fair value through profit or loss		**2,764**	**–**	**2,764**	**-2,180**	**-577**	**7**
Other items where offsetting is applied in the balance sheet		**85**		**85**	**-60**	**-23**	**2**
Total financial liabilities		**2,849**	**–**	**2,849**	**-2,240**	**-600**	**9**

43 Contingent liabilities and commitments

In the normal course of business NN Group is party to activities whose risks are not reflected in whole or in part in the Consolidated annual accounts. In response to the needs of its customers, NN Group offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments (2020)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	655	772	1,983	1,947	203	104	5,664
Guarantees			40	1			41
Contingent liabilities and commitments	**655**	**772**	**2,023**	**1,948**	**203**	**104**	**5,705**

Contingent liabilities and commitments (2019)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	615	1,220	1,927	1,732	272	403	6,169
Guarantees			40	1			41
Contingent liabilities and commitments	**615**	**1,220**	**1,967**	**1,733**	**272**	**403**	**6,210**

NN Group has issued certain guarantees, other than those included in 'Insurance contracts', which are expected to expire without being drawn on and therefore does not necessarily represent future net cash outflows. In addition to the items included in 'Contingent liabilities', NN Group has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

Notes to the Consolidated annual accounts continued

43 Contingent liabilities and commitments continued

ING Group
During 2016, ING Group, NN Group's former parent company, sold its remaining stake in NN Group. Therefore, ING Group has ceased to be a related party of NN Group in the course of 2016. The following agreements with ING Group are still relevant:

Master claim agreement
In 2012, ING Groep N.V., Voya Financial Inc. (formerly ING U.S., Inc.) and ING Insurance Eurasia N.V. entered into a master claim agreement to (a) allocate existing claims between these three parties and (b) agree on criteria for how to allocate future claims between the three parties. The master claim agreement contains further details on claim handling, conduct of litigation and dispute resolution.

Indemnification and allocation agreement
ING Groep N.V. and NN Group N.V. have entered into an indemnification and allocation agreement, in which ING Group has agreed to indemnify NN Group for certain liabilities that relate to the business of or control over certain (former) U.S. and Latin American subsidiaries of NN Group in the period until 30 September 2013 or, if the relevant subsidiary was divested by NN Group after 30 September 2013, such later date of divestment. These liabilities mainly include contingent liabilities that may arise as a result of the initial public offering of ING U.S. (such as prospectus liability), the sales of the Latin American businesses (such as claims under warranties and other buyer protection clauses) and the liabilities for the claims concerning the performance of certain interest-sensitive products that were sold by a former subsidiary of NN Group in Mexico.

Other agreements
In connection with the initial public offering of NN Group N.V., ING Groep N.V. entered in 2014 into several other agreements with NN Group N.V. which are currently, partly or wholly, in force, such as a joinder agreement, an equity administration agreement and a Risk Management Programme (RMP) indemnity agreement. In 2015, NN Group N.V. and ING Groep N.V. entered into an agreement providing amongst others for allocation between them of insurance payments under the public offering securities insurance taken out by ING Groep N.V. with respect to the IPO of NN Group N.V.

44 Legal proceedings

General
NN Group is involved in litigation and arbitration proceedings in the Netherlands and in a number of foreign jurisdictions, involving claims by and against NN Group which arise in the ordinary course of its business, including in connection with its activities as insurer, lender, seller, broker-dealer, underwriter, issuer of securities and investor and its position as employer and taxpayer. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, NN Group believes that some of the proceedings set out below may have, or have in the recent past had, a significant effect on the financial condition, profitability or reputation of NN Group.

Because of the geographic spread of its business, NN Group may be subject to tax audits in numerous jurisdictions at any point in time. Although NN Group believes that it has adequately provided for its tax positions, the ultimate outcome of these audits may result in liabilities that are different from the amounts recognised.

Unit-linked products in the Netherlands
Since the end of 2006, unit-linked products (commonly referred to in Dutch as 'beleggingsverzekeringen') have received negative attention in the Dutch media, from the Dutch Parliament, the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten) and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and Dutch insurers are in general being accused of being less transparent in their offering of such unit-linked products.

On 29 April 2015, the European Court of Justice issued its ruling on preliminary questions submitted by the District Court in Rotterdam, upon request of parties, including Nationale-Nederlanden, to obtain clarity on principal legal questions with respect to cost transparency in relation to unit-linked products. The main preliminary question considered by the European Court of Justice was whether European law permits the application of information requirements based on general principles of Dutch law that extend beyond information requirements as explicitly prescribed by laws and regulations in force at the time the policy was written. The European Court of Justice ruled that the information requirements prescribed by the applicable European directive may be extended by additional information requirements included in national law, provided that these requirements are necessary for a policyholder to understand the essential characteristics of the commitment and are clear, accurate and foreseeable. Dutch courts will need to take the interpretation of the European Court of Justice into account in relevant proceedings.

In 2013 Woekerpolis.nl and in 2017 Consumentenbond and Wakkerpolis, all associations representing the interests of policyholders of Nationale-Nederlanden, individually initiated so-called 'collective actions' against Nationale-Nederlanden. These claims are all based on similar grounds and have been rejected by Nationale-Nederlanden and Nationale-Nederlanden defends itself in these legal proceedings.

Notes to the Consolidated annual accounts continued

44 Legal proceedings continued

Woekerpolis.nl requested the District Court in Rotterdam to declare that Nationale-Nederlanden sold products which are defective in various respects. Woekerpolis.nl alleges that Nationale-Nederlanden failed to meet the required level of transparency regarding, cost charges and other product characteristics, failed to warn policyholders of certain product related risks, such as considerable stock depreciations, the inability to realise the projected final policy value, unrealistic capital projections due to differences in geometric versus arithmetic returns and that certain general terms and conditions regarding costs were unfair. On 19 July 2017, the District Court in Rotterdam rejected all claims of Woekerpolis.nl and ruled that Nationale-Nederlanden has generally provided sufficient information on costs and premiums. Woekerpolis.nl has lodged an appeal with the Court of Appeal in The Hague against the ruling of the District Court in Rotterdam. On 23 February 2021, the Court of Appeal in The Hague ruled an interim ruling in which it refers preliminary questions to the Dutch Supreme Court to obtain clarity on the relation between the specific rules and regulations that apply to insurers when offering unit-linked products and the general principles of Dutch civil law. The collective action before the Court of Appeal in The Hague will be deferred until the Dutch Supreme Court has answered the preliminary questions by means of a ruling expected in Q4 2021/Q1 2022.

Consumentenbond alleges that Nationale-Nederlanden failed to adequately inform policyholders on cost charges, risk premium for life insurance cover and the leverage and capital consumption effect and that Nationale-Nederlanden provided misleading capital projections. Consumentenbond requested the District Court in Rotterdam to order a recalculation of certain types of unit-linked insurance products and to declare that Nationale-Nederlanden is liable for any damage caused by a lack of information and misleading capital projections. On 29 July 2020, the District Court in Rotterdam rejected all claims of Consumentenbond. The court ruled that Nationale-Nederlanden has provided sufficient information on the effect of costs and risk premiums for life insurance cover included in the gross premium, leading to agreement between parties ('wilsovereenstemming') on these costs and risk premiums and on the manner in which these costs components are set off during the term of the insurance. Consumentenbond has lodged an appeal with the Court of Appeal in The Hague against the ruling of the District Court.

Wakkerpolis primarily concentrates on the recovery of initial costs for policyholders by claiming that there is no contractual basis for charging initial costs and that the insurer is obliged to warn against the leverage and capital consumption effect. In an interim ruling in the collective action initiated by Wakkerpolis rendered on 22 April 2020, the District Court in Rotterdam dismissed Wakkerpolis' claim to recalculate the value of unit-linked products without initial costs. With respect to unit-linked products issued after 1994, the District Court concluded that Nationale-Nederlanden complied with the precontractual information requirements prescribed by law and regulations applicable at the time and in principle all costs (including initial costs) were agreed upon by parties ('wilsovereenstemming'). With respect to unit-linked products issued before 1994, Nationale-Nederlanden is to demonstrate that for these unit-linked products it provided precontractual information on the (effect of) costs and risk premiums for life insurance cover included in the gross premium and net example capitals. For unit-linked products issued before 1 August 1999, the District Court ruled that policyholders were not sufficiently informed by Nationale-Nederlanden on the effect of costs on the surrender value or paid up value of a policy, leading to an absence in the agreement between parties ('leemte'). Nationale-Nederlanden is requested to inform the District Court whether the allocation system used by Nationale-Nederlanden to settle initial costs would negatively affect the value of policies in case of early surrendering or conversion into paid up policies, compared to another common allocation system used in the insurance industry. A final ruling from the District Court in Rotterdam is expected in the first half of 2021.

There has been for some time and there continues to be political, regulatory and public attention focused on the unit-linked issue in general. Elements of unit-linked policies are being challenged or may be challenged on multiple legal grounds in current and future legal proceedings. There is a risk that one or more of those legal challenges will succeed. Customers of NN Group's Dutch insurance subsidiaries have claimed, among others, that (a) the investment risk, costs charged or the risk premium was not, or not sufficiently, made clear to the customer, (b) the product costs charged on initial sale and on an ongoing basis were so high that the expected return on investment was not realistically achievable, (c) the product sold to the customer contained specific risks that were not, or not sufficiently, made clear to the customer (such as the leverage capital consumption risk) or was not suited to the customer's personal circumstances, (d) the insurer owed the customer a duty of care which the insurer has breached, (e) the insurer failed to warn of the risk of not realising the projected policy values and/or that these projected policy values were incorrect, (f) the policy conditions were unfair, or (g) the costs charged or the risk premium had no contractual basis. These claims may be based on general standards of contract or securities law, such as reasonableness and fairness, error, duty of care, or standards for proper customer treatment or due diligence, such as relating to the fairness of terms in consumer contracts and may be made by customers, or on behalf of customers, holding active policies or whose policies have lapsed, matured or been surrendered. There is no assurance that further proceedings for damages based on aforementioned legal grounds or other grounds will not be brought. The timing of reaching any finality in last instance on these pending legal claims and proceedings is uncertain and such uncertainty is likely to continue for some time.

Notes to the Consolidated annual accounts continued

44 Legal proceedings continued

Rulings or announcements made by courts or decision-making bodies or actions taken by regulators or governmental authorities against NN Group's Dutch insurance subsidiaries or other Dutch insurance companies in respect of unit-linked products, or settlements or any other actions to the benefit of customers (including product improvements or repairs) by other Dutch insurance companies towards consumers, consumer protection organisations, regulatory or governmental authorities or other decision-making bodies in respect of the unit-linked products, may affect the (legal) position of NN Group's Dutch insurance subsidiaries and may force such subsidiaries to take (financial) measures that could have a substantial impact on the financial condition, results of operations, solvency or reputation of NN Group and its subsidiaries. As a result of the public and political attention the unit-linked issue has received, it is also possible that sector-wide measures may be imposed by governmental authorities or regulators in relation to unit-linked products in the Netherlands. The impact on NN Group's Dutch insurance subsidiaries of rulings made by courts or decision-making bodies, actions taken by regulators or governmental bodies against other Dutch insurance companies in respect of unit-linked products, or settlements or any other actions to the benefit of customers (including product improvements or repairs), may be determined not only by market share but also by portfolio composition, product features, terms and conditions and other factors. Adverse decisions or the occurrence of any of the developments as described above could result in outcomes materially different than if NN Group's Dutch insurance subsidiaries or its products had been judged or negotiated solely on their own merits.

The book of policies of NN Group's Dutch insurance subsidiaries dates back many years, and in some cases several decades. Over time, the regulatory requirements and expectations of various stakeholders, including customers, regulators and the public at large, as well as standards and market practice, have developed and changed, increasing customer protection. As a result, policyholders and consumer protection organisations have initiated and may in the future initiate proceedings against NN Group's Dutch insurance subsidiaries alleging that products sold in the past fail to meet current requirements and expectations. In any such proceedings, it cannot be excluded that the relevant court, regulator, governmental authority or other decision-making body will apply current norms, requirements, expectations, standards and market practices on laws and regulations to products sold, issued or advised on by NN Group's Dutch insurance subsidiaries.

Although the financial consequences of any of these factors or a combination thereof could be substantial for the Dutch insurance business of NN Group and, as a result, may have a material adverse effect on NN Group's business, reputation, revenues, results of operations, solvency, financial condition and prospects, it is not possible to reliably estimate or quantify NN Group's exposures at this time.

Dispute on reinsurance agreement

NN Group has reinsured with another insurance company part of the exposure on certain insured pension obligations. Although the reinsurance agreement was never signed by parties, NN Group's counterparty performed under the agreement for many years.
The counterparty acknowledged the existence of a reinsurance arrangement, but disputes the applicability of fundamental aspects of the reinsurance agreement. NN Group started legal proceedings in 2019, which are ongoing. The potential outcome of the legal proceedings is uncertain. A provision was recognised in 2019 for the current best estimate of the potential negative impact to NN Group.

Argentina

On 10 April 2019, NN Group filed a claim with the International Centre for Settlement of Investment Disputes (ICSID) under the Bilateral Investment Treaty between Argentina and the Netherlands, in order to resolve a dispute with the Argentine Republic. The dispute relates to the nationalisation of Orígenes – NN Group's former pension fund manager in Argentina – by the Argentine Government in 2008.
These proceedings may last for several years. As the case is still pending, it is unclear at this stage whether and to what extent any compensation will be granted to NN Group and therefore no compensation has been recognised.

Australia

In April 2015, the Australian Taxation Office (ATO) commenced a Tax Audit on ING Australia Holdings Ltd. The Tax Audit concerns the years 2007-2013 and focused on the currency denomination of and interest on intercompany loans which resulted from the transfer of the insurance and asset management businesses in Australia. ING Australia Holdings was transferred by NN Group to ING Group in 2013 as part of which it was agreed that NN Group remains liable for any damages resulting from tax claims. An Independent Review of the Tax Audit was completed by the ATO in July 2017. In 2017, NN Group recognised a provision on the IFRS and Solvency II balance sheets for an amount of AUD 279 million (EUR 185 million) to cover the costs of the expected ATO claim including penalties, interest and related expenses. In December 2020, a final agreement was reached with the ATO on all aspects of the Tax Audit resulting in a final payment to the ATO and the release of the remainder of the provision (net of related expenses). The release of EUR 109 million is recognised in 2020 in Result on disposal of group companies (Result on divestments in the segment Other). The Tax Audit concerns a former subsidiary of NN Group and, therefore, does not impact NN Group's business or strategy going forward.

45 Companies and businesses acquired and divested

Acquisitions (2020)

VIVAT Non-life

In April 2020, NN Group announced the completion of its acquisition of VIVAT Schadeverzekeringen N.V. ('VIVAT Non-life'). Included below is an overview of the transaction, a description of VIVAT Non-life, the rationale for the transaction, the accounting at the acquisition date and certain additional disclosures on the acquisition.

Notes to the Consolidated annual accounts continued

45 Companies and businesses acquired and divested continued

Overview of the transaction
On 7 June 2019, NN Group announced to acquire 100% of the voting equity interest of VIVAT Non-life for a consideration of EUR 416 million. NN Group announced that it would acquire VIVAT Non-life from Athora, following the acquisition of the VIVAT Group (VIVAT) by Athora. In addition, NN Group announced that it would acquire the intercompany Tier 2 loans granted by VIVAT to VIVAT Non-life for a consideration of EUR 150 million plus accrued interest. The acquisition of the intercompany Tier 2 loans is considered part of the acquisition of VIVAT Non-life for IFRS accounting purposes. The approvals for the acquisition were received in the first quarter of 2020. The transaction closed on 1 April 2020. As a result, VIVAT Non-life is included in the consolidation from 1 April 2020.

Description of VIVAT Non-life
VIVAT Non-life is a Dutch insurance company that offers a variety of non-life insurance products. VIVAT Non-life provides mainly property & casualty and disability insurance. VIVAT Non-life operates in the Netherlands. VIVAT Non-life was a 100% subsidiary of VIVAT N.V. VIVAT N.V, was previously owned by Anbang Group Holdings Co Ltd until it was sold to Athora immediately before NN Group purchased VIVAT Non-life from Athora.

Rationale for the transaction
The acquisition of VIVAT Non-life by NN Group is in line with NN Group's strategic goal of long-term value creation for its stakeholders - increasing operating capital generation and driving growth in attractive markets. The completion of the acquisition of VIVAT Non-life adds additional scale and capabilities to NN Group's non-life platform, enabling further improvement of customer propositions and increasing NN Group's ability to invest in digital capabilities and innovation.

The acquisition of VIVAT Non-life will help achieve the strategic goals, extracting the synergy benefits from the transaction and further reducing expenses. This acquisition will enable NN Group to continue to optimise the Non-life business by building data capabilities and leveraging on its additional scale.

Accounting at the acquisition date
The acquisition date of VIVAT Non-life by NN Group for acquisition accounting under IFRS is 1 April 2020. On this date, NN Group acquired 100% of the ordinary shares in VIVAT Non-life and thus obtained control. Therefore, VIVAT Non-life is included in the NN Group consolidation from 1 April 2020.

NN Group has performed the accounting for the acquisition using the values below.

The accounting values of certain assets and liabilities acquired as at 1 April 2020 as disclosed below differ from the values of the assets and liabilities in the balance sheet of VIVAT Non-life immediately before the acquisition by NN Group. This difference is mainly a result of the following most significant amendments as a result of the purchase price allocation as required under IFRS:

- Insurance liabilities and reinsurance contracts were remeasured to fair value as defined in IFRS; this resulted in a decrease in insurance liabilities. The fair value of the insurance liabilities was determined based on the price that a market participant would charge to assume the insurance liabilities of VIVAT-Non-life in an orderly transaction at the measurement date. In arriving at the fair value of the insurance liabilities, the future cash flows were estimated using current best estimate actuarial assumptions. The future cash flows were then adjusted for the compensation a market participant would require for assuming the risks and uncertainties relating to the insurance liabilities. Where relevant these adjusted future cash flows were discounted using a current market discount rate to reflect the time value of money. Whilst the determination of the fair value of the insurance liabilities involved estimates and expert judgement, there are no elements in the valuation where using reasonably supportable alternative assumptions would have had a material impact on NN Group. In accordance with IFRS 4 and in line with NN Group's accounting policies, NN Group opted to recognise the difference between the fair value and the existing book value of the insurance liabilities as an asset (Value of Business Acquired, or 'VOBA') and to report the Liabilities for insurance contracts in the balance sheet at the existing book values.
- Subordinated debt was revalued from amortised cost to fair value. This resulted in an increase in the value of the subordinated debt.
- Acquisition related intangible assets were recognised. This mainly related to a distribution agreement. The distribution agreement was valued using the excess earnings method. Under this method the fair value is calculated by adjusting the forecasted income for the remaining useful life for contributory asset charges. This amount is then discounted using an adjusted cost of equity. The value of the distribution agreement is estimated at EUR 10 million and will be amortised through the profit and loss account over its useful life of 20 years.

Acquisition date fair values of the assets and liabilities acquired (2020)

	Acquisition date
Cash paid to acquire shares in VIVAT Non-life	-416
Cash paid to acquire the intercompany Tier 2 loans (including accrued interest)	-152
Cash in company acquired	29
Cash flow on acquisition	**-539**

Notes to the Consolidated annual accounts continued

45 Companies and businesses acquired and divested continued

	Acquisition date
Assets	
Cash and cash equivalents	29
Financial assets at fair value through profit or loss:	
– non-trading derivatives	62
Available-for-sale investments	1,517
Loans	43
Reinsurance contracts	70
Associates and joint ventures	21
Intangible assets	12
VOBA	141
Other assets	128
Total assets	**2,023**
Liabilities	
Subordinated debt	171
Insurance and investment contracts	1,278
Deferred tax liabilities	18
Other liabilities	142
Total liabilities	**1,609**
Net assets acquired - VIVAT Non-life	**414**
Fair value of purchase consideration	
– To acquire shares in VIVAT Non-life	416
– To acquire the intercompany Tier 2 loans (including accrued interest)	152
Total fair value of purchase consideration	**568**
Fair value of net assets acquired	
– Net assets acquired VIVAT Non-life	414
– Acquired intercompany Tier 2 loans	166
Total fair value of net assets acquired	**580**
Difference	**-12**

The purchase consideration paid was in total EUR 12 million lower than the net assets acquired; the difference represents negative goodwill. This negative goodwill is recognised in Other income in the profit and loss account immediately (presented in the segment Netherlands Non-life). The (negative) goodwill is not taxable.

	Acquisition date
Acquisition-related costs recognised as expense	9
Total income recognised in profit and loss since date of acquisition	529
Net profit recognised in profit and loss since date of acquisition	27
Total income that would have been recognised in profit and loss if acquired from the start of the year[1]	736
Net profit that would have been recognised in profit and loss if acquired from the start of the year[2]	31

1 The sum of Total income since the date of acquisition plus the first quarter 2020 Total income for VIVAT Non-life stand-alone.

2 The sum of Net profit since the date of acquisition plus the first quarter 2020 Net profit for VIVAT Non-life stand-alone.

No significant acquisition-related costs were recognised on this transaction. The financial assets acquired do not include any significant receivables, other than investments in debt securities and Loans. There were no significant contingent liabilities that were recognised at the date of acquisition.

Notes to the Consolidated annual accounts continued

45 Companies and businesses acquired and divested continued

Divestments (2020)

Sigorta Cini

In December 2020, NN Group sold Sigorta Cini, the intermediary business in Turkey, to BUBA Ventures. The transaction, which was completed in December 2020, did not have a material impact on the result and capital position of NN Group.

Disposals announced in 2021

Bulgaria

In February 2021, NN Group announced that it has reached an agreement with KBC Group N.V. (KBC) to sell its Bulgarian operations for a total consideration of EUR 77.7 million to KBC's Bulgarian insurance business DZI. The sale is not expected to have a significant impact on the net result, equity or the Solvency II ratio of NN Group. The transaction is subject to regulatory and antitrust approvals and is expected to close in the course of 2021.

Acquisitions (2019)

Aegon's Life Insurance business in the Czech Republic and Aegon's Life Insurance and Pension businesses in Slovakia

In the first quarter of 2019, NN Group acquired all issued and outstanding ordinary shares of Aegon's Life Insurance business in the Czech Republic and Aegon's Life Insurance and Pension businesses in Slovakia for a total consideration of EUR 155 million. NN Group acquired multiple legal entities. As these legal entities are individually and in aggregate not material to NN Group, the disclosures contained in this note are on an aggregated basis, unless specifically indicated.

Included below is an overview of the transaction, the rationale for the transaction, the accounting at the acquisition date and certain additional disclosures on the acquisition.

Overview of transaction

In August 2018, NN Group announced that it had reached an agreement to acquire Aegon's Life Insurance business in the Czech Republic and Aegon's Life Insurance and Pension businesses in Slovakia (the businesses acquired) for a total consideration of EUR 155 million. The transaction was closed on 8 January 2019.

This transaction is in line with NN Group's strategy to achieve profitable growth and value creation. This bolt-on acquisition is expected to strengthen NN Group's position in the Life insurance market and its distribution network in the Czech Republic and Slovakia and is expected to further strengthen NN Group's leading position in the Slovak pension market.

Accounting at the acquisition date

The acquisition date for the acquired businesses by NN Group for acquisition accounting under IFRS is 8 January 2019. On this date, NN Group acquired 100% of the ordinary shares of the relevant entities and thus obtained control. NN Group used 1 January 2019 as a proxy for the acquisition date for practical reasons. As a result, the businesses are included in the NN Group consolidation as of 1 January 2019.

The values of certain assets and liabilities acquired as at 1 January 2019 as disclosed below differ from the values of the assets and liabilities in the balance sheet of the businesses immediately before the acquisition by NN Group. This results from differences between the accounting previously applied and the acquisition accounting at fair value as required under IFRS. The difference relates mainly to the valuation of insurance liabilities.

At the acquisition date, the fair value as defined by IFRS of the Insurance liabilities was calculated. The fair value of insurance liabilities differs from the book value as previously reported. The fair value of the insurance liabilities was determined based on the estimated price that a market participant would charge to assume the insurance liabilities of the businesses in an orderly transaction at the measurement date. In arriving at the fair value of the insurance liabilities, future cash flows were estimated using current best estimate actuarial assumptions. Relevant observable input data was used as far as possible. These estimated future cash flows were discounted using a current market rate to reflect the time value of money. Subsequently, a risk margin was added for the compensation that a market participant would require for assuming the risks and uncertainties relating to these insurance liabilities. This compensation was calculated using the cost of capital approach.

Whilst the determination of the fair value of the insurance liabilities involved estimates and expert judgement, there are no elements in the valuation where using reasonably supportable alternative assumptions would have had a material impact on NN Group.

In accordance with IFRS 4 and in line with NN Group's accounting policies, NN Group opted to recognise the difference between the fair value and the existing book value of the insurance liabilities as an asset (Value of Business Acquired, or 'VOBA') and to report the Liabilities for insurance contracts in the balance sheet at the existing book values.

No significant acquisition intangibles (other than VOBA) were recognised and no significant adjustments were made to the valuation of assets and liabilities other than insurance liabilities.

The fair value of the total purchase consideration was EUR 155 million. This was fully paid in cash.

Notes to the Consolidated annual accounts continued

45 Companies and businesses acquired and divested continued

Acquisition date fair values of the assets and liabilities acquired (2019)

	Acquisition date
Cash paid to acquire shares	-155
Cash in company acquired	32
Cash flow on acquisition	**-123**

	Acquisition date
Assets	
Cash and cash equivalents	32
Financial assets at fair value through profit or loss:	
– investments for risk of policyholders	193
Available-for-sale investments	51
Intangible assets	181
Other assets	13
Total assets	**470**
Liabilities	
Insurance and investment contracts	239
Other liabilities	44
Total liabilities	**283**
Net assets acquired	**187**
Fair value of purchase consideration	155
Fair value of net assets acquired	187
Difference	**-32**

In the second quarter 2019, the presentation of certain amounts in the acquisition balance sheet was updated. There was no net impact on Net assets acquired.

For the pension business in Slovakia the purchase consideration paid was EUR 1 million higher than the net assets acquired; the difference represents goodwill. This goodwill is capitalised in the NN Group balance sheet; it is not amortised but will be tested for impairment at least annually going forward.

For the business in the Czech Republic and the life insurance business in Slovakia the purchase consideration paid was in total EUR 33 million lower than the net assets acquired; the difference represents negative goodwill. This negative goodwill is recognised in Other income in the profit and loss account immediately (presented in the segment Insurance Europe).

The (negative) goodwill is not taxable.

Other information

	Acquisition date
Total income recognised in profit and loss since date of acquisition	112
Net profit recognised in profit and loss since date of acquisition	2

No significant acquisition-related costs were recognised on this transaction.

As 1 January 2019 is used as the date of acquisition and, therefore, the results of the acquired businesses are included in the NN Group consolidation for the full period, no separate disclosure is relevant for the amounts that would have been recognised if the transaction had occurred at the start of the year.

The financial assets acquired do not include any significant receivables, other than investments in debt securities.

There were no significant contingent liabilities related to the businesses that were recognised at the date of acquisition.

46 Structured entities

NN Group's activities involve transactions with structured entities in the normal course of business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed through contractual arrangements. NN Group's involvement in these entities varies and includes both debt financing and equity financing of these entities as well as other relationships. Based on its accounting policies, as disclosed in Note 1 'Accounting policies', NN Group establishes whether these involvements result in no significant influence, significant influence, joint control or control over the structured entity.

The structured entities over which NN Group can exercise control are consolidated. NN Group may provide support to these consolidated structured entities as and when appropriate, however, this is fully reflected in the Consolidated annual accounts of NN Group as all assets and liabilities of these entities are included in the Consolidated balance sheet and off-balance sheet commitments are disclosed.

NN Group's activities involving structured entities are explained below in the following categories:
- Consolidated NN Group originated liquidity management securitisation and covered bond programmes
- Investments – NN Group managed investment funds
- Investments – Third-party managed structured entities

Consolidated NN Group originated liquidity management securitisation and covered bond programmes

Mortgage loans issued are partly funded by issuing residential mortgage-backed securities under NN Group's Dutch residential mortgage-backed securities programmes (Hypenn and Arena) and covered bonds. The mortgage loans transferred to these securitisation vehicles continue to be recognised in the balance sheet of NN Group. Total amounts of mortgage loans securitised (notes issued) and notes held by third parties as at 31 December is as follows:

Mortgage loans securitised

	Maturity year	Related mortgage loans		RMBS issued and held by third parties	
		2020	2019	2020	2019
Arena NHG 2014-II	2020		448		335
Arena NHG 2016-I	2021	337	413	223	289
Hypenn RMBS I	2023	1,304	1,304		
Hypenn RMBS IV	2020		401		341
Hypenn RMBS V	2021	307	378	283	334
Hypenn RMBS VI	2022	578	700	385	441
Hypenn RMBS VII	2026	1,918			
NN Conditional Pass-Through Covered Bond Company	2024-2039	2,923	2,963	2,585	2,585
Soft Bullet Covered Bonds	2030-2040	1,548		1,244	
Total		**8,915**	**6,607**	**4,720**	**4,325**

NN Group companies hold the remaining notes.

NN Group managed investment funds

NN Group originates investment funds. NN Group may hold investments in these funds for its own account through the general account investment portfolio of the insurance operations. Other investments in these funds may be held for the risk of policyholders or by third parties. For the majority of these funds, NN Group also acts as the fund manager. NN Group considers both NN Group's financial interests for own risk and its role as asset manager to establish whether control exists and whether the fund is consolidated. In general, NN Group maintains a minority interest in these funds and NN Group receives a fixed fee over assets under management, at arm's length basis, for its asset management activities. These funds are generally not consolidated by NN Group. Financial interests for risk of policyholders are not taken into account when the policyholders decide on the investment allocations of their insurance policies (i.e. the policyholder has the 'power') and assume all risks and benefits on these investments (i.e. the policyholder assumes the variable returns).

Reference is made to Note 5 'Available-for-sale investments' in which investments in equity securities are specified by NN Group managed investment funds and Third-party managed investment funds. The maximum exposure to loss for NN Group is equal to the reported carrying value of the investment recognised in the balance sheet of NN Group.

46 Structured entities continued

Third-party managed structured entities
As part of its investment activities, NN Group invests both in debt and equity instruments of structured entities originated by third parties.

Most of the investments in debt instruments of third-party managed structured entities relate to Asset-backed securities (ABS), classified as loans. Reference is made to Note 5 'Available-for-sale investments' where the ABS portfolio is disclosed.

The majority of the investments in equity instruments of third-party managed structured entities relate to interests in investment funds that are not originated or managed by NN Group. Reference is made to Note 5 'Available-for-sale investments' in which investments in equity securities are specified by NN Group managed investment funds and Third-party managed investment funds.

NN Group has significant influence for some of its real estate investment funds as disclosed in Note 7 'Associates and joint ventures'.

The maximum exposure to loss for NN Group is equal to the reported carrying value of the investment recognised in the balance sheet of NN Group.

47 Related parties
In the normal course of business, NN Group enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of NN Group include, among others, associates, joint ventures, key management personnel and the defined benefit and defined contribution plans. Transactions between related parties have taken place on an arm's length basis and include distribution agreements, sourcing and procurement agreements, human resources-related arrangements, and rendering and receiving of services.

There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

NN Group identifies the following (groups of) related party transactions:

Transactions with key management personnel
Transactions with members of NN Group's Executive Board, Management Board and Supervisory Board are considered to be transactions with key management personnel. Reference is made to Note 48 'Key management personnel compensation' for more information on these transactions.

Transactions with consolidated entities
Entities over which NN Group can exercise control are considered to be related parties of NN Group. These entities are consolidated by NN Group. Transactions with or between entities controlled by NN Group are eliminated in the Consolidated annual accounts. More information on the NN Group originated liquidity management securitisation programmes is disclosed in Note 46 'Structured entities'.

Transactions with associates and joint ventures
Associates and joint ventures of NN Group are related parties of NN Group. The transactions with associates and joint ventures can be summarised as follows:

Transactions with associates and joint ventures

	2020	2019
Assets	205	186
Income	5	5

Transactions with post-employment benefit plans
Entities administering or executing post-employment benefit plans of the employees of NN Group are considered to be related parties of NN Group. This relates to NN Group's pensions funds, i.e. the ING Group DB pension fund (joint with ING Bank), the Stichting Pensioenfonds Delta Lloyd, the NN CDC pension fund in the Netherlands and Instelling voor Bedrijfspensioenvoorziening Delta Lloyd Life OFP in Belgium. For more information on the post-employment benefit plans, reference is made to Note 28 'Staff expenses'.

Transactions with other related parties
Investment funds
Other related parties include NN Group managed investment funds. Reference is made to Note 46 'Structured entities' for more information.

Pension entities
NN Group operates several pension entities in the Netherlands, including BeFrank PPI N.V. and De Nationale Algemeen Pensioenfonds. For these entities, all asset management and other services are provided by NN Group entities on an arm's length basis. NN Group has no financial interest in the pension schemes that are executed by these entities. These entities are considered related parties.

Notes to the Consolidated annual accounts continued

48 Key management personnel compensation

Transactions with key management personnel (Executive Board, Management Board and Supervisory Board) are transactions with related parties. These transactions are disclosed in more detail as required by Part 9 Book 2 of the Dutch Civil Code in sections II and III in the remuneration report in the financial report. These sections of the remuneration report are therefore part of the annual accounts.

2020
Executive Board and Management Board (2020)

amounts in thousands of euros	Executive Board	Management Board[3]	Total
Fixed compensation:			
– base salary (cash)	2,557	3,376	5,933
– base salary (fixed shares)	639		639
– pension costs[1]	48	148	196
– individual saving allowance[1]	693	628	1,321
Variable compensation:			
– upfront cash	107	392	499
– upfront shares	107	392	499
– deferred cash	159	494	653
– deferred shares	159	589	748
Other[2]		95	95
Fixed and variable compensation	**4,469**	**6,114**	**10,583**
Other benefits	367	711	1,078
Employer cost social security[4]	131	200	331
Total compensation	**4,967**	**7,025**	**11,992**

1 The pension costs consist of an amount of employer contribution (EUR 196 thousand) and an individual savings allowance (EUR 1,321 thousand, which is 23.3% of the amount of base salary above EUR 110,111.

2 For the NN Investment Partners business, 50% of deferred awards are made in a deferred investment in funds managed by the business instead of awarding deferred cash. In this way, alignment of interests is achieved between staff working in the NN Investment Partners business and the clients who invest in funds managed by that business.

3 Bernhard Kaufmann was appointed Chief Risk Officer and Member of the Management Board NN Group on 1 June 2020. Leon van Riet was appointed CEO Netherlands Life & Pensions and Member of the Management Board NN Group on 1 June 2020.

4 The employer cost social security do not impact the overall remuneration received by the Executive Board and Management Board members.

In the table above, 'Executive Board' refers to the two members of the Executive Board as at 31 December 2020. The two members of the Executive Board are also members of the Management Board. In the table above, 'Management Board' refers to the seven members of the Management Board as at 31 December 2020, i.e. those members that are not also member of the Executive Board. In the table above 'Total' refers to all members of the Management Board during 2020.

Remuneration of the members of the Executive Board and the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. The total remuneration as disclosed in the table above (for 2020: EUR 12.0 million) includes all variable remuneration related to the performance year 2020. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in staff expenses in 2020 and therefore included in 'Total expenses' in 2020, relating to the fixed expenses of 2020 and the vesting of variable remuneration of 2020 and earlier performance years, is EUR 10.7 million.

As at 31 December 2020, members of the Executive Board and Management Board held a total of 124,172 NN Group N.V. shares.

In 2020, 40,278 share awards on NN Group N.V. (both deferred and upfront) were granted to the Executive Board and Management Board.

Supervisory Board (2020)

amounts in thousands of euros	Supervisory Board
Fixed fees	870
Expense allowances	73
Compensation Supervisory Board	**943**

The above mentioned amounts include VAT of EUR 164 thousand for 2020. NN Group does not provide for any pension arrangement, termination arrangements (including termination or retirement benefits) or variable remuneration, for members of the Supervisory Board.

As at 31 December 2020, members of the Supervisory Board held no NN Group N.V. shares.

Notes to the Consolidated annual accounts continued

48 Key management personnel compensation continued

Loans and advances to members of the Executive Board and Management Board (2020)

amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Executive Board members	320	5.10%	95
Management Board members	476	1.71%	95
Loans and advances	**796**		**190**

As at 31 December 2020, no loans and advances were provided to members of the Supervisory Board.

2019
Executive Board and Management Board (2019)

amounts in thousands of euros	Executive Board[3]	Management Board[4]	Total
Fixed compensation:			
– base salary (cash)	2,341	3,604	5,945
– base salary (fixed shares)	585		585
– pension costs[1]	49	175	224
– individual saving allowance	710	747	1,457
Variable compensation:			
– upfront cash	71	322	393
– upfront shares	71	322	393
– deferred cash	106	405	511
– deferred shares	106	483	589
Other[2]		78	78
Fixed and variable compensation	**4,039**	**6,136**	**10,175**
Other benefits	367	616	983
Employer cost social security[5]	125	225	350
Total compensation	**4,531**	**6,977**	**11,508**

1 The pension costs consist of an amount of employer contribution (EUR 224 thousand) and an individual savings allowance (EUR 1,457 thousand, which is 28.4% of the amount of base salary above EUR 107,593 for the period between January and June and 23,3% of the amount of base salary above EUR 107,593 for the period between July and December).

2 For the NN Investment Partners business, 50% of deferred awards are made in a deferred investment in funds managed by the business instead of awarding deferred cash. In this way, alignment of interests is achieved between staff working in the NN Investment Partners business and the clients who invest in funds managed by that business.

3 Mr Knibbe was appointed by the Supervisory Board as member and chair of the Executive Board and CEO of NN Group on 1 October 2019. He succeeded Mr Friese, who stepped down as member and chair of the Executive Board and CEO of NN Group as of 12 August 2019.

4 As per 30 September 2019, Mr Knibbe stepped down from his position as CEO of NN Netherlands. As per 31 December 2019, Mr Erasmus stepped down from his position in the Management Board.

5 The employer cost social security do not impact the overall remuneration received by the Executive Board and Management Board members.

In the table above, 'Executive Board' refers to the two members of the Executive Board as at 31 December 2019. The two members of the Executive Board are also members of the Management Board. In the table above, 'Management Board' refers to the six members of the Management Board as at 31 December 2019, i.e. those members that are not also member of the Executive Board. In the table above 'Total' refers to all members of the Management Board during 2019.

Remuneration of the members of the Executive Board and the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. The total remuneration as disclosed in the table above (for 2019: EUR 11.5 million) includes all variable remuneration related to the performance year 2019. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in staff expenses in 2019 and therefore included in 'Total expenses' in 2019, relating to the fixed expenses of 2019 and the vesting of variable remuneration of 2019 and earlier performance years, is EUR 11.8 million.

As at 31 December 2019, members of the Executive Board and Management Board held a total of 120,559 NN Group N.V. shares.

In 2019, 30,801 share awards on NN Group N.V. (both deferred and upfront) were granted to the Executive Board and Management Board.

Notes to the Consolidated annual accounts continued

48 Key management personnel compensation continued

Supervisory Board (2019)

amounts in thousands of euros	Supervisory Board
Fixed fees	794
Expense allowances	69
International attendance fees	160
Compensation Supervisory Board	**1,023**

The above mentioned amounts include VAT of EUR 177 thousand for 2019. NN Group does not provide for any pension arrangement, termination arrangements (including termination or retirement benefits) or variable remuneration, for members of the Supervisory Board.

As at 31 December 2019, members of the Supervisory Board held no NN Group N.V. shares.

Loans and advances to members of the Executive Board and Supervisory Board (2019)

amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Executive Board members	415	5.09%	80
Supervisory Board members	427	3.68%	
Loans and advances	**842**		**80**

As at 31 December 2019, no loans and advances were provided to members of the Management Board.

49 Fees of auditors

Fees of auditors

	2020	2019
Audit fees	17	17
Audit related fees	2	1
Fees of auditors	**19**	**18**

Fees as disclosed above relate to the network of the NN Group's auditors and are the amounts related to the respective years, i.e. on an accrual basis (excluding VAT).

The audit related fees include the services in relation to prospectuses, internal control reports provided to external parties and reporting to regulators.

Auditor fees are included in 'External advisory fees' as part of the Other operating expense.

50 Subsequent events

Disposal Bulgarian operations

On 11 February 2021, NN Group announced that it has reached an agreement to sell its Bulgarian operations. Reference is made to Note 45 'Companies and businesses acquired and divested' in the 2020 Consolidated annual accounts.

Share buyback programme

On 18 February 2021, NN Group announced that it will execute an open market share buyback programme for an amount of EUR 250 million. The programme will be executed within 12 months and commenced on 1 March 2021. The share buyback will be deducted in full from Solvency II Own Funds in the first half of 2021 and is estimated to reduce NN Group's Solvency II ratio by approximately 3%-points. It will be deducted from IFRS shareholders' equity when the actual buyback transactions occur.

51 Risk management

Introduction

Accepting and managing risks is an integral part of insurance, banking and investment management business and therefore, risk management is fundamental. Appropriate risk management enables NN Group to meet obligations towards clients, regulators and other stakeholders.

NN Group has a Risk Management System in place that has been designed as a dynamic and integrated system to manage risks as part of our business. Our Risk Management System consists of Risk Governance that supports a continuous Risk Control Cycle. In what follows, we first describe the impact of the Covid-19 pandemic on NN Group during 2020. After that, we describe our Risk Management System and then NN Group's risk profile.

Covid-19 pandemic

Since early 2020, the spread of the Covid-19 pandemic is causing significant disruption to society and the economy, impacting NN Group, its customers, employees and other stakeholders. Financial markets have been impacted by significant volatility and the broader world-wide economy has been significantly impacted by (partial) lockdowns and other social distancing measures. Governments and central banks worldwide are responding to the macroeconomic impact of this crisis with aid packages and further support measures. The most significant Covid-19 related risks that NN Group is facing in the current context are related to the political and regulatory environment (how governments and supervisors respond to the crisis), volatility in financial markets (including interest rates, equity prices and spreads) and operational risk (continuity and security of business processes). While the impact of the crisis on society as a whole is significant, NN Group so far has shown to be relatively resilient to financial markets volatility mainly due to our conservative investment strategy, close matching of assets and liabilities, and sufficient capital levels. The impact of the Covid-19 pandemic has tested our resilience towards business disruption. While some of our businesses were confronted with operational issues in the first weeks, most of staff are able to work from home, and our business continues as usual using remote working and digital channels. NN Group is constantly monitoring the developments and the (potential) impact on NN Group.

As a response to first wave of the Covid-19 pandemic in March 2020, NN Group activated its crisis governance, to actively manage NN Group's response. A dedicated Covid-19 coordination team met on a daily basis to monitor developments in different areas, discuss our response, and set into motion required actions. The Covid-19 coordination team has regular contact with all internal and external stakeholders, such as with supervisors DNB and AFM, senior management and employees, to communicate any changes to corporate policies, remedial actions required and regular progress reporting.

NN Group applies increased monitoring in several areas of our company:
- Monitoring business continuity and IT security: To make sure that customers can be serviced in a normal way using our digital channels, where necessary via accelerated digital initiatives, to ensure that NN Group's employees could work safely from home and to make sure financial market operations and payments could continue as normally as possible, while potential IT (security) risks are mitigated.
- Increased monitoring of financial markets: To make sure financial positions are monitored, and losses avoided or mitigated, several financial indicators related to volatility and liquidity of markets are monitored, for example on interest rates, equities, implied volatility of bond markets, etc. Furthermore, we applied stress testing and scenario analysis to assess impact of financial market developments on our solvency and liquidity positions.
- Monitoring of client related aspects: Monitoring morbidity and mortality rates (customers passing away due to Covid-19), lapse and pre-payment behaviour, and whether products still fit customer' needs.
- Monitoring of third parties and business partners: To ensure that our outsourced services are taking place according to service levels, and to ensure that our sales and support networks via tied agents and brokers remains healthy, where necessary with extra measures taken.

We will continue to monitor further developments related to the Covid-19 pandemic, and adjust our crisis response accordingly. Where relevant, in the rest of this Note 51 we discuss the impact of the Covid-19 pandemic on the different risk types in more detail.

Risk Governance

NN Group's risk governance follows the 'three lines of defence' concept, which outlines the decision-making, execution and oversight responsibilities for NN Group's risk management. This structure has been embedded at both Head Office and Business Unit level.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Three lines of defence concept

The three lines of defence concept defines three risk management levels, each with distinct roles, decision authorities, execution responsibilities and oversight responsibilities. This concept helps to ensure that risk is managed in line with the risk appetite as defined by the Executive Board, ratified by the Supervisory Board and cascaded throughout NN Group.

- **First line of defence consists of** the CEO of NN Group and the CEOs of the Business Units, as well as their management board members that collectively make business decisions, with primary accountability for financial performance, sales, operations, investments, compliance and related risks affecting their businesses. They design and sell products that reflect local needs and thus know their customers and are well-positioned to act in both the customers' and NN Group's best interest.
- **Second line of defence consists** of independent oversight functions at the Head Office and at BU level, most notably risk management, model validation, actuarial, compliance and legal functions. Those functions support the commercial departments in their decision-making, but also provide sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. Second line functions have the following responsibilities:
  - Developing the policies, standards, guidance and charters for their specific risk and control area
  - Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinate the reporting of risks
  - Supporting the first line of defence in making proper risk-return trade-offs
  - Escalation power in relation to business activities that are judged to present unacceptable risks to NN Group
- **Third line of defence:** Corporate Audit Services (CAS) provides independent assurance on the effectiveness of NN Group's business and support processes, including governance, quality of risk management and quality of internal controls. They assess first line of defence activities as well as second line of defence activities.

Executive management – First line of defence

Management of our Business Units takes business decisions and are the primary risk takers in our company. They are also responsible, both on the executive as well as process level of the organisation, to properly manage risks on a day to day business.

Executive Board and Management Board

The Executive Board is responsible for ensuring that the company has adequate internal risk management and control systems in place so that it is aware, in good time, of any material risks run by the company and that these risks can be managed properly. While the Executive Board retains responsibility for NN Group's risk management, it has entrusted the day-to-day management and the overall strategic direction of the company, including the management of the structure, operation and effectiveness of NN Group's internal risk management and control systems, to the Management Board.

Supervisory Board and its committees

The Supervisory Board is responsible for supervising the management of the Executive Board and the general course of affairs of NN Group and its businesses. The Supervisory Board also assists the Executive Board with advice. For supervising, advising and monitoring the Executive Board, the Supervisory Board is assisted by two committees:

- The Risk Committee focuses on (1) NN Group's risk appetite, risk strategy and policies, (2) risk exposures resulting from the strategy and business plan, such as significant acquisitions and divestments, (3) the design, operation and effectiveness of the internal risk management and control systems of the group and (4) NN Group's public disclosures on risk and risk management.
- The Audit Committee focuses on, to the extent relating to financial reporting, (1) the design, operation and effectiveness of the internal risk management and control systems; (2) the integrity and quality of the financial reporting process including risks related to IT (security); and (3) the periodic financial reports and any ad hoc financial information. As part of this role, the Audit Committee evaluates the findings and outcome as reported by the internal auditor CAS and external auditor with regard to governance, risk management and internal control. The Audit Committee is the principal contact for the external auditor, including matters such as (re)appointment, remuneration and monitoring independence.

For more details on these two committees, read more in the section 'Report of the Supervisory Board' of this Annual Report.

NN Group consists of a Head Office that gives direction toward Business Units around risk taking via the Risk Policy Framework and Risk Appetite framework (see Risk control cycle step 1: Risk strategy). NN Group's risk policy framework ensures that all risks are managed consistently and that NN Group as a whole operates within set risk appetite and related risk limits and tolerances. The policies and minimum standards focus on risk measurement, risk management and risk governance. Policies and standards have to be approved by the Management Board of NN Group. Any potential waivers to Group policies or standards require delegated approval of the CRO and General Counsel.

Business Units may independently perform all activities that are consistent with the strategy of NN Group and the approved (three year) business plan (the 'Business Plan') as long as they are consistent with the internal risk management and control frameworks, applicable laws and regulations, applicable collective agreements, NN Group's risk appetite, NN Group Values, and provided that these activities are not under the decision-making authority of the Management Board. Each business unit is expected to operate transparently and must provide all relevant information to the relevant Management Board members and Support Function Head(s) at Head Office.

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51 Risk management continued

The business unit CEOs are responsible for:
- Execution of the strategy and the financial performance, of business and operational activities, in their respective area, as well as the related risks
- Ensuring that the business is run in compliance with laws and regulations, NN Group policies and standards and internal controls
- Fulfilling their statutory responsibilities
- Operating a sound internal risk and control system and operating in accordance with NN Group's values
- Sustainability of the corresponding business unit in the long term

Regular interaction between Head Office and Business Units risk functions takes place with respect to, amongst others, product approval, mandate approval, risk limit setting, risk reporting, Own Risk and Solvency Assessment (ORSA), policy setting and implementation monitoring, model and assumption review and validation. These interactions cover all types of risks, both financial and non-financial risks.

Ad-hoc interactions also take place when a Business Unit proposes a material business initiative for which any Management Board member has the right to initiate a risk review. A risk review may also be initiated to investigate a significant incident or unexpected significant adverse business performance in and by Business Units. A risk review is an in-depth risk analysis of the object in scope concluded with a risk opinion and advice when and where relevant.

Control and Support Functions - Second line of defence

Risk Management Function:
Within the Management Board, the chief risk officer (CRO) is entrusted with the day-to-day execution of the Risk Management Function, while the Legal function and Compliance function fall within the responsibility of the General Counsel. In the period January-May 2020, the Group CFO acted as Group CRO on an interim basis. From 1 June 2020 onwards, a dedicated CRO took office.

The NN Group CRO steers an independent risk organisation which supports the first line in their decision-making, but which also has sufficient countervailing power to prevent excessive risk taking. The NN Group CRO is also responsible for the organisation of Group Risk at Head Office level. Each business unit has its own CRO, who reports hierarchically to the BU CEO, and has a functional line to the NN Group CRO. The NN Group CRO must ensure that both the Management Board and the Supervisory Board are at all times informed of, and understand the material risks to which NN Group is exposed.

Responsibilities of the Risk Management Function include:
- Setting and monitoring compliance with NN Group's overall risk policies issued by the Risk Management Function
- Formulating NN Group's risk management strategy and ensuring that it is implemented throughout NN Group
- Supervising the operation of NN Group's risk management and business control systems
- Reporting of NN Group's risks, as well as the processes and internal controls
- Making risk management decisions with regard to matters which may have an impact on the financial results of NN Group or its reputation, without limiting the responsibility of each individual member of the Management Board in relation to risk management
- Sharing best practices across NN Group

Group Risk supports the NN Group CRO in the execution of his duties and responsibilities. To ensure solid understanding, oversight, and support to the Business Units, the span of control of the NN Group CRO is strengthened by a Risk Oversight department at Group level. Risk governance and frameworks, as well as internal and external risk reporting, is supported by the Enterprise Risk Management (ERM) team. Specialised Financial Risk Management and Operational Risk Management teams provide extra emphasis to the management of those risk types.

Model Validation Function:
NN Group's Model Validation aims to ensure that NN Group's models are fit for their intended purpose. For this purpose, Model Validation carries out validations of risk and valuation models in particular those related to Solvency II. Any changes to models that have an impact larger than certain pre-set materiality thresholds require approval from either the Group CRO, Group CFO, or the NN Group Management Board.

Model validation is not a one-off assessment of a model, but an ongoing process whereby the reliability of the model is verified at different stages during its life cycle: at initiation, before approval, when the model has been redeveloped or modified, and on a regular basis, based on a planning discussed and agreed with Model Development. It is not only a verification of the mathematics and/or statistics of the model but encompasses both a quantitative and qualitative assessment of the model. Accordingly, the validation process covers a mix of developmental evidence assessment, process verification and outcome analysis.

The validation cycle determines the maximum period between two model validations, which can be up to five years. This means that each model in scope will be independently validated at least once within the validation cycle. In general, the length of the validation cycle relates to the relative materiality of the models in scope. Model Validation can also start validating before the due date, for example following specific portfolio/market developments or regulatory changes. Materiality of a model is determined based on quantitative and qualitative criteria. Quantitative criteria relate amongst others to a percentage of Market Value of Liabilities/Assets, or Solvency Capital Requirement. Qualitative criteria cover model complexity, strategic importance and other factors. Depending on materiality of the model, as well as the severity of findings resulting from a model validation, models receive a Validation Opinion. Models with severe findings require remedial actions by management, such as further adjustments of the model.

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51 Risk management continued

Compliance Function:
To effectively manage business conduct risk, NN Group has a Compliance Function attributed to the General Counsel, member of the Management Board, who has delegated the responsibility for day-to-day management of the Compliance Function to the Chief Compliance Officer. The Compliance Function is positioned independently from the business it supervises. This independent position is, amongst others, warranted by independent reporting, unrestricted access to senior management as well as structural, periodic meetings with the CEO and the Chairman of the Risk Committee of the Supervisory Board. Within NN Group's broader risk framework, the purpose of the Compliance Function is to:

- Understand and advocate rules, regulations and laws for the effective management of risks in scope of the compliance function
- Proactively work with and advise the business to manage business conduct and customer suitability risk throughout our products' life cycle and our business' activities to meet stakeholder expectations
- Develop and enhance tools to strengthen the three lines of defence to detect, communicate, manage and to report on business conduct risks
- Support NN Group's strategy by establishing clear roles and responsibilities to help embed good compliance practices throughout the business by using a risk based approach to align business outcomes with NN Group's risk appetite
- Deepen the culture of compliance by partnering with the business to increase the culture of trust, accountability, transparency and integrity in evaluating, managing and in reporting on business conduct risk
- Monitor that management and employees act in accordance with NN Group's policies and standards in scope of the function, as well as related laws and legislation

At the business unit level, management establishes and maintains a Compliance Function and appoints a Local Compliance Officer (LCO). The LCO hierarchically reports to the CEO or the business unit Head of Legal & Compliance or in exceptional cases the CRO.

The LCOs have a functional reporting line to the Chief Compliance Officer. If business unit management wants to deviate from the Compliance charter management must first obtain a waiver from the Chief Compliance Officer who will first consult the General Counsel.

Actuarial Function:
The primary objective of the Actuarial Function, who reports hierarchically to the CFO and functionally to the CRO, is to ensure that technical provisions (under Solvency II and IFRS) are reliable and adequate, and as such that NN Group is able to meet its obligations towards policyholders and to protect NN Group from loss or reputational damage.

The Actuarial Function operates within the context of NN Group's broader Risk Management System. Within this system, the role of the Actuarial Function is to:

- Understand and advocate the rules, regulations and laws for effective management of the calculation process of technical provisions, covering elements such as data quality, assumption setting, models and methods, as well as underwriting and reinsurance arrangements; proactively advise the business to manage the risk of unreliable and inadequate technical provisions
- Inform management and the supervisory board on its opinion on the adequacy and the reliability of the technical provisions, the adequacy of reinsurance arrangements and the underwriting policy at least on an annual basis through the Actuarial Function Report
- Develop and enhance tools to strengthen the three lines of defence to detect, communicate, manage and to report on risks related to unreliable or inadequate technical provisions
- Support NN Group's strategy by establishing clear roles and responsibilities to help embed good (actuarial) practices throughout the organisation by using a risk-based approach to align insights with NN Group's risk appetite
- Strengthen the culture of professional risk management by challenging management and experts to increase the culture of trust, accountability, transparency and integrity in evaluating, managing and reporting on risks to unreliable or inadequate technical provisions

Control and Support Functions - Third line of defence

Internal Audit Function:
Corporate Audit Services NN Group, the internal audit department within NN Group, is an independent assurance function and its responsibilities are established by the Executive Board of NN Group, pre-discussed with the Audit Committee and approved by the Supervisory Board of NN Group. CAS independently assesses the effectiveness of the design of the organisation and the quality of procedures and control measures. CAS is an essential part of the corporate governance structure of NN Group.

CAS keeps in close contact with home and local supervisors and regulators as well as with the external auditor via regular meetings in which current (audit) issues are discussed, as well as internal and external developments and their impact on NN Group and CAS. CAS also exchanges information like risk assessments and relevant (audit) reports.

The General Manager and staff of CAS are authorised to:

- Obtain without delay, from General Managers within NN Group, information on any significant incident concerning NN Group's operations including but not limited to security, reputation and/or compliance with regulations and procedures

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51 Risk management continued

- Obtain without delay, from responsible managers within NN Group, a copy of all letters and reports received from external review agencies (e.g. external auditor, supervisors, regulators and other agencies providing assurance related services)
- Have free, full, unrestricted and unfettered access, at any time deemed appropriate, to all NN Group departments, offices, activities, books, accounts, records, files, information. CAS must respect the confidentiality of (personal) information acquired
- Require all NN Group staff and business management to supply such information and explanations, as may be needed for the performance of assessments, within a reasonable period of time
- Allocate resources, set frequencies, select subjects, determine scope of work and apply appropriate techniques required to accomplish the CAS's objectives
- Obtain the necessary assistance of personnel in various departments/offices of NN Group where CAS performs audits, as well as other specialised/professional services where considered necessary from within or outside NN Group. CAS should exercise its authority with the minimum possible disruption to the day-to-day activities of the area being assessed

In compliance with the Dutch Corporate Governance Code, the Executive Board is responsible for the role and functioning of CAS, supervised by the Supervisory Board, supported by the Audit Committee. The General Manager of CAS is accountable to the CEO and functionally to the chair of the Audit Committee. On a day-to-day basis the General Manager of CAS reports to the CEO.

Risk Control Cycle

NN Group's business environment exposes NN Group to inherent risks and obligations. As such, the environment determines the playing field and rules against which to calibrate risk management activities. These activities are carried out within NN Group's risk appetite and framework.

Every employee has a role in identifying risk in their area of responsibility and to manage risk in a proactive way. It is paramount to know which risks we take and why, to be aware of large existing and emerging risks and to ensure an adequate return for the risk assumed in the business.

NN Group's risk control cycle consists of four steps, supported by a sound risk culture. The cycle starts with (1) setting business and risk objectives, resulting in a risk strategy (risk appetite, policies and standards). The next steps of the cycle are: (2) to identify and assess the risks that need to be managed; followed (3) by effective mitigation through controls; and (4) continuous monitoring effectiveness of controls, including reporting of risk levels.

The risk control cycle ensures that BUs and NN Group operate within the risk appetite. The risk control cycle supports the Business Plan/financial control cycle and the performance management/HR cycle which enable BUs and NN Group to meet its business objectives.

Figure 1: the risk control cycle

Step 1 of the risk control cycle: Risk Strategy

NN Group's risk appetite is the key link between NN Group's strategy, capital plan and regular risk management as part of business plan execution. NN Group's risk appetite, and the related risk limits and tolerances, is established in conjunction with the business strategy.

The Risk Appetite Statements define how NN Group weighs strategic decisions and communicates its strategy to key stakeholders and BU CEOs with respect to accepting risk. The statements are not hard limits; they describe how NN Group wants to avoid unwanted or excessive risk taking, and aim to optimise use of capital. Risk limits and tolerances are the qualitative and quantitative boundaries for risk taking and are derived in a consistent way from the risk appetite statements.

NN Group expresses its risk appetite via three key risk appetite statements, which are then internally detailed further into ten sub-statements, relevant risk limits and tolerances, control objectives and reporting. These three statements are intended to also be aligned with the NN Group's five strategic commitments focused on creating long-term value for all stakeholders:

Risk Appetite Statement	Description
Strategic Challenges (Shaping the business)	We manage our portfolio of businesses on a risk-return basis to meet our strategic objectives whilst considering the interests of all stakeholders.
Strong Balance Sheet (Running the business – financially)	We would like to avoid having to raise equity capital after a 1-in-20 year event and do not want to be a forced seller of assets when markets are distressed.
Sound Business Performance (Running the business – operationally)	We conduct our business with the NN Group Values at heart and treat our customers fairly. We aim to avoid human or process errors in our operations and to limit the impact of any errors.

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51 Risk management continued

Risk Taxonomy

NN Group has defined and categorised its generic risk landscape with the risk taxonomy as outlined below:

Risk Appetite Statement	Risk Class	Description
Strategic Challenges (Shaping the business)	Emerging Risks	Risks related to future external uncertainties that could pose a threat to the businesses of NN Group.
	Strategic Risks	Risks related to unexpected changes to the business profile and the general business cycle as envisaged during strategic decision-making.
Strong Balance Sheet (Running the business – financially)	Market Risks	Risks related to (the volatility of) financial and real estate markets. This includes liquidity risk.
	Counterparty Default Risks	Risks related to counterparties failing to meet contractual debt obligations.
	Non-Market Risks	Risks related to the products NN Group offers.
Sound Business Performance (Running the business – operationally)	Non-Financial Risks	Risks related to people and inadequate or failed processes, including information communication and technology systems and/or external events.

Key Risk Limits and Tolerances

Risk appetite statements are implemented within the business through the use of risk tolerances and limits, as prescribed in specific policies for relevant risk categories. A risk limit is a (quantitative or qualitative) expression of the maximum allowable level of a risk (type), and should not be breached. A risk tolerance is a boundary for risk taking, for which management should take appropriate action within a reasonable timeframe to restore a breach.

Risk Appetite Statement	Primary Impact Area	Key Risk Limits and Tolerances
Strategic Challenges (Shaping the business)	License to operate	Various metrics related to the Business Plan, such as progress on main strategic initiatives.
Strong Balance Sheet (Running the business – financially)	Financial	**Solvency II ratio:** the ratio of Eligible Own Funds (EOF) to Solvency Capital Requirement (SCR). NN Group aims to capitalise its operating units adequately at all times. To ensure adequate capitalisation, they are managed to their commercial capital levels (on the Solvency II ratio) in accordance with the risk associated with the business activities. **Solvency II ratio sensitivities:** assess the changes for both NN Group EOF and SCR under various scenarios decided by NN Group MB. **Cash capital position at the holding company:** cash capital is defined as net current assets available at the holding company. NN Group holds a cash capital position in the holding company to cover stress events and to fund holding company expenses and interest expenses. It is NN Group's aim for the cash capital position at the holding company to be in a target range between EUR 0.5 billion and EUR 1.5 billion. **Own Funds at Risk limits:** NN Group has implemented limits to monitor the impact of moderate stress events at Business Units and is monitoring the required level of capital and financial flexibility at the holding level in relation to this. **Interest Rate Risk limits:** NN Group has implemented limits and tolerances for interest rate risk exposures at NN Group and BU level. **Concentration Risk limits:** in order to prevent excessive concentration risk, NN Group has a concentration risk limit framework. The framework sets a risk appetite and concentration limits on corporate and sovereign issuers, asset type and country of risk. **Bank capitalisation:** amount of capital NN Bank has to hold as required by the regulator as part of Basel III framework, expressed as a capital adequacy ratio of equity that must be held as a percentage of risk-weighted assets. **Liquidity risk:** liquidity risks are monitored by assessing the ratio between liquid assets and liquidity requirements for severe stress scenarios and different time horizons.
Sound Business Performance (Running the business – operationally)	Reputation, Operations	**Annual Loss Tolerance and materiality:** Tolerances on potential yearly loss, reputation impact and financial reporting accuracy. **Restricted List:** to prevent investments in securities that are not in line with NN Group's values and/or applicable laws and regulations.

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51 Risk management continued

Steps 2 & 3 of the risk control cycle: Risk Assessment & Control

Risk assessments are regularly performed throughout NN Group. For market, counterparty default and non-market risks, NN Group's internal and associated models are leading in risk assessments/measurement. Risks that do not directly impact the balance sheet generally require professional judgement in identification and quantification: qualitative risk assessments (non-financial risks) and scenario analysis (strategic/emerging risks) are used to assess identified risks and set up adequate controls.

Risk Appetite Statement	Risk Class	Risk Assessment and main mitigation technique
Strategic Challenges (Shaping the business)	Emerging Risks	Strategic Risk Assessment, Scenario analysis and contingency planning.
	Strategic Risks	Scenario analysis and business planning.
Strong Balance Sheet (Running the business – financially)	Market Risks	Quantified via NN Group's Partial Internal Model. Assessed in New Asset Class Assessment (NACA) ALM studies and SAA Mitigated by limit structure and use of derivatives.
	Counterparty Default Risks	NN Group's Partial Internal Model; Limit structure.
	Non-Market Risks	NN Group's Partial Internal Model; product approval and review process (PARP), Limit structure, reinsurance.
Sound Business Performance (Running the business – operationally)	Non-Financial Risks	Detailed risk assessments on (sub-) processes (including IT aspects, fraud, etc.); Business and key controls, control testing, incident management.

In the remainder of the paragraph we describe some of the assessment as described above in more detail. Main mitigation techniques, such as our limit structure for financial risks, are being discussed in more detail in the Risk profile paragraph, where we discuss all our main risk types and how we measure and manage them.

Own Risk and Solvency Assessment (ORSA) for insurance entities

As part of the regular Own Risk and Solvency Assessment (ORSA), a strategic risk assessment is performed at least annually. Detailed risk assessments, performed bottom up by responsible managers throughout the organisation, serve as a main input. Outcomes of the strategic risk assessment are key risks, that are potentially solvency threatening, or that may have a significant negative impact on the achievement of one or more of the business objectives from NN Group's strategy or business plan. NN Group's key risks and how we manage them is more elaborately described in Managing our risks, in the Our operating environment section of our Annual Review 2020.

NN Group, and each of its regulated (re)insurance subsidiaries, prepares an ORSA at least once a year. In the ORSA, NN Group articulates its strategy and risk appetite, describes its key risks and how they are managed, analyses whether its risks and capital are appropriately modelled, and evaluates how susceptible the capital position is to shocks through stress and scenario testing, including a multi-year view. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN Group. Stress testing can also be initiated outside the ORSA, either internally or by external parties such as De Nederlandsche Bank (DNB) and European Insurance and Occupational Pensions Authority (EIOPA). The ORSA includes a forward-looking overall assessment of NN Group's solvency position in light of the risks it holds.
As part of the ORSA, NN Group also assesses the ongoing appropriateness of its internal model which is used to calculate the EOF/SCR ratio. Group Risk also prepares a separate annual report on the performance and appropriateness of the internal model for the Management Board and the Risk Committee of the Supervisory Board.

In 2020, NN Group performed an additional analysis to further understand impact of the Covid-19 pandemic on its Solvency position. In addition, we have analysed new risks that might result from (execution of) the new strategy. These risks are followed up by the Risk Management Function via involvement in main new chance initiatives (such as projects, start-ups) as well as further scenario analysis to further understand their impact.

As part of the ORSA, we also cover emerging risks, that in the longer run might impact our balance sheet. Climate change risk is an emerging risk to NN Group. We distinguish physical and transition climate risks. Physical risk is most prominent on the short term in our Dutch Non-life business, caused by weather events such as windstorms or hail, resulting in higher expenditures, influencing the margins of our property & casualty insurance products. Regular actions NN Group undertakes to manage the physical risks are (1) helping customers to take precautionary measures, (2) monitor claims experience and reprice or adjust contract conditions where necessary, (3) develop and use catastrophe models for underwriting, and (4) making use of a groupwide catastrophe reinsurance programme.

For our life & pension businesses, transition risk is most important. Transition risk, meaning risks related to transition to lower carbon economies which 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. NN Group manages this risk by further integrating Environmental, Social & Governance (ESG) aspects in its investment strategy, as laid down in the Responsible Investment Framework, where we are phasing out our investments industries, as well as shifting to others. Furthermore we use concentration limits to avoid concentration risk in certain counterparties/industries, as well as apply stress testing to further understand sensitivities of our investments.

Dealing with climate change is an integral part of our strategy. More information is provided in our Carbon Footprint Report.

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51 Risk management continued

Internal Capital Adequacy Assessment (ICAAP) and Internal Liquidity Adequacy assessment (ILAAP) for non-insurance entities
At least once a year, NN Group's banking and asset management operations run a process for ICAAP, and the bank also for ILAAP, in conformity with Basel III requirements. ICAAP and ILAAP test whether current capital and liquidity positions, respectively, are adequate for the risks that our banking and asset management entities bear.

Product approval and review process (PARP)
The PARP has been developed to enable effective design, underwriting and pricing of all insurance, as well as to ensure that they can be managed throughout their lifetime. This process establishes requirements to the product risk profile features to ensure that products are aligned with NN Group's strategy. The PARP takes into account customer benefits and product suitability, expected sales volumes, value-oriented pricing metrics and relevant policies. It includes requirements and standards to assess risks as per the risk categories, as well as the assessment of the administration and accounting aspects of the product.

New asset class assessment (NACA) and investment mandate process
NN Group maintains a NACA for approving investments in new asset classes NN Group establishes a global list of asset classes in which NN Group entities can invest. The investments in these asset classes are governed through investment mandates given by the insurance entities to the asset manager(s).

Responsible Investment Framework policy and Restricted List
NN Group has a policy framework in place to ensure that our assets are invested responsibly. Amongst others, the policy includes requirements to systematically incorporate Environmental, social and governance (ESG) factors into the investment process. Furthermore, the implementation of a Restricted List should prevent investments in securities that are not in line with NN Group's values, and/or applicable laws and regulations.

Step 4 of the risk control cycle: Risk Monitoring & Reporting
Risk monitoring helps to assess and evaluate developments in the risk profile. It determines whether risks are within the risk appetite, related limits and tolerances and in line with policies and standards. Results of the Risk monitoring are reported regularly to responsible managers of departments, as well as management and supervisory boards of both NN Group and its operating entities. This includes information on control effectiveness, control deficiencies and incidents, financial risk limits and developments, as well as second line opinion and advice. Action shall be taken by management when monitoring indicates that risks are not adequately controlled.

Risk Appetite Statement	Risk Reporting and Monitoring
Strategic Challenges (Shaping the business)	We actively monitor and manage our products, distribution channels and organisation, as well as key performance and risk drivers of our business. We monitor alignment of investments with the Restricted List. This function is performed by Corporate Citizenship.
Strong Balance Sheet (Running the business – financially)	We monitor financial risks on our balance sheet via our Solvency II capital position and related limits and tolerances. We monitor our capacity to meet our payment and collateral obligations, even under severe liquidity stress scenarios.
Sound Business Performance (Running the business – operationally)	We monitor alignment with applicable laws and regulations, NN Group policies and standards. We actively monitor and manage employee conduct and foster a business culture demonstrating that we live the NN Group values. We accept but limit losses from non-financial risk and therefore manage to agreed tolerances by regularly evaluating controls, deficiencies and incidents.

Risk Reporting
On a quarterly basis, the Management Board and Supervisory Board of NN Group are presented with an Own Funds and Solvency Capital Requirement Report and an Enterprise Risk Management (ERM) Report.

51 Risk management continued

The Own Funds and Solvency Capital Requirement Report aims to provide an overview of the quarterly Solvency II capital position and development, including the Solvency II ratio sensitivities assessing the changes in various scenarios for both Eligible Own Funds and SCR at NN Group level. The size and type of the shocks applied for each sensitivity is decided by the Management Board. The Solvency II SCR is a Value at Risk-measure. Solvency II ratio sensitivities are therefore the alternative analysis for market risk sensitivities that NN Group needs to disclose, instead of IFRS sensitivities, as required based on IFRS 7 Financial Instruments: Disclosures.

The ERM report is to provide one consistent, holistic overview of the risks of NN Group. It focuses on comparing current risk levels to our risk appetite and aims to encourage forward-looking risk management.

Recovery planning

NN Group has determined a set of measures for early detection of and potential response to a financial or non-financial crisis, should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, allocate roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis. The Management Board is responsible for the Preparatory Crisis Plan and the plan is regularly reassessed and updated by Group Finance.

Risk Culture

Management plays a vital role in creating a sound risk culture as they are role models and the main messengers of sound risk management. This includes to:

- show a solid risk management focus in decision making, with a view to long term stability of the business, including understanding and use of risk models when relevant,
- foster diversity of thoughts and solicits different views in decision making,
- foster a culture of transparency in which early identification of risk issues and material incidents are communicated timely to relevant parties,
- ensure operational management take their proper responsibilities in the risk control cycle,
- address dysfunctional behaviour of staff,
- ensure adequate staffing and ensure employees are well trained for their roles, and
- actively manage risks throughout the lifetime of products and not just at the moment of sale.

Within our risk management cycle, we perform regular assessments with regard to risk culture and maturity, to assess and learn whether this supports the effective functioning of the risk control cycle.

Risk profile

Partial Internal Model (PIM)

The Solvency Capital Requirement (SCR) is calculated based on actual risks NN Group is exposed to. Under Solvency II, the SCR is defined as the loss in basic own funds of the economic balance sheet resulting from a 1-in-200 year adverse event over a one-year period. The risk capital framework is a combination of Internal Model and Standard Formula components. The largest component covering all major Dutch insurance entities uses internally developed methodologies for modelling the market, business and insurance risks to determine the solvency position for local reporting and Group consolidation purposes. For the EU-based international insurance businesses and some smaller insurance undertakings in the Netherlands, NN Group uses the Solvency II Standard Formula to calculate the SCR for local reporting and for Group consolidation.

The non-insurance businesses and international insurance undertakings not based in the EU (e.g. Japan, Turkey) are consolidated in the group SCR based on the (local) applicable (sectorial) capital requirements under equivalence. The Solvency II concept of Equivalence is granted to capital frameworks that are deemed to have similarity with the Solvency II framework and/or principles and as such can be relied-upon to assess capital requirements. The total group SCR is obtained from the Internal Model and Standard Formula capital requirements using EIOPA's integration technique 3.

The choice for a Partial Internal Model is based on the conviction that an internal model better reflects the risk profile of the Dutch insurance entities and has additional benefits for risk management purposes, whilst the Standard Formula adequately captures the risk profile of the international businesses:

- An internal model approach can better reflect the specific assets and therefore the market risk in the portfolio of Life businesses, e.g. sovereign and other credit spread risks
- The approach used for most significant non-market risks within the Life businesses such as longevity (trend uncertainty) and expense risk (closed block treatment) can be better tailored to NN Group's specific portfolio characteristics
- Variable Annuity risks in a portfolio of NN Re are not adequately addressed by the Standard Formula, while the internal model captures the integrated market risks and hedging programmes more accurately
- The capital requirement for operational risk is based on the Standard Formula approach across the group.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Assumptions and limitations

Risk-free rate and volatility adjustment:
The assumptions regarding the underlying risk-free curve are crucial in discounting future cash flows when calculating the market values of certain assets and liabilities. For liabilities, NN Group applies the methodology provided by EIOPA for the risk-free rate including the credit risk adjustment (CRA) and the ultimate forwards rate (UFR). Where approved by the regulator, the risk-free rate is adjusted with the volatility adjustment for the calculation of Own Funds.

Valuation assumptions – replicating portfolios:
NN Group uses replicating portfolio techniques to represent the product-related cash flows, options and guarantees by means of standard financial instruments in the risk calculations. This approach is also followed for mortgages. The replications are used to determine and revalue insurance liabilities and mortgages under a large number of Monte Carlo scenarios.

Diversification and correlation assumptions:
As for any integrated financial services provider offering a variety of products across different business segments and geographic regions, diversification is key to NN Group's business model. The resulting diversification reflects the fact that not all potential worst-case losses are likely to materialise at the same time. The Internal Model takes diversification effects into account when aggregating results at Group level with correlations. Important diversification benefits include regions, Business Units and risk categories.

Where possible, correlation parameters are derived through statistical analysis based on historical data. In case historical data or other portfolio-specific observations are insufficient or not available, correlations are set by expert judgement via an established, well-defined and controlled process. Based on these correlations, industry-standard approaches such as Gaussian copula and VaR–CoVaR approach are used to determine the dependency structure of quantifiable risks.

Model limitations:
NN Group's Partial Internal Model (PIM) resulted from balancing between (1) an easy-to-communicate methodology and (2) efficient calculations with appropriate accuracy and granularity in the underlying risks. Despite several limitations stemming from this, the overall PIM is considered to be materially robust, appropriate and compliant with Solvency II.

As a result of the granular modelling approach and wide variety of NN Group's assets and liabilities, the PIM is more complex than the Standard Formula.

Inherent model limitations related to the calibration of a 1-in-200 year stress events for a full spectrum of market and non-market risks include the use of limited historical data to determine a distribution of forward-looking risk factor stresses as well as the use of modelling assumptions and expert judgement.

Non-quantifiable risks, such as strategic, reputational and model risks, but also emerging risks are managed through qualitative risk assessments. In addition, and as part of the ORSA, NN Group holistically assesses its risk exposure to both quantifiable and non-quantifiable risks in order to agree mitigating actions as required.

NN Group's Partial Internal Model has, in general, been developed centrally by Group Risk, with the inherent risk that the developed models have aspects which might be less appropriate for individual entities. On regular basis the Business Units perform Fit For Local Use assessments and model reviews are performed by independent model validation department. Such reviews could result in additional monitoring and locally calculated and further centrally processed adjustments.

The Risk Management Function informs the Management and Supervisory Board on an annual basis on the performance of the internal model.

EIOPA 2020 review:
EIOPA's Opinion on the Solvency II review to the European Commission was published on 17 December 2020. The Opinion consists of a proposed package of measures and will be used as input for the European Commission to draft a legislative proposal which will be discussed with the European Council and European Parliament in the coming years. The resulting legislation is currently expected to be implemented at the earliest in 2024.

Solvency II ratio of NN Group

The following table shows the NN Group Solvency II ratio as at 31 December 2020 and 31 December 2019, respectively.

	2020	2019
Eligible Own Funds	20,028	18,240
Solvency Capital Requirement	9,534	8,154
NN Group Solvency II ratio (Eligible Own Funds/SCR)	**210%**	**224%**[1]

1 The NN Group Solvency II ratio has been adjusted to reverse the deduction of the proposed 2019 final dividend of EUR 1.40 per ordinary share, following the decision to suspend dividend payments in light of the recommendations of EIOPA and DNB regarding dividend distributions.

Notes to the Consolidated annual accounts continued

51 Risk management continued

The Solvency Capital Requirement is based on the Partial Internal Model. As at 31 December 2020, this comprises Internal Model calculation for NN Life, NN Non-life, NN Re and the portfolios owned by NN Group N.V., and Standard Formula calculation for ABN AMRO Life and ABN AMRO Non-life, VIVAT Non-life, NN Insurance Services and the international insurance entities of NN Group.

The following scope changes happened:

- The Czech and Slovak Business Units from Aegon which were acquired in 2019, were in 2020 successfully integrated with NN Group's local businesses.
- In 2020 VIVAT Non-life was acquired by NN Group, amongst others to further strengthen the position of our Dutch non-life business and creating economies of scale. Expectation is to apply PIM on acquired VIVAT Non-life portfolio after approval from DNB for this model change. For VIVAT Non-life, NN Group runs a dedicated programme to efficiently integrate the acquired portfolios both commercially as well as financially. This programme monitors all operational impact, including any risks, of the integration of the VIVAT business into those of NN Non-life.

In 2016, DNB designated NN Group as a Financial Conglomerate (FICO) and requested all FICOs to exclude the banking operations from the Group solvency calculations. In 2020, DNB announced an amended approach requiring FICOs to include their banking operations in the calculation of Group solvency. As of 31 December 2020, NN Group includes NN Bank in the Solvency II Own Funds and the SCR. Inclusion of NN Bank in the Group Solvency II ratio calculations under the new requirements negatively affected the Group Solvency II ratio by approximately -9%-pts, a decrease from 219% to 210%.

NN Life Japan is treated as 'equivalent' to calculate the Solvency Capital Requirement.

Solvency Capital Requirement

The following table shows the NN Group Solvency Capital Requirement as at 31 December 2020 and 31 December 2019 respectively.

Solvency II Capital Requirements

	2020	2019
Market risk	5,493	4,558
Counterparty default risk	315	259
Non-market risk	6,933	6,745
Total BSCR (before diversification)	**12,741**	**11,562**
Diversification	-3,102	-2,910
Total BSCR (after diversification)	**9,639**	**8,652**
Operational risk	758	704
LACDT	-2,225	-1,732
Other	-6	-12
Solvency II entities SCR	**8,166**	**7,612**
Non-Solvency II entities	1,368	542
Total SCR	**9,534**	**8,154**

The Solvency II Basic Solvency Capital Requirements (BSCR) includes both the Internal Model businesses' BSCR and the Standard Formula businesses' BSCR. Together, these figures reflect the diversification benefits between the Internal Model and Standard Formula businesses.

The breakdown of specific SCR risk types and explanations for the most important changes in the risk profile over the year of 2020 are presented in the next sections.

The loss-absorbing capacity of deferred taxes (LACDT) benefit increased mainly due to a higher BSCR (tax base) and reversal of a proposed Dutch corporate tax rate change. The LACDT figures reflect the Guidance that have been issued by DNB. In the above table, 'Other' includes loss-absorbing capacity of technical provisions (LACTP), capital for non-modelled Solvency II entities and some minor non-modelled risks including those required by the regulator.

Non-Solvency II entities includes mainly NN Life Japan, Pension Funds, NN Investment Partners and for 2020 NN Bank. The contribution of NN Bank to the SCR of NN Group is EUR 887 million.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Solvency II ratio sensitivities

Along with the Solvency II Capital Requirement, NN Group regularly calculates the sensitivities of the Solvency II ratio under various scenarios, by assessing the changes for both Eligible Own Funds and SCR. The Solvency II ratio sensitivities are primarily designed to support the NN Group Management Board and the Risk Management functions in having a forward-looking view on the risks to solvency of the company, and to analyse the impacts of market or other events. The sensitivities are selected to reflect plausible, realistic scenarios that could materialise within the foreseeable future and are not calibrated on a pre-defined confidence interval.

The effect on the Solvency II ratio is calculated based on applying an instantaneous stress on the balance sheet, and on ceteris paribus basis. For all insurance entities including NN Life Japan, the after stress own funds are calculated for each of the sensitivity scenarios; the SCR impacts are recalculated for BSCR and Operational risk SCR. Other SCR components including the LACDT amount are kept constant.

Main types of risks

As outlined above in the table 'Solvency II Capital Requirements', the following main types of risk are associated with NN Group's business which are further discussed below:

Market, counterparty default and liquidity risk

- **Market risk:** is the risk of potential losses due to adverse movements in financial markets and includes: equity risk, real estate risk, interest rate risk, credit spread risk, foreign exchange risk, inflation risk, basis risk and concentration risk
- **Counterparty default risk:** is the risk of potential losses due to unexpected default or deterioration in the credit rating of NN Group's counterparties and debtors
- **Liquidity risk:** is the risk that one of NN Group's entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. This risk is not part of the SCR Partial Internal Model

Market risk

Market risk comprises the risks related to the impact of changes in various financial markets indicators on NN Group's balance sheet. Market risks are taken in pursuit of returns for the benefit of customers and shareholders. These returns are used to fulfil policyholder obligations with any surplus return benefiting the shareholders. Accordingly, optimisation within the risk appetite is paramount to generate returns for both policyholder and shareholder. In general, market risks are managed through a well-diversified portfolio under a number of relevant policies within clearly defined and monitored limits. NN Group reduces downside risk through various hedging programmes, in particular risks for which NN Group has no or only a limited appetite like interest rate, inflation and foreign exchange risk. NN Group also integrates Environmental, Social, and Governance (ESG) factors in the investment decision-making framework.

Market risk capital requirements

	2020	2019
Interest rate risk	4,519	3,817
Equity risk	3,463	2,800
Credit spread risk	4,345	3,706
Real estate risk	1,776	1,533
Foreign exchange risk	668	418
Inflation risk	313	120
Basis risk	101	115
Diversification market risk	-9,692	-7,951
Market risk	**5,493**	**4,558**

In 2020, the Market Risk SCR increased to EUR 5,493 million, driven by higher exposure to bonds, mortgages, equities, real estate and lower interest rate levels. The lower interest rate level has resulted in higher valuations which led to an increase in required capital. Equity risk SCR increase was driven by additional investments and positive performance in 2020. Credit spread risk SCR increase was driven by higher valuations , because of lower interest rates and investments into higher yielding assets. Real estate SCR increase was mainly due to additional investments. Diversification increased in line with higher standalone risks. The table below sets out NN Group's market value of assets for each asset class as at the end of 2020 and 2019. The values in these tables may differ from those included in the consolidated IFRS balance sheet as derivatives are excluded and furthermore due to classification and valuation differences to reflect a risk management view.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Investment assets

	Market value 2020	% of total 2020	Market value 2019	% of total 2019
Fixed income	**167,699**	**82%**	**164,272**	**85%**
Government bonds and loans	69,773	34%	73,143	38%
Financial bonds and loans	12,125	6%	10,888	5%
Corporate bonds and loans	26,527	13%	24,787	13%
Asset-backed securities	4,206	2%	4,388	2%
Mortgages[1]	53,375	26%	49,472	26%
Other retail loans	1,693	1%	1,594	1%
Non-fixed income	**20,641**	**10%**	**17,164**	**9%**
Common & preferred stock[2]	6,073	3%	4,435	2%
Private equity	882	1%	933	1%
Real estate[3]	10,724	5%	9,257	5%
Mutual funds (money market funds excluded)[4]	2,962	1%	2,539	1%
Money market instruments (money market funds included)[5]	**15,611**	**8%**	**12,099**	**6%**
Total investments	**203,951**	**100%**	**193,535**	**100%**

1 Mortgages are on amortised cost value. The mortgage value on the consolidated IFRS balance sheet differs from the value in the current table due to the acquisition premium of mortgages and the inclusion of mortgages underlying the mortgage structure vehicles.
2 All pref shares are included in 'common & preferred stock', even when pref shares are modelled as bonds.
3 The real estate values exclude the real estate forward commitments, since NN Group has no price risk related to them.
4 Fixed income mutual funds are included in mutual funds.
5 Money market mutual funds and commercial papers are included in the Money market instruments.

Total investment assets have increased from EUR 193,535 million at the end of 2019 to EUR 203,951 million at the end of 2020. Main risk profile related developments in 2020 are reflecting the strategy of NN Group to shift from assets with low returns to the assets with higher yields: a gradual reduction in the exposure to government bonds and an increase in allocation to mortgages, loans, real estate. In addition in 2020 NN Group seized opportunities of the market developments and increased an exposure to the corporate bonds and equity.

Interest rate risk

Interest rate risk is defined as the possibility of having losses in the Solvency II Own Funds due to adverse changes in the level or shape of the risk-free interest rate curve used for discounting assets and liabilities cash flows. Exposure to interest rate risk arises from asset or liability positions that are sensitive to changes in this risk-free interest rate curve. NN Group's Partial Internal Model SCR does not include the change in value of the risk margin due to interest rate shocks.

Risk profile

As shown in the 'Market risk capital requirements' table above, the interest rate risk SCR of NN Group increased from EUR 3,817 million in 2019 to EUR 4,519 million in 2020. The increase is mainly reflecting the change in market movements during the year such as a decrease of the risk-free interest curve resulting in a higher asset liability mismatch. Volatility Adjustment (VOLA) fluctuated during the year but reached the same level at the end of 2020. The increase of interest rate risk SCR also contributes to the increase of the diversification across market risks.

Risk mitigation

The interest rate position indicates to what extent assets and liabilities are matched on a Solvency II basis. NN Group manages its interest rate position by investing in long-term bonds and interest rate swaps. The interest rate risk management focuses on matching asset and best estimate liability cash flows for the durations for which the markets for fixed income instruments are sufficiently deep and liquid.

Majority of NN Group liability cash flows are predictable and stable. Exposure to policyholder behaviour and profit sharing mechanisms and therefore to changes in capital markets is very limited. Until year 30 best estimate liability cash flows (excluding risk margin) are closely matched with government bonds, corporate bonds, mortgages and loans. Cash flows after 30 years are partially hedged on a duration basis mainly with interest rate swaps, due to price and illiquidity of markets.

NN Group has implemented limits and tolerances for interest rate risk exposures at NN Group level as well as for relevant Business Units.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Interest rates have continued to drop significantly in 2020 in the Euro-Zone, the 20 year swap rate decreased by 59 bps. We continuously monitor and consider mitigating solutions for our new business, such as an accelerated shift to defined contribution pension products in the Netherlands and a shift towards protection products in the market in general.

Risk measurement

For the purpose of discounting EUR-denominated asset cash flows, NN Group uses market swap curves to value assets. For the asset cash flows denominated in other currencies, the relevant swap or government curve is used for that specific currency.

For the purpose of discounting the EUR-denominated liability cash flows NN Group uses a swap curve less credit risk adjustment (CRA) plus VOLA in line with definitions under the Solvency II. For the liability cash flows denominated in other currencies, the relevant swap or government curve is used where this curve is also lowered by the credit risk adjustment and adding the Volatility Adjustment specific for each currency. In line with Solvency II regulations, NN Group extrapolates the EUR swap curve starting from the last liquid point onwards to the Ultimate Forward Rate for each relevant currency in its portfolio. The last liquid point (LLP) used for EUR is 20 years. As such, the sensitivity of SCR for interest rate risk primarily depends on the level of cash flow matching between assets and liabilities up to the 20-year point, and the difference between the swap curve and the curve extrapolated to the UFR for longer cash flows.

The sensitivity of the Solvency II ratio to changes in interest rates is monitored on a quarterly basis. The table below presents the Eligible Own Funds, SCR and Solvency II ratio sensitivities to various changes in interest rates.

Solvency II Ratio sensitivities for interest rate comprise the following set of shocks, each of them is calculated independently as a standalone scenario: a parallel up and a parallel down shift of the discount curve, a steepening scenario for the interest rate used to discount asset cash flows after the last liquid point and a change of the ultimate forward rate.

NN Group's Solvency II ratio decreases when interest rates or the UFR decrease. UFR level for Euro decreased from 3.90% to 3.75% as of 1 January 2020, which had a negative effect on the Solvency II ratio of NN Group in line with the calculated sensitivity. The Volatility Adjustment remained unchanged at 7bps through the year, having observed significant changes during the year.

Solvency II ratio sensitivities: interest rate risk at 31 December 2020

	Own Funds impact	SCR impact	Solvency II ratio impact
Interest rate: Parallel shock +50 bps	-882	-554	3%
Interest rate: Parallel shock -50 bps	1,197	730	-3%
Interest rate: 10 bps steepening between 20y-30y	-725	-2	-8%
UFR: Downward adjustment of 15 bps (EUR UFR at 3.6%)	-314	49	-4%

Under the parallel shock scenarios, the base risk-free interest rate curves for each currency are shocked by +/-50 bps for all tenors up until the last liquid point. The other components of the basic risk-free interest rate curve – namely UFR, Credit Risk Adjustment, Volatility Adjustment and extrapolation technique towards UFR remain unchanged. The asset interest rate curves are shocked with the parallel shocks for all tenors.

In the interest rate steepening scenario the EUR asset valuation curve is shocked after the last liquid point (the last liquid point for EUR is set at 20 years under Solvency II). The steepening is applied for interest rate curve tenors between 20 and 30 years (a linear increase from 0 to 10bps of 1bp per tenor). After the 30 years point, the shift in the interest rate curve remains constant at 10bps. The discount curve for liability cash flows is not impacted in this scenario.

For 2020, the UFR for EUR under Solvency II is set at 3.75%. In April 2017, EIOPA published an updated methodology to derive the UFR. In line with the updated methodology, the calculated value of the UFR for EUR is 3.6% with annual changes to the UFR not higher than 15 basis points. Therefore, the UFR for EUR decreased from 3.75% to 3.6% on 1 January 2021. The UFR downward adjustment scenario provides the impact in Own Funds and SCR using the applicable UFR downward adjustment of 15bps for each currency. The other components of the basic risk-free interest rate curve – namely the Credit Risk Adjustment, Volatility Adjustment and extrapolation technique towards UFR – are kept constant in this sensitivity.

Equity risk

Equity risk is defined as the possibility of having losses in Solvency II Own Funds due to adverse changes in the level of equity market prices. Exposure to equity risk arises from direct or indirect asset or liability positions, including equity derivatives such as futures and options, that are sensitive to equity prices.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Risk profile

The table below sets out the market value of NN Group's equity assets as at the 31 December 2020 and 2019, respectively.

Equity assets

	2020	2019
Common & preferred stock	6,073	4,435
Private equity	882	933
Mutual funds (money market funds excluded, includes fixed income mutual funds)	2,962	2,539
Total	**9,917**	**7,907**

NN Group is mostly exposed to public listed equity, but also invests in private equity funds and equity exposures through mutual funds. The equity exposure is diversified mainly across the Netherlands (31% in 2020 compared to 36% in 2019) and remaining exposure in other countries, predominantly in Europe (69% in 2020 compared to 64% in 2019). Note that mutual funds are classified as equity in the table above but include predominantly fixed income funds. The increase in mutual funds is largely driven by new investments in emerging market funds. Change in public equities is largely driven by new purchases.

As shown in the 'Market risk capital requirements' table above, the Equity Risk SCR of NN Group increased from EUR 2,800 million in 2019 to EUR 3,463 million in 2020. This reflects a higher equity exposure mostly due to additional investments.

Risk mitigation

Exposure to equities provides additional diversification and up-side return potential in the asset portfolio of an insurance company with long-term illiquid liabilities. The concentration risk on individual issuers is mitigated under relevant investment mandates and having strict counterparty limits in place. There is no natural hedge for equity risk on the liability side of the balance sheet. NN Group has the possibility to protect the downside risk of the equity portfolio by buying put options and other hedge instruments.

Risk measurement

The sensitivity of the Solvency II ratio to changes in the value of equity is monitored on a quarterly basis. This scenario estimates the impact of an instantaneous shock of -25% applied to the value of direct equity and equity mutual funds. Derivatives like equity options or equity forwards which have equity as underlying are also revalued using the same shock applied to the underlying equities or equity indices.

The table below presents the Eligible Own Funds, SCR and Solvency II ratio sensitivity to a downward shock in equity prices.

Solvency II ratio sensitivities: equity risk at 31 December 2020

	Own Funds impact	SCR impact	Solvency II ratio impact
Equity Downward shock -25%	-1,863	-305	-13%

Credit spread risk

The credit spread risk is defined as the possibility of having losses in Solvency II Own Funds due to adverse movements in the credit spreads of fixed income assets. The credit spread widening (or narrowing) reflects market supply and demand, rating migration of the issuer and changes in expectation of default. Changes in liquidity and other risk premiums that are relevant to specific assets can play a role in the value changes.

In the calculation of the SCR for the Partial Internal Model entities, NN Group assumes no change to the volatility adjustment on the liability side of the balance sheet after a shock-event, but instead reflects the illiquidity of liabilities in the asset shocks to ensure appropriate solvency capital requirements. This approach ensures appropriate risk incentives and is approved by DNB. NN Group also shocks all government bonds and its mortgage portfolio in the calculation of spread risk capital requirements for the Partial Internal Model entities.

The main asset classes in scope of the credit spread risk module for Partial Internal Model entities are government and corporate bonds, mortgages and loans.

For the calculation of the SCR for credit spread risk of the Standard Formula insurance entities, the main asset classes in scope are corporate bonds and loans.

Risk profile

As shown in the 'Market risk capital requirements' table, the credit spread risk SCR of NN Group increased from EUR 3,706 million in 2019 to EUR 4,345 million in 2020. This increase is mainly driven by higher asset valuation caused by the drop in the interest rate level and mortgage exposure increases. Capital is also required to be held against spread risk arising from government bonds under the Partial Internal Model.

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51 Risk management continued

The table below shows the market value of NN Group's fixed-income bonds which are subject to credit spread risk SCR by type of issuer as at the 31 December 2020 and 31 December 2019, respectively. The European government bonds are not subject to credit spread risk SCR for Standard Formula entities.

Fixed-income bonds and loans by type of issuer

	Market value		Percentage	
	2020	2019	2020	2019
Sovereign	69,773	73,143	62%	64%
Manufacturing	8,590	7,933	8%	7%
Finance and Insurance	12,125	10,888	11%	9%
Asset-backed securities	4,206	4,388	4%	4%
Utilities	3,442	2,937	3%	3%
Information	2,263	2,194	2%	2%
Transportation and Warehousing	2,872	2,981	2%	3%
Real Estate and Rental and Leasing	1,879	1,800	2%	2%
Other	7,481	6,942	6%	6%
Total	**112,631**	**113,206**	**100%**	**100%**

NN Group is well diversified across sectors. Exposure to cyclical sectors most impacted by Covid-19 is low.

The table below sets out the market value of NN Group's assets invested in government bonds and loans by country and maturity.

Market value government bond and loans exposures (2020)

			Market value of government bond and loans in 2020 by number of years to maturity[4]								
	Rating[1]	Domestic exposure[2]	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2020
France	AA	0%	52	46	70	125	269	3,022	2,460	6,057	12,101
Japan	A+	98%	342	492	484	1,069	2,028	2,798	1,603	708	9,524
Belgium	AA-	35%	51	432	250	86	1,026	2,839	3,173	20	7,877
Germany	AAA	0%	79	116	102	787	1,681	3,954	785	98	7,602
Netherlands	AAA	99%	319	81	772	320	908	2,523	2,382	15	7,320
Austria	AA+	0%	189	184	11	204	1,425	1,438	1,174	1,818	6,443
Spain	A-	26%	9	25	24	255	483	1,707	1,169	5	3,677
Multilateral[3]	AAA	0%	82	198	60	177	520	1,399	795	35	3,266
United States	AAA	0%	1	1		1		176	2,184		2,363
Italy	BBB-	0%	8	45	104	51	810	546	26		1,590
Finland	AA+	0%	43	5	4	274	143		1,079		1,548
Other[5] - Above Investment Grade			172	508	208	731	2,467	1,312	305		5,703
Other[5] - Below Investment Grade			61	47	113	201	150	154	33		759
Total			**1,408**	**2,180**	**2,202**	**4,281**	**11,910**	**21,868**	**17,168**	**8,756**	**69,773**

1 NN Group uses the second best rating across Fitch, Moody's and S&P to determine the credit rating label of its bonds.
2 Percentage of the bonds held in the local unit, e.g. percentage of Dutch bonds held by entities registered in the Netherlands.
3 Includes EIB, ECB, EFSF, EU and ESM.
4 Based on legal maturity date.
5 Investment Grade reflects a rating of BBB or higher; Below Investment Grade reflects a rating below BBB.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Market value government bond and loans exposures (2019)

	Rating[1]	Domestic exposure[2]	Market value of government bond and loans in 2019 by number of years to maturity[4] 0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2019
France	AA	0%	92	48	170	375	654	2,887	2,368	4,937	11,531
Japan	A+	98%	238	356	511	1,064	2,372	3,090	1,643	747	10,021
Germany	AAA	0%	86	24	163	1,112	1,459	4,529	2,223		9,596
Netherlands	AAA	99%	7	228	82	916	1,355	2,519	2,521	29	7,657
Belgium	AA-	33%	308	53	451	404	1,537	2,534	3,063	38	8,388
Austria	AA+	0%	189	185	191	223	1,684	1,690	1,078	1,259	6,499
Multilateral[3]	AAA	0%	38	62	247	346	644	1,525	812	14	3,688
Spain	A-	26%	14	9	27	204	530	1,322	1,429	3	3,538
Finland	AA+	0%	158	39	5	2	559	11	997		1,771
United States	AAA	0%	1	1	1		1	58	2,156		2,218
Italy	BBB	0%	73	8	47	119	837	429	180		1,693
Other[5] - Above Investment Grade			354	221	546	522	2,129	1,815	214	19	5,820
Other[5] - Below Investment Grade			119	6	30	211	155	152	34	16	723
Total			**1,677**	**1,240**	**2,471**	**5,498**	**13,916**	**22,561**	**18,718**	**7,062**	**73,143**

1 NN Group uses the second best rating across Fitch, Moody's and S&P to determine the credit rating label of its bonds.
2 Percentage of the bonds held in the local unit, e.g. percentage of Dutch bonds held by entities registered in the Netherlands.
3 Includes EIB, ECB, EFSF, EU and ESM.
4 Based on legal maturity date.
5 Investment Grade reflects a rating of BBB or higher; Below Investment Grade reflects a rating below BBB.

62% (or EUR 42 billion) of NN Group total sovereign debt exposure is invested in AAA and AA rated eurozone countries. Of the EUR 42 billion core eurozone government bonds and loans held by NN Group, 76% will mature after year 10 and 43% after year 20. These long-term government bonds and loans are sensitive to sovereign credit spread movements versus EUR swap rates. A combination of Belgian, French and Austrian government bonds was included in the spread lock programme during 2020, which means that NN Group has forward sold the underlying bonds using derivatives. In 2020, NN Group has fully unwound its spread lock programme on German bonds and partly on French bonds. The forward bond sales on the German government bonds have been unwind by delivering the underlying while the forward bond sales on the French government bonds have been cash settled and the underlying government bonds have been kept in portfolio. This results in a higher SCR. With regard to Central and Eastern Europe, the government bond exposures are mainly domestically held. Most relative exposures to the top 10 government exposures slightly decreased. Exposure to France and United States slightly increased. In the Partial Internal Model, all government bonds contribute to credit spread risk, including those rated AAA.

The tables below set out the market value of non-government fixed-income securities (excluding mortgages and derivatives) by rating and maturity.

Market value non-government bond securities and loans (2020)

	Market value of non-government bond securities and loans in 2020 by number of years to maturity 0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2020
AAA	392	245	271	406	542	1,183	1,225	2,684	6,948
AA	898	654	376	439	924	430	190	55	3,966
A	1,736	1,758	1,652	2,750	3,907	804	428	559	13,594
BBB	1,403	1,466	1,877	3,654	3,619	1,250	660	101	14,030
BB	215	164	478	862	1,211	29	33	28	3,020
B and below	79	161	218	334	321	15		8	1,136
No rating available	116	4	4	4	3			33	164
Total	**4,839**	**4,452**	**4,876**	**8,449**	**10,527**	**3,711**	**2,536**	**3,468**	**42,858**

Notes to the Consolidated annual accounts continued

51 Risk management continued

Market value non-government bond securities and loans (2019)

	Market value of non-government bond securities and loans in 2019 by number of years to maturity								
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2019
AAA	1,040	501	496	616	600	1,065	879	2,635	7,832
AA	391	812	595	546	1,014	411	229	108	4,106
A	1,031	1,319	1,746	2,962	3,633	775	497	91	12,054
BBB	1,098	1,357	1,480	3,974	3,367	909	638	119	12,942
BB	65	179	201	843	785	23	29	5	2,130
B and below	10	70	9	100	141	14			344
No rating available	170	8		3	31	128		314	654
Total	**3,805**	**4,246**	**4,527**	**9,044**	**9,571**	**3,325**	**2,272**	**3,272**	**40,062**

The table below sets out NN Group's holdings of loans and other debt securities as at the 31 December 2020 and 2019, respectively.

Market value all loans and other debt securities (per credit rating)

	2020	2019
AAA	26,755	29,950
AA	34,224	35,014
A	28,540	27,497
BBB	18,033	16,892
BB	3,749	2,769
B and below	1,169	424
No rating available	46	498
Mortgages[1]	53,375	49,472
Other Retail Loans	1,808	1,756
Total	**167,699**	**164,272**

1 Mortgages refer to all mortgages using the same criteria and is aligned with the Mortgages figure in Investment assets above.

Mortgages

The required capital for mortgages within entities under the Partial Internal Model is calculated in the credit spread risk module while the required capital for mortgages within entities under Standard Formula is calculated in the counterparty default risk module. The credit spread risk module within the Partial Internal Model captures the behaviour of Own Funds when the valuation of mortgages changes with market mortgage rates, while the counterparty default risk module within Standard Formula captures the behaviour of Own Funds as a result of unexpected loss or default of mortgages. The Loan-to-Value (LTV) for residential mortgages (which is based on the net average loan to property indexed value) at NN Life, the Banking business, NN Non-life and NN Belgium stood at 68%, 66%, 72% and 71% respectively at the end of December 2020. Increasing house prices resulted in a migration towards lower LTV buckets.

The inherent credit risk of mortgages is backed primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG) and other secondary covers like savings, investments and life insurance policies. Mortgages with NHG accounted for 29%, 33%, 23% and 29% at NN Life, the Banking business, NN Non-life, and NN Belgium respectively at the end of 2020. Since the change in the Dutch tax regime in 2014 with regards to mortgage interest deductibility, a shift from interest-only mortgages to annuity and linear payment type mortgages is being observed.

Loan-to-Value on mortgage loans[1]

	2020	2019
NHG	30%	31%
LTV <= 80%	52%	47%
LTV 80% – 90%	11%	12%
LTV 90% – 100%	6%	8%
LTV > 100%	1%	2%
Total NN Group	**100%**	**100%**

1 Risk figures and parameters do not include third party originated mortgages and collateralised mortgages although they are on the balance sheet of NN Group.

Notes to the Consolidated annual accounts continued

51 Risk management continued

The mortgage portfolio is under regular review to ensure troubled assets are identified early and managed properly. The loan is categorised as a non-performing loan (NPL) if the loan is 90 days past due or the loan is classified as Unlikely To Pay (UTP) by the problem loans department. A loan is re-categorised as a performing loan again when the amount past due has been paid in full (and the UTP status is withdrawn). As a result of the Covid-19 pandemic the non-performing loans slightly increased. See more details under Note 2 'Covid-19 pandemic'.

Provisions slightly increased due to the new regulatory guidelines on a new 'Definition of Default'. The impact of the Covid-19 pandemic leads to a limited increase on provisions. The increase in provisions is partly offset by a strong house price increase in 2020.

The net exposure decreased because of increasing house prices.

Credit quality: NN Group mortgage portfolio, outstanding[1]

	Life business		Banking business		Other[2]		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Performing mortgage loans that are not past due	23,189	23,016	19,764	18,738	5,132	4,375	48,085	46,129
Performing mortgage loans that are past due	111	184	146	236	27	22	284	442
Non-performing mortgage loans[3]	113	91	116	79	22	18	251	188
Total	**23,413**	**23,291**	**20,026**	**19,053**	**5,181**	**4,415**	**48,620**	**46,759**
Provisions for performing mortgage loans	3	4	3	3	1		7	7
Provisions for non-performing mortgage loans	11	10	8	4	1	1	20	15
Total	**14**	**14**	**11**	**7**	**2**	**1**	**27**	**22**

1 Risk figures and parameters do not include third party originated mortgages and collateralised mortgages although they are on the balance sheet of NN Group.
2 Other' column includes numbers for the Non-life entities, Belgium business and other small entities.
3 The non-performing loans include 'unlikely to pay' mortgage loans, which may not be past due.

Collateral on mortgage loans[1]

	Life business		Banking business		Other[2]		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Carrying value	23,413	23,291	20,026	19,053	5,181	4,415	48,620	46,759
Indexed collateral value of real estate	38,902	36,084	34,793	30,963	8,041	6,542	81,736	73,589
Savings held[3]	1,006	988	1,416	1,328	77	78	2,499	2,394
NHG guarantee value[4]	5,600	5,830	5,463	5,314	1,152	1,005	12,215	12,149
Total cover value + including NHG guarantee capped at carrying value[5]	23,391	23,239	20,007	19,003	5,177	4,407	48,575	46,649
Net exposure	**22**	**52**	**19**	**50**	**4**	**8**	**45**	**110**

1 Risk figures and parameters do not include third-party originated mortgages, securitised and pooled mortgages although they are on the balance sheet of NN Group.
2 'Other' column includes numbers for the Non-life entities, Belgium business and other small entities.
3 Savings held includes life policies.
4 The NHG guarantee value follows an annuity scheme and is corrected for the 10% own risk (on the granted NHG claim).
5 The cover value of the real estate does not include haircuts, which are applied in the determination of loan loss provisions.

Risk mitigation

NN Group aims to maintain a low-risk, well diversified fixed income portfolio. Most of the bonds and loans are issued by investment grade borrowers. Our mortgages are subject to strict underwriting criteria and are well collateralised. NN Group has concentration risk limits for individual issuers which depend on the credit quality of the issuer. These limits ensure that large risk concentrations are avoided. In order to diversify the credit spread risk further, NN Group has increased its investments in non-listed assets.

Risk measurement

The sensitivity of the Solvency II ratio to changes in credit spreads is monitored on a quarterly basis. The table below presents the Eligible Own Funds, SCR and Solvency II ratio sensitivities to various changes in credit spreads.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Solvency II ratio sensitivities: credit spread risk at 31 December 2020

	Own Funds impact	SCR impact	Solvency II ratio impact
Credit spread: Parallel shock for AAA-rated government bonds +50 bps	-706	3	-7%
Credit spread: Parallel shock for AA and lower-rated government bonds +50 bps	-968	-124	-8%
Credit spread: Parallel shock spreads corporates +50 bps	997	-161	14%
Credit spread: Parallel shock spreads mortgages +50 bps	-897	-7	-9%

NN Group has exposure to government and corporate and financial debt, and is exposed to spread changes for these instruments. Furthermore, the Volatility Adjustment in the valuation of liabilities introduces an offset to the valuation changes on the asset side. The Solvency II sensitivities for spread changes cover four possible scenarios – spread widening for AAA rated government bonds, spread widening for non-AAA rated government bonds and loans, spread widening for corporates and spread widening for mortgages. For all scenarios, a parallel widening of the respective spread curves of +50bps is assumed. There is a corresponding translation of the spread widening on asset valuations on the Volatility Adjustment in each of the scenarios.

Government bond shocks are applied to the following asset classes: government bonds and loans, government-linked instruments (sub-sovereigns and supranational). Corporate spread shocks are applied to the following asset classes: corporate bonds (financials and non-financials), covered bonds, subordinated bonds, asset-backed securities and loans. Mortgages are subject to spread shocks in a separate scenario.

NN Group's sensitivity to credit spread changes is mainly driven by the difference between NN's investment portfolio and the reference portfolio. The reference portfolio represents the weights of an average European insurers' portfolio to different fixed income assets, and is used to determine the level of the volatility adjustment to be applied for the valuation of liabilities. Asset spread changes impact the level of the volatility adjustment and therefore also the valuation of liabilities, and thus provide an offset to asset valuation changes. NN Group is exposed to widening in government bond spreads due to a higher exposure to well rated government debt compared with the reference portfolio. At the same time, the exposure to widening of credit spreads on corporate and financial bonds has a positive impact on the ratio due to a lower exposure of NN Group to these asset classes compared with the reference portfolio. Mortgages spread widening has a negative impact on the solvency ratio, as mortgages are not part of the reference portfolio.

Real estate risk

Real estate risk is defined as the possibility of having losses in Solvency II Own Funds due to adverse changes in the value of real estate. Exposure to real estate risk arises from holding direct real estate properties or positions in real estate mutual funds. With the long-term nature of the liabilities of NN Group, illiquid assets such as real estate play an important role in the asset allocation.

Risk profile

NN Group's real estate exposure (excluding forward commitments) increased from EUR 9,257 million at the end of 2019 to EUR 10,725 million at the end of 2020. The real estate exposure is mainly present in the portfolios of NN Life, NN Non-life and NN Belgium Life.

NN Group has various categories of real estate: investments in real estate funds and joint-ventures, real estate directly owned and investments in buildings occupied by NN Group. Several of the real estate funds, in which NN Group participates, include leverage, and therefore the actual real estate exposure is larger than NN Group's value of participation in real estate funds. The real estate portfolio is held for the long-term and is illiquid. Furthermore, there are no hedge instruments available in the market to effectively reduce the impact of market volatility.

The table below sets out NN Group's real estate exposure per region as at 31 December 2020 and 2019, respectively.

Real estate assets per region[1]

	2020	2019
Western Europe	60%	63%
Southern Europe	19%	20%
Nordics	7%	5%
Central and Eastern Europe	5%	5%
UK and Ireland	9%	7%
Other	0%	0%
Total	**100%**	**100%**

1 Excludes real estate forward commitments, since NN Group has no price risk related to them.

As shown in the 'Market risk capital requirements' table, the real estate risk SCR of NN Group increased from EUR 1,533 million in 2019 to EUR 1,776 million in 2020. This increase is mainly due to an increase in property investment valuations.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Risk mitigation
Exposure to real estate provides for additional diversification for the asset portfolio. The concentration risk on individual assets is mitigated under the relevant investment mandates. Real estate portfolio is also well diversified across countries and sectors.

Risk measurement
The sensitivity of the Solvency II ratio to changes in the value of real estate is monitored on a quarterly basis. This scenario estimates the impact of an instantaneous shock of -10% to the value of direct real estate exposures and real estate within mutual funds. The table below presents the Eligible Own Funds, SCR and Solvency II ratio sensitivity to a downward shock in the value of real estate.

Solvency II ratio sensitivities: real estate risk at 31 December 2020

	Own Funds impact	SCR impact	Solvency II ratio impact
Real estate Downward shock -10%	-794	-12	-8%

Foreign exchange risk
Foreign exchange (FX) risk measures the impact of losses related to changes in currency exchange rates.

Risk profile
FX transaction risk can occur on a local entity level, while FX translation risk can occur when non-Euro entities are consolidated at the level of NN Group and show a risk in regard to NN Group's reporting currency, the Euro.

The SCR for foreign exchange risk increased from EUR 418 million in 2019, to EUR 668 million in 2020. This is mainly due to change in exposures to currencies such as JPY, USD and GBP as well as currency rate movements.

Risk mitigation
The FX risk at the local entity level is mitigated by limiting investment to the non-local currency assets. The exceptions are NN Life Japan, where USD and EUR assets are held to diversify the portfolio and the FX risk is managed through rolling FX forward contracts.

Inflation risk
Inflation risk is defined as the risk of adverse changes in inflation that result into decrease in Solvency II Own Funds. Inflation risk is calculated for the Dutch entities applying the Partial Internal Model for the SCR calculation.

Risk profile
The SCR for inflation risk increased from EUR 120 million in 2019, to EUR 313 million in 2020, mostly due to portfolio changes and lower inflation level.

Risk mitigation
The inflation risk is managed through the use of inflation swaps and investments in inflation bonds.

Basis risk
The SCR Basis risk is defined as a risk that the underlying asset or liability behaves differently than the underlying hedge instrument, which results in the loss in the Solvency II balance sheet.

Risk profile
The SCR for basis risk slightly decreased from EUR 115 million in 2019, to EUR 101 million in 2020.

Risk mitigation
The Basis Risk is mitigated by fund mapping of the underlying funds to risk factors, and also by constant monitoring of the fund performance compared to the benchmark.

Concentration risk
The SCR for Concentration Risk is defined as a risk of loss in the Basic Own Funds as a result of the default of an issuer in which NN Group has a concentrated investment position.

Risk profile
The SCR for Concentration Risk remained at nil in 2020.

Risk mitigation
This Concentration Risk is mitigated by concentration risk limits aiming to have a well-diversified portfolio with credit risk concentrations in any particular issuer within the NN Group risk appetite.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Counterparty default risk
Counterparty default risk is the risk of loss due to default or deterioration in the credit standing of the counterparties and debtors (including reinsurers) of NN Group. The SCR for counterparty default risk is primarily based on the issuer's probability of default (PD) and the loss-given-default (LGD) of each individual position taking into account diversification across these positions.

The counterparty default risk module also covers any credit risk exposures which are not covered in the spread risk sub-module.

Risk profile
As shown in the 'Solvency II Capital Requirements' table above, the Counterparty default risk SCR of NN Group increased from EUR 259 million at the end of 2019 to EUR 315 million at the end of 2020, due to an increase in exposure to some counterparties. In the Partial Internal Model the mortgages does not get the capital charge under the Counterparty default risk and are under Credit Risk SCR sub module for these Business Units.

Risk mitigation
NN Group uses different credit risk mitigation techniques. For OTC derivatives, the exchange of collateral under the International Swaps and Derivatives Associations contracts accompanied with Credit Support Annexes is an important example of risk mitigation. Other forms of credit risk mitigation include reinsurance collateral exchange. For cash and money market funds, limits per counterparty are put in place.

Risk measurement
The Counterparty default risk module comprises two sub-modules:
- CDR Type I: applicable to exposures which might not be diversified and where the counterparty is likely to be (externally) rated, e.g. reinsurance contracts, derivatives and money market exposures. The underlying model is the Ter Berg model (which was also the basis for Standard Formula calibration under Solvency II)
- CDR Type II: applicable to exposures that are usually (well) diversified and where the counterparty is likely to be unrated, like retail loans, but also other forms of term lending not covered in Type I

The capital charges for CDR Type I and CDR Type II exposures are calculated separately and subsequently aggregated.

Market and credit risk: separate account businesses
The separate account businesses are those in which the policyholder bears the majority of the market and credit risk. NN Group's earnings from the separate account businesses are primarily driven by fee income. However, in the case of variable annuities and the guaranteed separate account pension business in the Netherlands, NN Group retains risk associated with the guarantees provided to its policyholders. Businesses in this separate account category are (i) the group pension business in the Netherlands for which guarantees are provided and (ii) other separate account business, primarily the unit-linked business and variable annuities (VA).

Separate account guaranteed group pension business in NN Life
Risk profile
In the Dutch separate account guaranteed group pension portfolio, investments are held in separate accounts on behalf of the sponsor employer who concluded their contract with a business unit of NN Group. Regardless of actual returns on these investments, pension benefits for the beneficiaries are guaranteed under the contract. The value of the provided guarantee is sensitive to interest rates, movements in the underlying funds and the volatility of those funds.

The Assets under Management for NN Life's portfolio decreased from EUR 4.2 billion in 2019 to EUR 3.2 billion in 2020 mainly driven by interest rate changes. In general, the materiality of the separate account business within NN Group has reduced in the past few years due to the runoff of the portfolio.

Risk mitigation
NN Group currently hedges the value of the guarantees it provided under group pension contracts in the Netherlands. For the purpose of hedging, the exposure under such guarantees is discounted at the swap curve without the extrapolation to the UFR. The hedge programme includes equity basket options, swaps and equity futures. Upon contract renewal, NN Group offers policyholders defined contribution products with investments in portfolios that NN Group can more easily hedge, thus reducing the risk to NN Group.

Other separate account businesses
Risk profile
The other separate account business primarily consists of unit-linked insurance policies and variable annuity (VA) portfolio. Unit-linked insurance policies provide policyholders with selected fund returns combined with an insurance cover. The investment risk is borne by the policyholder, although there are some unit-linked products where NN Group has provided guarantees on the performance of specific underlying funds. Unit-linked products without guarantees do not expose NN Group to market risk, except to the extent that the present value of future fees is affected by market movements of the underlying policyholder funds. The variable annuities can be distinguished into guaranteed minimum accumulation benefit products of Japan Closed Block VA, guaranteed minimum death benefit products of Japan Closed Block VA and VA products of Insurance Europe.

51 Risk management continued

Risk mitigation

The market risks of the unit-linked and other separate account business are managed by the design of the product. Currently NN Group does not hedge the market risks related to the present value of future fee income derived from this business. For the Japan Closed Block VA business and European VA business NN Group has hedging programmes in place targeting equity, interest rate and FX risk.

Risk measurement

NN Group determines eligible own funds for the market and credit risks of the separate account business through modelling the risks of the fee income and the guarantees including the impact of the hedge programmes.

Liquidity risk

Liquidity risk is the risk that one of NN Group's entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due. NN Group manages liquidity risk via a liquidity risk framework: ensuring that – even after shock – NN Group's businesses can meet immediate obligations. Liquidity stress events can be caused by a market-wide event or an idiosyncratic NN Group specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale.

Subsidiaries that trade derivatives are responsible for maintaining sufficient liquidity levels to meet their collateral requirements. For this purpose liquidity buffers are set to ensure sufficient liquidity is available in an adverse scenario and to ensure the liquidity thresholds are being met.

Risk profile

Liquidity risk covers three areas of attention. Operational liquidity risk, is the risk that funds are unavailable to meet financial obligations when due. Market liquidity risk, is the risk that an asset cannot be sold on short-term without significant losses. Funding risk, is the risk related to not being able to refinance maturing debt instruments and may lead to higher funding costs. The connection between market and operational liquidity risk stems from the fact that when payments are due and not enough cash is available, investment positions need to be converted into cash; if market liquidity is low or an adverse market movement took place in this situation, this could lead to a loss.

Risk mitigation

NN Group aims to match day-to-day cash in- and outflows and at the same time wants to be able to have sufficient cash in case of a liquidity stress event. Daily liquidity management is separately managed based on cash flow projections.

NN Group Liquidity Management Principles defines three levels of Liquidity Management:

- Short-term liquidity (including operational liquidity) management covers the day-to-day cash requirements under normal business conditions
- Long-term liquidity management considers business conditions, in which market liquidity risk materialises
- Stress liquidity management looks at the company's ability to respond to a potential crisis situation

Risk measurement

NN Group Standard measures liquidity risk through the gap between liquidity needs and liquidity sources compared to available liquid assets for sale. This is calculated for different time horizons and different levels of liquidity sources.

Non-market risk

Within the SCR Partial Internal Model a differentiation is made for the classification of non-market risks for different NN Group entities depending on the model applied.

Notes to the Consolidated annual accounts continued

51 Risk management continued

For the Business Units applying Partial Internal Model, non-market risks are split between:
- **Insurance risk:** is the risk related to the events insured by NN Group and comprise actuarial and underwriting risks like Life risk (mortality, longevity), Morbidity risk and Property & Casualty risk which result from the pricing and acceptance of insurance contracts
- **Business risks:** are the risks related to the management and development of the insurance portfolio but exclude risks directly connected to insured events. Business risk includes policyholder behaviour risks, expense risk, persistency risk and premium re-rating risk. Business risks can occur because of internal, industry, regulatory/political or wider market factors. Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by NN Group. Depending on the terms and conditions of the insurance policy, and the laws and regulations applicable to the policy, policyholders could have the option to surrender, change premiums, change investment fund selections, extend their contracts, take out policy loans, and make choices about how to continue their annuity and pension savings contracts after the accumulation phase, or even change contract details. Policyholder behaviour therefore affects the profitability of the insurance contracts. Changes in tax laws and regulations can affect policyholder behaviour, particularly when the tax treatment of their products affects the attractiveness of these products for customers

For the Business Units applying Standard Formula, non-market risks are split between:
- **Life risk:** the life portfolio is mainly attributed to the individual and group business in the international entities of NN Group (mainly Belgium, Spain Life, Poland) and ABN AMRO Life. This risk comprises the mortality, longevity, disability-morbidity, expense, lapse and life catastrophe risks
- **Health risk:** this covers the Similar to Life Techniques (SLT) Health portfolio risk, the Non-SLT (NSLT) Health portfolio risk and the Health Catastrophe risk. Within NN Group, the health risk stems from morbidity riders in Belgium, Czech, Poland, Slovakia, Romania, from the yearly renewable health insurance portfolio of Greece and VIVAT Non-life (Standard Formula entity until the full integration to the Internal Model of NN Non-life). This risk is split between the SLT Health risk (comprising mortality, longevity, disability-morbidity, expense and lapse risks), the NSLT Health risk (comprising premium and reserve risk and lapse risk) and the Health Catastrophe risk
- **Non-life risk:** this covers non-life portfolio mainly contributed by ABN AMRO Non-life, NN Insurance Services and VIVAT Non-life. This risk covers the premiums and reserve risk, non-life catastrophe risk and lapse risk

Risk profile

The table below presents the non-market risk SCR composition at the end of 2020 and at the end of 2019 respectively. The main changes in the risk profile are explained in the subsequent section of this document.

Non-market risk capital requirements

	2020	2019
Insurance risk (IM entities)	5,144	5,339
Business risk (IM entities)	1,712	1,467
Life risk (SF entities)	871	879
Health risk (SF entities)	582	200
Non-life risk (SF entities)	341	113
Diversification non-market risk	-1,717	-1,253
Non-market risk	**6,933**	**6,745**

The Insurance risk for Internal Model entities decreased mainly due to implementation of longevity reinsurance contracts of NN Life during this year with an standalone impact of around EUR -500 million. Business risks slightly increased due to lower discount rates, inflation adjustments and assumption updates related to annual update of NN Group's business plans. Health risk and Non-life risk increased due to acquisition of VIVAT Non-life. Life risk SCR for Standard Formula entities remained relatively stable.

Risk mitigation

Proper pricing, underwriting, claims management and diversification are the main risk mitigating actions for insurance risks.

By expanding insurance liabilities to cover multiple geographies, product benefits, lengths of contract and both life and non-life risk, NN Group reduces the likelihood that a single risk event will have a material impact on NN Group's financial condition.

Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that NN Group underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through NN Group's underwriting standards, product design requirements, and product approval and review processes – as referred to under Risk Management Policies, Standards and Processes.

Insurance risks are diversified between Business Units. Risk not sufficiently mitigated by diversification is managed through concentration and exposure limits and through reinsurance: retention limits for non-life insurance risks are set by line of business for catastrophic events and individual risk.

51 Risk management continued

Insurance Risk

Insurance risk is the risk that the future insurance claims and other contractual benefits cannot be covered by premiums, policy fees and/or investment income or that insurance liabilities are not sufficient because claims and benefits might differ from the assumptions used in determining the best estimate liability. Insurance risk manifests itself in the life as well as in the non-life portfolio of NN Group.

Risk profile

The table below presents the Partial Internal Model insurance risk SCR for the Dutch NN insurance entities of NN Group (namely NN Life, NN Non-life and NN Re) as at 31 December 2020 and 31 December 2019 respectively.

Insurance risk capital requirements

	2020	2019
Mortality (including longevity) risk	5,049	5,267
Morbidity risk	623	517
Property & Casualty risk	521	517
Diversification insurance risk	-1,049	-962
Insurance risk (IM entities)	**5,144**	**5,339**

The SCR for insurance risk is mostly driven by longevity risk which is included in mortality risk, for the Netherlands pension business.

Mortality risk occurs when claims are higher due to higher mortality experience (for instance in relation to term insurance). Longevity risk is the risk that insured persons live longer than expected due to mortality improvements like better living conditions, improved health care and medical breakthrough. While NN Group is exposed to both longevity and mortality risks, these risks do not fully offset one another as the impact of the longevity risks in the pension business in the Netherlands is significantly larger than the mortality risk in the other businesses, which is not only due to the size of the business but also due to the current low interest rate environment. Changes in mortality tables impact the future expected benefits to be paid and the present value of these future impacts is reflected directly in measures like Own Funds.

Morbidity risk is borne primarily by the health insurance portfolio which pays out a fixed amount benefit, reimburses losses (e.g. in the case of loss of income), or pays for expenses of medical treatment related to certain illness or disability events. The main exposures to morbidity risks within NN Group are the disability insurance policies underwritten in Netherlands Non-life, and the health and accidental death covers within the Corporate Owned Life Insurance (COLI) business in Japan Life.

The Netherlands Non-life portfolio includes Property & Casualty (P&C) products covering risks such as fire damage, car accidents, personal and professional liability, windstorms, hail, and third-party liabilities. The P&C risk is primarily underwritten by Netherlands Non-life and catastrophic losses are partially reinsured to external reinsurers through NN Re.

Risk mitigation

Insurance risk is mitigated through diversification between mortality and longevity risks within NN Group Business Units, appropriated pricing and underwriting policies and through risk transfer via reinsurance which are used to reduce the Own Funds volatility.

In addition to the index-based longevity hedge that was already in place, NN life initiated a significant reduction of longevity risk during 2020. NN life completed three longevity reinsurance transactions in May 2020 transferring the full longevity risk associated with in total approximately EUR 13.5 billion of pension liabilities to three large reinsurers. The exposure to reinsurer counterparty risk is actively managed by dividing the ceded portfolio over multiple reinsurers and applying regular monitoring as done on all our counterparties.

The risks that are not sufficiently mitigated by diversification are managed through concentration and exposure limits and through reinsurance:
- Retention limits for life insurance risks are set per insured life and significant mortality events affecting multiple lives such as pandemics
- Retention is used to manage risk levels (such as non-life reinsurance and risk morbidity reinsurance in the COLI business in Japan Life)
- Retention limits for non-life insurance risks are set by line of business for catastrophic events and individual risk

Reinsurance creates credit risk which is managed in line with the Reinsurance Standard of NN Group.

Business risk

Business risk include risks related to the management and development of the insurance portfolio risk, policyholder behaviour risks, persistency risk and expense risks. These risks occur because of internal, industry, regulatory/political, or wider market factors.

Risk profile

The table below presents the Partial Internal Model business risk SCR for the Dutch NN insurance entities of NN Group as at 31 December 2020 and 31 December 2019 respectively.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Business risk capital requirements

	2020	2019
Persistency risk	357	342
Premium risk	13	13
Expense risk	1,598	1,354
Diversification business risk	-256	-242
Business risk (IM entities)	**1,712**	**1,467**

The main contributors to persistency risk are Netherlands Life and the Japan Closed Block VA. Persistency risk increased due to the assumption changes and decrease of the interest rate curve, as well as the portfolio changes at NN Life.

The risk that policyholders maintain their contracts longer than NN Group has assumed is specific to the variable annuity business when guarantees are higher than the value of the underlying policyholder funds, the pension business in the Netherlands, and the older, higher interest rate guaranteed savings business in Europe. The risk that policyholders hold their contracts for a shorter period than NN Group has assumed relates to the life business in Japan and the unit-linked businesses in Central and Eastern Europe. Within NN Group NN Re reinsures parts of the life business in Japan and Central and Eastern Europe.

Expense risk increased due to lower interest rates and regular assumption updates throughout NN Group. This risk relates primarily to the variable part of NN Group's expenses, and is the risk that future actual expenses exceed the expenses assumed. Total administrative expenses for NN Group for 2020 were EUR 2,121 million compared with EUR 2,076 million in 2019. Parts of these expenses are variable, depending on the size of the business and sales volumes, and parts are fixed and cannot immediately be adjusted to reflect changes in the size of the business.

Expense risk of NN Group mainly comprises the expense level and expense inflation risks in NN Life. A significant portion of it is incurred in the closed block operations of Netherlands Life, where NN Group is exposed to the risk that the expenses will not decrease in line with the gradual decrease of the in-force book, leading to a per policy expense increase. Furthermore, expense risk is also driven by the Group pension business in the Netherlands which includes long-term best estimate expense assumptions, discounted over a long period of time.

Risk mitigation

Policyholder behaviour risks, such as persistency and premium risk, are managed through the product development, product approval and review processes and by ensuring that appropriate advice is given to the customer, not only at the point of sale but also during the lifetime of the product. The policyholder behaviour experience of in-force policies is assessed at least annually.

As part of its strategy, NN Group has put several programmes in place to own and improve the customer experience. These programmes improve the match between customer needs and the benefits and options provided by NN Group's products. Over time, NN Group's understanding and anticipation of the choice policyholders are likely to make, will improve, thereby decreasing the risk of a mismatch between actual and assumed policyholder behaviour.

Ongoing initiatives are in place to manage expense risk throughout NN Group, especially in the Netherlands where company targets are in place to reduce expenses, thus, lowering expense risk going forward. These initiatives seek to reduce expenses through the number of underlying contracts in place. This is particularly relevant for the Dutch individual life closed-block business that can only reduce in number of contracts.

Besides the already described mitigating actions, proper pricing, underwriting, claims management, and diversification are also risk mitigating actions for business risk.

Life Risk

Life risk includes risks arising from the underwriting of life insurances of the Business Units applying Standard Formula and is split into mortality risk, longevity risk, disability/morbidity risk, persistency risk, expense risk, revision risk and catastrophic risk. These risks refer to the adverse deviation from the best estimate liabilities due to the perils covered, policyholder behaviour and the processes used in the conduct of business.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Risk profile

Life risk capital requirements

	2020	2019
Mortality risk	138	133
Longevity risk	116	112
Morbidity risk	10	10
Expense risk	384	340
Lapse risk	500	548
Catastrophe risk	102	112
Diversification life risk	-379	-376
Life risk (SF entities)	**871**	**879**

As shown in the table above, the life risk SCR Business Units decreased from EUR 879 million in 2019 to EUR 871 million in 2020. This is mainly due to a decrease in lapse and catastrophe risk which have been slightly offset by an increase in mortality and expanse risk.

Risk mitigation

The majority of life risk is comprised of lapse, expense and mortality risks (in Standard Formula entities) mainly from the international NN Group entities (Belgium, Poland, Spain) as well as ABN AMRO Life.

The NN Group Standard Formula entities manage the expense risk through detailed budgeting and monitoring the costs using activity-based costing.

Lapse risk management serves an important objective for NN Group entities. When deviations from assumed lapse rates are observed over a prolonged period of time, a product review and further management actions will be taken to address the underlying reasons.

Health Risk

Health risk arises from issuing health insurance contracts, which is divided in Similar to Life Techniques (SLT) risk, Non-Similar to Life Techniques (NSLT) risk and catastrophe risk. SLT risk is associated to health obligations pursued on a similar technical basis to that of life insurance, while NSLT risk applies to health obligations not pursued on a similar technical basis to that of life insurance. These risks refer to the adverse deviation from the best estimate liabilities due to the perils covered, policyholder behaviour and the processes used in the conduct of business.

Risk profile

Health risk capital requirements

	2020	2019
SLT	545	184
NSLT	40	22
Catastrophe risk	48	13
Diversification health risk	-51	-19
Health risk (SF entities)	**582**	**200**

As shown in the table above, the health risk SCR of the Business Units applying Standard Formula increased from EUR 200 million in 2019 to EUR 582 million in 2020. This increase is mainly explained by acquisition of VIVAT Non-life as well as morbidity and lapse assumption changes for some standard formula entities.

Risk mitigation

The majority of Health risk originates from VIVAT Non-life and international NN Group entities (Belgium, Czech, Poland, Slovakia, Romania, Greece). They mitigate the risks by strict acceptance policies and stringent claims-handling procedures. An acceptance policy is developed for each product line maintained by those entities. Random checks are also carried out to check whether underwriters are following the rules and regulations.

Non-life Risk

Non-life risk involves risks arising from the underwriting of non-life insurance, which includes premium and reserve risk, persistency risk and catastrophic risk. These risks refer to the adverse deviation from the best estimate liabilities due to the perils covered, policyholder behaviour and the processes used in the conduct of business.

Notes to the Consolidated annual accounts continued

51 Risk management continued
Risk profile
Non-life risk capital requirements

	2020	2019
Premium and reserve risk	302	101
Lapse risk	36	19
Catastrophe risk	96	28
Diversification non-life risk	-93	-35
Non-life risk (SF entities)	**341**	**113**

As shown in the table above, the non-life risk SCR of the Business Units applying Standard Formula increased from EUR 113 million in 2019 to EUR 341 million in 2020. This increase is explained mainly by acquisition of VIVAT Non-life.

Risk mitigation
Non-life risk is mitigated through appropriate pricing and underwriting policies and through risk transfer via reinsurance. Most of the non-life risk comes from VIVAT Non-life, ABN AMRO Non-life and NN Insurance Services, and they manage the risk using various reinsurance contracts.

Within our non-life business, weather-related risks are managed through the use of catastrophe risk modelling in underwriting and risk assessment. We use external vendor models to estimate the impact and damage caused by large natural catastrophes such as windstorms, considered to be the main natural peril for the NN portfolio. Reinsurance covers are placed with strongly capitalised external reinsurers.

Natural catastrophic losses can be made worse by climate change. Although most of our non-life business is annually renewable, to accurately price our business it is essential that we monitor and understand linkages between natural disasters and climate change. NN Group therefore liaises with our external vendors and participates in industry initiatives to improve our knowledge, data and models to better prepare for changing weather patterns.

Non-financial risk
- **Business operations risk:** risks related to inadequate or failed processes, including information technology and communication systems
- **Business continuity & security risk:** risks of accidents or external events impacting continuation or security of (people or assets in) our business operations
- **Business conduct risk:** is the risks related to unethical or irresponsible corporate behaviour, inappropriate employee behaviour and customer suitability of products

Business operations and continuity & security risk
Risk profile
Business operations and continuity & security risks are non-financial risks that include direct or indirect losses resulting from inadequate or failed processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.

The business operations risk management areas covered within NN Group are:
- **Operational control risk:** the risk of not (timely) detecting adverse deviations from strategy, policies, procedures, work instructions or authorised activities
- **Operational execution risk:** the risk of human errors during (transaction) processing
- **Financial accounting risk:** the risk of human errors during general ledger/risk systems processing and subsequent financial reporting
- **Information (technology) risk (including cyber-risk):** the risk of data (information) corruption, misuse or unavailability in IT systems, either through external causes (e.g. cybercrime) or internal causes
- **Operational change risk:** the risk that actual results of changes to the organisation (this includes changes in processes, products, IT, methods and techniques) differs adversely from the envisaged results
- **Outsourcing risk:** the risk that outsourced activities or functions perform adversely as compared to performing them in-company. This includes the risk of unclear mutual expectations as documented in the outsourcing agreement, risk of unreliable outsourcing partner (both (un)intentional), operational control, information security and continuity risk of the outsourcing partner
- **Legal risk:** the risk that agreements, claims, regulatory inquiries or disclosures potentially result in damage to NN Group's brand and reputation, legal or regulatory sanctions or liability resulting in financial loss
- **External fraud risk:** the risk of intended acts by a third party to defraud, misappropriate property or circumvent the law

The business continuity & security risk management areas covered within NN Group are:
- **Continuity risk:** the risk of primary business processes being discontinued for a period beyond the maximum outage time
- **Personal & physical security risk:** the risk of criminal acts or environmental threats that could endanger NN Group employees' safety, NN Group's assets (including physically stored data/information) or NN Group's offices

51 Risk management continued

Risk mitigation

Mitigation of risks can be preventive in nature (e.g. training and education of employees, preventive controls, etc.) or can be implemented upon discovery of a risk (e.g. enforcement of controls, disciplinary measures against employees). Risk mitigating actions or controls are based on a balance between the expected cost of implementation and execution, and the expected benefits.

Business operations and continuity risks are mitigated through controls. For specific areas like financial reporting, outsourcing of activities, and business continuity, specific Policies and Standards apply. In the case of outsourcing, an appropriate outsourcing agreement is required between outsourcing parties and the performance under the outsourcing agreement is required to be monitored regularly. This area was of specific interest due to the Covid-19 pandemic 2020: for more details see Note 2 'Covid-19 pandemic'.

NN Group conducts regular risk and control monitoring to measure and evaluate the effectiveness of key controls. It determines whether the risks are within the norms for risk appetite and in line with requirements from policies and standards. The exposure of NN Group to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each quantifiable risk is assessed as to its likelihood of occurrence as well its potential impact, should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

The business process owners are responsible for the actual execution of the controls and for assessing the adequacy of their controls.

The Chief Information Officer (CIO) function ensures Business Continuity Management, Cyber risk management and Business Information Security.

For IT risks, CIO has adopted the Standard of Good Practice of the Information Security Forum (ISF) as the basis to manage IT, cyber and cloud risks within NN Group. ISF forms the basis of our ISF Policy and Standard, and ensures a consistent view and treatment of our risks in this area. Cyber security is an integral part of our risk management strategy. Within central CIO, the Information & Infrastructure Security (IIS) function leads all efforts within NN Group to further enhance our activities with regard to information security. IIS collaborates with BU Security Officers (BSOs) to provide 24/7 protection against cyberthreats. Education and awareness-raising are part of our security strategy at all levels of the organisation.

Main regular activities undertaken to manage this risk are amongst others:

- Regular IT risk assessments are performed on critical business environments, applications and supporting systems/networks, and potential worst-case business impact is established on a regular basis. Identified risks are documented, classified and monitored in the Security Action Plans.
- User identification and access management are in place, based on defined authorisation matrices and enforcing segregation of duties (especially for administrative accounts). Password parameters are system-enforced for user accounts on the network and critical applications.
- Anti-malware and anti-virus tooling and file integrity checking are implemented and kept up-to-date.
- Effective security logging and monitoring is defined and corrective actions are taken for identified vulnerabilities. A security incident process is in place, and incidents are registered, assessed and solved within an acceptable timeframe.
- Networks are protected by intrusion detection and prevention systems. All hardware and software on the network are monitored so that only authorised devices and software are given access. The security configuration of laptops, servers, and workstations is managed and managed via a configuration management and change control process.
- Data are classified based on their relevance and confidentiality. Depending on their risk classification, data are secured and encrypted according to required security standards.
- A change management process exists and is followed for relevant systems and infrastructure, including relevant steps to ensure security such as impact analyses, testing, fall back scenarios and post implementation review.

Operational Risk Management, as part of the second line of defence, is responsible for providing management with an objective assessment of the effectiveness of NN Group's risks and controls.

Business conduct risk

Risk profile

Through NN Group's retirement services, insurance, investments and banking products, NN Group is committed to help our customers care for what matters most to them. To fulfil this purpose, we base our work on three core values: care, clear, commit. Our values set the standard for conduct and provide a compass for decision-making. Further, NN Group is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which it 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 of good corporate governance. NN Group continuously enhances its business conduct risk management programme to ensure that NN Group complies with international standards and laws.

Notes to the Consolidated annual accounts continued

51 Risk management continued

Risk mitigation

NN Group separates business conduct risk into three risk areas: corporate conduct (includes internal fraud), employee conduct and customer suitability. In addition to effective reporting systems, NN Group has also a whistle-blower policy and procedure which protects and encourages staff to speak up if they know of or suspect a breach of external regulations, internal policies or our values. NN Group also has policies and procedures regarding anti-money laundering, anti-terrorist financing, sanctions, anti-bribery and corruption, customer suitability, conflicts of interest and confidential and inside information, as well as a Code of Conduct for its personnel. Furthermore, NN Group designates specific countries as 'ultra-high risk' and prohibits client engagements and transactions (including payments of facilitation) involving those countries.

NN Group performs a product approval and review process when developing products and continuously invests in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception of acceptable market practices by both the public at large and governmental authorities might influence customer expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the (changing) market situation, customer expectations, and regulatory activity. The Compliance Function and the business work closely together with the aim to anticipate changing customers' needs.

Risk measurement

NN Group's SCR for operational risk increased from EUR 704 million as at the end of 2019 to EUR 757 million at the end of 2020 respectively. The SCR is calculated based on the Standard Formula. As it is additive to the modelled SCR, it should be considered as net of diversification with other NN Group risks. Business conduct risk is considered to be a part of the Operational Risk SCR and is therefore not specifically calculated.

52 Capital and liquidity management

Objectives, policies and processes

Objective

The goal of NN Group's capital and liquidity management is to adequately capitalise NN Group and its operating entities at all times to meet the interests of our stakeholders, including our customers and shareholders. The balance sheet is assessed in line with our capital management framework which is based on regulatory, economic and rating agency requirements. NN Group closely monitors and manages the following metrics: Own Funds/Solvency Capital Requirement (SCR), cash capital at the holding company, financial leverage, fixed cost coverage, capital generation and liquidity.

Governance

The NN Group Capital Management and Corporate Treasury Department reports to the NN Group CFO. Activities of the department are executed on the basis of established policies, guidelines and procedures.

Capital Management is responsible for the sufficient capitalisation of NN Group entities, which involves the management, planning and allocation of capital within NN Group. Corporate Treasury is responsible for the management and execution of debt capital market transactions, term (capital) funding, cash management and risk management transactions.

Capital management and framework

The capital framework takes into account regulatory, economic and rating agency requirements:

- As a first principle, NN Group aims to capitalise its operating entities adequately at all times. Operating entities have to comply with the local statutory capital frameworks that are under supervision of local regulators. To ensure adequate capitalisation, they are managed to commercial capital target levels which are set in accordance with the risk associated with the business activities, commercial requirements and other relevant factors. The commercial capital target levels are set in local legal entity capital policies and approved by the Management Board of NN Group. Capital adequacy is ensured through the capital planning process which starts with the annual budgeting process in which a capital plan is prepared for NN Group and its operating entities with a time horizon of 5 years. NN Group's risk appetite statements, as further described in Note 51 'Risk Management', drive the target setting and are cascaded down to the operating entities in line with NN Group's risk management strategy. Other important factors which are considered in the capital plan are efficient capital allocation, the cost of capital and capital generation. Capital positions of operating entities are closely monitored and, if necessary, measures are taken to ensure capital adequacy. At the end of 2020, all operating entities were capitalised above their local regulatory requirements.
- In addition, cash capital is held at the holding company. The cash capital position is available to cover capital needs of the entities after a stress event and to cover financial leverage costs and holding company expenses for a period of 12 months. Stress tests are based on 1-in-20 year scenarios and specific stress scenarios that might change from time to time. The free cash flow to the holding is the cash made available to NN Group, which can be distributed to shareholders, used to reduce debt or for other corporate purposes. The free cash flow to the holding is closely monitored and forecasted on a regular basis.
- NN Group assesses its funding mix via the financial leverage and fixed-cost coverage ratio. Financial leverage measures the amount of debt that NN Group issued to capitalise its operations. Debt used for funding or liquidity needs for the operating companies is not considered financial leverage. The fixed-cost coverage ratio measures the ability of NN Group to pay its fixed financing expenses and is defined as the earnings before interest and tax (EBIT) divided by interest before tax on financial leverage. Special items, revaluations on derivatives that are non-eligible for hedge accounting, market and other impacts and amortisation of acquisition intangibles are excluded from EBIT.

52 Capital and liquidity management continued

Liquidity management
NN Group monitors and manages its liquidity risk based on certain severe stress scenarios, thereby following a bottom-up approach. Liquidity measures are periodically reported and monitored both on an individual entity and on a consolidated basis.

Liquidity risk is measured through the Required Sales Ratio, calculated as: (i) the difference between liquidity needs and liquidity sources in certain stress scenarios, divided by (ii) the available liquid assets for sale, subject to haircuts. This ratio is calculated for different time horizons and different levels of liquidity sources. The ratios of the entities should meet the predefined tolerance levels on a standalone entity basis. At 31 December 2020, the liquidity position of all entities was adequate and within the risk tolerance.

For the Banking business, Dutch Central Bank (DNB) requires an annual internal evaluation of capital adequacy, liquidity position and the risk management framework, including stress testing. This internal evaluation is performed using an Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP) and reviewed by DNB in its Supervisory Review & Evaluation Process (SREP). The ICLAAP and SREP show that NN Bank has a robust capital and liquidity position.

NN Group has a syndicated revolving credit facility in place with maximum size of EUR 1.75 billion which will mature in 2025. There was no amount drawn from the facility in 2020 and 2019.

Covid-19 Pandemic Impact
On 2 April 2020, EIOPA and DNB published recommendations urging insurers to temporarily suspend all discretionary dividend distributions and share buybacks. On 6 April 2020, NN Group announced that it temporarily suspended the proposed 2019 final dividend and the EUR 250 million share buyback programme following the recommendations. On 6 August 2020, NN Group announced the resumption of the share buyback programme and the payment of an interim dividend of EUR 2.26 per ordinary share, comprising the combined amount of the suspended 2019 final dividend and the regular 2020 interim dividend.

The national supervisory authorities in several countries where NN Group operates (Belgium, Poland, Czech, Spain, Hungary, Slovakia, NN Bank in the Netherlands) issued guidance to suspend dividends and distributions to shareholders. This affected the free cash flow to the holding in 2020 and might affect it in the future in case these dividend suspensions remain in place.

NN Group has taken note of the recommendation by the European Systemic Risk Board published on 18 December 2020 to apply extreme caution in carrying out of dividend distributions and share buybacks by financial institutions until 30 September 2021 due to the ongoing Covid-19 crisis.

Main events 2020
Significant events of 2020 are listed below in chronological order.

On 1 January 2020, the legal merger of NN Životná poisťovňa a.s. (Aegon Slovakia Life) into NN Slovakia Life became effective. As a result, Aegon Slovakia Life ceased to exist as a separate legal entity and NN Slovakia Life assumed all assets and liabilities of NN Životná poisťovňa a.s. (Aegon Slovakia Life) under universal title of succession.

On 13 February 2020, NN Group announced an open market share buyback programme for an amount of EUR 250 million over a period of 12 months, commencing on 2 March 2020. This programme was temporarily suspended on 6 April 2020 following the recommendation from DNB to suspend dividend distributions and share buybacks as a consequence of the Covid-19 pandemic. NN Group announced on 6 August 2020 the resumption of the share buyback programme. This share buyback was executed by financial intermediaries under an open market share buyback programme which was completed on 26 February 2021.

On 1 April 2020, the legal merger of Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (NN Schade) and Movir N.V. (Movir) became effective. As a result, Movir ceased to exist as a separate legal entity and NN Schade assumed all assets and liabilities of Movir under universal title of succession.

On 2 April 2020, NN Group announced the completion of its acquisition of VIVAT Schadeverzekeringen N.V. (VIVAT Non-life) as per 1 April 2020. As a result, NN Group acquired 100% of the shares in VIVAT Non-life from Athora for a consideration of EUR 416 million, as well as the EUR 150 million Tier 2 qualifying loans provided by VIVAT N.V. to VIVAT Non-life. On 31 December 2020, Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (NN Schade) entered into a legal merger with VIVAT Non-life. As a result, VIVAT Non-life ceased to exist as a separate legal entity and NN Schade assumed all assets and liabilities of VIVAT Non-life under universal title of succession.

On 19 May 2020, NN Group announced that its subsidiary NN Life completed three transactions to transfer the full longevity risk associated with in total approximately EUR 13.5 billion of pension liabilities in the Netherlands. The transactions have been entered into with reinsurance companies Canada Life, Munich Re and Swiss Re. The risk transfer is effective as of 1 January 2020, and the reinsurance agreements will continue until the portfolio has run off.

52 Capital and liquidity management continued

On 1 June 2020, NN Group redeemed its senior debt of EUR 300 million issued on 1 June 2017.

On 2 September 2020, NN Group paid a 2020 interim dividend of EUR 2.26 per ordinary share, equivalent to EUR 705 million in total. This amount comprises (i) EUR 1.40 per ordinary share, equal to the amount of the 2019 final dividend that was suspended in April 2020 plus ii) EUR 0.86 per ordinary share, equal to the regular 2020 interim dividend. To neutralise the dilutive effect of the stock dividend, NN Group repurchased ordinary shares for a total amount of EUR 310 million. This share buyback was executed by financial intermediaries under an open market share buyback programme which was completed on 30 October 2020.

As of 31 December 2020, NN Bank is included in the NN Group Solvency II ratio calculation following a Q&A published by DNB on 11 July 2020, in which DNB revised the required approach set in 2016 to calculating the Solvency II ratio for an insurance-led Financial Conglomerate (FICO) such as NN Group. Under the new approach, NN Group is required to include NN Bank in the Solvency II ratio.

On 11 February 2021, NN Group announced that it has reached an agreement with KBC Group N.V. (KBC) to sell its Bulgarian operations for a total consideration of EUR 77.7 million to KBC's Bulgarian insurance business DZI. The transaction is subject to regulatory and antitrust approvals and is expected to close in the course of 2021.

On 18 February 2021, NN Group announced a new share buyback programme of EUR 250 million, anticipated to commence on 1 March 2021, which will be completed within 12 months.

On 18 February 2021, NN Group announced the 2020 final dividend proposal of EUR 1.47 per ordinary share, or approximately EUR 456 million based on current number of outstanding shares (net of treasury shares). This is subject to adoption by the General Meeting at the annual general meeting to be held on 20 May 2021.

Solvency II

Solvency II is the regulatory framework for (re-)insurance undertakings and groups domiciled in the EU.

Under the Solvency II regime, required capital (Solvency Capital Requirement) is risk-based and calculated as the post-tax value-at-risk at the confidence interval of 99.5% on a one-year horizon. Available capital (Own Funds) is determined as the excess of assets over liabilities, both based on economic valuations, plus qualifying subordinated debt. The EU Solvency II directive requires that (re-)insurance undertakings and groups hold sufficient Eligible Own Funds to cover the SCR.

NN Group is the holding company of licensed insurers, asset management and banking businesses. Regulated entities which from local regulatory perspective are not subject to the Solvency II regime (e.g. pension funds in Central Europe, NN Investment Partners, BeFrank and BeFrank PPI) are included in Own Funds based on their local available capital and in SCR based on required capital defined by sectoral supervisory rules. NN Bank is included in the NN Group Solvency II ratio calculation as of 31 December 2020 following the Q&A published by DNB in which DNB revises the required approach to calculating the Solvency II ratio for an insurance-led Financial Conglomerate (FICO) such as NN Group. NN Life Japan is included in Own Funds and SCR based on its available and required capital determined according to the local solvency regime recognised by the European Commission as provisionally equivalent.

NN Group uses the Partial Internal Model (PIM) to calculate capital requirements under Solvency II. The group capital model is named as such due to the fact that an Internal Model is used to calculate the capital requirements for the Dutch insurance entities (namely NN Life, NN Non-life and NN Re in the Netherlands), while the Standard Formula is used to calculate capital requirements for operational risk (across the group), for the international insurance entities that fall under Solvency II, for ABN AMRO Life, ABN AMRO Non-life and VIVAT Non-life. NN Non-life is in the process of expanding the PIM to include the former VIVAT Non-life business.

Further details on the NN Group capital requirements at 31 December 2020 are provided in Note 51 'Risk Management'.

The Solvency II ratios of NN Group and its Dutch insurance entities do not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by NN Group's insurance entities (including ABN AMRO Life) in the past, as this potential liability cannot be reliably estimated or quantified at this point. Reference is made to Note 44 'Legal proceedings' for more information.

NN Group has taken note of EIOPA's Opinion to the European Commission on the Solvency II review published on 17 December 2020. The Opinion, which consists of a proposed package of measures, will be used as input for the European Commission to draft a legislative proposal which will be discussed with the European Council and European Parliament in the coming years. The resulting legislation is currently expected to be implemented at the earliest in 2024. Based on the EIOPA Opinion and current market conditions, NN Group remains comfortable with its Solvency position and do not expect changes to its capital return policy caused by the issuance of the opinion.

NN Group was adequately capitalised at 31 December 2020 with a Solvency II ratio of 210% based on the Partial Internal Model.

Notes to the Consolidated annual accounts continued

52 Capital and liquidity management continued

Eligible Own Funds and Solvency Capital Requirement

	2020	2019
Shareholders' equity	36,731	30,768
Minority interest	277	260
Elimination of deferred acquisition costs and other intangible assets	-1,669	-1,580
Valuation differences on assets	2,611	2,888
Valuation differences on liabilities, including insurance and investment contracts	-25,582	-18,577
Deferred tax effect on valuation differences	6,039	3,622
Difference in treatment of non-Solvency II regulated entities	-1,082	-1,240
Excess assets/liabilities	**17,325**	**16,141**
Deduction of participation in Bank[1,2]		-930
Qualifying subordinated debt	4,498	4,483
Foreseeable dividends and distributions[3]	-595	-203
Basic Own Funds	**21,228**	**19,491**
Non-available Own Funds	1,200	1,252
Eligible Own Funds to cover Solvency Capital Requirements (a)	**20,028**	**18,240**
– of which Tier 1 unrestricted	12,484	11,836
– of which Tier 1 restricted	1,927	1,922
– of which Tier 2	2,484	2,474
– of which Tier 3	733	703
– of which non-Solvency II regulated entities	2,400	1,305
Solvency Capital Requirements (b)	**9,534**	**8,154**
– of which from Solvency II entities	8,166	7,612
– of which from non-Solvency II entities	1,368	542
NN Group Solvency II ratio (a/b)[4]	210%	224%

1 As of 31 December 2020, NN Bank is included in NN Group Solvency II ratio following the Q&A published by DNB.
2 The Solvency II value of subordinated loans issued to NN Bank of EUR 87 million at 31 December 2019 was deducted from the year-end 2019 Tier 2 own funds.
3 The 2019 figures have been adjusted to reverse the deduction of the proposed 2019 final dividend of EUR 1.40 per ordinary share following recommendations of EIOPA and DNB regarding dividend distributions.
4 The Solvency ratios are not final until filed with the regulators.

The final amount of the Solvency Capital Requirement is still subject to supervisory assessment.

The Solvency II ratio of NN Group decreased to 210% at the end of 2020 from 224% at the end of 2019. The decrease mainly reflects capital flows to shareholders, the inclusion of NN Bank into NN Group Solvency II ratio as of the end of 2020, the acquisition of VIVAT Non-life and market variance. This was partly offset by operating capital generation and other movements. The inclusion of NN Bank reduced the Solvency II ratio of NN Group by 9%-points. Market variance reflects the negative impact of movements in credit spreads partly offset by positive equity revaluations. Capital flows to shareholders consist of EUR 1,161 million of dividends in 2020 and the EUR 250 million share buyback programme announced in February 2020. Other movements mainly reflect the longevity reinsurance transactions completed in May 2020 and the reduction of UFR from 3.90% to 3.75%, and in total led to a positive impact on the Solvency II ratio of NN Group.

Eligible Own Funds increased from EUR 18,240 million at 31 December 2019 to EUR 20,028 million at 31 December 2020 mainly due to market variances, the inclusion of NN Bank into NN Group Own Funds and operating capital generation, partly offset by capital flows to shareholders and the impact of the UFR reduction. Market variance reflects the decrease of interest rates and positive equity revaluations, partly offset by the impact of movements in credit spreads.

The SCR of NN Group increased from EUR 8,154 million at 31 December 2019 to EUR 9,534 million at 31 December 2020. The increase is mainly driven by the inclusion of NN Bank into NN Group SCR, market variances and the acquisition of VIVAT Non-life, partly offset by the impact of the longevity reinsurance transactions completed in May 2020. Market variance reflects the decrease of interest rates and positive equity revaluations, partly offset by the impact of movements in credit spreads.

Notes to the Consolidated annual accounts continued

52 Capital and liquidity management continued

Structure, amount and quality of Own Funds

Subordinated liabilities included in NN Group Own Funds

							Solvency II value	
Interest rate	Issue	Year of issue	Notional	Due date	First call date	Own Funds tier	2020	2019
4.500%	NN Group N.V.	2014	1,000	Perpetual	15 January 2026	Tier 1	1,111	1,105
4.375%	NN Group N.V.[1]	2014	750	Perpetual	13 June 2024	Tier 1	816	818
4.625%	NN Group N.V.	2014	1,000	8 April 2044	8 April 2024	Tier 2	1,100	1,106
4.625%	NN Group N.V.	2017	850	13 January 2048	13 January 2028	Tier 2	940	920
9.000%	Nationale-Nederlanden Levensverzekering N.V.[2]	2012	500	29 August 2042	29 August 2022	Tier 2	530	535

1 These securities were originally issued by Delta Lloyd N.V. which was merged into NN Group N.V. at the end of 2017.

2 These securities were originally issued by Delta Lloyd Levensverzekering N.V. which was merged into Nationale-Nederlanden Levensverzekering Maatschappij N.V. (NN Life) on 1 January 2019.

The perpetual subordinated notes issued in 2014 with a notional amount of EUR 1 billion have a coupon of 4.50% and are fully paid in. NN Group N.V. has the right to redeem these notes on the first call date on 15 January 2026 or on any interest payment date thereafter. The subordinated notes are classified as Restricted Tier 1 capital based on the transitional provisions (grandfathering). These subordinated notes are grandfathered for a maximum period of 10 years until 1 January 2026.

The perpetual subordinated notes (originally issued by Delta Lloyd N.V. in 2014) with a notional amount of EUR 750 million have a coupon of 4.375% are fully paid in. NN Group N.V. has the right to redeem these notes on the first call date on 13 June 2024 or on any interest payment date thereafter. The subordinated notes are classified as Restricted Tier 1 capital based on the transitional provisions (grandfathering). These notes are grandfathered for a maximum period of 10 years until 1 January 2026.

The dated subordinated notes issued in 2014 with a notional amount of EUR 1 billion have a coupon of 4.625% and maturity date on 8 April 2044 and are fully paid in. NN Group N.V. has the right to redeem these notes on the first call date on 8 April 2024 or on any interest payment date thereafter. These subordinated notes are classified as Tier 2 capital based on the transitional provisions (grandfathering). The subordinated notes are grandfathered for a maximum period of 10 years until 1 January 2026.

The dated subordinated notes issued in 2017 with a notional amount of EUR 850 million have a coupon of 4.625% with maturity date on 13 January 2048 and are fully paid in. NN Group N.V. has the right to redeem these notes on the first call date on 13 January 2028 or on any interest payment date thereafter. These subordinated notes are classified as Tier 2 capital.

The dated subordinated notes, originally issued by Delta Lloyd Levensverzekering N.V. in 2012 and assumed by Nationale-Nederlanden Levensverzekering N.V. following the legal merger effective as of 1 January 2019, with a notional amount of EUR 500 million have a coupon of 9% and maturity date on 29 August 2042 and are fully paid in. Nationale-Nederlanden Levensverzekering N.V. has the right to redeem these notes on the first call date on 29 August 2022 or on any interest payment date thereafter. The subordinated notes are classified as Tier 2 capital based on the transitional provisions (grandfathering). These notes are grandfathered for a maximum period of 10 years until 1 January 2026.

Eligible Own Funds

NN Group Own Funds are classified into three tiers as follows:

- The excess of assets over liabilities on the basis of consolidated accounts excluding net Deferred Tax Asset is classified as (unrestricted) Tier 1
- The proportional share in the Own Funds of NN Investment Partners, BeFrank, BeFrank PPI and pension funds in Central Europe is classified as (unrestricted) Tier 1
- The proportional share in the Eligible Own Funds of NN Life Japan is classified as (unrestricted) Tier 1 (European Commission recognised the solvency regime applied to the insurance undertakings in Japan as provisionally equivalent to Solvency II according to Commission Delegated Decision (EU) 2016/310 of 26 November 2015)
- The proportional share in the Own Funds of NN Bank is classified as (unrestricted) Tier 1 with the exception of the subordinated loans which are classified as Tier 2
- Perpetual subordinated notes are classified as (restricted) Tier 1 based on the transitional provisions (grandfathering)
- Dated subordinated debt is classified as Tier 2 including that based on the transitional provisions (grandfathering)
- The Net Deferred Tax Asset (Deferred tax assets and liabilities are offset only where such assets and liabilities relate to taxes levied by the same tax authority on the same taxable undertaking) is classified as Tier 3

Notes to the Consolidated annual accounts continued

52 Capital and liquidity management continued

As at 31 December 2020 and 2019, NN Group had no ancillary Own Funds.

There are a number of regulatory restrictions on the amounts classified as Restricted Tier 1, Tier 2 and Tier 3 capital. The following restrictions have to be taken into account:

- Restricted Tier 1 capital cannot exceed 20% of the total Tier 1 amount
- The proportion of Tier 1 items in the Eligible Own Funds should be higher than one third of the total amount of Eligible Own Funds
- Tier 2 and Tier 3 capital together cannot exceed 50% of the SCR
- Tier 3 capital cannot exceed 15% of the Solvency Capital Requirements
- Tier 3 capital cannot exceed one third of the total amount of Eligible Own Funds

The application of the regulatory restrictions as at 31 December 2020 is reflected in the table below.

Eligible Own Funds to cover the Solvency Capital Requirement

	Available Own Funds 2020	Eligibility Own Funds 2020	Available Own Funds 2019	Eligibility Own Funds 2019	Eligibility restriction
Tier 1	**14,411**	**14,411**	**13,758**	**13,758**	**More than one third of total EOF**
Of which:					
– Unrestricted Tier 1	12,484	12,484	11,836	11,836	Not applicable
– Restricted Tier 1	1,927	1,927	1,922	1,922	Less than 20% of Tier 1
Tier 2 + Tier 3	**3,217**	**3,217**	**3,177**	**3,177**	**Less than 50% of SCR**
Tier 2	2,484	2,484	2,474	2,474	
Tier 3	733	733	703	703	Less than 15% of SCR; Less than one third of total EOF
Non-Solvency II regulated entities	2,400	2,400	1,305	1,305	
Total Own Funds	**20,028**	**20,028**	**18,240**	**18,240**	

Transferability and fungibility of Own Funds

NN Group adjusts the group Own Funds taking into account the value of own fund items that cannot effectively be made available to cover the group SCR. These are the own fund items of related undertakings subject to legal and regulatory constraints that restrict the ability of those items to absorb all types of loss within the group and/or transferability of assets. Based on NN Group's assessment these own fund items mainly include:

- Differences between valuations of assets and liabilities based on Solvency II principles and according to principles that related undertakings use to prepare respective local annual accounts
- For NN Life Japan, own fund items according to local rules but which are not part of shareholders' equity
- For NN Bank, own funds covering pillar II guidance issued by regulator
- The transitional measures on risk-free interest rates and technical provisions
- Legal reserves set up according to local company law
- Any minority interest in a related undertaking

These own fund items are included in NN Group Own Funds to the extent they are eligible for covering SCR of the respective related undertaking. On 31 December 2020 excess non-available own funds amounted to EUR 1,200 million. On 31 December 2019, this amount was EUR 1,252 million.

Cash capital position at the holding company

NN Group holds a cash capital position in the holding company to cover stress events and to fund holding company expenses and interest expenses. Cash capital is defined as net current assets available at the holding company. It is NN Group's aim for the cash capital position at the holding company to be in a target range between EUR 0.5 billion and EUR 1.5 billion. Another related metric is the free cash flow at the holding which is defined as the change in the cash capital position at the holding company over the period, excluding acquisitions and capital transactions with shareholders and debtholders.

Notes to the Consolidated annual accounts continued

52 Capital and liquidity management continued

Cash capital position at the holding company

	2020	2019
Cash capital position — opening balance	1,989	2,005
Cash divestment proceeds		4
Dividends from subsidiaries[1]	1,310	1,459
Capital injections into subsidiaries	-56	-76
Other[2]	-183	-200
Free cash flow to the holding[3]	**1,070**	**1,187**
Acquisitions	-572	-117
Capital flow from/to shareholders	-1,017	-1,085
Increase/decrease in debt and loans	-300	
Cash capital position — closing balance	**1,170**	**1,989**

1 Includes interest on intragroup subordinated loans provided to subsidiaries by the holding company.

2 Includes interest on subordinated loans and debt with external debtholders, holding company expenses and other cash flows.

3 Free cash flow to the holding company is defined as the change in cash capital position of the holding company over the period, excluding acquisitions and capital transactions with shareholders and debtholders.

The cash capital position at the holding company decreased to EUR 1,170 million at 31 December 2020 from EUR 1,989 million at 31 December 2019. The decrease is mainly due to capital flows to shareholders, the consideration paid for the acquisition of VIVAT Non-life and the redemption of EUR 300 million senior debt. This was partly offset by the free cash flow to the holding. Capital flows to shareholders of EUR 1,017 million represents the cash part of the 2020 interim dividend for an amount of EUR 394 million and the shares repurchased in 2020 for an amount of EUR 623 million. Free cash flow to the holding of EUR 1,070 million represents EUR 1,310 million of remittances from all segments, partly offset by EUR 56 million capital injection into subsidiaries and EUR -183 million other negative movements that include holding company expenses, interest on loans and debt and other holding company cash flows.

Financial leverage

The financial leverage and fixed-cost coverage ratio are managed in accordance with a single A financial strength rating target.

Financial leverage

	2020	2019
Shareholders' equity	36,731	30,768
Adjustment for revaluation reserves	-17,790	-13,397
Minority interests	277	260
Capital base for financial leverage (a)	**19,219**	**17,632**
– Undated subordinated notes[1]	1,764	1,764
– Subordinated debt	2,383	2,409
Total subordinated debt	**4,146**	**4,172**
Debt securities issued	1,694	1,992
Financial leverage (b)	**5,840**	**6,164**
Total debt	**5,840**	**6,164**
Financial leverage ratio (b/(a+b))	23.3%	25.9%
Fixed-cost coverage ratio[1,2]	11.9x	12.0x

1 The undated subordinated notes classified as equity are considered financial leverage in the calculation of the financial leverage ratio. The related interest is included on an accrual basis in the calculation of the fixed-cost coverage ratio.

2 Measures the ability of earnings before interest and tax (EBIT) to cover funding costs on financial leverage. Special items, revaluations on derivatives that are non-eligible for hedge accounting, market and other impacts and amortisation of acquisition intangibles are excluded from EBIT

The financial leverage ratio of NN Group decreased to 23.3% at 31 December 2020 from 25.9% at 31 December 2019, reflecting the redemption of EUR 300 million senior debt and the increase of the capital base. The capital base for financial leverage increased by EUR 1,587 million mainly driven by the 2020 net results of EUR 1,904 million and positive equity revaluations of EUR 803 million, partly offset by capital flows to shareholders of EUR 1,017 million.

The fixed-cost coverage ratio decreased to 11.9x at the end of 2020 from 12.0x at the end of 2019.

Notes to the Consolidated annual accounts continued

52 Capital and liquidity management continued

Proposed 2020 final dividend

At the annual general meeting on 20 May 2021, a final dividend will be proposed of EUR 1.47 per ordinary share, or approximately EUR 456 million in total based on the current number of outstanding shares (net of treasury shares). The final dividend will be paid either fully in cash, after deduction of withholding tax if applicable, or fully in ordinary shares, at the election of the shareholders. Dividends paid in the form of ordinary shares will be delivered from NN Group treasury shares or issued from the share premium reserve. To neutralise the dilutive effect of the stock dividend, NN Group will repurchase ordinary shares for an amount equivalent to the stock dividend. If the proposed dividend is approved by the General Meeting, NN Group ordinary shares will be quoted ex-dividend on 24 May 2021. The record date for the dividend will be 25 May 2021. The election period will run from 26 May up to and including 9 June 2021. The stock fraction for the stock dividend will be based on the volume weighted average price of NN Group ordinary shares on Euronext Amsterdam for the five trading days from 3 June through 9 June 2021. The dividend will be payable on 16 June 2021. (For more information: https://www.nn-group.com/Investors).

On 2 September 2020, NN Group paid an interim dividend of EUR 2.26 per ordinary share, comprising (i) EUR 1.40 per ordinary share, equal to the amount of the 2019 final dividend that was suspended in April 2020 plus (ii) EUR 0.86 per ordinary share, equal to the regular 2020 interim dividend calculated in accordance with the NN Group dividend policy. The proposed 2020 final dividend of EUR 1.47 per ordinary share plus the regular 2020 interim dividend of EUR 0.86 per ordinary share gives a pro forma total dividend for 2020 of EUR 2.33 per ordinary share.

Share buyback

On 18 February 2021, NN Group announced that it will execute an open market share buyback programme for an amount of EUR 250 million. The programme will be executed within 12 months and commenced on 1 March 2021. The share buyback will be deducted in full from Solvency II Own Funds in the first half of 2021 and is estimated to reduce NN Group's Solvency II ratio by approximately 3%-points. In addition to the announced share buyback programme, NN Group intends to repurchase shares to neutralise the dilutive effect of any stock dividends. NN Group intends to cancel any repurchased NN Group shares under the programmes unless used to cover obligations under share-based remuneration arrangements or to deliver stock dividend.

The share buyback programmes will be executed within the limitations of the existing authority granted by the General Meeting on 28 May 2020 and such authority to be granted by the General Meeting on 20 May 2021. The shares will be repurchased at a price that does not exceed the last independent trade or the highest current independent bid on the relevant trading platform. The programmes will be executed by financial intermediaries and will be performed in compliance with the safe harbour provisions for share buybacks.

On 14 February 2019, NN Group announced an open market share buyback programme for an amount of up to EUR 500 million over 12 months, commencing on 1 March 2019. This share buyback programme was completed on 28 February 2020.

On 13 February 2020, NN Group announced an open market share buyback programme for an amount up to EUR 250 million over a period of 12 months, commencing 2 March 2020. This share buyback was executed by financial intermediaries under an open market share buyback programme, which was completed on 26 February 2021.

Following the payment of the 2020 interim dividend, NN Group announced that it would repurchase ordinary shares for a total amount of EUR 310 million, equivalent to the value of the stock dividends, to neutralise the dilutive effect. This share buyback programme was completed on 30 October 2020.

NN Group reports on the progress of the share buyback programmes on its corporate website (https://www.nn-group.com/Investors) on a weekly basis.

Share capital

In 2020, a total number of 21,817,879 ordinary shares for a total amount of EUR 623 million were repurchased.

The Executive Board of NN Group has decided to cancel 12,400,000 treasury shares representing shares that NN Group repurchased as part of the share buyback programmes. This cancellation is subject to a two-month creditor opposition period which will end on 4 May 2021. Assuming no opposition is made the cancellation of shares will take effect on 5 May 2021.

On 5 March 2021, the total number of NN Group shares outstanding (net 20,360,820 of treasury shares) was 309,917,390.

Credit ratings

On 14 December 2020, Standard & Poor's affirmed NN Group's 'A' financial strength rating and 'BBB+' credit rating with a stable outlook.

On 16 October 2020, Fitch affirmed NN Group's 'A+' financial strength rating and 'A' credit rating with a stable outlook.

Notes to the Consolidated annual accounts continued

52 Capital and liquidity management continued

Credit ratings on NN Group N.V. on 10 March 2021

	Financial Strength Rating	NN Group N.V. Counterparty Credit Rating
Standard & Poor's	A	BBB+
	Stable	Stable
Fitch	A+	A
	Stable	Stable

Authorisation of the Consolidated annual accounts

The Consolidated annual accounts of NN Group N.V. for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Executive Board on 10 March 2021. The Executive Board may decide to amend the Consolidated annual accounts as long as these are not adopted by the General Meeting.

The General Meeting may decide not to adopt the Consolidated annual accounts, but may not amend these during the meeting. The General Meeting can decide not to adopt the Consolidated annual accounts, propose amendments and then adopt the Consolidated annual accounts after a normal due process.

The Hague, 10 March 2021

The Supervisory Board
D.A. (David) Cole, chair
H.M. (Hélène) Vletter-van Dort, vice-chair
H.J.G. (Heijo) Hauser
R.W. (Robert) Jenkins
J.W. (Hans) Schoen
C.C.F.T. (Clara) Streit

The Executive Board
D.E. (David) Knibbe, CEO, chair
D. (Delfin) Rueda, CFO, vice-chair

Parent company balance sheet
Amounts in millions of euros, unless stated otherwise

Parent company balance sheet

As at 31 December before appropriation of result	notes	2020	2019
Assets			
Investments in group companies	2	38,535	32,234
Available-for-sale investments	3	4,509	6,238
Intangible assets	4	455	479
Other assets	5	6,036	4,147
Total assets		**49,535**	**43,098**
Equity			
Share capital		39	41
Share premium		12,574	12,572
Share of associates reserve		21,853	16,597
Retained earnings		361	-404
Unappropriated result		1,904	1,962
Shareholders' equity		**36,731**	**30,768**
Undated subordinated notes		1,764	1,764
Total equity	6	**38,495**	**32,532**
Liabilities			
Subordinated debt	7	1,834	1,832
Other liabilities	8	9,206	8,734
Total liabilities		**11,040**	**10,566**
Total equity and liabilities		**49,535**	**43,098**

References relate to the notes starting with Note 1 'Accounting policies for the Parent company annual accounts'. These form an integral part of the Parent company annual accounts.

Parent company profit and loss account

Parent company profit and loss account

For the year ended 31 December	2020	2019
Result group companies	2,022	2,105
Other income	65	79
Total income	**2,087**	**2,184**
Amortisation of intangible assets and other impairments	24	32
Interest expenses	121	107
Operating expenses	146	149
Total expenses	**291**	**288**
Result before tax	**1,796**	**1,896**
Taxation	-108	-66
Net result	**1,904**	**1,962**

Parent company statement of changes in equity

Parent company statement of changes in equity (2020)

	Share capital	Share premium	Share of associates reserve	Other reserves[1]	Shareholders' equity	Undated subordinated notes	Total equity
Balance at 1 January 2020	**41**	**12,572**	**16,597**	**1,558**	**30,768**	**1,764**	**32,532**
Unrealised revaluations available-for-sale investments and other			3,119	-10	3,109		3,109
Realised gains/losses transferred to the profit and loss account			-574		-574		-574
Changes in cash flow hedge reserve			3,422		3,422		3,422
Deferred interest credited to policyholders			-750		-750		-750
Share of other comprehensive income of associates and joint ventures			5		5		5
Exchange rate differences			-110		-110		-110
Remeasurement of the net defined benefit asset/liability			6		6		6
Unrealised revaluations property in own use			-3		-3		-3
Total amount recognised directly in equity (Other comprehensive income)	**–**	**–**	**5,115**	**-10**	**5,105**	**–**	**5,105**
Net result for the period				1,904	1,904		1,904
Total comprehensive income	**–**	**–**	**5,115**	**1,894**	**7,009**	**–**	**7,009**
Changes in share capital	-2	2			–		–
Transfers to/from associates			141	-141	–		–
Dividend				-394	-394		-394
Purchase/sale of treasury shares				-622	-622		-622
Employee stock option and share plans				1	1		1
Coupon on undated subordinated notes				-59	-59		-59
Changes in the composition of the group and other changes				28	28		28
Balance at 31 December 2020	**39**	**12,574**	**21,853**	**2,265**	**36,731**	**1,764**	**38,495**

1 Other reserves include Retained earnings and Unappropriated result.

Parent company statement of changes in equity continued

Parent company statement of changes in equity (2019)

	Share capital	Share premium	Share of associates reserve	Other reserves[1]	Shareholders' equity	Undated subordinated notes	Total equity
Balance at 1 January 2019	**41**	**12,572**	**8,923**	**1,314**	**22,850**	**1,764**	**24,614**
Unrealised revaluations available-for-sale investments and other			4,541	-73	4,468		4,468
Realised gains/losses transferred to the profit and loss account			-286		-286		-286
Changes in cash flow hedge reserve			4,284		4,284		4,284
Deferred interest credited to policyholders			-1,403		-1,403		-1,403
Share of other comprehensive income of associates and joint ventures			-4		-4		-4
Exchange rate differences			53		53		53
Remeasurement of the net defined benefit asset/liability			-38		-38		-38
Unrealised revaluations property in own use			3		3		3
Total amount recognised directly in equity (Other comprehensive income)	**–**	**–**	**7,150**	**-73**	**7,077**	**–**	**7,077**
Net result for the period				1,962	1,962		1,962
Total comprehensive income	**–**	**–**	**7,150**	**1,889**	**9,039**	**–**	**9,039**
Transfers to/from associates			524	-524	–		–
Dividend				-387	-387		-387
Purchase/sale of treasury shares				-707	-707		-707
Employee stock option and share plans				2	2		2
Coupon on undated subordinated notes				-59	-59		-59
Changes in the composition of the group and other changes				30	30		30
Balance at 31 December 2019	**41**	**12,572**	**16,597**	**1,558**	**30,768**	**1,764**	**32,532**

1 Other reserves include Retained earnings and Unappropriated result.

Notes to the Parent company annual accounts

1 Accounting policies for the Parent company annual accounts

The parent company accounts of NN Group N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The principles of valuation and determination of results stated in connection with the Consolidated balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and loss account with the exception of investments in group companies and Associates and joint ventures which are recognised at net asset value with goodwill, if any, recorded under intangible assets.

A list containing the information referred to in Article 379 (1), Book 2 of the Dutch Civil Code has been filed with the Commercial Register of the Chamber of Commerce in Amsterdam in accordance with Article 379 (5), Book 2 of the Dutch Civil Code.

Changes in balance sheet values due to changes in the revaluation reserves of associates are reflected in the 'Share of associates reserve', which forms part of shareholders' equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with NN Group accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these associates, other than those due to changes in share capital, are included in the 'Share of associates reserve'.

A legal reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the 'Share of associates reserve'.

2 Investments in group companies

Investments in group companies

Name	Statutory seat	Interest held 2020	Balance sheet value 2020	Interest held 2019	Balance sheet value 2019
NN Insurance Eurasia N.V.	Amsterdam, The Netherlands	100%	37,332	100%	31,148
Delta Lloyd Houdstermaatschappij Verzekeringen N.V.	Amsterdam, The Netherlands	100%	1	100%	3
Nationale-Nederlanden Bank N.V.	The Hague, The Netherlands	100%	910	100%	776
Nationale-Nederlanden ABN AMRO Verzekeringen Holding B.V.	Zwolle, The Netherlands	51%	270	51%	251
NN Insurance International B.V.	The Hague, The Netherlands	100%	22	100%	56
Investments in group companies			**38,535**		**32,234**

Changes in Investments in group companies

	2020	2019
Investments in group companies – opening balance	32,234	24,194
Disposals of group companies		-4
Revaluations	5,136	7,108
Result of group companies	2,022	2,105
Capital contributions	422	
Dividend and repayments	-1,265	-1,170
Changes in the composition of the group and other changes	-14	1
Investments in group companies – closing balance	**38,535**	**32,234**

3 Debt securities Available-for-sale

Changes in Debt securities Available-for-sale

	2020	2019
Debt securities Available-for-sale – opening balance	6,238	988
Additions	10,942	13,430
Disposals and redemptions	-12,671	-8,180
Debt securities Available-for-sale – closing balance	**4,509**	**6,238**

Notes to the Parent company annual accounts continued

4 Intangible assets

Intangible assets

	2020	2019
Goodwill	294	294
Other intangible assets	161	185
Intangible assets	**455**	**479**

For the decrease of Goodwill and the accompanying change in the line 'Amortisation of intangible assets and other impairments' in the Parent company profit and loss account, reference is made to Note 10 'Intangible assets' of the Consolidated annual accounts.

5 Other assets

Other assets

	2020	2019
Receivables from group companies	2,838	2,308
Cash	2,302	1,005
Other receivables	896	834
Other assets	**6,036**	**4,147**

As at 31 December 2020, an amount of EUR 1,462 million (2019: EUR 1,790 million) is expected to be settled after more than one year from the balance sheet date.

6 Equity

Total equity

	2020	2019
Share capital	39	41
Share premium	12,574	12,572
Share of associates reserve	21,853	16,597
Retained earnings and unappropriated result	2,265	1,558
Shareholders' equity	**36,731**	**30,768**
Undated subordinated notes	1,764	1,764
Total equity	**38,495**	**32,532**

As at 31 December 2020, share premium includes an amount of EUR 6,390 million (2019: EUR 6,392 million) exempt from Dutch withholding tax.

Share capital

	Ordinary shares (in number)		Ordinary shares (amounts in millions of euros)	
	2020	2019	2020	2019
Authorised share capital	700,000,000	700,000,000	84	84
Unissued share capital	369,721,790	356,443,879	45	43
Issued share capital	**330,278,210**	**343,556,121**	**39**	**41**

For details on share capital and share premium, reference is made to Note 14 'Equity' in the Consolidated annual accounts.

Notes to the Parent company annual accounts continued

6 Equity continued

Changes in Retained earnings and unappropriated result (2020)

	Retained earnings	Unappropriated result	Total
Retained earnings and unappropriated result – opening balance	-404	1,962	1,558
Net result for the period		1,904	1,904
Unrealised revaluations	-10		-10
Transfer to/from share of associates reserve	-141		-141
Transfer to/from retained earnings	1,962	-1,962	–
Dividend	-394		-394
Purchase/sale of treasury shares	-622		-622
Employee stock option and share plans	1		1
Coupon on undated subordinated notes	-59		-59
Changes in the composition of the group and other changes	28		28
Retained earnings and unappropriated result – closing balance	**361**	**1,904**	**2,265**

Changes in Retained earnings and unappropriated result (2019)

	Retained earnings	Unappropriated result	Total
Retained earnings and unappropriated result – opening balance	197	1,117	1,314
Net result for the period		1,962	1,962
Unrealised revaluations	-73		-73
Transfer to/from share of associates reserve	-524		-524
Transfer to/from retained earnings	1,117	-1,117	–
Dividend	-387		-387
Purchase/sale of treasury shares	-707		-707
Employee stock option and share plans	2		2
Coupon on undated subordinated notes	-59		-59
Changes in the composition of the group and other changes	30		30
Retained earnings and unappropriated result – closing balance	**-404**	**1,962**	**1,558**

The total amount of Equity in the Parent company annual accounts equals Shareholders' equity (parent) in the Consolidated annual accounts. Certain components within equity are different, as a result of the following presentation differences between the Parent company accounts and Consolidated accounts:

- Unrealised revaluations within consolidated group companies, presented in the 'Revaluation reserve' in the Consolidated annual accounts, are presented in the 'Share of associates reserve' in the Parent company annual accounts
- Foreign currency translation on consolidated group companies, presented in the 'Currency translation reserve' in the Consolidated annual accounts, is presented in the 'Share of associates reserve' in the Parent company annual accounts
- Remeasurement of the net defined benefit asset/liability within consolidated group companies presented in the 'Net defined benefit asset/liability remeasurement reserve' in the Consolidated annual accounts, are presented in the 'Share of associates reserve' in the Parent company annual accounts
- Non-distributable retained earnings of associates presented in 'Other reserves' in the Consolidated annual accounts, are presented in the 'Share of associates reserve' in the Parent company annual accounts
- Revaluations on real estate investments, capitalised software and certain participations recognised in income and consequently presented in 'Retained earnings' in the Consolidated annual accounts, are presented in the 'Share of associates reserve' in the Parent company annual accounts

Notes to the Parent company annual accounts continued

6 Equity continued

Share of associates reserve

	2020	2019
Unrealised revaluations within consolidated group companies	20,468	15,269
Currency translation reserve	-97	3
Net defined benefit asset/liability remeasurement reserve	-138	-144
Reserve for non-distributable retained earnings of associates	1,412	1,271
Revaluations on investment property and certain participations recognised in income	208	198
Share of associates reserve	**21,853**	**16,597**

Positive components of the Share of associate reserve of EUR 22,088 million (2019: EUR 16,741 million) cannot be freely distributed. The reserve for cash flow hedges is included in the Share of associates reserve on a net basis. Retained earnings can be freely distributed, except for an amount equal to the negative balance in each of the components in the Share of associates reserve.

Distributable reserves

NN Group N.V. is subject to legal restrictions regarding the amount of dividends it can pay to its shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to total shareholders' equity less the issued and outstanding capital and less the reserves required by law. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

In addition, NN Group's ability to pay dividends is dependent on the dividend payment ability of its subsidiaries, associates and joint ventures. NN Group is legally required to create a non-distributable reserve insofar profits of its subsidiaries, associates and joint ventures are subject to dividend payment restrictions. Such restrictions may, among others, be of a similar nature as the restrictions which apply to NN Group.

Legally distributable reserves, determined in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, from NN Group's subsidiaries, associates and joint ventures are as follows:

Distributable reserves based on the Dutch Civil Code

	2020	2020	2019	2019
Total shareholders' equity		36,731		30,768
Share capital	39		41	
Positive components of Share of associates reserve	22,088		16,741	
Total non-distributable part of shareholders' equity:		22,127		16,782
Distributable reserves based on the Dutch Civil Code		**14,604**		**13,986**

The Dutch supervisory rules and regulations stemming from the Dutch Financial Supervision Act (Wet op het financieel toezicht) provide a second restriction on the possibility to distribute dividends. Total freely distributable reserves is the minimum of freely distributable capital on the basis of solvency requirements and freely distributable capital on the basis of capital protection.

Freely distributable reserves

	2020	2020	2019	2019
Solvency requirement under the Financial Supervision Act	9,534		8,154	
Reserves available for financial supervision purposes	20,028		18,240	
Total freely distributable reserves on the basis of solvency requirements		10,494		10,086
Total freely distributable reserves on the basis of the Dutch Civil Code		14,604		13,986
Total freely distributable reserves (lower of the values above)		**10,494**		**10,086**

Reference is made to Note 52 'Capital and liquidity management' for more information on solvency requirements.

6 Equity continued

Other restrictions

There are other restrictions to the ability of subsidiaries, associates and joint ventures to distribute reserves to NN Group as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the group companies operate. Reference is made to Note 52 'Capital and liquidity management' in the Consolidated annual accounts for the minimum capital requirements.

In addition to the legal and regulatory restrictions on distributing dividends from subsidiaries, associates and joint ventures to NN Group there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity in the Group's subsidiaries, associates and joint ventures. These considerations and limitations include, but are not restricted to, rating agency and regulatory views, which can change over time; it is not possible to disclose a reliable quantification of these limitations.

Without prejudice to the authority of the Executive Board to allocate profits to reserves and to the fact that the ordinary shares are the most junior securities issued by NN Group, no specific dividend payment restrictions with respect to ordinary shares exist.

Furthermore, NN Group is subject to legal restrictions with respect to repayment of capital to holders of ordinary shares. Capital may be repaid to the holders of ordinary shares pursuant to an amendment of NN Group's Articles of Association whereby the ordinary shares are written down. Pursuant to the Dutch Civil Code, capital may only be repaid if none of NN Group's creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

Undated subordinated notes

In July 2014, NN Group N.V. issued fixed to floating rate undated subordinated notes with a par value of EUR 1,000 million. The notes are undated, but are callable after 11.5 years and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 4.50% per annum for the first 11.5 years and will be floating thereafter. As these notes are undated and include optional deferral of interest at the discretion of NN Group, these are classified under IFRS-EU as equity. Coupon payments are deducted from equity if and when paid or contractually due. The discount to the par value and certain issue costs were deducted from equity at issue, resulting in a balance sheet value equal to the net proceeds of EUR 986 million.

In June 2014, fixed to floating rate undated subordinated notes with a par value of EUR 750 million were originally issued by Delta Lloyd which are classified as equity under IFRS. The notes are undated, but are callable as from 13 June 2024 and every quarter thereafter (subject to regulatory approval). The coupon is fixed at 4.375% per annum until 13 June 2024 and will be floating thereafter. Coupon payments are distributed out of equity if and when paid or contractually due. These notes were recognised upon acquisition of Delta Lloyd for an amount of EUR 778 million.

7 Subordinated debt

Subordinated debt

				Notional amount		Balance Sheet Value	
Interest rate	**Year of issue**	**Due date**	**First call date**	**2020**	**2019**	**2020**	**2019**
4.625%	2014	8 April 2044	8 April 2024	1,000	1,000	994	993
4.625%	2017	13 January 2048	13 January 2028	850	850	840	839
Subordinated debt						**1,834**	**1,832**

The above subordinated debt instruments have been issued to raise hybrid capital. Under IFRS-EU these debt instruments are classified as liabilities and are considered capital for regulatory purposes. All subordinated debt is euro denominated.

8 Other liabilities

Other liabilities

	2020	2019
Debt securities issued	1,694	1,992
Amounts owed to group companies	7,290	6,524
Other amounts owed and accrued liabilities	222	218
Other liabilities	**9,206**	**8,734**

Amounts owed to group companies by remaining term

	2020	2019
Within 1 year	7,290	6,524
Amounts owed to group companies	**7,290**	**6,524**

9 Other

NN Group N.V. has issued statements of liability in connection with Article 403, Book 2 of the Dutch Civil Code and other guarantees (mainly funding and redemption guarantees) for group companies.

Reference is made to the Consolidated annual accounts for the number of employees, audit fees and remuneration of the Executive Board, the Management Board and the Supervisory Board.

Authorisation of the Parent company annual accounts

The Parent company annual accounts of NN Group N.V. for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Executive Board on 10 March 2021. The Executive Board may decide to amend the Parent company annual accounts as long as these are not adopted by the General Meeting.

The General Meeting may decide not to adopt the Parent company annual accounts, but may not amend these during the meeting.
The General Meeting can decide not to adopt the Parent company annual accounts, propose amendments and then adopt the Parent company annual accounts after a normal due process.

The Hague, 10 March 2021

The Supervisory Board
D.A. (David) Cole, chair
H.M. (Hélène) Vletter-van Dort, vice-chair
H.J.G. (Heijo) Hauser
R.W. (Robert) Jenkins
J.W. (Hans) Schoen
C.C.F.T. (Clara) Streit

The Executive Board
D.E. (David) Knibbe, CEO, chair
D. (Delfin) Rueda, CFO, vice-chair

Independent auditor's report

Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of NN Group N.V.

Report on the audit of the 2020 annual accounts included in the Financial Report

Our opinion

In our opinion:

— the accompanying consolidated annual accounts give a true and fair view of the financial position of NN Group N.V. ('the Group' or 'NN Group') as at 31 December 2020 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

— the accompanying parent company annual accounts give a true and fair view of the financial position of NN Group N.V. as at 31 December 2020 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the 2020 annual accounts of NN Group N.V. based in Amsterdam and headquartered in The Hague, as set out on pages 45 to 186 of the Financial Report. The annual accounts include the consolidated annual accounts and the parent company annual accounts.

The consolidated annual accounts comprise:

1 the consolidated balance sheet as at 31 December 2020;

2 the following consolidated statements for 2020: the profit and loss account, the statements of comprehensive income, cash flows and changes in equity; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:

1 the parent company balance sheet as at 31 December 2020;

2 the parent company profit and loss account for 2020; and

3 the notes comprising a summary of the accounting policies and other explanatory information.

KPMG

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the annual accounts' section of our report.

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

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Materiality

— Materiality of EUR 140 million. This is in line with 2019.
— Based on core equity: shareholders' equity minus revaluation reserves (1%)

Group audit

— 97% of core equity
— 97% of total assets
— 91% of profit before tax

Key audit matters

— Valuation of insurance contract liabilities and Reserve Adequacy Test (RAT)
— Valuation of hard to value assets
— Unit-linked exposure
— Solvency II disclosure
— IT general and cybersecurity controls

Opinion

Unqualified

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KPMG

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 140 million (2019: EUR 140 million). The materiality is determined with reference to core equity (shareholders' equity minus revaluation reserves) and amounts to 1% (2019: 1%). We continue to consider core equity as the most appropriate benchmark based on our assessment of the general information needs of users of the annual accounts of financial institutions predominantly active in the life insurance business. We believe that core equity is a relevant metric for assessment of the financial performance of the Group. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the annual accounts for qualitative reasons.

We agreed with the Audit Committee of the Supervisory Board that misstatements in excess of EUR 7 million (2019: EUR 7 million) which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

NN Group N.V. is at the head of a group of components. The financial information of this group is included in the consolidated annual accounts of NN Group. The Group is structured along 7 segments: Netherlands Life, Netherlands Non-life, Insurance Europe, Japan Life, Asset Management, Banking and Other, each comprising of multiple legal entities and/or covering different countries.

Because we are ultimately responsible for the audit opinion, we are responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group entities.

In our risk assessment and related scoping, we took into account potential effects of Covid-19 and re-evaluated these during the process.

Our group audit mainly focused on significant components. These significant components are either individually financially significant due to their relative size within the Group or because we assigned a significant risk of material misstatement to one or more account balances of the component. We included VIVAT Non-life in our scope, as it was acquired by NN Group on 1 April 2020. In addition, we included certain components in the scope of our group audit in order to arrive at a sufficient coverage for all relevant significant account balances.

This resulted in a full or specific scope audit for 25 components, in total covering 9 countries, and in a coverage of 97% of core equity, 97% of total assets and 91% of profit before tax. For the remaining 3% of core equity, 3% of total assets and 9% of profit before tax, procedures were performed at the group level including analytical procedures in order to corroborate that our scoping remained appropriate throughout the audit. This coverage is in line with our 2019 audit.

We sent audit instructions to all component auditors, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team. All components in scope for group reporting purposes are audited by KPMG member firms.

A specific point of attention as a result of Covid-19 was the virtual way of working, and in particular the impact thereof on the audit procedures and the reliability of the audit evidence obtained. For the largest part of 2020, NN Group employees were working from home. We performed the audit of NN Group also largely working from home. In view of the Covid-19 related restrictions on the movement of people across borders, we considered changes to the planned audit approach to evaluate the component auditors' communications and the adequacy of their work. According to our original audit plan, we intended to visit the components in Japan, Belgium and Romania to review selected component auditor documentation. Due to the aforementioned restrictions, this was not practicable in the current environment. As a result, we requested those component auditors to provide us with access to audit workpapers and subsequently performed these evaluations remotely. For all components in the scope of the group audit we held video and conference calls. During these calls, the planning, risk assessment, procedures performed, findings and observations reported to the group auditor were discussed in more detail and any additional work deemed necessary by the group audit team was then performed. As originally planned for these components we performed remote file reviews.

The group audit team has set component materiality levels, which ranged from EUR 2 million to EUR 100 million, based on the mix of size and risk profile of the components within the Group.

The consolidation of the Group, the disclosures in the annual accounts and certain accounting topics are audited by the group audit team. The accounting matters on which audit procedures are performed by the group audit team include, but are not limited to, assessment of the use of the going concern assumption, companies and businesses acquired and divested, intangible assets including goodwill, equity, staff expenses in the Netherlands, other operating expenses in the Netherlands, certain elements of the risk and capital management disclosures, corporate income tax for the Dutch fiscal unity and legal proceedings.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the Group's financial information to provide an opinion about the annual accounts.

Our procedures as described above, including our audit coverage can be summarized as follows:

Core equity

44%	53%	3%
Audit of the complete reporting package	Audit of specific items	Covered by additional procedures performed at group level

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Total assets

89%	8%	3%
Audit of the complete reporting package	Audit of specific items	Covered by additional procedures performed at group level

Profit before tax

74%	17%	9%
Audit of the complete reporting package	Audit of specific items	Covered by additional procedures performed at group level

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit with respect to fraud and non-compliance with laws and regulations are:

With respect to fraud:

— to identify and assess the risks of material misstatement of the annual accounts due to fraud;

— to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and

— to respond appropriately to fraud or suspected fraud identified during the audit.

With respect to non-compliance with laws and regulations:

— to identify and assess the risk of material misstatement of the annual accounts due to non-compliance with laws and regulations; and

— to obtain a high (but not absolute) level of assurance that the annual accounts, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the Executive Board, with oversight by the Supervisory Board.

Our risk assessment

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud. We involved our forensic specialists in performing our risk assessment procedures.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to NN Group and we inquired the Executive Board and the Audit Committee of the Supervisory Board as to whether the entity is in compliance with such laws and regulations and we inspected correspondence with De Nederlandsche Bank (DNB), Autoriteit Financiële Markten (AFM) and other regulators relevant to the Group audit.

The potential effect of the identified laws and regulations on the annual accounts varies considerably.

Firstly, NN Group is subject to laws and regulations that directly affect the annual accounts, including taxation and financial reporting. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items and therefore no additional audit response is necessary.

Secondly, NN Group is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognised or disclosures provided in the annual accounts, or both, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an indirect effect:

- Wet op het financieel toezicht (Wft) (including the European Solvency II directives);
- financial and economic crime (FEC) related regulation;
- data privacy regulation (GDPR).

In accordance with the auditing standards we evaluated the following fraud and non-compliance risks that are relevant to our audit, including the relevant presumed risks:

- revenue recognition (a presumed fraud risk);
- management override of controls (a presumed fraud risk);
- the remote working by NN Group staff in all countries as a consequence of Covid-19;
- information technology and cyber risks.

We only identified 'management override of controls' as a fraud risk.

We communicated the evaluated risks of fraud and non-compliance with laws and regulations throughout our team and remained alert to any indications of fraud and/or non-compliance throughout the audit.

In all of our audit procedures, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We refer to the key audit matters 1, 2 and 4, that are examples of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

We communicated our risk assessment and audit response to management and the Audit Committee of the Supervisory Board. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our response

We performed the following audit procedures (not limited) to respond to the assessed risks:

— assessed the fraud risk assessments performed by operational risk management in the business units and coordinated by Group Operational Risk Management. We shared these fraud risk assessments with all component auditors and evaluated their local follow up;

— assessed matters reported on the incident register/whistleblowing and complaints procedures within NN Group and results of management's investigation of such matters. We inquired regularly with the Group Compliance Officer to update our understanding of risk and to the extent required amend our planned audit procedures;

— incorporated elements of unpredictability in our audit e.g. in the scoping of components and data-analysis on outgoing payments, including attention to creditors master data in The Netherlands and performed risk-based specific item testing;

— we performed detailed testing on other emoluments in relation to the Management Board;

— we evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks. In case of internal control deficiencies, where we considered there would be opportunity for fraud, we performed supplemental detailed risk-based testing;

— we performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by NN Group, including retrospective reviews of prior year's estimates. Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk. These procedures also included testing of transactions back to source information;

— considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud or non-compliance. If so, we re-evaluated our assessment of relevant risks and its resulting impact on our audit procedures;

— obtained audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the annual accounts;

— considered the effect of actual, suspected or identified risk of non-compliance as part of our procedures on the related items in the annual accounts.

We do note that our audit is based on the procedures described in line with applicable auditing standards. Our procedures to address identified risks of fraud and related to non-compliance with laws and regulations did not result in a key audit matter.

We do note that our audit is not primarily designed to detect fraud and non-compliance with laws and regulations and that management is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations.

The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the annual accounts, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Executive Board and the Audit Committee of the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the annual accounts as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Covid-19 pandemic has had both operational and financial impact on NN Group. We refer to Note 2 of the annual accounts. As described under scoping of the group audit it also impacted our way of working with the component auditors. Covid-19 is also reflected in our key audit matters. For the valuation of insurance contract liabilities and Reserve Adequacy Test (RAT) we have analysed the impact of Covid-19 on management’s accounting estimates. The key audit matter with respect to ‘Valuation of hard to value assets’ has been added compared to last year, given the increased volatility and subjectivity on the Covid-19 impacted markets.

1. Valuation of insurance contract liabilities and Reserve Adequacy Test (RAT)

Description

NN Group has insurance and investment contract liabilities of EUR 171 billion representing 76% of its total liabilities. The valuation of the insurance and investment contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate settlement value of long-term liabilities, both in the insurance contract liabilities as reported in the balance sheet and in the RAT.

NN performs the RAT in order to confirm that the insurance contract liabilities, gross of reinsurance and net of deferred acquisition costs, are adequate in the context of the expected future cash flows. Based on relative size and risk profile, the RAT for NN Life is the most important one.

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The RAT for NN Life in respect of the individual and group pension business requires the application of significant management judgement in setting the assumptions related to longevity, expense and reinvestment rate.

Given the financial significance and the level of judgement required, we considered the valuation of insurance contract liabilities and Reserve Adequacy Test a key audit matter.

Our response

Our audit approach included testing both the effectiveness of internal controls around determining insurance contract liabilities and the RAT, as well as substantive audit procedures.

Our procedures over internal controls focused on controls around the adequacy of policyholder data, the governance and controls around assumption setting and the review procedures performed on the RAT by the Group Chief Actuary. In our audit we also considered the process around the internal validation and implementation of the models used to determine the valuation of the insurance contract liabilities and the RAT.

With the assistance of our own actuarial specialists, the substantive audit procedures we performed included:

— assessment of the appropriateness of assumptions used in the valuation of the insurance contract liabilities for significant business units (in particular NN Life) by reference to company and industry data and expectations of future investment returns, future longevity, also in relation to the mortality tables published by The Royal Dutch Actuarial Association on 9 September 2020, and expense developments;

— assessment of the initial recognition and measurement of the insurance liabilities and value of business acquired for VIVAT Non-Life and assessment of the year-end valuation and adequacy test in line with the NN Group accounting policies;

— assessment of the appropriateness of the data, assumptions and methodologies taking into account Covid-19, applied in the RAT. We performed specific procedures in response to the changes in market interest rates during 2020 and the implications for the RAT;

— analysis of developments in actuarial results and movements in reserve adequacy during the year for each of the business units and corroborative inquiries with management and the Group Chief Actuary in that regard;

— evaluation of the robustness of management's substantiation that the insurance contract liabilities are adequate as at 31 December 2020.

Our observation

Overall, we found that management estimated the valuation of the insurance contract liabilities, net of deferred acquisition costs, acceptably. We refer to Notes 11 and 18 of the annual accounts.

We note that the unrealised revaluations on available for sale investments backing the insurance contract liabilities are recorded in shareholders' equity and represent a significant part of the revaluation reserve. This unrealised revaluation reserve increased significantly again in 2020 as a result of market interest rate movements during the year. To the extent that available for sale investments are being sold, the excess in reserve adequacy would decrease accordingly.

If these unrealised revaluations were to be fully realised, the capital gains would only be partly available to shareholders, since a significant portion of the gains would be required to strengthen the insurance contract liabilities in order to remain adequate. We refer to Note 1 of the annual accounts.

2. Valuation of hard to value assets

Description

Given the subjectivity of the valuation of less liquid level 3 assets we have considered the valuation of these as a significant risk (also in prior year). As a result of Covid-19 we observed a significant increase in economic uncertainty and a drop in liquidity for certain asset classes and in particular for real estate investments and private equity investments. We also paid specific attention to the valuation of the mortgage portfolio.

Given the financial significance and increased level of management judgement required and therefore the impact on our audit, we considered the valuation of hard to value assets a key audit matter.

Our response

Our audit procedures primarily consisted of the following:

— assessment of NN Group's governance, processes and internal controls with respect to the valuation of hard to value assets;

— assessment of valuation models used and the (internal) validation thereof, in particular for the determination of the fair value of the mortgage portfolio;

— assessment of management's response to the Covid-19 related increased valuation uncertainty for real estate investments and private equity investments;

— inspection of documentation and inquiry with management's internal and external experts on their judgements and resulting valuations. As group auditors, we attended the quarterly calls between local management, their external advisors for the valuation of the real estate investment portfolio and the component auditors;

— we performed back testing on the prior year estimate, e.g. by reconciliation of valuations to annual accounts of investments or comparison to sales results;

— we involved our real estate valuation specialists in the substantive audit procedures of selected high-risk real estate investments, in particular for investment property in the retail segment in various European countries. We discussed and challenged the significant assumptions such as the gross initial yield/discount rate and estimated rental value used by the external appraisers. We challenged their assumptions against available market data and object specific underlying characteristics such as rent collections, occupancy rates and contract renewals;

- we challenged management's valuation of private equity investments by critically reviewing the minutes of the meetings of management with the external private equity fund managers, we tested the timeliness of such meetings and performed back testing procedures to determine the reliability of the fair value estimates provided by the external private equity fund managers and we compared the movements in valuation with available external market data;
- we involved our corporate finance specialists for the audit of the fair value of the mortgage portfolio. We tested the source data and asked our specialists to determine an acceptable fair value range for the mortgage portfolio.

Our observation

We found management's estimate of the fair value of the mortgage portfolio to be within the acceptable range.

We found that management estimated the valuation of real estate investments and private equity investments reasonably. We also refer to Note 2 and 36 of the annual accounts in which the real estate valuation uncertainties that exist at 31 December 2020 are disclosed.

3. Unit-linked exposure

Description

Holders of unit-linked products sold in the Netherlands, or consumer protection organisations on their behalf, have filed claims or initiated legal proceedings against NN Group and may continue to do so. A negative outcome of such claims and proceedings, settlements or any other actions to the benefit of the customers by other insurers or sector-wide measures, may affect the (legal) position of NN Group and could result in substantial financial losses for the Group relating to the compensation. Management assessed the financial consequences of these legal proceedings under both the EU-IFRS and the Solvency II reporting framework and concluded that these cannot be reliably measured, estimated and/or quantified at this point.

Due to the potential significance and management judgement that is required to assess the developments relevant to these claims and proceedings, we considered this a key audit matter.

Our response

Our audit procedures primarily consisted of the following:

- assessment of NN Group's governance, processes and internal controls with respect to the unit-linked exposures within its business units, in particular the Netherlands Life Segment;
- inspection of the documentation and a discussion about the unit-linked exposures with management and its internal legal advisors. These procedures took into account NN Group's specific developments as well as broader market developments, including verdicts issued in 2020 and up to the date of this audit opinion;

- obtaining lawyers letters of the external lawyers that are engaged by NN Group in relation to the defence in the so-called collective cases (Woekerpolis.nl, Consumentenbond and Wakkerpolis). We assessed the professional competency, capability and objectivity of these external lawyers. We used the lawyer's letters to obtain external confirmation over management's judgements in relation to the related (collective) exposures;
- assessment of the recognition and measurement requirements to establish provisions under NN Group's EU-IFRS accounting principles and the Solvency II framework for the calculation of the Solvency II ratio;
- evaluation of the unit-linked disclosure in Note 44 Legal proceedings of the annual accounts, where we focused on adequacy of the disclosure of the related risks and management's judgements.

Our observation

Overall, we found that management's assessment that the financial consequences of the unit-linked exposure cannot be reliably measured and therefore the fact that no provision is recognised in the 31 December 2020 balance sheet (for both EU-IFRS and Solvency II) to be sufficiently substantiated.

We considered the disclosure of the exposure in Note 44, which describes the related risks and management judgements in compliance with the relevant accounting requirements, to be adequate.

4. Solvency II disclosure

Description

Solvency II information is considered to be an important addition to the information provided on an EU-IFRS basis. The Own Funds and Solvency Capital Requirement (SCR) are the main metrics of the Solvency II prudential reporting framework. The calculation of both metrics as well as the disclosed sensitivity of the Solvency II ratio is complex and highly judgemental and is based on assumptions which are affected by (future) economic, demographic and regulatory conditions. The assumptions used relate to risks regarding interest, mortality, longevity, morbidity, catastrophe, lapse and expense as well as the diversification between these risks. The calculations also take into consideration taxation after shock (loss absorbing capacity of deferred tax).

NN Group applies the approved Partial Internal Model (PIM) to calculate the capital requirements under Solvency II for NN Group and the insurance subsidiaries in the Netherlands, with the exception of VIVAT Non-life that is included on a Standard Formula basis. Disclosure of the determination of the metrics, changes in the model applied, assumptions and sensitivity applied (including the use of the Volatility Adjustment and Ultimate Forward Rate) are considered relevant information for understanding the Solvency II metrics.

Consistent with new DNB requirements NN Group included NN Bank in the calculation of the Group Solvency II ratio as at 31 December 2020.

Given the importance of this legislation for NN Group and complexity of the application and estimates to determine the Solvency II ratio, we determined the adequacy of the Solvency II disclosure to be a key audit matter.

Our response

We obtained an understanding of the Group's application and implementation of the Solvency II directive. In designing our audit approach, we have set a separate materiality for the audit of the Solvency II capital position. The materiality level applied is EUR 180 million (2019: EUR 180 million).

We have assessed the design and operating effectiveness of the internal controls over the SCR calculations, including the Group's methodology, model and assumption approval processes (including the follow up to the terms and conditions set by DNB in relation to the 2018 approval of the PIM-Major Model Change) and analytical controls.

These internal controls covered, among others:

- whether the calculations of the market value balance sheet, Own Funds and SCR were accurate and prepared in accordance with the Solvency II directive and in accordance with the PIM as approved by DNB;
- the appropriateness of economic and non-economic assumptions used for the calculations of the market value balance sheet, Own Funds and SCR, based on market observable data, company and industry data, comparison of judgements made to current and emerging market practice;
- the adequacy of the quantitative and qualitative disclosures of the Solvency II Capital Requirements including disclosure on interpretation of legislation and related uncertainty. In this context we also tested the design and implementation of internal controls over the preparation of the Solvency II sensitivity disclosures;
- the functioning of the Solvency II key functions on risk management and actuarial function. In this context we performed corroborative inquiry with the Group Chief Actuary on the Group Actuarial Function Holder report 2020, which sets out conclusions on the reliability and adequacy of the technical provisions as at 31 December 2020 under Solvency II.

Based on the outcome of our assessment of the effectiveness of the internal controls, we performed amongst others the following substantive procedures:

- verifying the accuracy of the calculations of the market value balance sheet used to determine Own Funds for selected balance sheet items, using our own actuarial specialists and alternative actuarial methods, if applicable;
- assessing the appropriateness of evidence used and judgement applied in assumption setting by NN Group for both the best estimate liability and the SCR. This included the evaluation of the substantiation of the loss absorbing capacity of deferred tax in the NN Group recoverability test. We performed detailed procedures to verify that these calculations correctly took into account changes in the EIOPA legislation and regulations that were enacted in 2020;

- verifying the consolidation of the Solvency II reporting by the Group's components, taking into account the Solvency II specific requirements for consolidation that deviate from EU-IFRS;
- verifying that NN Life Japan was included on an equivalence basis, meaning that the capital position is based on the local reporting framework (Japanese GAAP);
- verifying that VIVAT Non-life has been correctly included on Standard Formula as agreed with DNB as part of the Non-life Solvency II figures;
- verifying that NN Bank has been correctly included;
- analysing the outcome of the internally prepared calculations and analysis of the movements in the Solvency II capital position during the year and sensitivities as at 31 December 2020 and discussing the outcome with the Group's actuaries and Group Chief Actuary;
- verifying the reconciliation between the disclosures in the annual accounts to the output of the internal reporting on Solvency II. This also includes reconciliation of input for the market value balance sheet used for Own Funds with other fair value disclosures in the annual accounts;
- verifying the accuracy and evaluating the appropriateness of the Solvency II sensitivity disclosures, taking into account the uncertainties related to the Covid-19 pandemic;
- verifying that the Solvency II disclosure refers to the fact that the Solvency II ratio is not final until filed with the regulator, DNB. We refer to page 169.

Our observation

Overall, we found that the calculations of the Solvency II Own Funds and SCR in the risk and capital management disclosures are acceptable in the context of the annual accounts. We refer to Notes 51 and 52 of the annual accounts.

5. IT general and cybersecurity controls

Description

NN Group is highly dependent on its IT systems for the continuity of the operations. To meet clients' needs and business requirements in a digitising world, NN Group is continuously improving the efficiency and effectiveness of its IT infrastructure and the reliability and continuity of its electronic data processing, including its defence against cyberattacks. In order to ensure the continuity and reliability of the electronic data processing, IT general and cybersecurity controls are an important cornerstone of the NN Group internal control framework.

Taking into account the remote way of working by NN Group staff during most of the financial year as a result of the Covid-19 pandemic, and the Group's dependency on remote and continuous access, and taking into account the increased frequency and severity of cyber incidents that are taking place in the environment in which NN Group operates and therefore societal attention for cybersecurity, we considered this a key audit matter.

Our response

We tested IT general controls related to logical access, change management and computer operations and key application controls embedded in the IT systems that are relevant to the Group's financial reporting. As part of our risk assessment and design of the IT audit approach, we have also taken into account regulatory correspondence related to IT security risk management. We also performed test procedures to respond to specific risks such as data migrations (in particular at NN Life, NN Non-life and group), implications of the progress of the decommissioning of the ex-Delta Lloyd environment and vendor management related to outsourced IT processes.

In response to the increased frequency and severity of cyber incidents and heightened concerns from regulators and other stakeholders about cybersecurity attacks and breaches, we evaluated cybersecurity risks as part of our audit of the annual accounts. We updated our understanding of the design and effectiveness of preventive and detective cybersecurity controls and responses, cybersecurity self-assessments performed by the business units and we performed procedures to test the resilience of the cybersecurity controls in place. We held corroborative inquiries with the personnel at the Security Operations Center and with the Group's Chief Information Security Officer (CISO). This work was performed together with our IT auditors that are specialised in cyber risk management.

Our observation

Based on the testing of IT general controls, we obtained sufficient and appropriate audit evidence to support our IT driven audit approach.

The results of the procedures performed regarding cybersecurity controls were satisfactory in relation to our audit. Based on the procedures performed we noted points for further improvement that we have shared with the Executive Board and the Audit Committee of the Supervisory Board.

We refer to the disclosure on Risk Management in Note 51.

Report on the other information included in the annual report

In addition to the annual accounts and our auditor's report thereon, the annual report contains other information.

Based on the following procedures performed, we conclude that the other information:

— is consistent with the annual accounts and does not contain material misstatements; and

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the annual accounts or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the annual accounts.

The Executive Board is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of NN Group N.V. on 28 May 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that financial year. We have been reappointed by the General Meeting of Shareholders on 29 May 2019 to continue to serve NN Group as its external auditor for the financial years 2020–2022.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the annual accounts

Responsibilities of the Executive Board and the Supervisory Board for the annual accounts

The Executive Board is responsible for the preparation and fair presentation of the annual accounts in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the annual accounts, the Executive Board is responsible for assessing the NN Group N.V.'s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the annual accounts using the going concern basis of accounting unless the Executive Board either intends to liquidate the NN Group N.V. or to cease operations or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the annual accounts.

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

Our responsibilities for the audit of the annual accounts

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Independent auditor's report continued

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the annual accounts is located at the website of the Koninklijke Nederlandse Beroepsorganisatie van Accountants (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01.
This description forms part of our independent auditor's report.

Amstelveen, 10 March 2021

KPMG Accountants N.V.

P.A.M. de Wit RA

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Appropriation of result

Appropriation of result

The result is appropriated pursuant to Article 34 of the Articles of Association of NN Group N.V., the relevant stipulations of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Executive Board. Reference is made to Note 14 'Equity' for the proposed appropriation of result.

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

Disclaimer
NN Group's 2020 Annual Report consists of two documents: the 2020 Annual Review and the 2020 Financial Report. More information – for example, the Solvency and Financial Condition Report (SFCR) and the GRI Index Table – is available on the corporate website in the Investors/Financial Report section.

Small differences are possible in the tables due to rounding.

Certain of the statements in this 2020 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Group's core markets, (2) the effects of the Covid-19 pandemic and related response measures, including lockdowns and travel restrictions, on economic conditions in countries in which NN Group operates, on NN Group's business and operations and on NN Group's employees, customers and counterparties, (3) changes in performance of financial markets, including developing markets, (4) consequences of a potential (partial) break-up of the euro or European Union countries leaving the European Union, (5) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations and the interpretation and application thereof, (14) changes in the policies and actions of governments and/or regulatory authorities, (15) conclusions with regard to accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to NN Group of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit and financial strength ratings, (18) NN Group's ability to achieve projected operational synergies, (19) catastrophes and terrorist-related events, (20) adverse developments in legal and other proceedings and (21) the other risks and uncertainties detailed in the Risk management section and/or contained in recent public disclosures made by NN Group.

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

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.

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