Shaping our tomorrow

NN Group N.V.
Financial Report 2018

NN

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Other information

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

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

2018 Annual Review

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

2018 Financial Report

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

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

NN Group is a financial services company, active in 18 countries with a strong presence in a number of European countries and Japan.

Through our retirement services, insurance, investments and banking products, we take on the risks people cannot bear alone and help them secure their financial futures.

What matters to you, matters to us.

Financial developments

NN Group

Analysis of result[1]

amounts in millions of euros	2018	2017
– Netherlands Life	972	896
– Netherlands Non-life	94	30
– Insurance Europe	271	260
– Japan Life	167	200
– Asset Management	155	161
– Other	-33	40
Operating result ongoing business	**1,626**	**1,586**
Non-operating items ongoing business:	1,275	1,430
– of which gains/losses and impairments	1,034	1,065
– of which revaluations	427	346
– of which market & other impacts	-186	19
Japan Closed Block VA	1	-9
Special items	-321	-234
Amortisation and impairment of acquisition intangibles	-984	-99
Result on divestments	60	-150
Result before tax	**1,657**	**2,524**
Taxation	524	391
Minority interests	16	22
Net result	**1,117**	**2,110**

1 Operating result and Adjusted allocated equity (as used in the calculation of Net operating ROE) are Alternative Performance Measures. These measures are derived from figures according to IFRS-EU. The operating result is derived by adjusting the reported result before tax to exclude the impact of result on divestments, the amortisation of acquisition intangibles, discontinued operations and special items, gains/losses and impairment, revaluations and market & other impacts. The adjusted allocated equity is derived by adjusting the reported total equity to exclude revaluation reserves, the undated subordinated notes classified as equity as well as the goodwill and intangible assets recognised as a result of the Delta Lloyd acquisition. Alternative Performance Measures are non-IFRS-EU measures that have a relevant IFRS-EU equivalent. For definitions and explanations of the Alternative Performance Measures reference is made to Note 30 'Segments' in the section 'Alternative Performance measures (Non-GAAP measures)'.

Key figures

amounts in millions of euros	2018	2017
New sales life insurance (APE)	1,640	1,791
Value of new business	391	345
Total administrative expenses	2,170	2,164
Net operating ROE[1]	8.9%	10.3%
Solvency II ratio[2]	230%	199%

1 Net operating ROE is calculated as the (annualised) net operating result of the ongoing business, adjusted to reflect the deduction of the accrued coupon on undated subordinated notes classified in equity, divided by (average) adjusted allocated equity of ongoing business. Adjusted allocated equity is an Alternative Performance Measure. It is derived from IFRS equity by excluding revaluation reserves, the undated subordinated notes classified as equity as well as the goodwill and intangible assets recognised as a result of the Delta Lloyd acquisition. Reference is made to Note 30 'Segments' in the section 'Alternative Performance measures (Non-GAAP measures)'.

2 The solvency ratio is not final until filed with the regulators. The Solvency II ratio for NN Group is based on the Partial Internal Model.

Operating result

The full-year 2018 operating result of the ongoing business increased to EUR 1,626 million from EUR 1,586 million in 2017. The operating result in 2017 benefited from a total of EUR 104 million of private equity dividends and special dividends as well as non-recurring items while the operating result in 2018 benefited from a total of EUR 38 million of such items. Excluding these items, the increase reflects improved results at Netherlands Life, Netherlands Non-life and Insurance Europe and expense reductions, as well as the inclusion of Delta Lloyd from the second quarter of 2017, partly offset by a lower operating result at Japan Life.

Result before tax

The full-year 2018 result before tax decreased to EUR 1,657 million from EUR 2,524 million in 2017, reflecting the impairment of the goodwill, lower non-operating items and higher special items, partly compensated by the result on divestments and the higher operating result of the ongoing business. The full-year special items of EUR -321 million includes EUR -258 million of restructuring expenses, with the remainder relating to other projects. The result of divestments for 2018 mainly reflects the recognition of an additional divestment result (before tax) in 3Q18 related to the sale of NN Group's former insurance subsidiary ING Life Korea to MBK in December 2013.

Sales and Value of New Business

In 2018, total new sales were down 5.9% on a constant currency basis to EUR 1,640 million, due to lower sales at Netherlands Life and Insurance Europe, partly compensated by higher sales at Japan Life.

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

Net operating Return On Equity (ROE)

The full-year 2018 net operating ROE decreased to 8.9% from 10.3% for 2017, due to an increase of equity.

Financial developments Continued

Netherlands Life

Analysis of result

amounts in millions of euros	2018	2017
Investment margin	872	843
Fees and premium-based revenues	444	429
Technical margin	188	180
Operating income	**1,504**	**1,452**
Administrative expenses	494	513
DAC amortisation and trail commissions	38	43
Expenses	**532**	**556**
Operating result	**972**	**896**
Non-operating items:	1,310	1,351
– of which gains/losses and impairments	1,022	967
– of which revaluations	428	340
– of which market & other impacts	-140	44
Special items	-63	-42
Result on divestments	56	
Result before tax	**2,275**	**2,204**
Taxation	430	329
Minority interests	10	13
Net result	**1,835**	**1,862**

Key figures

amounts in millions of euros	2018	2017
New sales life insurance (APE)	262	368
Value of new business	9	10
Total administrative expenses	494	513
Net operating ROE[1]	7.9%	9.0%
NN Life Solvency II ratio[2]	255%	217%
Delta Lloyd Life Solvency II ratio[2]	180%	153%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity. Adjusted allocated equity is an Alternative Performance Measure. It is derived from IFRS equity by excluding revaluation reserves. Reference is made to Note 30 'Segments' in the section 'Alternative Performance measures (Non-GAAP measures)'.

2 The solvency ratios are not final until filed with the regulators. The Solvency II ratios for NN Life is based on the Partial Internal Model. The Solvency II ratio for Delta Lloyd Life for 2018 is also based on the Partial Internal Model while the ratio 2017 is based on the standard formula.

The full-year 2018 operating result increased to EUR 972 million from EUR 896 million in 2017. The increase reflects the inclusion of Delta Lloyd from the second quarter of 2017, higher investment margin and expense reductions. The investment margin for full-year 2018 includes private equity and special dividends for a total amount of EUR 110 million, whereas the same period in 2017 included EUR 93 million of such items.

The full-year 2018 result before tax increased to EUR 2,275 million compared with EUR 2,204 million in 2017. The increase mainly reflects the higher operating result.

New sales (APE) decreased to EUR 262 million in 2018 from EUR 368 million in 2017, reflecting a lower volume of group pension contracts up for renewal, partly offset by the inclusion of Delta Lloyd from the second quarter of 2017.

The value of new business (VNB) in 2018 was EUR 9 million versus EUR 10 million for the year 2017.

Financial developments Continued

Netherlands Non-life

Analysis of result

amounts in millions of euros	2018	2017
Earned premiums	2,954	2,497
Investment income	118	117
Other income	-4	3
Operating income	**3,068**	**2,617**
Claims incurred, net of reinsurance	**2,151**	**1,898**
Acquisition costs	534	382
Administrative expenses	316	329
Acquisition costs and administrative expenses	**850**	**710**
Expenditure	**3,001**	**2,608**
Operating result insurance businesses	**67**	**8**
Operating result health business and broker business	27	22
Total operating result	**94**	**30**
Non-operating items:	-2	49
– of which gains/losses and impairments	11	34
– of which revaluations	2	22
– of which market & other impacts	-15	-6
Special items	-91	-19
Result before tax	**1**	**60**
Taxation	-2	-3
Minority interests	6	9
Net result	**-3**	**54**

Key figures

amounts in millions of euros	2018	2017
Gross premium income	3,083	2,579
Total administrative expenses[1]	393	398
Combined ratio:[2]	99.4%	102.0%
– of which Claims ratio[2]	70.6%	73.5%
– of which Expense ratio[2]	28.8%	28.4%
Net operating ROE[3]	10.8%	4.3%

1 Including health and broker businesses.

2 Excluding health and broker businesses..

3 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity. Adjusted allocated equity is an Alternative Performance Measure. It is derived from IFRS equity by excluding revaluation reserves. Reference is made to Note 30 'Segments' in the section 'Alternative Performance measures (Non-GAAP measures)'.

The full-year 2018 operating result of Netherlands Non-life increased to EUR 94 million from EUR 30 million in 2017. The increase of the operating result is mainly attributable to an improved underwriting performance in D&A and P&C, expense reductions and the inclusion of Delta Lloyd from the second quarter of 2017. The 2018 operating result includes the impact of the January storm of EUR 56 million, while 2017 included the impact of the strengthening of insurance liabilities for bodily injury claims of EUR 40 million.

The full-year 2018 result before tax decreased to EUR 1 million from EUR 60 million in 2017. The decrease is mainly due to higher special items and the impact of lower non-operating items, partly compensated by the higher operating result. Special items include restructuring expenses, a charge related to the agreement with Van Ameyde to insource claims handling activities and costs related to the termination of the cooperation with legal aid service provider SRK.

The combined ratio for 2018 was 99.4% compared with 102.0% in 2017. Excluding the impact of the January 2018 storm and the strengthening of insurance liabilities in 2017, the combined ratio for 2018 improved to 97.5% from 100.4% for 2017.

Financial developments Continued

Insurance Europe

Analysis of result

amounts in millions of euros	2018	2017
Investment margin	93	91
Fees and premium-based revenues	703	679
Technical margin	207	196
Operating income non-modelled business	1	3
Operating income Life Insurance	**1,005**	**969**
Administrative expenses	398	386
DAC amortisation and trail commissions	328	325
Expenses Life Insurance	**725**	**711**
Operating result Life Insurance	**280**	**258**
Operating result Non-life	-8	1
Operating result	**271**	**260**
Non-operating items:	4	-10
– of which gains/losses and impairments	-2	9
– of which revaluations	22	
– of which market & other impacts	-16	-19
Special items	-28	-21
Result on divestments		20
Result before tax	**247**	**248**
Taxation	55	26
Net result	**191**	**222**

Key figures

amounts in millions of euros	2018	2017
New sales life insurance (APE)	627	661
Value of new business	168	141
Total administrative expenses (Life & Non-life)	418	398
Net operating ROE[1]	10.9%	10.2%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity. Adjusted allocated equity is an Alternative Performance Measure. It is derived from IFRS equity by excluding revaluation reserves. Reference is made to Note 30 'Segments' in the section 'Alternative Performance measures (Non-GAAP measures)'.

The full-year 2018 operating result of Insurance Europe increased to EUR 271 million from EUR 260 million in 2017, mainly driven by favourable mortality results and the inclusion of Delta Lloyd Belgium from the second quarter of 2017, partly offset by Non-life project expenses.

The full-year 2018 result before tax was broadly stable at EUR 247 million, reflecting the higher operating result and negative fixed income revaluations in 2017, partly offset by the gain on the sale of NN Life Luxembourg in October in 2017.

Full-year 2018 new sales (APE) decreased to EUR 627 million from EUR 661 million in 2017. The decrease reflects lower sales of savings products in Greece and Spain, currency impacts and adverse economic conditions in Turkey and the sale of NN Life Luxembourg in October 2017. This was partly offset by higher unit-linked sales in Belgium and the inclusion of Delta Lloyd Belgium from the second quarter of 2017.

The full-year 2018 value of new business (VNB) increased to EUR 168 million, up 19.6% from 2017, reflecting an improved product mix.

Financial developments Continued

Japan Life

Analysis of result

amounts in millions of euros	2018	2017
Investment margin	-9	-7
Fees and premium-based revenues	605	599
Technical margin	-1	11
Operating income	**594**	**602**
Administrative expenses	140	139
DAC amortisation and trail commissions	287	264
Expenses	**427**	**403**
Operating result	**167**	**200**
Non-operating items:	-25	-11
– of which gains/losses and impairments	-3	8
– of which revaluations	-22	-19
Special items	-3	
Result before tax	**139**	**188**
Taxation	41	55
Net result	**97**	**133**

Key figures

amounts in millions of euros	2018	2017
New sales life insurance (APE)	751	762
Value of new business	214	194
Total administrative expenses	140	139
Net operating ROE[1]	6.8%	9.0%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity. Adjusted allocated equity is an Alternative Performance Measure. It is derived from IFRS equity by excluding revaluation reserves. Reference is made to Note 30 'Segments' in the section 'Alternative Performance measures (Non-GAAP measures)'.

The full-year 2018 operating result of Japan Life was EUR 167 million, down 13.2% compared with 2017, excluding currency effects. The decrease reflects higher DAC amortisation and trail commissions driven by surrenders and a lower technical margin, partially offset by higher fees and premium-based revenues on higher in-force volumes.

The full-year 2018 result before tax was EUR 139 million, down 23.3% at constant currencies from 2017, due to the lower operating result and lower non-operating items reflecting capital gains in the first quarter of 2017.

Full-year 2018 new sales (APE) were EUR 751 million, up 1.0% from 2017 at constant currencies, reflecting higher sales from the Sumitomo channel and sales from a new COLI product launched in November while competition in the COLI market continues to intensify.

The full-year 2018 value of new business (VNB) increased to EUR 214 million, up 10.3%, from 2017, mainly driven by an improved product mix.

Financial developments Continued

Asset Management

Analysis of result

amounts in millions of euros	2018	2017
Investment income	-1	
Fees	508	530
Operating income	**507**	**530**
Administrative expenses	352	369
Operating result	**155**	**161**
Special items	-31	-22
Result before tax	**123**	**139**
Taxation	29	32
Net result	**94**	**107**

Key figures

amounts in millions of euros	2018	2017
Total administrative expenses	352	369
Assets under Management (in EUR billion)	246	246
Net operating ROE[1]	27.6%	27.7%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity. Adjusted allocated equity is an Alternative Performance Measure. It is derived from IFRS equity by excluding revaluation reserves. Reference is made to Note 30 'Segments' in the section 'Alternative Performance measures (Non-GAAP measures)'.

The full-year 2018 operating result was EUR 155 million compared with EUR 161 million in 2017. This decrease reflects lower fees, due to lower average AuM, a change in the asset mix and fee pressure, as well as EUR 10 million of non-recurring performance fees in 2017, partly offset by lower administrative expenses.

The full-year 2018 result before tax decreased to EUR 123 million from EUR 139 million in 2017 due to the lower operating result and higher special items reflecting restructuring expenses.

Financial developments Continued

Other

Analysis of result

amounts in millions of euros	2018	2017
Interest on hybrids and debt[1]	-108	-130
Investment income and fees	96	102
Holding expenses	-156	-121
Amortisation of intangible assets	-1	-2
Holding result	**-170**	**-150**
Operating result reinsurance business	-12	43
Operating result banking business	128	124
Other results	21	23
Operating result	**-33**	**40**
Non-operating items:	-11	51
– of which gains/losses and impairments	7	48
– of which revaluations	-3	4
– of which market & other impacts	-15	
Special items	-104	-129
Amortisation and impairment of acquisition intangibles	-984	-99
Result on divestments	4	-170
Result before tax	**-1,129**	**-306**
Taxation	-36	-45
Net result	**-1,093**	**-261**

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

Key figures

amounts in millions of euros	2018	2017
Total administrative expenses:	373	347
– of which reinsurance business	9	13
– of which NN Bank	206	214
– of which corporate/holding	158	120
NN Bank common equity Tier1 ratio phased in[1]	16.3%	15.2%
Total assets banking business (in EUR billion)	22	21
Net operating ROE banking business[2]	13.1%	15.0%

1 The Common equity Tier 1 ratio is not final until filed with the regulators. The 2017 ratios are for NN Bank, prior to the merger with Delta Lloyd Bank. The ratios for 2018 onwards are for the merged banking business of NN Bank and Delta Lloyd Bank.

2 Net operating ROE is calculated as the (annualised) net operating result of the banking business, divided by (average) adjusted allocated equity. Adjusted allocated equity is an Alternative Performance Measure. It is derived from IFRS equity by excluding revaluation reserves. Reference is made to Note 30 'Segments' in the section 'Alternative Performance measures (Non-GAAP measures)'.

The full-year 2018 operating result of the segment Other was EUR -33 million compared with EUR 40 million in 2017, which benefited from non-recurring items for a total amount of EUR 32 million. The full-year 2018 operating result includes EUR -44 million of non-recurring items.

The full-year 2018 holding result decreased to EUR -170 million from EUR -150 million in 2017, mainly due to higher holding expenses and lower investment income and fees, partly compensated by lower interest on hybrids and debt following the redemption of EUR 476 million subordinated notes in May 2017 and EUR 575 million senior notes in November 2017. The higher holding expenses mainly reflect EUR 17 million non-recurring items, a revised method for charging head office expenses to the segments and the inclusion of Delta Lloyd from the second quarter of 2017, partly offset by expense reductions.

The full-year 2018 operating result of the reinsurance business was EUR -12 million compared with EUR 43 million in 2017, which benefited from EUR 16 million of non-recurring items. This mainly reflects the EUR 33 million impact of the January storm as well as a EUR 8 million claim from a legacy reinsurance portfolio, partly offset by positive hedge-related result on the VA Europe portfolio.

The full-year 2018 operating result of the banking business increased to EUR 128 million from EUR 124 million in 2017, mainly driven by the inclusion of Delta Lloyd from the second quarter of 2017, lower administrative expenses and lower risk costs, partly offset by a lower interest result.

Other results for 2018 were EUR 21 million, compared with EUR 23 million in 2017, which included a EUR 16 million provision release, while 2018 includes a provision release of EUR 14 million, both related to a legacy entity.

The full-year 2018 result before tax of the segment Other was EUR 1,129 million compared with EUR -306 million in 2017, which included a provision related to ING Australia Holdings, a realised gain on Delta Lloyd shares, a gain on the sale of the equity portfolio for rebalancing the assets of NN Re as well as a gain on the sale of Mandema & Partners. The full-year 2018 result before tax mainly reflects the EUR 852 million impairment of goodwill related to Delta Lloyd Life, a lower operating result of the reinsurance business and higher holding expenses, partly compensated by lower special items related to restructuring expenses.

Financial developments Continued

Japan Closed Block VA
Analysis of result

amounts in millions of euros	2018	2017
Investment margin	-2	-2
Fees and premium-based revenues	23	39
Operating income	**21**	**37**
Administrative expenses	9	12
DAC amortisation and trail commissions	3	5
Expenses	**12**	**17**
Operating result	**9**	**20**
Non-operating items:	-8	-29
– of which market & other impacts	-8	-29
Result before tax	**1**	**-9**
Taxation	6	–2
Net result	**-5**	**–7**

Key figures

amounts in millions of euros	2018	2017
Account value	2,355	4,755
Net Amount at Risk	175	25
IFRS Reserves	285	188
Number of policies	34,436	81,808

The full-year 2018 result before tax was EUR 1 million compared with EUR -9 million in the same period a year ago, reflecting a lower hedge-related loss, partly offset by a lower operating result.

The full-year 2018 operating result before tax was EUR 9 million compared with EUR 20 million in 2017, mainly due to lower fees and premium-based revenues driven by the run-off of the portfolio.

Report of the Supervisory Board

Introduction

As Chair of the NN Group Supervisory Board, it is my pleasure to present to you the 2018 Annual Report. It is our role as Supervisory Board to oversee and advise the group's Executive and Management Boards, at all times taking into account the interests of NN Group's many stakeholders.

This we do in line with the group's governing laws and regulations, our company values care, clear, commit, and our Code of Conduct. NN businesses performed strongly in 2018 and the Supervisory Board was closely involved in three developments in particular: the group's strategic direction, the integration of Delta Lloyd in the Netherlands and Belgium, and changes to the Management Board's composition.

During the process of redefining NN Group's long-term strategic direction, the Supervisory Board drew on its wide experience across the insurance, banking and asset management industries to advise, challenge and supervise the Executive and Management Boards.

This process encompassed reflecting on, exploring and evaluating strategic possibilities in the context of industry-specific developments.

Throughout the integration process, we offered our support, guidance and experience, always with a close eye on the interests of employees, former Delta Lloyd businesses and other stakeholders. The integration of the NN and Delta Lloyd businesses progressed very well in 2018 and milestone successes included an increased cost reduction guidance from EUR 350m to EUR 400m, the regulator's approval to extend NN Group's Partial Internal Model to include the Delta Lloyd businesses in the Netherlands, and the subsequent legal mergers of the Life and Non-life companies in the Netherlands.

The Management Board underwent several changes in 2018 with the appointments of Mr Bosklopper as Chief Transformation Officer, Ms Nihot as Chief Organisation & Corporate Relations, Mr Rupprecht as CEO International Insurance and Ms Stuijt as General Counsel & Head of Compliance.

The Supervisory Board was closely involved with these appointments, and we are confident the Management Board's changed composition will help enrich and facilitate NN Group's long-term strategic direction.

Every member of the Supervisory Board wholeheartedly supports NN Group's ambition to matter in the lives of its key stakeholders. It has been rewarding to play our part in the progress and achievements of NN Group during 2018. You can read more on this in the 2018 Supervisory Board Report.

This is my last Annual Report as Chairman of the Supervisory Board of NN Group. For over 50 years, I have been closely involved with companies that have been, or are still, part of the NN Group family of businesses, in a wide variety of roles and responsibilities. I feel privileged and am particularly pleased that NN Group has emerged as a strong European insurer, following its repositioning as a standalone company in 2014 and the successful integration with the Delta Lloyd businesses. I want to express my sincere thanks to my colleagues in the Supervisory Board, the Executive and Management Boards, the shareholders, the external supervisors, and all the dedicated employees that I have worked with during my career at NN Group, for the pleasant and constructive cooperation and support, and wish all involved every success in the future.

Yours faithfully,

Jan Holsboer
Chair Supervisory Board NN Group

Report of the Supervisory Board Continued

Jan Holsboer (1946)
Chair

Appointed: 2014
Termination/reappointment: 2020
Nationality: Dutch
Jan Holsboer was appointed to the Supervisory Board on 1 March 2014 and was reappointed Chair of the Supervisory Board on 2 June 2016. As of 31 May 2018, the Central Works Council considers him appointed pursuant to its enhanced recommendation. He chairs the Remuneration Committee and is a member of the Nomination and Corporate Governance Committee and Audit Committee.

Most important other positions:
- Supervisory board member of YAFA S.p.A
- Member of the supervisory board of YAM Invest N.V.

Dick Harryvan (1953)
Vice-chair

Appointed: 2016
Termination/reappointment: 2020
Nationality: Dutch
Dick Harryvan was appointed to the Supervisory Board effective 2 February 2016 and was appointed Vice-chair on 24 February 2016. He is a member of the Audit Committee, Remuneration Committee, and Nomination and Corporate Governance Committee.

Most important other positions:
- Member of the supervisory board of ANWB B.V.
- Partner at Finch Capital
- Member of the advisory board of ONYX4People

Heijo Hauser (1955)
Member

Appointed: 2014
Termination/reappointment: 2022
Nationality: German
Heijo Hauser was appointed to the Supervisory Board on 7 July 2014 and was reappointed on 31 May 2018. He chairs the Risk Committee and is a member of the Audit Committee.

Robert Jenkins (1951)
Member

Appointed: 2016
Termination/reappointment: 2020
Nationality: American
Robert Jenkins was appointed to the Supervisory Board effective 2 February 2016. He is a member of the Risk Committee and Remuneration Committee.

Most important other positions:
- Adjunct professor of Finance at the London Business School
- Member of the Board of Governors of the CFA Institute

Robert Ruijter (1951)
Member

Appointed: 2017
Termination/reappointment: 2020
Nationality: Dutch
Robert Ruijter was appointed to the Supervisory Board on recommendation by the Works Council on 1 June 2017 as one of the Continuing Members (as defined in the Corporate Governance section of this Financial Report) who will monitor and protect the interests of Delta Lloyd's stakeholders. He is a member of the Audit Committee and the Remuneration Committee.

Most important other positions:
- Member of the supervisory board of Wavin N.V.
- Non-executive board member of Inmarsat plc
- Non-executive board member of Interxion N.V.

Hans Schoen (1954)
Member

Appointed: 2014
Termination/reappointment: 2022
Nationality: Dutch
Hans Schoen was appointed to the Supervisory Board on 7 July 2014 and was reappointed on 31 May 2018. He chairs the Audit Committee and is a member of the Risk Committee.

Clara Streit (1968)
Member

Appointed: 2017
Termination/reappointment: 2020
Nationality: German and American
Clara Streit was appointed to the Supervisory Board on 1 June 2017 as one of the Continuing Members who will monitor and protect the interests of Delta Lloyd's stakeholders. She is a member of the Risk Committee, and the Nomination and Corporate Governance Committee.

Most important other positions:
- Member of the board of directors of Vontobel Holding AG and Vontobel Bank AG
- Member of the supervisory board of Vonovia SE
- Member of the board of directors of Jerónimo Martins SGPS S.A.

Hélène Vletter-van Dort (1964)
Member

Appointed: 2015
Termination/reappointment: 2019
Nationality: Dutch
Hélène Vletter-van Dort was appointed to the Supervisory Board on recommendation by the Works Council on 6 October 2015. She chairs the Nomination and Corporate Governance Committee, and is a member of the Risk Committee.

Most important other positions:
- Professor of financial law & governance at the Erasmus School of Law
- Chair of the supervisory board of Intertrust N.V.
- Non-executive board member of Barclays Bank plc
- Chair of the management board of Stichting Luchtmans

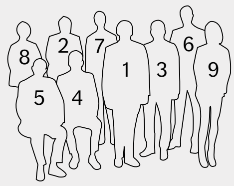
Changes to the Supervisory Board in 2018

Ms Yvonne van Rooij stepped down as a member of the Supervisory Board on 31 May 2018. Mr David Cole was appointed as a member of the Supervisory Board as of 1 January 2019 at the Annual General Meeting of Shareholders held on 31 May 2018.

David Cole (1961)
Member

Appointed: 2019
David Cole was appointed to the Supervisory Board as of 1 January 2019. He is a member of the Risk Committee, Remuneration Committee, and Nomination and Corporate Governance Committee. Mr Cole has been elected Chair of the Supervisory Board as per the close of the Annual General Meeting of Shareholders to be held on 29 May 2019.

Most important other positions:
- Member of the Board of Directors of Vontobel Holding AG
- Member of the Board of Directors of Swiss Re Asia Pte. Ltd.
- Chairman of the Supervisory Board of IMC B.V.



1. Jan Holsboer
2. Dick Harryvan
3. David Cole
4. Heijo Hauser
5. Robert Jenkins
6. Robert Ruijter
7. Hans Schoen
8. Clara Streit
9. Hélène Vletter-van Dort

Report of the Supervisory Board Continued

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Supervisory Board meetings held in 2018

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Supervisory Board Committees

Supervisory Board facts & figures

Attendance rate

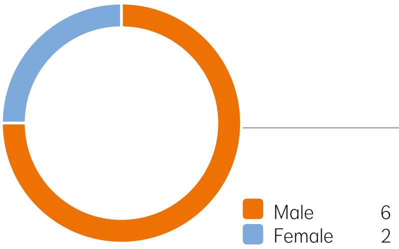
Overall attendance of the Supervisory Board meetings

95.8%

15 hours

On average, 15 hours spent on Permanent Education sessions arranged by NN Group

Supervisory Board composition



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

Name	Supervisory Board	Audit Committee	Risk Committee	Remuneration Committee	NoCoGov Committee	Combined RemCo/ NoCoGovCo
Holsboer	8/8	5/5	–	4/4	5/5	3/3
Harryvan	8/8	5/5	–	4/4	5/5	3/3
Hauser	8/8	5/5	5/5	–	–	–
Jenkins	8/8	–	5/5	4/4	–	3/3
Van Rooij	5/5	–	–	2/2	3/3	2/2
Ruijter	7/8	5/5	–	4/4	–	2/3
Schoen	8/8	5/5	5/5	–	–	–
Streit	6/8	–	3/5	–	3/5	1/3
Vletter-Van Dort	8/8	–	5/5	–	5/5	3/3
Total	95.8%	100%	92%	100%	87.5%	85%

Ms Van Rooij stepped down as a member of the Supervisory Board in May 2018. Mr Cole was appointed as of 1 January 2019 and is therefore not included in the table above.

Supervisory Board

The Supervisory Board is responsible for supervising the management of the Executive Board, as well as 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 Report of the Supervisory Board must be read in conjunction with the Corporate Governance section on pages 21-31 and the Remuneration Report on pages 32-35 of this Financial Report.

Report of the Supervisory Board Continued

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 considering the members' (a) nationality, 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. Thus ensuring a wide range of relevant perspectives and opinions on NN Group and the opportunities and challenges it faces today and will face tomorrow.

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

Supervisory Board meetings

The Supervisory Board held eight Supervisory Board meetings in 2018, one of which in Belgium as part of the Supervisory Board's visit to NN Group's business unit NN Belgium. The average attendance rate for Supervisory Board meetings was 95.8%. 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 the Chief Executive Officer, other members of the Executive Board and Management Board, senior management, function heads, Business Unit CEOs, etc. The Supervisory Board also regularly met with the regulators. In these meetings, topical issues as well as the general course of affairs of NN Group and its affiliated businesses were discussed. Finally, the Chair and the Works Council-nominated members of the Supervisory Board met with (representatives of) the Central Works Council. .

	J.H Holsboer	D.H. Harryvan	H.J.G. Hauser	R.W. Jenkins	R.A. Ruijter	J.W. Schoen	C.C.F.T. Streit	H.M. Vletter-van Dort	D.A.Cole
Nationality	NL	NL	DE	US	NL	NL	US/DE	NL	NL/US
Gender	Male	Male	Male	Male	Male	Male	Female	Female	Male
Year of birth	1946	1953	1955	1951	1951	1954	1968	1964	1961
Education	Economics	Economics	Mathematics	International Studies	Accounting	Economics Auditing	Business Administration	Law	Business Administration
Insurance	√	√	√		√	√	√	√	√
Asset management	√	√	√	√		√	√		√
Banking	√	√		√			√	√	√
Risk	√	√	√	√	√	√	√	√	√
Finance & Control	√	√	√	√	√	√			√
Law & Governance	√	√	√	√	√	√	√	√	√
Technology	√	√	√		√	√			√
Organisation & Conduct	√	√	√	√	√	√	√	√	√
Executive maturity	√	√	√	√	√	√	√	√	√
Multinationals	√	√	√	√	√	√	√	√	√
Social antenna	√	√	√	√	√	√	√	√	√
International Business	√	√	√	√	√	√	√	√	√
Financial Expert[1]			√		√	√			√

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

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.

Supervisory Board Committees

Four committees support the Supervisory Board: the Audit Committee, Risk 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. The key inputs and underlying considerations leading to a recommendation are recorded for each committee.

Please refer to pages 19-20 of this Report of the Supervisory Board for the reports of each of the committees.

Key developments

In 2018, the Supervisory Board was involved in three key developments aimed at long-term value creation for NN Group and its affiliated businesses.

Redefining the strategic direction of the group

NN Group has a strong heritage and foundation. However, to stay competitive and relevant, and create long-term value for the generations to come, it must build on its existing capabilities, adapt to the fast-changing environment it operates in, and secure the business of tomorrow. In 2018, NN Group therefore started redefining the long-term strategic direction of the group.

Report of the Supervisory Board Continued

In January 2018, the Supervisory Board met with the Executive and Management Board for the first time to share ideas and explore and evaluate strategic possibilities. The boards reflected on economic and other developments, and market trends in the insurance, asset management and banking industries. They also considered the challenges these industries face and the specific challenges and opportunities for the businesses of NN Group.

In May 2018, the possibilities that had been identified in January were streamlined into a clear set of options. The Supervisory Board and Executive and Management Board then analysed and discussed the economic implications and impact of each option given the capabilities of NN Group and its exposure to trends, and the time horizon for the strategic direction of the group.

In September 2018, the Supervisory Board then evaluated and discussed with the Executive and Management Board the emerging strategic direction of the group, how that direction tied in with the overall journey of the company since its repositioning as a standalone company and what was required from the company in this respect, and confirmed their support.

During the process of redefining the long-term strategic direction of the group, the Supervisory Board challenged the Executive Board robustly. Drawing on its members' diverse experience across the three industries, the Supervisory Board advised and supervised the Executive and Management Board to help ensure that, during the process of redefining the strategic direction, the relevant interests of all stakeholders were taken into account.

Delta Lloyd integration

The Executive and Management Board regularly updated the Supervisory Board on the progress of the Delta Lloyd integration. This included the principles applied, performance against set ambitions, best practices and lessons flowing from the process, the process of harmonising the job framework of the combined company, negotiations with the trade unions on a harmonised Collective Labour Agreement, and risk evaluations and monitoring of the integration process. For its part, the Supervisory Board offered support, guidance and experience throughout the integration process. Its focus was on maintaining the operational integrity of NN Group, as well as ensuring the approach taken was in the best interests of all stakeholders, and that the NN Living our Values statement and Code of Conduct were upheld. During the decision-making processes, the Supervisory Board considered the different perspectives of NN Group's stakeholders and, more specifically, reviewed the integration from the perspective of customers, employees, shareholders, regulators and other key stakeholders.

A Transition Committee was established in 2017 to supervise, monitor and advise on the fairness of the Delta Lloyd integration, and safeguard the interests of the combined company. The Transition Committee consists of three members: Mr Holsboer (Chair), Mr Friese and Mr Ruijter. It met three times in 2018 and the majority of these meetings were also attended by Mr Knibbe (CEO Netherlands), Ms Van Vredenburch (former Chief Change and Organisation) and Mr Harryvan (Vice-chair of the Supervisory Board). Furthermore, the Transition Committee met once with a joint delegation of the NN Group and Delta Lloyd Works Councils, the meeting also being attended by Ms Van Vredenburch.

Changes to the Management Board

On 16 August 2018, NN Group announced a new composition of its Management Board. Four Management Board members were appointed as of 1 September 2018. Ms Dailah Nihot succeeded Ms Dorothee van Vredenburch, who left NN Group on 1 October 2018, as Chief Organisation & Corporate Relations. Mr Fabian Rupprecht succeeded Mr Robin Spencer, who left NN Group on 1 June 2018, as Chief Executive Officer International Insurance. Two roles were added to the Management Board: Chief Transformation Officer and General Counsel & Head of Compliance. Mr Tjeerd Bosklopper and Ms Janet Stuijt respectively were appointed to these positions.

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 and with close involvement of the Nomination and Corporate Governance Committee (and other members of the Supervisory Board).

The Supervisory Board believes the new Management Board composition equips NN Group to drive forward every aspect of the group's redefined strategic direction (as explained above), and that it stresses the focus on accelerating the transformation of NN Group. The Supervisory Board is also pleased that three of the positions have been filled by promoting experienced professionals from within the group, two of whom are woman, whilst maintaining an international composition that will help safeguard an international and diverse business culture.

Report of the Supervisory Board Continued

Other discussion topics

The most important topics of discussion during the meetings of the Supervisory Board in 2018, other than the key developments (described above), are (i) culture; (ii) business plan, capital plan and strategy; (iii) responsible investment; (iv) unit-linked products in the Netherlands; (v) financial and economic crime; (vi) Executive Board assessment; and (vii) annual accounts and dividend.

Topics (i) – (vii) are addressed below in turn.

In addition, the Supervisory Board:
1. actively followed the (i) developments/opportunities and challenges in the various insurance markets, including Poland, Romania and Japan; (ii) potential effects of Brexit; and (iii) the monetary (EUR) consequences in relation to the low interest rates;
2. was periodically updated by the Executive and Management Board on the overall commercial performance of NN Group and its affiliated businesses;
3. discussed and approved the financial quarterly results of NN Group, NN Group's proposed interim and final dividend, internal restructurings pursuant to or in connection with the integration of Delta Lloyd, such as the sale of a Dutch real estate portfolio to real estate investor Vesteda, and issuance of two covered bonds by Nationale-Nederlanden Bank;
4. was updated on the (ongoing) review of the internal governance arrangements applicable within the group; and
5. was updated on and addressed matters concerning charitable programmes of NN Group, dialogue with non-governmental organisations on social and environmental issues, the International Corporate Social Responsibility covenant for the insurance sector, the results of the annual engagement survey, and the performance goals for the Executive and Management Board (including non-financial KPIs).

Culture

The values of NN Group, described in our 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 were requested to formally acknowledge in 2018.

The Executive and Management Board are responsible for creating a culture aimed at long-term value creation, for which the statement and code form the foundation. The Executive 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 and Management Board on this issue.

Business plan, capital plan and strategy

In January 2018, the Executive and Management Board presented the Supervisory Board with the NN Group's business and capital plan for 2018 – 2020. Amongst other things, this outlined the projected growth of the operating result and the value of new business; administrative expense savings and investments within the integration scope; 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.

Throughout the year, the Supervisory Board was regularly updated on how NN Group was performing on its business and capital plan, and delivering on its strategy. Topics of particular focus included: the implementation of the agile way of working, challenges arising from integrating and transforming two companies simultaneously while continuing with business as usual, the digital transformation of the businesses and driving innovation across markets, performance improvement at Netherlands Non-life, and finally the business environment/situation in Turkey.

Responsible investment

NN Group applies the Responsible Investment Framework Policy which reflects the measures the group takes to responsibly invest its own assets and those entrusted to them by customers. Measures include norms-based voting and engagement, and integration of environmental, social and governance factors (ESG) in research/valuation and restriction.

In 2018, the Responsible Investment Framework Policy and the Exclusion List were due for an update in light of market developments and changing stakeholder expectations. The Supervisory Board and Executive and Management Board discussed proposed changes to the policy and list. These included the decision to exclude tobacco companies and companies involved in oil sands and controversial pipelines from all NN Group's investments. Where necessary, these were then approved by the Supervisory Board.

Unit-linked products in the Netherlands

See Note 42 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.

Financial and economic crime

Financial and economic crime (FEC) such as money laundering, terrorist financing and non-compliance with sanctions regulations can harm confidence in the financial sector. Combating FEC is therefore high on the agenda of regulators and supervisory authorities in the Netherlands and elsewhere. In light of this and recent developments within the financial sector, the Supervisory Board was periodically informed on the design, operation and effectiveness of the risk framework aimed at managing and controlling FEC-related risks.

FEC-related risks are an integral part of NN Group's Risk Control Framework. Amongst other things, the framework includes quarterly reporting by the businesses affiliated to NN Group on inherent FEC-related risks, measures adopted to mitigate these risks and how any managed FEC-related risks relate to the risk appetite of the group. These reports are incorporated in the risk management report, which is discussed with the (Risk Committee of the) Supervisory Board on a quarterly basis.

Executive Board assessment

In the fourth quarter of 2018, the Supervisory Board assessed the performance during 2018 of the Executive and Management Board and its members, with the exception of the four newly-appointed members. To this end, the Supervisory Board members met with the Executive and Management Board members individually in a series of two-on-one meetings. The outcome of the assessment was discussed during a Supervisory Board meeting which resulted in actions to follow up.

Report of the Supervisory Board Continued

Annual accounts and dividend
The Executive Board prepared the 2018 annual accounts and discussed these with the Supervisory Board. The 2018 annual accounts will be submitted for adoption by the General Meeting at the 2019 Annual General Meeting of Shareholders as part of the 2018 Financial Report. NN Group will propose to pay a final dividend of EUR 1.90 per ordinary share, or EUR 637 million in total, based on the number of outstanding shares at the date of this Financial Report, excluding the shares held by NN Group in its own capital in treasury.

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 the 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.

Following his appointment as a Supervisory Board member by the Annual General Meeting of Shareholders on 31 May 2018, effective from 1 January 2019, Mr Cole followed the Induction Programme. This allowed him to become familiar with NN Group, its history, values, strategic roadmap, operations, governance and businesses. It also covered the ongoing Delta Lloyd integration, and NN's historical and current financial and operational performance, including risks and challenges. Additionally, he was informed of his specific responsibilities and the key legal and compliance obligations that apply to Supervisory Board members.

The Supervisory Board members followed the 2018 Permanent Education Programme, which was developed based on the input received from the 2017 annual Supervisory Board self-assessment and requests from the Supervisory Board members, the Executive and Management Board, and staff. On average, Supervisory Board members spent approximately 15 hours attending permanent education sessions arranged by NN Group.

Permanent education session topics included an update on cybercrime & security, customer-centricity, brand and reputation, key developments in the insurance and investment industries in a digital world, the process for Own Risk and Solvency Assessment, changes to the Partial Internal Model for calculating NN Group's Solvency II ratio, tax developments, corporate governance, the International Corporate Social Responsibility Covenant for the insurance sector and its implications, relations with non-governmental organisations, issue management and the risk-based audit approach.

Aside from the Permanent Education Programme, the Supervisory Board members also met with NN Group and Delta Lloyd 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 and Delta Lloyd's businesses and activities. The Supervisory Board members also participated in a number of education and knowledge sessions organised by external organisations.

Self-assessment
As in previous years, in 2018 the Supervisory Board and its committees evaluated their own performance. The Supervisory Board and its committees were supported by an external party in reviewing the functioning of the Supervisory Board as a whole, of its committees and their respective chairs, and of the individual Supervisory Board members. Each Supervisory Board member completed an array of online questionnaires. The outcome of the self-assessment was discussed during a feedback session with the full Supervisory Board in January 2019, resulting in an action list to follow up on the feedback.

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 areas such as:
1. The design, operation and effectiveness of the internal risk management and control systems related to financial reporting;
2. The integrity and quality of the financial reporting process;
3. Periodic financial reports and any ad hoc financial information; and
4. The findings and outcomes of any audit work (e.g. as contained in the quarterly audit reports and management letter).

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

Composition and attendance
The members of the Audit Committee are Mr Schoen (Chair), Mr Harryvan, Mr Hauser, Mr Holsboer and Mr Ruijter.

The Audit Committee met five times in 2018 with a 100% attendance rate. As of the meeting of 14 August 2018, Mr Cole attended the meetings as observer. Mr Jenkins also attended the meeting of 14 August 2018 as observer. (Supervisory Board members may attend any committee meeting as observer.) Other attendees were the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel & Head of Compliance, General Manager Corporate Audit Services, Head of Group Finance & Reporting, Head of Performance & Analytics and the external auditor (KPMG). When deemed necessary, subject-matter specialists also regularly attended meetings.

During 2018, 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.

The Audit Committee encouraged the General Manager Corporate Audit Services and the external auditor to share their insights and findings at meetings of the Audit Committee, as well as during the closed sessions of the Audit Committee. The closed sessions took place after each of the regular meetings. Only the members of the Audit Committee, the General Manager Corporate Audit Services and the external auditor are present during closed sessions.

Report of the Supervisory Board Continued

Discussion topics

In 2018, the Audit Committee met four times to discuss the quarterly financial reports, and once to discuss the annual (financial) report and the solvency and financial condition report.

In these meetings, the Audit Committee discussed (quarterly) financial reports, related press releases and supporting documentation such as actuarial analyses on the outcome of the reserve adequacy tests in respect of the insurance liabilities and on Solvency II, and internal controls on financial reporting.

In addition, the Audit Committee discussed:
(i) the quarterly reports of Corporate Audit Services;
(ii) the quarterly reports of the external auditor (KPMG);
(iii) information technology and security;
(iv) the KPMG Management Letter 2018; and
(v) whether there was reasonable assurance that the financial reporting did not contain any errors of material importance.

Topics (i) – (v) are addressed below in turn.

Furthermore, the Audit Committee discussed:
- the 2018 Audit Plans of Corporate Audit Services and of the external auditor (KPMG);
- the independence and remuneration of the General Manager Corporate Audit Services;
- interim and final dividend payments to shareholders;
- changes to the segment reporting of NN Group given changes in materiality;
- NN Group's tax developments and strategy;
- the independence, remuneration and evaluation of the external auditor (KPMG); and
- specific financial transactions.

Finally, the Audit Committee was updated on a quarterly basis on:
- accounting and regulatory developments;
- pending legal proceedings (including unit-linked);
- the finance architecture and roadmap (to improve the Finance-IT development strategy and implement new reporting standards such as IFRS 9 and IFRS 17);
- internal and external developments; and
- the main discussions in the Risk Committee on specific topics such as Solvency II, operational excellence, reliability and continuity of information technology, and internal non-financial risk management and control systems.

Through its Chair, the Audit Committee worked closely with the Executive Board in developing the proposal for the reappointment of KPMG as NN Group's external auditor for the years after 2019, after which KPMG's four-year mandate expires.

Quarterly report 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 and Management Board on agreed actions and weaknesses.

The reports categorised the findings and observations in five areas: primary processes, information technology, security and physical security, financial risk management and reporting, integration of Delta Lloyd activities, and the development of outstanding risks and their mitigation. The findings of Corporate Audit Services are summarised annually in a Report on the NN Group Standard of Internal Control.

Quarterly report of KPMG

In its quarterly reports, KPMG presented the outcome of its review activities, including its findings in the areas of significant risk identified in its 2018 audit plan. These included the valuation of insurance contract liabilities and the reserve adequacy test (RAT), unit-linked exposure, Solvency II capital and risk management disclosures, Delta Lloyd integration, valuation of hard-to-value assets including impairments, valuation of non-plain vanilla derivatives, and the application of hedge accounting. The report also presented specific observations on internal control and external developments relevant to NN Group, including the follow-up on recommendations in the KPMG Management Letter 2017 and earlier quarterly reports. Once a year, the findings on internal control are summarised in the annual management letter (described below).

Information technology and security

Both the quarterly reports described above encompass IT, and the current status and developments concerning the reliability and continuity of electronic data processing across NN Group and its affiliated businesses. During the discussions, continuous attention was paid to the IT strategy, automation and modernisation of the IT processes and landscape, and the actions identified to improve controls and audit processes in these areas. The last included the need to strengthen the controls regarding transformation and innovation projects by incorporating such controls from the start, and including them in outsourcing agreements with internal and external parties.

KPMG Management Letter 2018

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. In its January 2019 meeting, the Audit Committee discussed the KPMG Management Letter 2018 and the Executive and Management Board's response thereto, and reflected extensively on the matters it covered.

The KPMG Management Letter 2018 contains areas of attention for the year-end closing, reflections on the internal control environment of NN Group and follow-up on the KPMG Management Letter 2017. The reflections on the internal control environment relate mainly to NN Group's financial and risk reporting processes and the controls over IT risk. These items are rated against potential financial reporting consequences and the risk of occurrence. The KPMG Management Letter 2018 letter contains concrete recommendations and actions developed by KPMG and NN Group together.

No errors of material importance

The Audit Committee discussed on a quarterly basis the financial reporting topics, and related processes and controls, described above. During these discussions, the Audit Committee evaluated these various topics, processes and other considerations, including the risk of fraud, 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 as presented in the 'Report of the Executive Board on internal control over financial reporting'.

Report of the Supervisory Board Continued

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 such areas as:
1. NN Group's risk appetite, risk strategy and policies;
2. Risk exposures resulting from the business strategies and plans of NN Group and its affiliated businesses;
3. The design, operation and effectiveness of the internal risk management and control systems of the group (the "Risk Control Framework"); and
4. NN Group's public disclosures on risk and risk management.

Composition and attendance
The members of the Risk Committee are Mr Hauser (Chair), Mr Jenkins, Mr Schoen, Ms Streit and Ms Vletter-van Dort.

The Risk Committee met five times in 2018 with a 92% attendance rate. Mr Holsboer, Mr Ruijter and, as of the meeting of 14 August 2018, Mr Cole, attended the meetings as observers. Other attendees were the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel and Head of Compliance, General Manager Corporate Audit Services, Head of Group Enterprise Risk Management and the external auditor (KPMG).

During 2018, 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
In its meetings, the Risk Committee discussed, amongst other things: (i) the Risk Control Framework; (ii) the risk management report; (iii) the major model change request to expand the scope of NN Group's Partial Internal Model to include the Dutch life and non-life business of Delta Lloyd; and (iv) information technology and security.

These topics are addressed below in turn.

The Risk Committee also discussed the Own Risk and Solvency Assessment 2018, the Compliance Operational Plan 2018, the Risk Appetite Statements 2018, the EIOPA 2018 stress test, GDPR implementation and appointment of data protection officers in the Business Units of NN Group, the independent review of NN Group's actuarial assumptions by PwC and Willis Towers Watson (and their conclusion that NN Group's best estimate is reasonable), and the NN Group Recovery Plan 2018.

Risk Control Framework
The objectives of the Risk Control Framework include ensuring that the management boards of the NN Group business units and the 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 level of risks and the effectiveness of the controls; and
- can confirm that they operate within the risk appetite and, if not, know what the issues are and what mitigating actions are required.

In 2018, NN Group and its business units continued to improve and further embed the Risk Control Framework. The Risk Committee was therefore periodically informed about, and discussed, important improvements to the Risk Control Framework, as well as the performance and compliance of NN Group and its affiliated businesses in respect of the objectives of the Risk Control Framework (described above).

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 business of NN Group; the risks associated with the integration of Delta Lloyd; 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 on-going legal claims and incidents, and whether there had been any major incidents.

Major model change of NN Group Partial Internal Model
The Risk Committee endorsed the major model change request to expand the scope of NN Group's Partial Internal Model to include the Dutch life and non-life business of Delta Lloyd, and was subsequently periodically updated on developments leading up to the decision of the Dutch Central Bank in December 2018 to approve the amended Partial Internal Model.

Information technology and security
NN Group deems 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 on such areas as: challenges in the existing IT value chain, system availability, activities that are outsourced to third parties (e.g. because these are better equipped to deliver the activities), and challenges due to simultaneously innovating, transforming and integrating NN Group and its affiliated businesses.

Report of the Supervisory Board Continued

Important milestones in 2018 included the migration of Delta Lloyd to Microsoft Office; the transfer of systems and data to the cloud; and the appointment within all business units of business security officers to be responsible for information security in the first line of defence.

Regarding risks, the Risk Committee and Executive and Management Board discussed, amongst other things:
- The increasing usage and complexity of IT (infrastructure) and the prominence, and therefore importance, of the related risks;
- How key IT risks were addressed in business information security plans, and then managed and monitored group-wide; and
- Measures taken to secure against cyberattacks.

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:
1. Remuneration policy for the Executive Board;
2. Remuneration and concrete terms & conditions of engagement of individual Executive and Management Board members;
3. Remuneration of individual Supervisory Board members;
4. Remuneration and remuneration policies regarding Identified Staff (as defined);
5. Design and implementation of any stock-based compensation programmes; and
6. Performance targets for the Executive and Management Board.

Composition and attendance
The members of the Remuneration Committee are Mr Holsboer (Chair), Mr Harryvan, Mr Jenkins and Mr Ruijter. On 31 May 2018, the Chair of the Supervisory Board succeeded the former Chair of the Remuneration Committee Ms Van Rooij. Although this is not in line with the Corporate Governance Code best practice provision 2.3.4, the Supervisory Board is of the opinion that this is desirable to safeguard continuity, also in view of the public discussions regarding the remuneration of top executives of listed companies in general and the financial sector in particular. Besides knowledge of the matter, the Supervisory Board considers it of great importance that the chair of the Remuneration Committee has affinity with the political and public relations in the Netherlands.

The Remuneration Committee met four times in 2018 and had a 100% attendance rate. Ms Vletter-van Dort attended the Remuneration Committee meeting in November 2018 and Mr Cole attended the Remuneration Committee meetings as observer as of the August 2018 meeting. The Chief Executive Officer and the 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 the 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, three combined meetings with the Nomination and Corporate Governance Committee were held with an 85% attendance rate. Mr Cole attended these combined meetings as observer as of the August 2018 meeting.

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 policy for the Executive Board. It was determined that no changes were required. Please refer to page 35 of this Financial Report for more information on the remuneration of the 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.

Other topics
As is required on an annual basis, the Remuneration Committee discussed the risk assessment carried out on the NN Group Remuneration Framework, which was updated in 2017 and approved by the Supervisory Board on 16 January 2017, and related processes. Identified Staff-related remuneration matters were reviewed and approved in line with the NN Group Remuneration Framework, including the variable remuneration proposals for Identified Staff for performance year 2017, and the assessment of possible cases for holdback of deferred variable remuneration by way of malus. In addition, the Remuneration Committee discussed NN Group's position regarding proposed changes to the tax regime for expatriates working in the Netherlands.

Topics addressed during the combined meetings
The following matters were addressed during the combined meetings:
- At the request of the Remuneration Committee, Willis Towers Watson benchmarked the remuneration of the Executive and Management Board with comparable companies.
- The Remuneration Committee, the Nomination and Corporate Governance Committee, and the Supervisory Board were consulted in relation to the reappointment of the Chief Financial Officer.
- 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, with the exception of the newly-appointed Management Board members. Individual meetings with Executive and Management Board members formed part of the assessments. The combined committee also reviewed and endorsed the variable remuneration proposals for the Executive and Management Board.
- The objectives for the Executive Board for performance years 2018 and 2019 were discussed and endorsed by the Remuneration Committee and the Nomination and Corporate Governance Committee.

Report of the Supervisory Board Continued

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 in respect of various areas, including the:

1. Policy of the Executive Board on the selection criteria and appointment procedures for Identified Staff;
2. Composition of the Supervisory Board and Executive Board; and
3. Succession plan for Supervisory Board members and Executive Board members.

Composition and attendance

The members of the Nomination and Corporate Governance Committee are Ms Vletter-van Dort (Chair), Mr Harryvan, Mr Holsboer and Ms Streit. On 31 May 2018, Ms Van Rooij stepped down as a member of the Nomination and Corporate Governance Committee.

The Nomination and Corporate Governance Committee met five times in 2018 and had an attendance rate of 87.5%. Mr Hauser attended the Nomination and Corporate Governance meetings in May and August 2018, and Mr Cole attended the meetings as observer as of the August 2018 meeting. 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 and Management Board members, the appointment of the new Management Board members (described below) and other key staff (including Identified Staff), and NN Group's talent management programme. The committee recommended that more efforts should be invested in increasing the robustness and diversity (age, gender, culture and ethnicity) of the succession plan.

Appointments to the Management Board

The Nomination and Corporate Governance Committee and the Supervisory Board were consulted during the process of identifying a successor for the Chief Executive Officer Insurance International and the Chief Change and Organisation (retitled Chief Organisation & Corporate Relations), as well as the addition of two functions to the Management Board: Chief Transformation Officer and General Counsel & Head of Compliance. The Nomination and Corporate Governance Committee and the Supervisory Board provided positive advice on the reappointment of Mr Rueda, and the appointments of Ms Nihot, Mr Rupprecht, Mr Bosklopper and Ms Stuijt.

Composition Supervisory Board

The rotation and succession plan for the Supervisory Board was discussed and the Supervisory Board self-assessment process over 2017 evaluated.

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 of Ms Van Rooij's resignation. It also outlined key actions to address the matters raised. In this context, the Nomination and Corporate Governance Committee also prepared the discussion for the proposed appointment of Mr Cole.

NN Group Asset & Liability Committee

The Nomination and Corporate Governance Committee discussed and recommended approval of the proposed NN Group Asset & Liability Committee Charter and the resulting changes to the NN Group Decision Structure, delegating certain decision-making authorities from the Management Board to the NN Group Asset & Liability Committee.

Evaluation

2018 was a remarkable year. The operating results of NN Group were excellent. But equally important, NN Group ensured it truly mattered in the lives of its customers by helping them secure their financial future. At the same time, NN Group has now taken further steps towards securing its own future, so it can continue helping its current and future customers. We are pleased with the results and would like to extend our gratitude to the Executive and Management Board and all the employees of NN Group for delivering these results. Together.

In addition, we wanted to thank a number of people in particular:

- Mr Spencer, former Chief Executive Officer International Insurance, who left NN Group in 2018 to continue his career at Prudential. As we have previously noted, the Supervisory Board greatly appreciates his contribution to the development of the company, in particular his role in strengthening the international businesses.
- Ms Van Vredenburch, former Chief Change and Organisation, who also left NN Group in 2018 to continue her career outside the company. The Supervisory Board appreciates her significant contribution to the success and repositioning of NN as a standalone company and, amongst other things, NN's brand promise 'You Matter'.
- Ms Van Rooij, member of the Supervisory Board and Chair of the Remuneration Committee, who stepped down in 2018.
- Mr Holsboer, Chair of the Supervisory Board and Chair of the Remuneration Committee, who has decided to step down as of the close of the Annual General Meeting of Shareholders on 29 May 2019.

In closing, we wanted to welcome Mr Rupprecht and Mr Cole to NN Group and congratulate Ms Nihot, Ms Stuijt and Mr Bosklopper on their promotion to the Management Board.

It remains a pleasure to be part of NN Group and its journey since its repositioning as a stand-alone company, and the Supervisory Board looks forward to continuing to play a part in the exciting on-going journey.

The Hague, 13 March 2019
The Supervisory Board

Corporate governance

General

NN Group N.V. (NN Group) is a public limited liability 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 liability 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 liability 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 (Settlement Date). 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. 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. The legal merger became effective on 31 December 2017.

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 the 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 (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 2018 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 2018 the Executive Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment	Termination/ reappointment
Lard Friese	Chair, Chief Executive Officer (CEO)	26 November 1962	Male	Dutch	1 March 2014, reappointment 1 June 2017	2021*
Delfin Rueda	Vice-chair, Chief Financial Officer (CFO)	8 April 1964	Male	Spanish	1 March 2014, reappointment 31 May 2018	2022*

* Terms of appointment will end at the close of the annual general meeting of NN Group N.V. in 2021 and 2022 respectively.

Corporate governance Continued

Lard Friese was appointed as member and Vice-chair of the Executive Board on 1 March 2014 and Chair and Chief Executive Officer as of 7 July 2014. On 1 June 2017, he was reappointed as member of the Executive Board and again designated as Chair of the Executive Board and Chief Executive Officer of the Company. Mr Friese is responsible for the business strategy, performance and day-to-day operations of NN Group. 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 and Vice-chair of the management board of ING Verzekeringen.

Mr Friese was employed by ING from 2008 in various positions. He was appointed Chief Executive Officer of Nationale-Nederlanden and Chair of the Dutch Intermediary Division (Nationale-Nederlanden, Movir, Westland Utrecht Bank) on 1 September 2008. In 2009, he became Chief Executive Officer of ING Insurance Benelux responsible for the whole of ING Insurance's operations in the Netherlands, Belgium and Luxembourg. Mr Friese was appointed to the management board of ING Verzekeringen with responsibility for the Insurance operations in the Netherlands, Belgium and Luxembourg, Central and Rest of Europe and Asia/Pacific from 1 January 2011 until 3 November 2011. From 30 March 2011 until 7 July 2014 he was appointed to the management board of ING Insurance Eurasia N.V., a direct subsidiary of NN Group (ING Insurance Eurasia) with the same responsibilities. As of 1 July 2013 he also assumed responsibility for Investment Management in the management board of ING Insurance Eurasia and, as from the end of 2013, also for the insurance business in Japan. From 2006 to 2008, Mr Friese was employed by Ceska Pojistovna a.s. (Prague, Czech Republic) as Chief Executive Officer and Vice-chair of the board of directors and was a member of the executive committee of Generali PPF Holding (Prague, Czech Republic). From 2003 to 2006 Mr Friese was employed by VNU/ACNielsen (Brussels, Belgium) as Senior Vice-president and Chief Retail Services Officer Europe and he was a member of the European board. Prior to that, from 1993 to 2003, he worked at Aegon N.V. as a member of the board of directors of Aegon Levensverzekering N.V. (life insurance) in The Hague, the Netherlands and as Senior Vice-president of Aegon the Netherlands in Tokyo, Japan. Between 1988 and 1993 Mr Friese held various positions at insurance company NOG Verzekeringen in Amsterdam, the Netherlands. Mr Friese began his career in 1986 as a (junior) tax consultant at Kammer Luhrmann Van Dien & Co (now PwC) in Utrecht and Arnhem, the Netherlands. Mr Friese holds a Master of Law degree from Utrecht University (the Netherlands).

Delfin Rueda was appointed to the Executive Board as Chief Financial Officer on 1 March 2014. On 31 May 2018, he was reappointed as member of the Executive Board and again designated Chief Financial Officer of the Company and Vice-chair of the Executive Board. Mr Rueda is responsible for NN Group's finance departments and investor relations. 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 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. Mr Rueda is also Vice-chair of the CFO Forum.

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 page 32-35.

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 the 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 2018 the Management Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment
Lard Friese	Chair, Chief Executive Officer (CEO)	26 November 1962	Male	Dutch	7 July 2014
Delfin Rueda	Vice-chair, Chief Financial Officer (CFO)	8 April 1964	Male	Spanish	7 July 2014
Satish Bapat	Chief Executive Officer NN Investment Partners	23 June 1966	Male	Dutch	1 April 2017
Tjeerd Bosklopper	Chief Transformation Officer	3 March 1975	Male	Dutch	1 September 2018
Jan-Hendrik Erasmus	Chief Risk Officer (CRO) (as of 1 October 2016)	27 July 1980	Male	British and South African	1 September 2016
David Knibbe	Chief Executive Officer Netherlands	15 March 1971	Male	Dutch	7 July 2014
Dailah Nihot	Chief Organisation & Corporate Relations	12 June 1973	Female	Dutch	1 September 2018
Fabian Rupprecht	Chief Executive Officer International Insurance	22 December 1969	Male	German and Swiss	1 September 2018
Janet Stuijt	General Counsel and Head of Compliance, and Company Secretary	26 September 1969	Female	Dutch	1 September 2018

Robin Spencer who had been appointed to the Management Board as Chief Executive Officer International Insurance as of 1 August 2014 stepped down on 1 June 2018.

Dorothee van Vredenburch who had been appointed to the Management Board as Chief Change and Organisation (CCO) as of 7 July 2014 stepped down on 1 October 2018.

Information in respect of the members of the Management Board who are also members of the Executive Board, Lard Friese and Delfin Rueda, can be found under 'Executive Board – Composition', on page 21.

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 to the Management Board as Chief Transformation Officer on 1 September 2018. Mr Bosklopper is responsible for three areas: IT, driving (technological) transformation, and innovation. In 2018, he was Head of Integration of Nationale-Nederlanden Netherlands and Belgium. From 2015 to 2018, he 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).

Jan-Hendrik Erasmus was appointed to the Management Board on 1 September 2016 and as Chief Risk Officer of NN Group on 1 October 2016. Mr Erasmus is responsible for NN Group's overall risk framework with direct responsibility for the risk management departments. He is also responsible for the Actuarial function, reinsurance and procurement globally. Prior to joining NN Group, Mr Erasmus was a partner in Oliver Wyman's Financial Services business, Head of the UK Insurance Practice and a member of the European leadership team. Jan-Hendrik joined Oliver Wyman in 2009 and his consulting work predominantly focused on risk, capital and asset-liability management for UK and European insurers. From 2007 to 2009, Mr Erasmus worked for Lucida plc where he led one of the deal teams and was the Director of Risk and Capital Management. From 2005 to 2007, Mr Erasmus worked at Prudential plc's Group Head Office, lastly as Gead of Group Risk-adjusted Profitability. He started his professional career in 2003 at Momentum Life in the investment product development department. Mr Erasmus holds an Executive MBA (with distinction) from London Business School (United Kingdom) and a Bachelor of Commerce (Hons) in actuarial science from the University of Pretoria (South Africa). He is a Fellow of the Institute of Actuaries in the United Kingdom, and holds the Chartered Enterprise Risk Actuary (CERA) qualification. Mr Erasmus is also Vice-chair of the CRO Forum.

David Knibbe was appointed to the Management Board as of 7 July 2014. On 1 September 2014, Mr Knibbe was appointed Chief Executive Officer Netherlands. In this role Mr Knibbe is 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

Corporate governance Continued

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 holds a degree in monetary economics from the Erasmus University in Rotterdam (the Netherlands). Besides being a member of the Management Board, Mr Knibbe was chair of the board of the Dutch Association of Insurers (Verbond van Verzekeraars) from 9 December 2015 until 20 June 2018. On 20 July 2018, he was appointed Vice-chair of the Dutch Association of Insurers. Furthermore, Mr Knibbe is member of the board and treasurer of the Confederation of Netherlands Industry and Employers (VNO-NCW), member of the board of the Johan Cruyff Foundation and member of the advisory board of JINC.

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. 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).

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 & Head of Compliance as of 1 September 2018. Ms Stuijt is responsible for NN Group's legal 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 Clayes Verbeke/Allen Overy, Singapore office (2017) 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 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 the 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 works council of NN Group (Works Council) may recommend candidates for nomination to the Supervisory Board. The Supervisory Board must simultaneously inform the General Meeting and the 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 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.

Corporate governance Continued

A member of the Supervisory Board is appointed for a maximum period of four years. 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 Works Council of the proposal for the resolution and the reasons therefor. 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 2018 the Supervisory Board consisted of eight members, who are all independent within the meaning of best practice provision 2.1.8. of the Dutch Corporate Governance Code. In accordance with 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, two Continuing Members – as described in the Offer Memorandum – were appointed as members of the Supervisory Board on 1 June 2017. The Continuing Members will monitor and protect the interests of Delta Lloyd's stakeholders. As of 1 January 2019, the Supervisory Board consists of nine independent members. As of the close of the annual general meeting on 29 May 2019, the Supervisory Board will, again, consist of eight independent members.

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

As at 31 December 2018 the Supervisory Board consisted of the following persons:

Name	Position	Date of birth	Gender	Nationality	Appointment	Termination/ reappointment
Dick Harryvan	Vice-chair (as of 24 February 2016)	10 May 1953	Male	Dutch	2 February 2016	2020
Heijo Hauser	Member	23 June 1955	Male	German	7 July 2014, reappointment 31 May 2018	2022
Jan Holsboer	Chair (recommended by Works Council)	8 May 1946	Male	Dutch	1 March 2014, reappointment 2 June 2016	Mr Holsboer will step down as of the close of the AGM on 29 May 2019
Robert Jenkins	Member	17 January 1951	Male	American	2 February 2016	2020
Robert Ruijter	Member (recommended by Works Council)	14 April 1951	Male	Dutch	1 June 2017	12 April 2020
Hans Schoen	Member	2 August 1954	Male	Dutch	7 July 2014, reappointment 31 May 2018	2022
Clara Streit	Member	18 December 1968	Female	German and American	1 June 2017	12 April 2020
Hélène Vletter-van Dort	Member (recommended by Works Council)	15 October 1964	Female	Dutch	6 October 2015	2019

Yvonne van Rooij, who had been appointed to the Supervisory Board as of 1 March 2014, stepped down on 31 May 2018.

David Cole was appointed to the Supervisory Board as of 1 January 2019.

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 annual general meeting on 29 May 2019, he will serve as Chair of the Supervisory Board. Mr Cole was born on 2 October 1961 and has Dutch and American nationality. He 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 and of Swiss Re Asia Pte. Ltd. and chair of the supervisory board of IMC B.V.

Dick Harryvan was appointed to the Supervisory Board on 6 October 2015, which became effective on 2 February 2016. He was appointed Vice-chair of the Supervisory Board on 24 February 2016. From 2006 through 2009, Mr Harryvan was member of the executive board of ING Group and chief executive officer of ING Direct. Other former positions include co-chair of the International Academy of Retail Banking, non-executive director of Voya Financial Inc., general manager Bancassurance at ING Bank, deputy general manager at Nationale-Nederlanden, vice-president Operations of the Halifax Insurance Company and member of the advisory board of Gulf Bank. Besides being a member of the Supervisory Board, Mr Harryvan is, amongst others, member of the supervisory board of ANWB B.V.,

Corporate governance Continued

partner at Finch Capital (formerly called Orange Growth Capital) and member of the advisory board of ONYX4People.

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.

Jan Holsboer was appointed to the Supervisory Board on 1 March 2014. He was appointed Chair on 7 July 2014. On 2 June 2016, Mr Holsboer was reappointed to the Supervisory Board. On the same date, he was also reappointed Chair. As of 31 May 2018, the Central Works Council considers Mr Holsboer appointed pursuant to its enhanced recommendation. Mr Holsboer has decided to step down as of the close of the annual general meeting on 29 May 2019.

From 14 May 2012 until the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, Mr Holsboer was a member of the supervisory board of ING Verzekeringen.

From 14 May 2012 until 7 July 2014, Mr Holsboer was also a member of the supervisory boards of ING Group, ING Bank N.V. (ING Bank) and ING Insurance Eurasia. Previously, Mr Holsboer was a member of the executive board of Univar N.V. and from 1990 until 1999 he was a member of the executive boards of Nationale-Nederlanden and ING Group. From 2001 until 2018, Mr Holsboer was chair of the supervisory board of TD Bank N.V. Besides being a member of the Supervisory Board, Mr Holsboer is, amongst others, supervisory board member of YAFA S.p.A. (Turin, Italy) and a member of the supervisory board of YAM Invest N.V.

Robert Jenkins was appointed to the Supervisory Board on 6 October 2015, which became effective on 2 February 2016. From 2009 until 2014, Mr Jenkins was a senior advisor to CVC Capital Partners and from 2011 until 2013 he was an external member of the interim Financial Policy Committee of the Bank of England.

Mr Jenkins was chief executive officer and managing partner of Combinatorics Capital, LLC. from September 2009 until July 2011. Mr Jenkins has also served as chair of the Investment Management Association, United Kingdom, 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 chief executive officer of Foreign & Colonial Management Limited, managing director and chief operating officer of Credit Suisse Asset Management Holding, United Kingdom, chief executive officer and chief investment officer of Credit Suisse Investment Management Group Ltd., United Kingdom, chief investment officer and head of asset management of Credit Suisse, Japan, senior executive in the Citigroup trading and sales organisation and senior fellow at Better Markets. Until August 2016, Mr Jenkins was chair of the AQR Asset Management Institute at London Business School. In addition to being a member of the Supervisory Board Mr Jenkins is, amongst others, adjunct professor of finance at the London Business School, member of the board of governors and chair of both the nominations and the compensation committee of the CFA Institute and member of the board of the CFA Research Foundation.

Robert Ruijter was appointed to the Supervisory Board on 1 June 2017. He is the former chair of the supervisory board of Delta Lloyd N.V. and one of the Continuing Members. He was managing director and chief financial officer of KLM Royal Dutch Airlines, director of finance of the Philips Group and chief financial officer and member of the executive board of VNU N.V. (currently called: The Nielsen Company). Robert Ruijter is member of the supervisory board of Wavin N.V. and non-executive board member of Inmarsat plc and Interxion N.V.

Hans Schoen was appointed to the Supervisory Board as of 7 July 2014. On 31 May 2018, he was reappointed as Supervisory Board member. 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). 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). Until 27 April 2016, Mr Schoen served as chair of the EFRAG Insurance Accounting Working Group.

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 one of the Continuing Members. 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 and Vontobel Bank 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).

Hélène Vletter-van Dort was appointed to the Supervisory Board on 6 October 2015. A proposal for reappointment will be submitted for adoption at the annual general meeting on 29 May 2019. 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. Ms Vletter-van Dort was appointed non-executive board member of Barclays Bank plc (formerly called Barclays International) as of 1 August 2017. Ms Vletter-van Dort was 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

Corporate governance Continued

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 10-20.

Remuneration

Information on the remuneration of the members of the Supervisory Board can be found in the Remuneration Report, on pages 32-35.

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 18-20.

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.

When the term of appointment of Delfin Rueda as member of the Executive Board ended on 31 May 2018, he was reappointed because of his international experience in the financial industry, especially in the insurance sector, his professionalism and extensive knowledge, his leadership profile and experience as an executive board member. His reappointment served continuity which was key after the takeover of Delta Lloyd and the subsequent integration process. The reappointment of Mr Rueda was in accordance with the profile of the Executive Board and Management Board. With the reappointment of Mr Rueda, the gender balance within the Executive Board, which consists of two members, remained unchanged and did not meet the gender balance of having at least 30% men and at least 30% women in 2018.

With the resignation of one female member and the appointment of two female members, the gender balance within the Management Board improved in 2018. On 1 January 2018, one out of seven members was female, while as of 1 October 2018, two out of nine members are female.

Until 31 May 2018, the gender balance of having at least 30% men and at least 30% women amongst the members of the Supervisory Board was met. As a result of Yvonne van Rooij stepping down as of 31 May 2018 and the appointment of David Cole as her successor as of 1 January 2019, the gender balance of having at least 30% men and at least 30% women amongst the members of the Supervisory Board is currently not met. David Cole was nominated on the basis of his extensive international experience in the insurance and banking sector, his experience as board member and supervisory board member and his in-depth knowledge of banking and insurance services. Furthermore, his appointment was in accordance with the profile of the Supervisory Board. When searching for suitable candidates for the Supervisory Board, various criteria play a role, for instance background, age and nationality, but also experience in corporate governance, experience in a political and social/economic setting, and DNB guidelines. In line with the long-term objectives of NN Group diversity criteria are also taken into consideration as factors. Efforts were made to find a suitable female successor of Ms Van Rooij. At the same time, appointments must be made on the basis of suitability for a position. This means considering someone's personality and the experience and insights that he or she can bring. For these reasons, the Supervisory Board had chosen to propose Mr Cole as successor to Ms Van Rooij.

In future appointments of board members, NN Group will continue to take into account all 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. Notwithstanding the above, the principle of having at least 30% men and at least 30% women is applied in the succession planning for all Executive Board and Supervisory Board positions, as well as for all Strategic Leadership Group – including Management Board – positions. To improve gender balance within its boards, NN Group aims to have women appointed in case of future vacancies, provided that they meet the desired profile. Succession planning is a key instrument in achieving the long term diversity objectives and is part of the Human Capital Development policies of NN Group. More detail can be found in the Equal opportunities and diversity section on page 39 in the Annual Review.

Conflicts of interest

No transactions were entered into in 2018 in which there were conflicts of interest with Executive Board members and/or Supervisory Board members that are of material significance to the Company and/or to the relevant board members.

General Meeting

Frequency, notice and agenda

Each year, not later than in the month of June, a general meeting is held. Its general purpose is to discuss the Report of the management board, 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

Corporate governance Continued

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.

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.

Powers of the General Meeting

The most important powers of the General Meeting are to:

- 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
- 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
- Adopt the remuneration policy for the members of the Executive Board, upon a proposal of the Supervisory Board, and the remuneration of the members of 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.

As at 31 December 2018, 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

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.

Corporate governance Continued

On 31 May 2018, the General Meeting designated the Executive Board for a term of 18 months, from 31 May 2018 up to 1 December 2019, 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. The authority of the Executive Board is limited to a maximum of 10% of the issued share capital of NN Group per 31 May 2018, plus a further 10% of the issued share capital of NN Group per 31 May 2018 in case of a merger or acquisition or, if necessary in the opinion of the Executive Board and the Supervisory Board, to safeguard or conserve the capital position of NN Group.

Pre-emptive rights

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 upon the issue of new ordinary shares (or the granting of rights to subscribe for 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.

On 31 May 2018, the General Meeting designated the Executive Board for a term of 18 months, from 31 May 2018 up to 1 December 2019, as the competent body to resolve, subject to the approval of the Supervisory Board, to limit or exclude the pre-emptive rights of existing shareholders.

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 31 May 2018, the General Meeting authorised the Executive Board for a term of 18 months, from 31 May 2018 up to 1 December 2019, 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 the acquisition the par value of the ordinary shares in the share capital of NN Group which are held or held as pledge by NN Group, or held by its subsidiaries for their own account, shall not exceed 10% of the issued share capital of NN Group on 31 May 2018. 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.

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.

Corporate governance Continued

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.

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 42 and is deemed to be incorporated by reference herein.

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.

Transactions between NN Group and any legal or natural person who hold at least 10% of the shares in NN Group will be agreed on terms that are customary in the market. An overview of related party transactions can be found on page 42 of the Annual Review and is deemed to be incorporated by reference herein.

Warrant Agreement

On 10 June 2014, NN Group and ING Group entered into a warrant agreement in which NN Group granted the right to exercise warrants for 34,965,000 newly issued shares (9.99%) in NN Group against payment of an exercise price of EUR 40 per share. The warrants became exercisable starting on the first anniversary of the Settlement Date and would expire in July 2024. On 15 November 2018, NN Group and ING Group terminated the warrant agreement. This transaction eliminated potential share dilution.

Dutch Corporate Governance Code

NN Group is subject to the Dutch Corporate Governance Code (the Code). The application of the Code by NN Group during the financial year 2018 is described in the publication 'Application of the Dutch Corporate Governance Code by NN Group', dated 13 March 2019, which is available on the website of NN Group. This publication is to be read in conjunction with 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. The Company's Articles of Association were last amended on 2 June 2017.

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.

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 in 2018.

More information on NN Group's policy on external auditor independence is available on the website of NN Group.

Corporate governance Continued

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 50 '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 13 March 2019, 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

Introduction

This Remuneration report describes NN Group's remuneration philosophy and system. 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 46 '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.

I Remuneration in general

NN Group has an overall remuneration policy described in the NN Group Remuneration Framework, which provides for reward 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, including the future of our clients and of our company.

NN Group's remuneration policy for executives and senior staff is based on a total compensation approach and is benchmarked on a regular basis (where data is available) with relevant national and international peers, both within the financial sector and outside the financial sector. Clear performance objectives are set and assessed which are aligned with the overall strategy of NN Group, both on 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 clients 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.

With respect to performance year 2018, the total amount of variable remuneration approved is EUR 86 million. The amounts will be processed in March and April 2019. The total number of staff of NN Group eligible for variable remuneration is 10,979. In 2018, 7 persons employed within NN Group, NN IP and NN Life received a total remuneration of more than EUR 1 million.

Pay ratio (As stated in the Dutch Corporate Governance Code)

NN Group discloses a ratio between the CEO compensation and the remuneration of all staff ('Pay ratio').

In determining this pay ratio, NN Group applies a simple, straightforward and transparent approach by using:
- the total compensation of the CEO of NN Group for the year 2018
- the average per staff member of the total remuneration of the full staff population (i.e. all staff of NN Group and all its consolidated subsidiaries) for the year 2018

For the CEO, the total remuneration used in the pay ratio is the total remuneration as disclosed in the Remuneration report, excluding Employer cost social security. For the staff members, the total remuneration used in the pay ratio is the total remuneration as disclosed in the Consolidated Annual Accounts Note 26 'Staff expenses'; in order to provide a meaningful comparison, the total remuneration of the staff population excludes Social security costs, External staff costs and the remuneration of the CEO of NN Group.

The 2018 pay ratio was 33:1 compared to 29:1 in 2017.

The annual general meeting in May 2015 approved the NN Group remuneration policy. According to this policy, the CEO remuneration should be set just below the median of the relevant peer group. Each year, the Supervisory Board evaluates the remuneration of the Executive Board members against this peer group. This evaluation indicated that the CEO remuneration was considerably below the median remuneration compared to the relevant peer group. As a result, the Supervisory Board has decided to adjust the base salary of the CEO as from 1 January 2018. In the decision to approve the CEO remuneration the Supervisory Board takes the interest of all stakeholders into account. The adjustment impacted the pay ratio, which changed to 33:1.

The Supervisory Board will take the pay ratio into consideration whilst deciding on the remuneration for the Executive Board members.

II Remuneration of the Executive Board

The Executive Board members were initially appointed to the Executive Board on 1 March 2014 for a period of three years (CEO) and four years (CFO). The Executive Board members have an engagement contract (in Dutch: overeenkomst van opdracht) with NN Group N.V. Their contracts allowed for reappointment to the Executive Board for consecutive periods of up to four years.

Mr Friese was reappointed as member of the Executive Board and again designated as Chair of the Executive Board and CEO of NN Group on 1 June 2017 for a term of four years. The term of appointment will end at the close of the annual general meeting to be held in 2021.

Mr Rueda 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. The term of appointment will end at the close of the annual general meeting to be held in 2022.

Only in the event the contract is terminated upon initiative of the company, the Executive Board members are entitled to a gross severance payment of one year base salary, except if the contract was terminated for cause; or if payment would be deemed reward for failure at the sole discretion of the Supervisory Board.

The remuneration policy for the Executive Board members was approved by the annual general meeting on 28 May 2015, effective as from 1 January 2015. The Supervisory Board conducted a scenario analysis and determined that this policy is effective in changing circumstances. This remuneration policy has not been amended since its effective date and was also applicable in 2018. The data presented in this report relates to remuneration awarded to the Executive Board members in respect of the whole of 2018.

The remuneration of the Executive Board members from 2016 onwards 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, pension arrangements and other emoluments as described below. To support the long term value creation, a retention

Remuneration Report Continued

period of five years starting from the date of award is applicable to all share awards. 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 amongst others selected with reference to asset base, market capitalisation, revenue and number of employees. In line with the remuneration policy as adopted by the annual general meeting on 28 May 2015, the Supervisory Board aims to set the remuneration levels slightly 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 the social context before finalising executive pay levels.

Executive Board base salary

As announced in the annual general meeting on 1 June 2017, the Supervisory Board has decided to increase Mr Friese's base salary by 15% with effect from 1 January 2018 and the base salary of Mr Rueda by 10% with effect from 1 January 2018. Additionally and as announced in the annual general meeting on 31 May 2018, the Supervisory Board has decided to increase Mr Rueda's base salary by 20% with effect from 1 June 2018.

A comparative survey of remuneration within the peer groups showed that Mr Friese's remuneration was considerably below the median for this group, while the remuneration of Mr Rueda was below the median for this group.

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. Variable remuneration is based on both financial and non-financial performance of the individual and the company. Performance was assessed based on a number of targets regarding economic, customer satisfaction and social criteria. Estimated risks and capital adequacy were also taken into account when determining the award of variable remuneration. The Risk and Compliance function provided input in this respect. 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, a yearly re-evaluation by the Supervisory Board will take place with the possibility 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.

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 other 60% of the variable remuneration (the so called '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 2018 variable remuneration of the Executive Board members are provided below.

The performance objectives of the Executive Board members were set by the Supervisory Board at the start of the 2018 performance year. In 2018 the financial and non-financial performance objectives include the following:

Performance objectives Executive Board members[1]

2018 Financial performance objectives Executive Board members	2018 Non-financial performance objectives Executive Board members
Free cash flow at holding, operating result, integration cost savings, Value New Business	Organisation & people, including focus on employee engagement, gender diversity, development of leadership and talent and driving organisational agility
	Strategically position NN Group for sustainable and future growth, including: • Execution Delta Lloyd integration plans • Safeguarding a sustainable control environment and operational culture
	Customer & society measures, including serving our customers' lifetime needs and deliver excellent experience and engagement[2]

1 For the CEO the financial performance objectives have a weight of 40%; the non-financial performance objectives have a weight of 60%. For the CFO the financial performance objectives have a weight of 25%; the non-financial performance objectives have a weight of 75%.

2 The customer & society measures objective has a weight of 30% for both the CEO and the CFO of the total performance objectives.

In 2018 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 arrangements of the Executive Board members comprise a collective defined contribution (CDC) plan up to the annual tax limit (EUR 105,075 as from 1 January 2018) and a taxable individual savings allowance on pensionable fixed remuneration exceeding the tax limit. This 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. It was approved by the annual general meeting on 28 May 2015, effective as from 1 January 2015.

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

Executive Board other emoluments

The Executive Board members were eligible for a range of other emoluments, such as health care insurance, lifecycle saving scheme and expat allowances (CFO only). The Executive Board members can 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 per 31 December 2018, the Executive Board

Remuneration Report Continued

members have no loans outstanding with NN Group and 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)

	Lard Friese		Delfin Rueda	
	2018	2017	2018	2017
Base salary in cash	1,314	1,142	1,058	861
Base salary in shares	328	286	264	215
Total base salary	**1,642**	**1,428**	**1,322**	**1,076**
Variable remuneration	328	286	264	215
Total direct remuneration	**1,970**	**1,713**	**1,586**	**1,292**
Employer contribution to pension fund	27	30	27	30
Individual savings allowance	418	419	331	307
Other emoluments	69	51	142	139
Employer cost social security[1]	86	76	70	59

1 The employer cost social security do not impact the overall remuneration received by the Executive Board members.

2018 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
Lard Friese	66	98	66	98	328
Delfin Rueda	53	79	53	79	264

Long-term incentives awarded in previous years and in 2018 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 an overview of the number of NN Group shares awarded and vested for the Executive Board members during 2018 under the ARP.

Overview of number of NN Group shares awarded and vested for the Executive Board members during 2018

	Plan	Award Date	Outstanding and unvested per 1 January 2018	Awarded during 2018	Vested during 2018	Outstanding and unvested per 31 December 2018	Vesting Price in euros
Lard Friese	Deferred Shares Plan	01 June 2015	3,440		3,440	0	37.04
	Deferred Shares Plan	29 March 2016	1,495		747	748	36.18
	Deferred Shares Plan	20 March 2017	2,587		862	1,725	35.88
	Deferred Shares Plan	15 March 2018		2,414		2,414	
	Upfront Shares Plan	15 March 2018		1,610	1,610	0	35.40
Delfin Rueda	Deferred Shares Plan	01 June 2015	2,833		2,833	0	37.04
	Deferred Shares Plan	29 March 2016	1,296		647	649	36.18
	Deferred Shares Plan	20 March 2017	2,043		681	1,362	35.88
	Deferred Shares Plan	15 March 2018		1,820		1,820	
	Upfront Shares Plan	15 March 2018		1,213	1,213	0	35.40

The table below shows an overview of the (vested) NN Group shares held by the Executive Board members as from 31 December 2018 (including the shares vested during 2018) and 31 December 2017.

Overview of NN Group shares held by the Executive Board members

	2018	2017
Lard Friese	44,549	36,380
Delfin Rueda	37,697	31,110

Remuneration Report Continued

III Remuneration of the Supervisory Board

The Supervisory Board was comprised of the following members in 2018: Mr Holsboer, Mr Harryvan, Mr Hauser, Mr Schoen, Mr Jenkins, Ms van Rooij (until 31 May 2018), Ms Vletter-van Dort. Mr Ruijter and Ms Streit.

More information on the composition of the Supervisory Board and its Committees can be found in the Report of the Supervisory Board, on pages 10-20 of this Financial Report.

The remuneration of the Supervisory Board members was approved by the annual general meeting on 6 May 2014 and was amended by the annual general meeting on 28 May 2015 (in relation to the international attendance fee). The proposal for a more simplified and balanced structure with more moderate payments for extra meetings and better alignment of the fixed annual remuneration in relation to the number of Supervisory Board (Committee) meetings per calendar year was adopted by the annual general meeting on 1 June 2017, effective as from 1 January 2017.

NN Group does not grant variable remuneration, shares or options to the Supervisory Board members. NN Group and its subsidiaries shall not provide loans or guarantees to Supervisory Board members. Loans that already exist upon appointment as a Supervisory Board member however, may be continued. Subsidiaries, however, may in the normal course of their business and on terms that are customary in the sector, provide other banking and insurance services to Supervisory Board members. As from 31 December 2018, the Supervisory Board members have EUR 426,890 loans outstanding with a subsidiary of NN Group. No repayments were done 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.
An additional fee is payable for the additional time commitments when intercontinental or international travel is required for attending meetings.

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

	Chair	Vice-chair	Member
Fixed Annual fee Supervisory Board	85,000	65,000	52,500
Fixed annual fee Nomination and Corporate Governance Committee/Remuneration Committee/ Risk Committee	11,000	n/a	7,000
Fixed annual fee Audit Committee	15,000	n/a	11,000
Fixed fee for extra Supervisory Board meeting (due as from the eleventh meeting within a calendar year)	3,000	3,000	3,000
Fixed fee for extra Supervisory Board Committee meeting (due as from the ninth meeting of a Committee within a calendar year)	750	750	750
Fixed annual expense allowance to cover out of pocket expenses (travel and lodging will be paid)	9,000	6,500	6,500
International attendance fee	4,000	4,000	4,000

As from the eleventh Supervisory Board meeting within the same calendar year, a fixed fee of EUR 3,000 is due for each such extra Supervisory Board meeting. Furthermore, as from the ninth meeting of a Supervisory Board Committee within the same calendar year, a fixed fee of EUR 750 is due for each such additional meeting of that Supervisory Board Committee.

Fees and allowances of Supervisory Board members[1]

	Fees		Total fixed gross expense allowance		Total international attendance fees		VAT	
In EUR and gross	2018	2017	2018	2017	2018	2017	2018	2017
J.H. (Jan) Holsboer (Chair)	112,000	110,000	9,000	9,000	4,000		26,250	24,990
D.H. (Dick) Harryvan	90,000	90,000	6,500	6,500	4,000		21,105	20,265
H.J.G. (Heijo) Hauser	74,500	74,500	6,500	6,500	32,000	32,000	23,730	23,730
J.W. (Hans) Schoen	74,500	74,500	6,500	6,500	4,000		17,850	17,010
Y.C.M.T. (Yvonne) van Rooij[2]	35,250	70,500	3,250	6,500			8,085	16,170
H.M. (Hélène) Vletter-Van Dort	70,500	70,500	6,500	6,500	4,000		17,010	16,170
R.W. (Robert) Jenkins	66,500	66,500	6,500	6,500	28,000	32,000	21,210	22,050
R.A. (Robert) Ruijter[3]	70,500	41,125	6,500	3,792	4,000		17,010	9,433
C.C.F.T. (Clara) Streit[3]	66,500	38,792	6,500	3,792	24,000	12,000	20,370	11,463

1 This table shows the fixed fees, expense allowances and international attendance fees for the members of the Supervisory Board for 2017 and 2018.

2 Ms Van Rooij left the Supervisory Board as of 31 May 2018. The remuneration figures for 2018 reflect a partial year as a member of the Supervisory Board.

3 Mr Ruijter and Ms Streit were appointed to the Supervisory Board on 1 June 2017 as Continuing Members who will monitor and protect the interest of Delta Lloyd's stakeholders. Fees and allowances that they received as from 1 June 2017 are shown.

Work Councils

Members European Works Council

EU country	Representative	Deputy
Belgium	René de Meij (Secretary)	Kris Neefs
Bulgaria	Petya Valkova	Maria Milanova
Czech Republic	Jana Doskočilová	–
Greece	Maria Tapini	Foteini Goublia
Hungary	Csilla Dobos	–
Luxembourg	Olga Sádaba Herrero	–
Netherlands	Reinoud Rijpkema (Chair) Robert Coleridge Alexander ter Haar	Elisabeth Juillard
Poland	Agnieszka Majerkiewicz	–
Romania	Corina Radu (Vice-chair)	Melania Manole
Slovakia	Maria Vitálosová	Marcela Sarlinova
Spain	Angel Otero	Trini Aguilar

Members COR 2018

Afra Peeters-Stans		OR Leven
Alexander ter Haar		OR Leven
Alfred Botterman		OR S&I
Dennis Molenberg		OR Zicht
Eric Spakman		OR S&I
Frank Meijer		OR S&I
Hans Askamp		OR S&I
Hennie Post	Vice-chair	OR Staven
Jaap Engberts		OR NNIP
Jan Krutzen		OR AZL
Koen van Vliet		OR NN Bank
Leo Baars		OR NN Bank
Martin Groeneweg		OR Zicht
Martin Potma		OR Staven
Mervyn Verploegen		OR NN Bank
Michel Vonk	Chair	OR S&I
Oscar Willems		OR Leven
Rachel Struijk		OR S&I
Renate Stoop		OR Staven
Richarda Hogeboom		OR S&I
Robert Coleridge		OR Leven
Robert Heinsbroek		OR AAV
Ronald Knier		OR AAV
Ruby van Trikt		OR Staven
Sjoerd Comello		OR S&I
Willem van der Hel		OR Staven

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. 2018 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. 2018 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 2018 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:

- 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 50 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 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 twelve 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 2018. 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, 13 March 2019

Lard Friese
CEO, Chair of the Executive Board

Delfin Rueda
CFO, Vice-chair of the Executive Board

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Other information

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

Consolidated balance sheet

As at 31 December	notes	2018	2017
Assets			
Cash and cash equivalents	2	8,886	9,383
Financial assets at fair value through profit or loss:	3		
– investments for risk of policyholders		30,230	33,508
– non-trading derivatives		5,096	5,116
– designated as at fair value through profit or loss		722	934
Available-for-sale investments	4	104,329	104,982
Loans	5	58,903	56,043
Reinsurance contracts	16	1,010	880
Associates and joint ventures	6	5,000	3,450
Real estate investments	7	2,374	3,582
Property and equipment	8	151	150
Intangible assets	9	863	1,841
Deferred acquisition costs	10	1,843	1,691
Deferred tax assets	32	131	125
Other assets	11	4,708	5,377
Total assets		**224,246**	**227,062**
Equity			
Shareholders' equity (parent)		22,850	22,718
Minority interests		234	317
Undated subordinated notes		1,764	1,764
Total equity	12	**24,848**	**24,799**
Liabilities			
Subordinated debt	13	2,445	2,468
Debt securities issued	14	1,990	1,988
Other borrowed funds	15	5,717	6,044
Insurance and investment contracts	16	161,118	163,639
Customer deposits and other funds on deposit	17	14,729	14,434
Financial liabilities at fair value through profit or loss:	18		
– non-trading derivatives		2,163	2,305
Deferred tax liabilities	32	1,809	1,830
Other liabilities	19	9,427	9,555
Total liabilities		**199,398**	**202,263**
Total equity and liabilities		**224,246**	**227,062**

References relate to the notes starting with Note 1 'Accounting policies'. 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		2018		2017
Gross premium income	20		13,272		12,060
Investment income	21		5,169		5,275
Result on disposals of group companies			60		-150
– gross fee and commission income		1,087		1,187	
– fee and commission expenses		-332		-382	
Net fee and commission income:	22		755		805
Valuation results on non-trading derivatives	23		283		-513
Foreign currency results and net trading income			-56		-138
Share of result from associates and joint ventures	6		500		399
Other income			67		78
Total income			**20,050**		**17,816**
– gross underwriting expenditure		13,249		14,140	
– investment result for risk of policyholders		1,258		-1,622	
– reinsurance recoveries		-192		-187	
Underwriting expenditure:	24		14,315		12,331
Intangible amortisation and other impairments	25		986		118
Staff expenses	26		1,521		1,517
Interest expenses	27		475		335
Other operating expenses	28		1,096		991
Total expenses			**18,393**		**15,292**
Result before tax			**1,657**		**2,524**
Taxation	32		524		392
Net result			**1,133**		**2,132**

Net result

For the year ended 31 December	2018	2017
Net result attributable to:		
Shareholders of the parent	1,117	2,110
Minority interests	16	22
Net result	**1,133**	**2,132**

Earnings per ordinary share

amounts in euros	2018	2017
Earnings per ordinary share		
Basic earnings per ordinary share	3.15	6.21
Diluted earnings per ordinary share	3.15	6.20

Reference is made to Note 29 '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		2018		2017
Net result		**1,133**		**2,132**
– unrealised revaluations available-for-sale investments and other	-333		-541	
– realised gains/losses transferred to the profit and loss account	-823		-963	
– changes in cash flow hedge reserve	793		-714	
– deferred interest credited to policyholders	-38		598	
– share of other comprehensive income of associates and joint ventures	1		-1	
– exchange rate differences	93		-163	
Items that may be reclassified subsequently to the profit and loss account:		-307		-1,784
– remeasurement of the net defined benefit asset/liability			-3	
– unrealised revaluations property in own use	7			
Items that will not be reclassified to the profit and loss account:		7		-3
Total other comprehensive income		**-300**		**-1,787**
Total comprehensive income		**833**		**345**
Comprehensive income attributable to:				
Shareholders of the parent		827		319
Minority interests		6		26
Total comprehensive income		**833**		**345**

Reference is made to Note 32 '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	notes	2018	2017
Result before tax		1,657	2,524
Adjusted for:			
– depreciation and amortisation		195	157
– deferred acquisition costs and value of business acquired		-73	-149
– underwriting expenditure (change in insurance liabilities)		-2,575	-4,449
– realised results and impairments of Available-for-sale investments		-1,032	-1,161
– other impairments and reversals of other impairments		852	8
– other		451	814
Taxation paid		-55	-124
Changes in:			
– non-trading derivatives		450	-37
– other financial assets at fair value through profit or loss		-36	26
– loans		-3,079	-2,830
– other assets		911	199
– customer deposits and other funds on deposit		331	438
– financial liabilities at fair value through profit or loss – non-trading derivatives		-131	-708
– other liabilities		-357	-29
Net cash flow from operating activities		**-2,491**	**-5,321**
Investments and advances:			
– group companies, net of cash acquired		-5	907
– available-for-sale investments	4	-12,704	-11,451
– associates and joint ventures		-326	-753
– real estate investments		-206	-245
– property and equipment		-40	-22
– investments for risk of policyholders		-6,749	-6,889
– other investments		-85	-60
Disposals and redemptions:			
– group companies			58
– available-for-sale investments	4	13,266	13,603
– associates and joint ventures		262	332
– real estate investments		552	104
– property and equipment		3	1
– investments for risk of policyholders		9,046	12,316
– other investments			96
Net cash flow from investing activities		**3,014**	**7,997**
Proceeds from subordinated debt			836
Repayments of subordinated debt			-1,299
Proceeds from debt securities issued			1,388
Repayments of debt securities issued			-575
Proceeds from other borrowed funds		1,695	7,469
Repayments of other borrowed funds		-2,023	-8,824
Dividend paid	12	-421	-370
Purchase/sale of treasury shares and warrants	12	-307	-340
Coupon on undated subordinated notes		-78	-78
Net cash flow from financing activities		**-1,134**	**-1,793**
Net cash flow		**-611**	**883**

Consolidated statement of cash flows Continued

Included in Net cash flow from operating activities

For the year ended 31 December	2018	2017
Interest received	4,545	4,286
Interest paid	-257	-270
Dividend received	701	502

Cash and cash equivalents

For the year ended 31 December	2018	2017
Cash and cash equivalents at beginning of the period	9,383	8,635
Net cash flow	-611	883
Effect of exchange rate changes on cash and cash equivalents	114	-135
Cash and cash equivalents at end of the period	**8,886**	**9,383**

Consolidated statement of changes in equity

Consolidated statement of changes in equity (2018)

	Share capital	Share premium	Reserves	Total Shareholders' equity (parent)	Minority interest	Undated subordinated notes	Total equity
Balance at 1 January 2018	**41**	**12,572**	**10,105**	**22,718**	**317**	**1,764**	**24,799**
Unrealised revaluations available-for-sale investments and other			-323	-323	-10		-333
Realised gains/losses transferred to the profit and loss account			-823	-823			-823
Changes in cash flow hedge reserve			793	793			793
Deferred interest credited to policyholders			-38	-38			-38
Share of other comprehensive income of associates and joint ventures			1	1			1
Exchange rate differences			93	93			93
Unrealised revaluations property in own use			7	7			7
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-290**	**-290**	**-10**	**0**	**-300**
Net result for the period			1,117	1,117	16		1,133
Total comprehensive income	**0**	**0**	**827**	**827**	**6**	**0**	**833**
Dividend			-332	-332	-89		-421
Purchase/sale of treasury shares			-231	-231			-231
Employee stock option and share plans			2	2			2
Coupon on undated subordinated notes			-58	-58			-58
Changes in composition of the group and other changes			-76	-76			-76
Balance at 31 December 2018	**41**	**12,572**	**10,237**	**22,850**	**234**	**1,764**	**24,848**

Consolidated statement of changes in equity Continued

Consolidated statement of changes in equity (2017)

	Share capital	Share premium	Reserves	Total Shareholders' equity (parent)	Minority interest	Undated subordinated notes	Total equity
Balance at 1 January 2017	**40**	**12,153**	**10,502**	**22,695**	**12**	**986**	**23,693**
Unrealised revaluations available-for-sale investments and other			-545	-545	4		-541
Realised gains/losses transferred to the profit and loss account			-963	-963			-963
Changes in cash flow hedge reserve			-714	-714			-714
Deferred interest credited to policyholders			598	598			598
Share of other comprehensive income of associates and joint ventures			-1	-1			-1
Exchange rate differences			-163	-163			-163
Remeasurement of the net defined benefit asset/liability			-3	-3			-3
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-1,791**	**-1,791**	**4**	**0**	**-1,787**
Net result for the period			2,110	2,110	22		2,132
Total comprehensive income	**0**	**0**	**319**	**319**	**26**	**0**	**345**
Changes in share capital	1	419		420			420
Dividend			-317	-317	-53		-370
Purchase/sale of treasury shares			-340	-340			-340
Coupon on undated subordinated notes			-59	-59			-59
Changes in composition of the group and other changes				0	332	778	1,110
Balance at 31 December 2017	**41**	**12,572**	**10,105**	**22,718**	**317**	**1,764**	**24,799**

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 of Amsterdam, no. 52387534. The principal activities of NN Group are described in the section 'About NN'.

Acquisition of Delta Lloyd

Following the acquisition of Delta Lloyd N.V. ('Delta Lloyd') in the second quarter of 2017, Delta Lloyd was consolidated as of 1 April 2017. Therefore, comparative figures in the profit and loss account 2017 do not include those of Delta Lloyd for the period 1 January to 31 March 2017. Information on the acquisition of Delta Lloyd, the acquisition accounting under IFRS and the impact on the financial information included in these annual accounts is included in Note 43 'Companies and businesses acquired and divested' and, where relevant, in the individual notes hereafter.

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 2018

In 2018, no changes to IFRS-EU became effective that had an impact on the Consolidated annual accounts of NN Group.

IFRS 15 'Revenue from Contracts with Customers' is effective as of 1 January 2018. IFRS 15 provides more specific guidance on recognising revenue. NN Group's main types of income (income from insurance contracts and income from financial instruments) are not in scope of IFRS 15. The implementation of IFRS 15 as at 1 January 2018 did not impact Shareholders' equity at that date. There was also no impact on the 2017 Net result.

Upcoming changes in IFRS-EU

Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2018 and are relevant to NN Group mainly 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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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 until 1 January 2021. This exemption is only available to entities whose activities are predominantly connected with insurance. In 2018, the IASB tentatively decided to extend this exemption to 1 January 2022.

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 in 2022 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 33 'Fair value of financial assets and liabilities' and in Note 50 '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 in 2022.

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 16 'Leases'

IFRS 16 'Leases' is effective as of 1 January 2019. IFRS 16 contains a new accounting model for lessees. The implementation of IFRS 16 is not expected to have a significant impact on shareholders' equity and net result of NN Group. NN Group's lease commitments are included in Note 41 'Contingent liabilities and commitments'. Under IFRS 16, the net present value of these operating lease commitments will be recognised on the balance sheet as a 'right of use asset' under Property and equipment and a lease liability under Other liabilities.

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017. 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 DAC for all insurance companies, including NN Group and its subsidiaries. The published but not endorsed IFRS 17 includes 1 January 2021 as the effective date. However, in 2018 the IASB tentatively decided to defer the effective date to 1 January 2022.

NN Group's current accounting policies for insurance liabilities and DAC under IFRS 4 are largely based on the pre-IFRS accounting policies in the relevant local jurisdictions. IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts and the premium allocation approach mainly for short-duration contracts (typically certain non-life insurance contracts).

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.

NN Group will implement IFRS 17 together with IFRS 9 (see above) in 2022. NN Group initiated an implementation project and has been performing high-level impact assessments. 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.

Changes in presentation

Cash collateral

As of 2018, all cash collateral amounts paid and received are presented in Other assets and Other liabilities. The relevant comparative figures for previous periods have been amended. This change impacts the classification in the Consolidated balance sheet, impacting the line items Loans, Other borrowed funds, Other assets and Other liabilities, with no net impact on shareholders' equity. There was no impact on the Consolidated profit and loss account.

Other changes

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

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, 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 a further discussion of 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 50 '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. 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'.

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

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 and a risk margin. 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 independent, 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 34 '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 independent 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.

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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 33 '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 31 '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 33 '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 41 '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 50 'Risk management'.

Leases

The leases entered into by NN Group as a lessee are primarily operating leases. The total payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any penalty payment to be made to the lessor is recognised as an expense in the period in which termination takes place.

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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 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. All interest income and expenses from non-trading derivatives are classified as interest income and interest expenses in the profit and loss account. Changes in the 'clean fair value' are included in 'Valuation results on non-trading 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'.

Accounting policies for specific items

Financial assets and liabilities at fair value through profit or loss (Notes 3 and 18)

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 4)

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 5)

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 6)

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 7)

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 either by an independent valuer or internally. 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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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. 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 8)

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 9)

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'.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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.

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'.

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 two 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 10)

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 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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

Subordinated debt, debt securities issued and other borrowed funds (Notes 13, 14 and 15)

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.

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 16)

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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.

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, net of DAC, is evaluated at each reporting period by each business unit for the business originated in that business unit. The test involves comparing the established net insurance liability 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 net insurance liabilities are determined to be more than adequate no reduction in the net 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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

Other liabilities (Note 19)

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 20)

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 22)

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.

Earnings per ordinary share (Note 29)

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 30 and 31)

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.

Notes to the Consolidated annual accounts Continued

2 Cash and cash equivalents

Cash and cash equivalents

	2018	2017
Cash and bank balances	4,435	4,891
Money market funds	2,386	2,395
Short-term deposits	2,065	2,097
Cash and cash equivalents	**8,886**	**9,383**

As at 31 December 2018, NN Group held EUR 1,320 million (31 December 2017: EUR 1,482 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.

3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

	2018	2017
Investments for risk of policyholders	30,230	33,508
Non-trading derivatives	5,096	5,116
Designated as at fair value through profit or loss	722	934
Financial assets at fair value through profit or loss	**36,048**	**39,558**

Investments for risk of policyholders

	2018	2017
Equity securities	27,373	31,027
Debt securities	1,138	1,291
Loans and receivables	1,719	1,190
Investments for risk of policyholders	**30,230**	**33,508**

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

Non-trading derivatives

	2018	2017
Derivatives used in:		
– fair value hedges	47	56
– cash flow hedges	3,219	3,351
Other non-trading derivatives	1,830	1,709
Non-trading derivatives	**5,096**	**5,116**

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

Designated as at fair value through profit or loss

	2018	2017
Equity securities	259	189
Debt securities	12	284
Money market funds	451	461
Designated as at fair value through profit or loss	**722**	**934**

Notes to the Consolidated annual accounts Continued

4 Available-for-sale investments

Available-for-sale investments

	2018	2017
Equity securities:		
– shares in NN Group managed investment funds	2,101	2,362
– shares in third-party managed investment funds	1,279	2,176
– other	3,354	3,442
Equity securities	**6,734**	**7,980**
Debt securities	97,595	97,002
Available-for-sale investments	**104,329**	**104,982**

Changes in available-for-sale investments

	Equity securities		Debt securities		Total	
	2018	2017	2018	2017	2018	2017
Available-for-sale investments – opening balance	7,980	6,988	97,002	72,779	104,982	79,767
Additions	979	1,397	11,725	10,054	12,704	11,451
Amortisation			-504	-434	-504	-434
Transfers and reclassifications	-277	-166	24	-16	-253	-182
Changes in unrealised revaluations	-230	843	-168	-1,331	-398	-488
Impairments	-91	-58		-9	-91	-67
Disposals and redemptions	-1,767	-2,046	-11,499	-11,557	-13,266	-13,603
Changes in the composition of the group and other changes	110	1,084		28,854	110	29,938
Exchange rate differences	30	-62	1,015	-1,338	1,045	-1,400
Available-for-sale investments – closing balance	**6,734**	**7,980**	**97,595**	**97,002**	**104,329**	**104,982**

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.

Changes in the composition of the group and other changes in 2017 relates to the acquisition of Delta Lloyd. Reference is made to Note 43 'Companies and businesses acquired and divested'.

Reference is made to Note 21 'Investment income' for details on impairments by segment.

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

Total exposure to debt securities

	2018	2017
Available-for-sale investments	97,595	97,002
Loans	1,365	1,380
Available-for-sale investments and loans	**98,960**	**98,382**
Investments for risk of policyholders	1,138	1,291
Designated as at fair value through profit or loss	12	284
Financial assets at fair value through profit or loss	**1,150**	**1,575**
Total exposure to debt securities	**100,110**	**99,957**

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

Notes to the Consolidated annual accounts Continued

4 Available-for-sale investments Continued

Debt securities by type

	Available-for-sale investments		Loans		Total	
	2018	2017	2018	2017	2018	2017
Government bonds	69,303	70,117			69,303	70,117
Corporate bonds	16,154	15,200			16,154	15,200
Financial institution and Covered bonds	10,242	9,992			10,242	9,992
Bond portfolio (excluding ABS)	**95,699**	**95,309**	**0**	**0**	**95,699**	**95,309**
US RMBS	531	484			531	484
Non-US RMBS	1,164	973	1,211	1,056	2,375	2,029
CDO/CLO	11	11			11	11
Other ABS	190	225	154	324	344	549
ABS portfolio	**1,896**	**1,693**	**1,365**	**1,380**	**3,261**	**3,073**
Debt securities – Available-for-sale investments and Loans	**97,595**	**97,002**	**1,365**	**1,380**	**98,960**	**98,382**

Reference is made to Note 50 'Risk management'.

Available-for-sale equity securities

	2018	2017
Listed	4,256	4,863
Unlisted	2,478	3,117
Available-for-sale equity securities	**6,734**	**7,980**

Notes to the Consolidated annual accounts Continued

5 Loans

Loans

	2018	2017
Loans secured by mortgages	45,811	43,844
Unsecured loans	10,605	9,679
Asset-backed securities	1,365	1,380
Deposits	639	702
Policy loans	636	563
Other	14	54
Loans – before loan loss provisions	**59,070**	**56,222**
Loan loss provisions	-167	-179
Loans	**58,903**	**56,043**

Changes in Loans secured by mortgages

	2018	2017
Loans secured by mortgages – opening balance	43,844	25,699
Additions/origination	6,153	7,009
Amortisation	-263	-180
Redemption	-4,084	-3,735
Impairments and write-offs	-4	-11
Fair value changes recognised on hedged items	107	-78
Changes in the composition of the group and other changes	58	15,140
Loans secured by mortgages – closing balance	**45,811**	**43,844**

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 44 'Structured entities'.

Changes in Loan loss provisions

	2018	2017
Loan loss provisions – opening balance	179	80
Write-offs	-5	-6
Increase/decrease in loan loss provisions	-18	100
Changes in the composition of the group and other changes	11	5
Loan loss provisions – closing balance	**167**	**179**

NN Group applies an interest rate pricing system for mortgage loans based on risk-based pricing with multiple risk premium categories, whereby the interest rate for a mortgage loan is set depending on the loan-to-valuation ('LTV') ratio. In the past, mortgage loans were eligible to move into another risk premium category only on the interest reset date. In the second quarter of 2018 a change to this pricing system was announced, under which a mortgage loan can move into another (lower) risk premium category during the fixed interest rate term if the LTV has decreased due to an increase of the value of the house and/or repayment of the mortgage loan. The amended pricing system will allow for the adjustment of the mortgage interest rate by moving to a lower risk premium category automatically following (partial) repayment of the loan principal, also taking into account (p)repayments that have already been made, and/or upon request following a proven revaluation of the relevant mortgaged asset. This amended pricing system represents a modification of the outstanding mortgage loans under IFRS and the related impact on the balance sheet value of outstanding mortgage loans of EUR 59 million was recognised as a charge in the profit and loss account in 2018.

Notes to the Consolidated annual accounts Continued

6 Associates and joint ventures

Associates and joint ventures (2018)

	Interest held	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Vesteda Residential Fund FGR	27%	1,473	7,333	1,818	1,132	103
CBRE Dutch Office Fund FGR	28%	456	1,883	249	333	49
CBRE Retail Property Fund Iberica L.P.	33%	281	977	138	163	41
CBRE Dutch Retail Fund FGR	20%	223	1,591	495	77	36
CBRE Dutch Residential Fund I FGR	10%	182	1,804	14	279	28
CBRE UK Property Fund PAIF	10%	176	1,838		145	19
Lazora S.I.I. S.A.	22%	164	1,083	343	88	26
CBRE European Industrial Fund FGR	19%	138	1,058	350	126	29
Allee center Kft	50%	121	260	19	36	8
Fiumaranuova s.r.l.	50%	102	239	35	21	9
Dutch Student and Young Professional Housing Fund FGR	49%	96	253	60	25	5
DPE Deutschland II B GmbH & Co KG	35%	92	293	32	28	
Parcom Investment Fund III B.V.	100%	76	80	3	-2	
Boccaccio – Closed-end Real Estate Mutual Investment Fund	50%	89	242	65	12	4
Achmea Dutch Health Care Property Fund	25%	84	339		40	5
Robeco Bedrijfsleningen FGR	25%	80	324		9	1
Siresa House S.L.	49%	78	389	228	50	54
the Fizz Student Housing Fund SCS	50%	78	224	66	7	6
CBRE Dutch Retail Fund II FGR	10%	76	774	13	29	13
Parcom Investment Fund II B.V.	100%	69	69		79	
CBRE Property Fund Central and Eastern Europe FGR	50%	67	197	64	123	14
Delta Mainlog Holding GmbH & Co. KG	50%	56	113	1	9	
Parcom Buy-Out Fund V CV	21%	54	260	9	12	2
Parcom Buy Out Fund IV B.V.	100%	50	50		65	2
Other		639				
Associates and joint ventures		**5,000**				

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

In 2018, NN Group sold a Dutch residential real estate portfolio to Vesteda for a total consideration of EUR 1,427 million. The purchase price was paid approximately 75% in participation rights in the Vesteda fund and 25% in cash. As a result of the transaction, NN Group's existing participation in the Vesteda fund of EUR 340 million is now classified under Associates (previously classified under Available-for-sale investments). Consequently, a capital gain of EUR 108 million was recognised in the profit and loss account.

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 446 million of associates and joint ventures with an individual balance sheet value of less than EUR 50 million and EUR 193 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.

Notes to the Consolidated annual accounts Continued

6 Associates and joint ventures Continued

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 (2017)

	Interest held	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
CBRE Dutch Office Fund FGR	28%	387	1,618	231	228	43
CBRE Retail Property Fund Iberica L.P.	33%	249	1,420	677		
CBRE Dutch Retail Fund FGR	20%	225	1,464	324	81	46
Parcom Investment Fund II B.V.	100%	203	203		39	1
CBRE UK Property Fund PAIF	10%	172	1,792		187	22
CBRE Dutch Residential Fund I FGR	10%	161	1,625	38	239	30
Parcom Investment Fund III B.V.	100%	136	148	12	56	
CBRE Property Fund Central and Eastern Europe FGR	50%	129	392	134	51	20
CBRE European Industrial Fund FGR	19%	116	863	246	82	23
Allee center Kft	50%	114	248	20	34	8
DPE Deutschland II B GmbH & Co KG	34%	111	339	13	24	5
Fiumaranuova s.r.l.	50%	101	234	33	32	9
Parcom Buy Out Fund IV B.V.	100%	93	109	16	99	43
Boccaccio – Closed-end Real Estate Mutual Investment Fund	50%	90	245	65	22	5
Dutch Student and Young Professional Housing Fund FGR	50%	85	228	57	38	7
the Fizz Student Housing Fund SCS	50%	81	214	51	22	4
CBRE Dutch Retail Fund II FGR	10%	77	786	13	22	16
Siresa House S.L.	49%	74	389	237	4	2
Robeco Bedrijfsleningen FGR	24%	62	264		7	1
Achmea Dutch Health Care Property Fund	24%	58	245		22	1
Delta Mainlog Holding GmbH & Co. KG	50%	55	110	1	16	2
Le Havre LaFayette SNC	50%	53	132	26	-7	1
Other		618				
Associates and joint ventures		**3,450**				

Changes in Associates and joint ventures

	2018	2017
Associates and joint ventures – opening balance	3,450	2,698
Additions	1,406	753
Transfers to/from available-for-sale investments	344	164
Share in changes in equity (Revaluations)		-1
Share of result	500	399
Dividends received	-429	-234
Disposals	-262	-332
Changes in the composition of the group and other changes	-7	10
Exchange rate differences	-2	-7
Associates and joint ventures – closing balance	**5,000**	**3,450**

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.

Notes to the Consolidated annual accounts Continued

7 Real estate investments

Changes in Real estate investments

	2018	2017
Real estate investments – opening balance	3,582	2,028
Additions	206	245
Transfers to/from property in own use	15	
Transfers to/from other assets	3	3
Fair value gains/losses	200	198
Disposals	-1,632	-104
Changes in the composition of the group and other changes		1,212
Real estate investments – closing balance	**2,374**	**3,582**

The decrease in Real estate investments from EUR 3,582 million as at 31 December 2017 to EUR 2,374 million as at 31 December 2018, was mainly due to the sale of the Dutch residential real estate portfolio to Vesteda. For more information, reference is made to Note 6 'Associates and joint ventures'.

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2018 is EUR 177 million (2017: EUR 199 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 2018 is EUR 57 million (2017: EUR 61 million).

Real estate investments by year of most recent appraisal

	2018	2017
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

	2018	2017
Real estate investments	2,374	3,582
Available-for-sale investments	779	1,009
Associates and joint ventures	4,383	2,629
Property and equipment – property in own use	75	82
Other assets – property obtained from foreclosures	1	1
Real estate exposure	**7,612**	**7,303**

Furthermore, the exposure is impacted by third-party interests, leverage in funds and off-balance commitments, resulting in an overall exposure at 31 December 2018 of EUR 9,384 million (2017: EUR 8,693 million). Reference is made to Note 50 'Risk management'.

Notes to the Consolidated annual accounts Continued

8 Property and equipment

Property and equipment

	2018	2017
Property in own use	75	82
Equipment	76	68
Property and equipment	**151**	**150**

Changes in Property in own use

	2018	2017
Property in own use – opening balance	82	41
Additions	2	
Transfers to/from real estate investments	-15	
Revaluations	9	
Disposals	-2	
Depreciation	-2	-2
Impairments		-1
Reversal of impairments	1	
Changes in the composition of the group and other changes		44
Property in own use – closing balance	**75**	**82**
Gross carrying value	116	131
Accumulated depreciation, revaluations and impairments	-41	-49
Net carrying value	**75**	**82**
Revaluation surplus – opening balance	3	3
Revaluation in year	9	
Revaluation surplus – closing balance	**12**	**3**

Changes in Equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2018	2017	2018	2017	2018	2017
Equipment – opening balance	20	16	48	29	68	45
Additions	12	8	26	14	38	22
Disposals		-1	-1		-1	-1
Depreciation	-11	-9	-20	-12	-31	-21
Changes in the composition of the group and other changes	2	6		17	2	23
Equipment – closing balance	**23**	**20**	**53**	**48**	**76**	**68**
Gross carrying value	120	106	181	156	301	262
Accumulated depreciation	-97	-86	-128	-108	-225	-194
Net carrying value	**23**	**20**	**53**	**48**	**76**	**68**

Notes to the Consolidated annual accounts Continued

9 Intangible assets

Intangible assets (2018)

	Goodwill	Software	Other	Total
Intangible assets – opening balance	1,392	53	396	1,841
Additions		44		44
Amortisation		-28	-134	-162
Impairments	-852			-852
Changes in the composition of the group and other changes		4	-4	0
Exchange rate differences	-8			-8
Intangible assets – closing balance	**532**	**73**	**258**	**863**
Gross carrying value	1,505	814	640	2,959
Accumulated amortisation		-675	-334	-1,009
Accumulated impairments	-973	-66	-48	-1,087
Net carrying value	**532**	**73**	**258**	**863**

Intangible assets (2017)

	Goodwill	Software	Other	Total
Intangible assets – opening balance	253	61	28	342
Additions	1,146	23	483	1,652
Amortisation		-23	-110	-133
Disposals		-3		-3
Impairments		-6	-2	-8
Changes in the composition of the group and other changes		2	-3	-1
Exchange rate differences	-7	-1		-8
Intangible assets – closing balance	**1,392**	**53**	**396**	**1,841**
Gross carrying value	1,513	766	644	2,923
Accumulated amortisation		-647	-200	-847
Accumulated impairments	-121	-66	-48	-235
Net carrying value	**1,392**	**53**	**396**	**1,841**

Additions in 2017 include Goodwill and other intangible assets recognised in the balance sheet of NN Group N.V. upon the acquisition of Delta Lloyd.

Notes to the Consolidated annual accounts Continued

9 Intangible assets Continued

Other intangible assets include VOBA and the intangibles recognised in 2017 on the acquisition of Delta Lloyd. The acquisition intangibles comprise:

- Delta Lloyd brand name – with an expected remaining useful life at the acquisition date of approximately 2 years
- Other 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 9 years
- Distribution channels/agreements – with an average expected remaining useful life at the acquisition date of approximately 17 years
- Software – with an average expected remaining useful life at the acquisition date of approximately 3 years

The Delta Lloyd brand name was fully amortised as at December 2018.

Reference is made to Note 43 '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 'Intangible amortisation and other impairments' respectively.

Goodwill by cash generating unit (reporting unit)

	2018	2017
Netherlands Life (2017: Delta Lloyd Netherlands Life)		852
Netherlands Non-life (2017: Delta Lloyd Netherlands Non-life)	86	86
Insurance Europe	77	83
Asset Management	307	309
Bank	62	62
Goodwill	**532**	**1,392**

Reference is made to Note 43 'Companies and businesses acquired and divested'.

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.

As a result of the further integration of Delta Lloyd entities in the Netherlands, as evidenced by the approval of the legal mergers of Delta Lloyd Levensverzekering N.V. (Delta Lloyd Life) into Nationale-Nederlanden Levensverzekering Maatschappij N.V. (NN Life) and Delta Lloyd Schadeverzekering N.V. (Delta Lloyd Non-life) into Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (NN Non-life) at the end of 2018, the life and non-life businesses in the Netherlands are now combined in one cash generating unit for Life and one cash generating unit for Non-life, for the purpose of goodwill impairment testing. These cash generating units are equal to the segment Netherlands Life and Netherlands Non-life. The IFRS equity of Delta Lloyd Life at the acquisition date reflected assets and liabilities at fair value. Whilst most assets in the combined Netherlands Life segment are also reflected at fair value, most of the NN Life insurance liabilities are recognised at historical locked-in assumptions in IFRS. Consequently, the IFRS book value of the combined Netherlands Life segment is higher than the fair value of its assets and liabilities. The impairment test, based on a recoverable amount for the segment using a 10% discount rate, resulted in an impairment of the goodwill for Delta Lloyd Life of EUR 852 million through a charge in the IFRS profit and loss account of NN Group. There was no impact for Netherlands Non-life.

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

10 Deferred acquisition costs

Changes in Deferred acquisition costs

	Life insurance		Non-life insurance		Total	
	2018	2017	2018	2017	2018	2017
Deferred acquisition costs – opening balance	1,601	1,584	90	47	1,691	1,631
Capitalised expenses	491	464	461	299	952	763
Amortisation and unlocking	-402	-357	-474	-256	-876	-613
Exchange rate differences	76	-90			76	-90
Deferred acquisition costs – closing balance	**1,766**	**1,601**	**77**	**90**	**1,843**	**1,691**

Notes to the Consolidated annual accounts Continued

11 Other assets

Other assets

	2018	2017
Insurance and reinsurance receivables	1,038	1,126
Income tax receivables	110	202
Accrued interest and rents	1,597	1,785
Other accrued assets	301	428
Net defined benefit assets		29
Cash collateral amounts paid	1,190	1,199
Other	472	608
Other assets	**4,708**	**5,377**

Insurance and reinsurance receivables

	2018	2017
Receivables on account of direct insurance from:		
– policyholders	732	846
– intermediaries	168	219
Reinsurance receivables	138	61
Insurance and reinsurance receivables	**1,038**	**1,126**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 23 million as at 31 December 2018 (2017: EUR 27 million). The receivable is presented net of this allowance.

12 Equity

Total equity

	2018	2017
Share capital	41	41
Share premium	12,572	12,572
Revaluation reserve	8,198	8,597
Currency translation reserve	-34	-139
Net defined benefit asset/liability remeasurement reserve	-106	-106
Other reserves	2,179	1,753
Shareholders' equity (parent)	**22,850**	**22,718**
Minority interests	234	317
Undated subordinated notes	1,764	1,764
Total equity	**24,848**	**24,799**

Notes to the Consolidated annual accounts Continued

12 Equity Continued

Changes in equity (2018)

	Share capital	Share premium	Reserves	Total shareholders' equity (parent)
Equity – opening balance	41	12,572	10,105	22,718
Total amount recognised directly in equity (Other comprehensive income)			-290	-290
Net result for the period			1,117	1,117
Dividend			-332	-332
Purchase/sale of treasury shares			-231	-231
Employee stock option and share plans			2	2
Coupon on undated subordinated notes			-58	-58
Changes in the composition of the group and other changes			-76	-76
Equity – closing balance	**41**	**12,572**	**10,237**	**22,850**

Purchase/sale of treasury shares (2018)
In 2018, 6,375,646 ordinary shares for a total amount of EUR 237 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 6 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 2018, 6,176,884 NN Group treasury shares were cancelled.

As at 31 December 2018, 6,554,128 treasury shares were held by NN Group.

Issue of ordinary shares (2018)
In 2018, 3,918,712 NN Group shares (for the shareholders that opted to receive a stock dividend) were issued for the final dividend and 2,566,901 NN Group shares were issued for the interim dividend.

Coupon paid on undated subordinated notes (2018)
The undated subordinated notes have optional annual coupon payments in June and July. The annual coupons resulted in a deduction of EUR 58 million (net of tax) from equity.

Changes in equity (2017)

	Share capital	Share premium	Reserves	Total shareholders' equity (parent)
Equity – opening balance	40	12,153	10,502	22,695
Total amount recognised directly in equity (Other comprehensive income)			-1,791	-1,791
Net result for the period			2,110	2,110
Changes in share capital	1	419		420
Dividend			-317	-317
Purchase/sale of treasury shares			-340	-340
Coupon on undated subordinated notes			-59	-59
Equity – closing balance	**41**	**12,572**	**10,105**	**22,718**

Notes to the Consolidated annual accounts Continued

12 Equity Continued

Purchase/sale of treasury shares (2017)
In 2017, 10,450,584 ordinary shares for a total amount of EUR 347 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 7 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 2017, 14,348,967 NN Group treasury shares were cancelled.

As at 31 December 2017, 6,609,781 treasury shares were held by NN Group.

Issue of ordinary shares (2017)
In April 2017, NN Group issued 8,749,237 ordinary shares for a total amount of EUR 255 million to Stichting Fonds NutsOhra in exchange for the preference shares A in Delta Lloyd held by Stichting Fonds NutsOhra and the perpetual subordinated loan provided to Delta Lloyd.

In June 2017 NN Group allotted 5,069,969 ordinary shares for a total amount of EUR 165 million in connection with the acquisition of Delta Lloyd.

Coupon paid on undated subordinated notes (2017)
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)	
	2018	2017	2018	2017
Authorised share capital	700,000,000	700,000,000	84	84
Unissued share capital	358,940,929	359,249,658	43	43
Issued share capital	**341,059,071**	**340,750,342**	**41**	**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 2018 issued and fully paid ordinary share capital consists of 341,059,071 ordinary shares with a par value of EUR 0.12 per share.

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:

Notes to the Consolidated annual accounts Continued

12 Equity Continued

Distributable reserves based on the Dutch Civil Code

	2018	2018	2017	2017
Total shareholders' equity		22,850		22,718
– share capital	41		41	
– revaluation reserve	8,198		8,597	
– share of associates reserve	747		697	
– other non-distributable reserves	118		136	
Total non-distributable part of shareholders' equity:		**9,104**		**9,471**
Distributable reserves based on the Dutch Civil Code		**13,746**		**13,247**

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

	2018	2018	2017	2017
Solvency requirement under the Financial Supervision Act	7,274		7,731	
Reserves available for financial supervision purposes	16,727		15,412	
Total freely distributable reserves on the basis of solvency requirements		9,453		7,681
Total freely distributable reserves on the basis of the Dutch Civil Code		13,746		13,247
Total freely distributable reserves (lower of the values above)		**9,453**		**7,681**

Reference is made to Note 51 '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 51 '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.

Preference shares
As at 31 December 2018, none of the preference shares had been issued. The authorised number of preference shares is 700,000,000 shares.

Warrants
On 15 November 2018, NN Group repurchased its warrants that were issued to ING Group on 10 June 2014 in connection with the Initial Public Offering of NN Group, for a consideration of EUR 76 million. All outstanding warrants were cancelled. The amount paid was deducted from Other reserves and is presented as Changes in composition of the group and other changes.

Notes to the Consolidated annual accounts Continued

12 Equity Continued

Changes in Share premium

	2018	2017
Share premium – opening balance	12,572	12,153
Issue of ordinary shares		419
Share premium – closing balance	**12,572**	**12,572**

Changes in Revaluation reserve (2018)

	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – opening balance	2	4,874	3,721	8,597
Unrealised revaluations	7	-338		-331
Realised gains/losses transferred to the profit and loss account		-823		-823
Changes in cash flow hedge reserve			793	793
Deferred interest credited to policyholders		-38		-38
Revaluation reserve – closing balance	**9**	**3,675**	**4,514**	**8,198**

Deferred interest credited to policyholders reflects the change in the deferred profit sharing liabilities (net of deferred tax). Reference is made to Note 16 'Insurance and investment contracts, reinsurance contracts'.

Changes in Revaluation reserve (2017)

	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – opening balance	2	5,790	4,435	10,227
Unrealised revaluations		-551		-551
Realised gains/losses transferred to the profit and loss account		-963		-963
Changes in cash flow hedge reserve			-714	-714
Deferred interest credited to policyholders		598		598
Revaluation reserve – closing balance	**2**	**4,874**	**3,721**	**8,597**

Changes in Currency translation reserve

	2018	2017
Currency translation reserve – opening balance	-139	10
Unrealised revaluations after taxation	12	14
Exchange rate differences for the period	93	-163
Currency translation reserve – closing balance	**-34**	**-139**

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

Changes in Other reserves (2018)

	Retained earnings	Share of associates reserve	Total
Other reserves – opening balance	1,056	697	1,753
Net result for the period	1,117		1,117
Transfers to/from share of associates reserve	-50	50	0
Dividend	-332		-332
Purchase/sale of treasury shares	-231		-231
Employee stock option and share plans	2		2
Coupon on subordinated notes	-58		-58
Changes in the composition of the group and other changes	-72		-72
Other reserves – closing balance	**1,432**	**747**	**2,179**

Notes to the Consolidated annual accounts Continued

12 Equity Continued

Changes in Other reserves (2017)

	Retained earnings	Share of associates reserve	Total
Other reserves – opening balance	-187	555	368
Net result for the period	2,110		2,110
Transfers to/from share of associates reserve	-142	142	0
Dividend	-317		-317
Purchase/sale of treasury shares	-340		-340
Coupon on subordinated notes	-59		-59
Changes in the composition of the group and other changes	-9		-9
Other reserves – closing balance	**1,056**	**697**	**1,753**

Dividends

	2018	2017
Dividend distributed from Other reserves:		
Dividend paid in cash (interim current year)	127	130
Dividend paid in cash (final previous year)	205	187
Stock dividend (interim current year)	95	78
Stock dividend (final previous year)	143	129
Total dividend	**570**	**524**

Interim dividend 2018
In September 2018, NN Group paid a 2018 interim dividend of EUR 0.66 per ordinary share, or approximately EUR 222 million in total. The 2018 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 127 million was distributed out of Other reserves (cash dividend) and 2,566,901 ordinary shares, with a par value of EUR 0.12 per share, were issued (EUR 95 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 2018
At the Annual General Meeting on 29 May 2019, a final dividend will be proposed of EUR 1.24 per ordinary share, or approximately EUR 415 million in total based on the current number of outstanding shares (net of treasury shares). Together with the 2018 interim dividend of EUR 0.66 per ordinary share paid in September 2018, NN Group's total dividend over 2018 will be EUR 637 million, or EUR 1.90 per ordinary share which is equivalent to a dividend pay-out ratio of 50% of NN Group's full-year 2018 net operating result of ongoing business. The final dividend will be paid in cash, after deduction of withholding tax if applicable, or ordinary shares from the share premium reserve, at the election of the shareholder. 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 shareholders, NN Group ordinary shares will be quoted ex-dividend on 31 May 2019. The record date for the dividend will be 3 June 2019. The election period will run from 4 June up to and including 18 June 2019. 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 12 June through 18 June 2019. The dividend will be payable on 25 June 2019. The cash dividend will be distributed out of Other reserves.

Interim dividend 2017
In September 2017, NN Group paid a 2017 interim dividend of EUR 0.62 per ordinary share, or approximately EUR 209 million in total. The 2017 interim dividend was paid either in cash or in ordinary shares at the election of the shareholder. As a result, an amount of EUR 130 million was distributed out of Other reserves (cash dividend) and 2,346,671 ordinary shares, with a par value of EUR 0.12 per share, were issued (EUR 78 million stock dividend). To neutralise the dilutive effect of the final and interim stock dividend, NN Group repurchases ordinary shares for an amount equivalent to the stock dividends.

Notes to the Consolidated annual accounts Continued

12 Equity Continued

Final dividend 2017
The annual General Meeting adapted the 2017 final dividend of EUR 1.04 per ordinary share, or approximately EUR 348 million in. Together with the 2017 interim dividend of EUR 0.62 per ordinary share paid in September 2017, NN Group's total dividend for 2017 was EUR 556 million, or EUR 1.66 per ordinary share. The final dividend was paid in cash, after deduction of withholding tax if applicable, or ordinary shares from the share premium reserve, at the election of the shareholder. As a result an amount of EUR 205 million was distributed out of other reserves (cash dividend) and 3,918,712 ordinary shares with a par value of EUR 0.12 per share, were issued (EUR 143 million stock dividend). To neutralise the dilutive effect of the stock dividend, NN Group will repurchase ordinary shares for an amount equivalent to the stock dividend. The dividend was paid on 25 June 2018. The cash dividend was distributed out of Other reserves.

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 2018 net result of EUR 1,117 million 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 2018, the minority interest relating to ABN AMRO Verzekeringen recognised in equity was EUR 222 million.

Summarised information ABN AMRO Verzekeringen[1]

	2018	2017
Total assets	4,889	5,449
Total liabilities	4,436	4,832
Total income[2]	559	422
Total expenses[2]	527	383
Net result recognised in period[2]	32	31
Dividends paid	183	108

1 All on 100% basis.
2 For 2017: for the period from acquisition until 31 December 2017.

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. 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

13 Subordinated debt

Issuance (2017)

In January 2017, NN Group issued subordinated notes with a nominal value of EUR 850 million. The EUR 850 million subordinated notes have a maturity of 31 years and are first callable after 11 years and every quarter thereafter, subject to conditions to redemption. The coupon is fixed at 4.625% per annum until the first call date and will be floating thereafter. These notes qualify as Tier 2 regulatory capital. The proceeds were used to repay EUR 823 million of hybrid loans to ING Group in the first quarter of 2017.

Repayment (2017)

In January 2017, NN Group redeemed all three perpetual subordinated hybrid loans with variable coupons for a total amount of EUR 823 million. In May 2017, NN Group redeemed the outstanding aggregate principal amount of EUR 476 million of the 6.375% fixed to floating rate subordinated notes due 2027.

Subordinated debt

				Notional amount		Balance Sheet Value	
Interest rate	**Year of issue**	**Due date**	**First call date**	**2018**	**2017**	**2018**	**2017**
4.625%	2017	13 January 2048	13 January 2028	850	850	838	837
9.000%	2017	29 August 2042	29 August 2022	500	500	604	630
6.000%	2017	13 July 2019	13 July 2019	12	12	12	12
4.625%	2014	8 April 2044	8 April 2024	1,000	1,000	991	989
Subordinated debt						**2,445**	**2,468**

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.

14 Debt securities issued

Issuance (2017)

The first six months of 2017, NN Group issued senior unsecured notes with a nominal value of EUR 500 million, EUR 300 million and EUR 600 million.

The EUR 500 million senior unsecured notes have a fixed coupon of 0.875% per annum and a maturity of 6 years. The proceeds were used to repay EUR 476 million of Subordinated debt of NN Group on its first call date in May 2017.

The EUR 300 million senior unsecured notes have a fixed coupon of 0.25% per annum and a maturity of 3 years.

The EUR 600 million senior unsecured notes have a fixed coupon of 1.625% per annum and a maturity of 10 years. The net proceeds of both senior unsecured notes were applied to repay the EUR 900 million bridge loan used to finance the acquisition of Delta Lloyd.

Repayment (2017)

In November 2017, NN Group redeemed a fixed 4.25% senior note for a total of EUR 575 million.

15 Other borrowed funds

Other borrowed funds

	2018	**2017**
Credit institutions	1,050	1,539
Other	4,667	4,505
Other borrowed funds	**5,717**	**6,044**

Other borrowed funds includes the funding of the consolidated securitisation programmes as disclosed in Note 44 'Structured entities'.

On 11 June 2018 and on 25 September 2018, NN Bank issued 10 years bonds under its Conditional Pass-Through Covered Bond Programme, backed by Dutch prime residential mortgage loans, both EUR 500 million.

Notes to the Consolidated annual accounts Continued

16 Insurance and investment contracts, reinsurance contracts

Insurance and investment contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance and investment contracts	
	2018	2017	2018	2017	2018	2017
Non-participating life policy liabilities	56,937	55,013	132	48	57,069	55,061
Participating life policy liabilities	52,961	53,650	561	573	53,522	54,223
Investment contracts with discretionary participation features	6,754	7,327			6,754	7,327
Liabilities for (deferred) profit sharing and rebates	6,591	6,848			6,591	6,848
Life insurance liabilities excluding liabilities for risk of policyholders	**123,243**	**122,838**	**693**	**621**	**123,936**	**123,459**
Liabilities for life insurance for risk of policyholders	28,971	32,308	45	45	29,016	32,353
Investment contract with discretionary participation features for risk of policyholders	215	218			215	218
Life insurance liabilities	**152,429**	**155,364**	**738**	**666**	**153,167**	**156,030**
Liabilities for unearned premiums and unexpired risks	**401**	**473**	**13**	**10**	**414**	**483**
Reported claims liabilities	3,980	3,967	209	174	4,189	4,141
Claims incurred but not reported (IBNR)	1,302	1,118	50	30	1,352	1,148
Claims liabilities	**5,282**	**5,085**	**259**	**204**	**5,541**	**5,289**
Insurance liabilities and investment contracts with discretionary participation features	**158,112**	**160,922**	**1,010**	**880**	**159,122**	**161,802**
Investment contracts	1,078	1,088			1,078	1,088
Investment contracts for risk of policyholders	918	749			918	749
Investment contracts liabilities	**1,996**	**1,837**	**0**	**0**	**1,996**	**1,837**
Insurance and investment contracts, reinsurance contracts	**160,108**	**162,759**	**1,010**	**880**	**161,118**	**163,639**

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 6,341 million as at 31 December 2018 (2017: EUR 6,623 million).

Notes to the Consolidated annual accounts Continued

16 Insurance and investment contracts, reinsurance contracts Continued

Changes in Life insurance liabilities (2018)

	Net life insurance liabilities[1]	Net liabilities for risk of policyholders[2]	Reinsurance contracts	Life insurance liabilities
Life insurance liabilities – opening balance	122,838	32,526	666	156,030
Deferred interest credited to policyholders	-279			-279
Current year liabilities	6,205	2,302	14	8,521
Prior years liabilities:				
– benefit payments to policyholders	-8,962	-4,459	49	-13,372
– interest accrual and changes in fair value of liabilities	2,530		8	2,538
– valuation changes for risk of policyholders		-1,254		-1,254
– effect of changes in discount rate assumptions	6		-1	5
– effect of changes in other assumptions	-174	45		-129
Changes in the composition of the group and other changes	13	-181	-4	-172
Exchange rate differences	1,066	207	6	1,279
Life insurance liabilities – closing balance	**123,243**	**29,186**	**738**	**153,167**

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

Changes in Life insurance liabilities (2017)

	Net life insurance liabilities[1]	Net liabilities for risk of policyholders[2]	Reinsurance contracts	Life insurance liabilities
Life insurance liabilities – opening balance	80,590	29,111	160	109,861
Deferred interest credited to policyholders	-846			-846
Current year liabilities	4,807	1,953	34	6,794
Prior years liabilities:				
– benefit payments to policyholders	-7,933	-6,242	-147	-14,322
– interest accrual and changes in fair value of liabilities	2,761		6	2,767
– valuation changes for risk of policyholders		1,623		1,623
– effect of changes in discount rate assumptions	-7		-2	-9
– effect of changes in other assumptions	19	-93	-22	-96
Changes in the composition of the group and other changes	44,711	6,675	639	52,025
Exchange rate differences	-1,264	-501	-2	-1,767
Life insurance liabilities – closing balance	**122,838**	**32,526**	**666**	**156,030**

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 rate is within the range of 1% to 4% (2017: 1% to 4%).

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 2018, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in 'Other assets') amounts to EUR 1,148 million (2017: EUR 941 million).

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.

Notes to the Consolidated annual accounts Continued

16 Insurance and investment contracts, reinsurance contracts Continued

Changes in Liabilities for unearned premiums and unexpired risks

	Liabilities net of reinsurance		Reinsurance contracts		Liabilities for unearned premiums and unexpired risk	
	2018	2017	2018	2017	2018	2017
Liabilities for unearned premiums and unexpired risks – opening balance	473	248	10	3	483	251
Premiums written	2,941	2,485	195	129	3,136	2,614
Premiums earned during the year	-3,009	-2,529	-192	-133	-3,201	-2,662
Changes in the composition of the group and other changes	-4	269		11	-4	280
Liabilities for unearned premiums and unexpired risks – closing balance	**401**	**473**	**13**	**10**	**414**	**483**

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2018	2017	2018	2017	2018	2017
Claims liabilities – opening balance	5,085	3,217	204	68	5,289	3,285
Additions:						
– for the current year	2,252	1,882	34	42	2,286	1,924
– for prior years	-118	-21	42	-37	-76	-58
– interest accrual of liabilities	66	57			66	57
Additions	**2,200**	**1,918**	**76**	**5**	**2,276**	**1,923**
Claim settlements and claim settlement costs:						
– for the current year	-939	-805	21	8	-918	-797
– for prior years	-1,066	-975	-38	-26	-1,104	-1,001
Claim settlements and claim settlement cost	**-2,005**	**-1,780**	**-17**	**-18**	**-2,022**	**-1,798**
Changes in the composition of the group and other changes	1	1,734	-4	149	-3	1,883
Exchange rate differences	1	-4			1	-4
Claims liabilities – closing balance	**5,282**	**5,085**	**259**	**204**	**5,541**	**5,289**

Where discounting is used in the calculation of the claims liabilities the rate is within the range of 1% to 4% (2017: 2% to 4%).

Changes in Investment contracts

	2018	2017
Investment contracts – opening balance	1,837	2,311
Current year liabilities	331	203
Prior years liabilities:		
– payments to contract holders	-178	-271
– interest accrual	21	26
– valuation changes investments	-62	76
Changes in the composition of the group and other changes	47	-508
Investment contracts – closing balance	**1,996**	**1,837**

The changes in the composition of the group in 2017 mainly relate to the acquisition of Delta Lloyd and the sale of NN Life Luxembourg. Reference is made to Note 43 'Companies and businesses acquired and divested'.

Notes to the Consolidated annual accounts Continued

16 Insurance and investment contracts, reinsurance contracts Continued

Gross claims development table

	Accident year										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of cumulative claims											
At the end of accident year	2,136	2,165	2,220	2,400	2,250	2,094	2,092	2,250	2,161	2,358	
1 year later	2,126	2,209	2,358	2,331	2,313	2,158	2,131	2,274	2,184		
2 years later	2,054	2,179	2,301	2,285	2,279	2,131	2,165	2,265			
3 years later	2,053	2,178	2,260	2,241	2,257	2,154	2,161				
4 years later	2,044	2,166	2,231	2,229	2,228	2,129					
5 years later	2,043	2,144	2,215	2,228	2,210						
6 years later	2,022	2,144	2,204	2,236							
7 years later	2,013	2,130	2,207								
8 years later	2,024	2,144									
9 years later	2,069										
Estimate of cumulative claims	**2,069**	**2,144**	**2,207**	**2,236**	**2,210**	**2,129**	**2,161**	**2,265**	**2,184**	**2,358**	**21,963**
Cumulative payments	-1,878	-1,942	-1,958	-1,921	-1,852	-1,705	-1,612	-1,635	-1,347	-918	-16,768
	191	**202**	**249**	**315**	**358**	**424**	**549**	**630**	**837**	**1,440**	**5,195**
Effect of discounting	-14	-18	-27	-32	-35	-33	-43	-43	-49	-52	-346
Liabilities recognised	**177**	**184**	**222**	**283**	**323**	**391**	**506**	**587**	**788**	**1,388**	**4,849**
Liabilities relating to accident years prior to 2009											692
Gross claims											**5,541**

Gross claims in the claims development table include the claims in the Delta Lloyd entities as from the original date of the claim.

17 Customer deposits and other funds on deposit

Customer deposits and other funds on deposit

	2018	2017
Savings	6,699	6,944
Bank annuities	8,030	7,490
Customer deposits and other funds on deposit	**14,729**	**14,434**

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.

Changes in Customer deposits and other funds on deposit

	2018	2017
Customer deposits and other funds on deposit – opening balance	14,434	10,224
Deposits received	3,821	4,326
Withdrawals	-3,491	-3,888
Amortisation	-35	-30
Changes in the composition of the group and other changes		3,802
Customer deposits and other funds on deposit – closing balance	**14,729**	**14,434**

18 Financial liabilities at fair value through profit or loss

Non-trading derivatives

	2018	2017
Derivatives used in:		
– fair value hedges	698	401
– cash flow hedges	189	427
Other non-trading derivatives	1,276	1,477
Non-trading derivatives	**2,163**	**2,305**

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

Notes to the Consolidated annual accounts Continued

19 Other liabilities

Other liabilities

	2018	2017
Income tax payable	16	30
Net defined benefit liability	124	165
Other post-employment benefits	18	23
Other staff-related liabilities	122	128
Other taxation and social security contributions	123	115
Deposits from reinsurers	336	385
Accrued interest	238	491
Costs payable	449	428
Amounts payable to policyholders	898	879
Provisions	293	319
Amounts to be settled	1,954	2,140
Cash collateral amounts received	4,086	3,696
Other	770	756
Other liabilities	**9,427**	**9,555**

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

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

Net defined benefit asset/liability

	2018	2017
Fair value of plan assets	30	49
Defined benefit obligation	154	185
Net defined benefit asset/liability recognised in the balance sheet (funded status)	**124**	**136**
Presented as:		
– Other assets		29
– Other liabilities	124	165
Net defined benefit asset/liability	**124**	**136**

Changes in Provisions

	2018	2017
Provisions – opening balance	319	189
Additions	137	303
Releases	-21	-20
Charges	-139	-221
Changes in the composition of the group and other changes		73
Exchange rate differences	-3	-5
Provisions – closing balance	**293**	**319**

Provisions relate to reorganisation provisions, litigation provisions and other provisions. Reorganisation provisions were recognised for operations in the Netherlands for the cost of workforce reductions. Additions to the reorganisation provision were recognised in 2018 and 2017 due to additional initiatives announced during the year. During 2018 EUR 130 million was charged to the reorganisation provision for the cost of workforce reductions (2017: EUR 95 million). Additions in 2017 include EUR 185 million relating to ING Australia Holdings. For litigation provisions reference is made to Note 42 'Legal proceedings'.

Notes to the Consolidated annual accounts Continued

20 Gross premium income

Gross premium income

	2018	2017
Gross premium income from life insurance policies	10,136	9,446
Gross premium income from non-life insurance policies	3,136	2,614
Gross premium income	**13,272**	**12,060**

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	
	2018	2017	2018	2017	2018	2017
Direct gross premiums written	10,099	9,416	3,135	2,621	13,234	12,037
Reinsurance assumed gross premiums written	37	30	1	-7	38	23
Gross premiums written	**10,136**	**9,446**	**3,136**	**2,614**	**13,272**	**12,060**
Reinsurance ceded	-284	-208	-195	-129	-479	-337
Premiums written net of reinsurance	**9,852**	**9,238**	**2,941**	**2,485**	**12,793**	**11,723**

Non-life premiums earned – net of reinsurance

	2018	2017
Direct gross premiums earned	3,200	2,675
Reinsurance assumed gross premiums earned	1	-13
Gross premiums earned	**3,201**	**2,662**
Reinsurance ceded	-192	-133
Non-life premiums earned – net of reinsurance	**3,009**	**2,529**

Reinsurance ceded is included in Underwriting expenditure. Reference is made to Note 24 'Underwriting expenditure'.

Notes to the Consolidated annual accounts Continued

21 Investment income

Investment income

	2018	2017
Interest income from investments in debt securities	1,829	1,848
Interest income from loans:		
– mortgage loans	1,218	1,223
– unsecured loans	211	199
– policy loans	10	7
– other	40	61
Interest income from investments in debt securities and loans	**3,308**	**3,338**
Realised gains/losses on disposal of available-for-sale debt securities	775	580
Impairments of available-for-sale debt securities		-9
Realised gains/losses and impairments of available-for-sale debt securities	**775**	**571**
Realised gains/losses on disposal of available-for-sale equity securities	348	648
Impairments of available-for-sale equity securities	-91	-58
Realised gains/losses and impairments of available-for-sale equity securities	**257**	**590**
Interest income on non-trading derivatives	219	272
Increase/decrease in loan loss provisions	18	-100
Income from real estate investments	120	138
Dividend income	272	268
Change in fair value of real estate investments	200	198
Investment income	**5,169**	**5,275**

Impairments on investments by segment

	2018	2017
Netherlands Life	-68	-63
Netherlands Non-life	-1	-2
Insurance Europe	-21	
Other	-1	-2
Impairments on investments	**-91**	**-67**

Notes to the Consolidated annual accounts Continued

22 Net fee and commission income

Net fee and commission income

	2018	2017
Asset management fees	807	928
Insurance brokerage and advisory fees	124	111
Other	156	148
Gross fee and commission income	**1,087**	**1,187**
Trailer fees	199	240
Asset management fees	47	45
Commission expenses and other	86	97
Fee and commission expenses	**332**	**382**
Net fee and commission income	**755**	**805**

23 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2018	2017
Change in fair value of derivatives relating to:		
– fair value hedges	-452	-212
– cash flow hedges (ineffective portion)	15	-19
– other non-trading derivatives	262	-487
Net result on non-trading derivatives	**-175**	**-718**
Change in fair value of assets and liabilities (hedged items)	448	213
Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)	10	-8
Valuation results on non-trading derivatives	**283**	**-513**

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 largely offset by changes in insurance contract liabilities, which are included in 'Underwriting expenditure'. Reference is made to Note 24 'Underwriting expenditure'.

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 35 'Derivatives and hedge accounting'.

Notes to the Consolidated annual accounts Continued

24 Underwriting expenditure

Underwriting expenditure

	2018	2017
Gross underwriting expenditure:		
– before effect of investment result for risk of policyholders	14,507	12,518
– effect of investment result for risk of policyholders	-1,258	1,622
Gross underwriting expenditure	**13,249**	**14,140**
Investment result for risk of policyholders	1,258	-1,622
Reinsurance recoveries	-192	-187
Underwriting expenditure	**14,315**	**12,331**

The investment income and valuation results regarding investments for risk of policyholders is EUR -1,258 million (2017: EUR 1,622 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.

Underwriting expenditure by class

	2018	2017
Expenditure from life underwriting:		
– reinsurance and retrocession premiums	284	208
– gross benefits	13,176	13,998
– reinsurance recoveries	-130	-118
– change in life insurance liabilities	-2,547	-4,734
– costs of acquiring insurance business	459	478
– other underwriting expenditure	163	117
– profit sharing and rebates	86	37
Expenditure from life underwriting	**11,491**	**9,986**
Expenditure from non-life underwriting:		
– reinsurance and retrocession premiums	195	129
– gross claims	1,995	1,774
– reinsurance recoveries	-62	-69
– changes in the liabilities for unearned premiums	-68	-44
– changes in claims liabilities	196	141
– costs of acquiring insurance business	563	404
– other underwriting expenditure	-16	-16
Expenditure from non-life underwriting	**2,803**	**2,319**
Expenditure from investment contracts:		
– other changes in investment contract liabilities	21	26
Expenditure from investment contracts	**21**	**26**
Underwriting expenditure	**14,315**	**12,331**

Notes to the Consolidated annual accounts Continued

24 Underwriting expenditure Continued

Profit sharing and rebates

	2018	2017
Distributions on account of interest or underwriting results	26	-11
Bonuses added to policies	60	48
Profit sharing and rebates	**86**	**37**

The total costs of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 1,022 million (2017: EUR 882 million). This includes amortisation and unlocking of DAC of EUR 876 million (2017: EUR 613 million) and the net amount of commissions paid of EUR 1,098 million (2017: EUR 1,032 million) and commissions capitalised in DAC of EUR 952 million (2017: EUR 763 million).

The total amount of commission paid and commission payable amounted to EUR 1,281 million (2017: EUR 1,164 million). This includes the commissions recognised in 'costs of acquiring insurance business' of EUR 1,097 million (2017: EUR 1,032 million) referred to above and commissions recognised in 'other underwriting expenditure' of EUR 184 million (2017: EUR 132 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 63 million (2017: EUR 56 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 23 '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 largely offset by changes in insurance contract liabilities, which are included in 'Underwriting expenditure'.

25 Intangible amortisation and other impairments

Intangible amortisation and other impairments

	2018	2017
Goodwill	852	
Property and equipment	-1	1
Other intangible assets	1	7
Other impairments and reversals of other impairments	**852**	**8**
Amortisation of other intangible assets	134	110
Intangible amortisation and other impairments	**986**	**118**

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

Reference is made to Note 9 'Intangible assets' for impairment on Goodwill.

Notes to the Consolidated annual accounts Continued

26 Staff expenses

Staff expenses

	2018	2017
Salaries	818	802
Variable salaries	81	104
Pension costs	125	141
Social security costs	127	124
Share-based compensation arrangements	13	17
External staff costs	301	261
Education	22	21
Other staff costs	34	47
Staff expenses	**1,521**	**1,517**

Pension costs

	2018	2017
Current service cost	8	9
Net interest cost	-4	-1
Defined benefit plans	**4**	**8**
Defined contribution plans	121	133
Pension costs	**125**	**141**

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 31 '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 46 '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) and to a considerable number of employees. 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 (5 years for Management Board and 1 year for Identified Staff).

Share awards

Changes in Share awards outstanding

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2018	2017	2018	2017
Share awards outstanding – opening balance	662,580	834,515	29.62	25.23
Granted	408,323	417,149	36.11	31.00
Performance effect		-33,652		17.91
Vested	-441,194	-495,377	30.39	24.80
Forfeited	-16,591	-60,055	30.04	26.32
Share awards outstanding – closing balance	**613,118**	**662,580**	**33.38**	**29.62**

Notes to the Consolidated annual accounts Continued

26 Staff expenses Continued

In 2018, 33,458 (2017: 35,802) share awards on NN Group shares were granted to the members of the Executive and Management Board. In 2018, 374,865 (2017: 381,347) share awards on NN Group shares were granted to senior management and other employees.

As at 31 December 2018, the share awards on NN Group shares consist of 587,593 (2017: 639,199) share awards relating to equity-settled share-based payment arrangements and 25,525 (2017: 23,381) 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 2018, total unrecognised compensation costs related to share awards amount to EUR 8 million (2017: EUR 7 million). These costs are expected to be recognised over a weighted average period of 1.4 years (2017: 1.4 years).

27 Interest expenses

Interest expenses

	2018	2017
Interest expenses on non-trading derivatives	151	33
Other interest expenses	324	302
Interest expenses	**475**	**335**

In 2018, total interest income and total interest expenses for items not valued at fair value through profit or loss were EUR 3,308 million (2017: EUR 3,338 million) and EUR 324 million (2017: EUR 302 million) respectively.

Interest income and expenses are included in the following profit and loss account lines.

Total net interest income

	2018	2017
Investment income	3,527	3,610
Interest expenses on non-trading derivatives	-151	-33
Other interest expenses	-324	-302
Total net interest income	**3,052**	**3,275**

28 Other operating expenses

Other operating expenses

	2018	2017
Depreciation of property and equipment	33	23
Amortisation of software	27	24
Computer costs	313	221
Office expenses	125	116
Travel and accommodation expenses	20	20
Advertising and public relations	90	79
External advisory fees	180	265
Addition/(releases) of provisions for reorganisation and relocations	115	98
Other	193	145
Other operating expenses	**1,096**	**991**

Other operating expenses includes lease and sublease payments for office buildings of EUR 47 million (2017: EUR 51 million) and lease and sublease payments for cars and other equipment of EUR 12 million (2017: EUR 16 million). These expenses are in respect of operating leases in which NN Group is the lessee.

Notes to the Consolidated annual accounts Continued

29 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.

Earnings per ordinary share

	Amount (in millions of euros)		Weighted average number of ordinary shares (in millions)		Per ordinary share (in euros)	
	2018	2017	2018	2017	2018	2017
Net result	1,117	2,110				
Coupon on undated subordinated notes	-58	-52				
Basic earnings per ordinary share	**1,059**	**2,058**	**335.5**	**331.1**	**3.15**	**6.21**
Dilutive instruments:						
- Share plans			0.6	0.7		
Dilutive instruments			**0.6**	**0.7**		
Diluted earnings per ordinary share	**1,059**	**2,058**	**336.1**	**331.8**	**3.15**	**6.20**

Diluted earnings per share is calculated as if the share plans and, for 2017, the warrants outstanding at the end of the period 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.

30 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)
- Other (Operating segments that have been aggregated due to their respective size; including banking activities in the Netherlands, reinsurance and items related to capital management and the head office)
- 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)

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

30 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.

As of 2019, the banking business, which is currently included in the segment 'Other', will be reported as a separate segment. At the same time, the segment Japan Closed Block VA will no longer be reported separately, but will be included in the segment 'Other'. There will be no impact on the Total Operating result.

Segments (2018)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other	Japan Closed Block VA	Total segments
Investment margin	872		93	-9	-1		-2	953
Fees and premium-based revenues	444		703	605	508		23	2,283
Technical margin	188		207	-1				394
Operating income non-modelled life business			1					2
Operating income	**1,504**	**0**	**1,005**	**594**	**507**	**0**	**21**	**3,631**
Administrative expenses	494		398	140	352		9	1,392
DAC amortisation and trail commissions	38		328	287			3	656
Expenses	**532**	**0**	**725**	**427**	**352**	**0**	**12**	**2,048**
Non-life operating result		94	-8					86
Operating result other						-33		-33
Operating result	**972**	**94**	**271**	**167**	**155**	**-33**	**9**	**1,635**
Non-operating items:								
– gains/losses and impairments	1,022	11	-2	-3		7		1,034
– revaluations	428	2	22	-22		-3		427
– market & other impacts	-140	-15	-16			-15	-8	-194
Special items before tax	-63	-91	-28	-3	-31	-104		-321
Amortisation and impairment of acquisition intangibles						-984		-984
Result on divestments	56					4		60
Result before tax	**2,275**	**1**	**247**	**139**	**123**	**-1,129**	**1**	**1,657**
Taxation	430	-2	55	41	29	-36	6	524
Minority interests	10	6						16
Net result	**1,835**	**-3**	**191**	**97**	**94**	**-1,093**	**-5**	**1,117**

Special items in 2018 reflect restructuring expenses incurred in respect of the cost reduction target for Netherlands Life, Netherlands Non-life, Belgium, Asset Management, the banking business and Corporate/Holding entities as well as costs for other projects.

The result on divestments of EUR 56 million reflects the recognition of an additional divestment result (before tax) related to the sale of NN Group's former insurance subsidiary ING Life Korea.

Notes to the Consolidated annual accounts Continued

30 Segments Continued

Segments (2017)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other	Japan Closed Block VA	Total segments
Investment margin	843		91	-7			-2	925
Fees and premium-based revenues	429		679	599	530		39	2,276
Technical margin	180		196	11				386
Operating income non-modelled life business			3					3
Operating income	**1,452**	**0**	**969**	**602**	**530**	**0**	**37**	**3,590**
Administrative expenses	513		386	139	369		12	1,420
DAC amortisation and trail commissions	43		325	264			5	636
Expenses	**556**	**0**	**711**	**403**	**369**	**0**	**17**	**2,055**
Non-life operating result		30	1					31
Operating result other						40		40
Operating result	**896**	**30**	**260**	**200**	**161**	**40**	**20**	**1,606**
Non-operating items:								
– gains/losses and impairments	967	34	9	8		48		1,065
– revaluations	340	22		-19		4		346
– market & other impacts	44	-6	-19				-29	-10
Special items before tax	-42	-19	-21		-22	-129		-234
Amortisation and impairment of acquisition intangibles						-99		-99
Result on divestments			20			-170		-150
Result before tax	**2,204**	**60**	**248**	**188**	**139**	**-306**	**-9**	**2,524**
Taxation	329	-3	26	55	32	-45	-2	392
Minority interests	13	9						22
Net result	**1,862**	**54**	**222**	**133**	**107**	**-261**	**-7**	**2,110**

Special items in 2017 reflect the acquisition and integration of Delta Lloyd, as well as restructuring expenses.

Gross premium income and investment income by segment (2018)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other and eliminations	Japan Closed Block VA	Total segments
Gross premium income	3,603	3,083	2,931	3,628		25	2	13,272
Investment income	3,762	148	476	170		613		5,169

Gross premium income and investment income by segment (2017)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other and eliminations	Japan Closed Block VA	Total segments
Gross premium income	3,072	2,579	2,921	3,470		15	3	12,060
Investment income	3,871	169	521	184		518	12	5,275

Interest income and interest expenses by segment (2018)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other and eliminations	Japan Closed Block VA	Total segments
Interest income	2,199	122	449	164		593		3,527
Interest expenses	-128	-10	-18	-2	-1	-316		-475
Interest income and interest expenses	**2,071**	**112**	**431**	**162**	**-1**	**277**	**0**	**3,052**

Notes to the Consolidated annual accounts Continued

30 Segments Continued

Interest income and interest expenses by segment (2017)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other and eliminations	Japan Closed Block VA	Total segments
Interest income	2,375	117	480	166		460	12	3,610
Interest expenses	-125	-7	-31	-2	-1	-162	-7	-335
Interest income and interest expenses	**2,250**	**110**	**449**	**164**	**-1**	**298**	**5**	**3,275**

Total assets and Total liabilities by segment

	Total assets 2018	Total liabilities 2018	Total assets 2017	Total liabilities 2017
Netherlands Life	139,507	121,610	140,126	123,100
Netherlands Non-life	7,340	6,429	7,320	6,273
Insurance Europe	28,692	26,463	29,496	27,100
Japan Life	18,971	16,602	16,248	14,121
Asset management	637	265	715	268
Other	57,546	32,585	57,834	32,913
Japan Closed Block VA	3,609	3,411	6,271	5,920
Total segments	**256,302**	**207,365**	**258,010**	**209,695**
Eliminations	-32,056	-7,967	-30,948	-7,432
Total assets and Total liabilities	**224,246**	**199,398**	**227,062**	**202,263**

Alternative Performance Measures (Non-GAAP measures)

NN Group uses two Alternative Performance Measures (APMs, also referred to as Non-GAAP measures) in its external financial reporting: Operating result and Adjusted allocated equity.

Operating result

Operating result is used by NN Group to evaluate the financial performance of NN Group and its segments. NN Group uses Operating result as it reflects how management assesses the performance of the businesses. Operating result excludes gains and losses that are primarily driven by market fluctuations, arise from events or transactions that are clearly distinct from the ordinary business activities and/or are not expected to recur frequently or regularly. Operating result is calculated by adjusting the reported result for the following items:

- Non-operating items: related to (general account) investments that are held for own risk (net of policyholder profit sharing):
  - Capital 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) and derivatives unrelated to product hedging programmes (i.e. interest rate swaps, foreign exchange 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.
- Result on divestments: result before tax related to divested operations.
- Special items before tax: items of income or expense 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.
- Amortisation of acquisition intangibles and other impairments: At the acquisition date, all assets and liabilities (including investments, loans and funding liabilities) of Delta Lloyd 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'.

Notes to the Consolidated annual accounts Continued

30 Segments Continued

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. Operating result is an Alternative Performance 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. A reconciliation between Operating result and IFRS result is included above.

Adjusted allocated equity

NN Group evaluates the efficiency of the operational deployment of its equity by calculating Return On Equity ('ROE'). The net operating ROE is calculated using Net operating result for ongoing segments in the numerator and average Adjusted allocated equity for ongoing segments in the denominator. Net operating result of NN Group is the Net operating result of the ongoing business, 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 the acquisition of Delta Lloyd

Allocated equity per segment represents the part of equity that is economically deployed by the segments. This allocation does not impactequity 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

	2018	2017
IFRS Total equity	24,848	24,799
Revaluation reserves, Goodwill and Intangible assets recognised upon the acquisition of Delta Lloyd	-8,668	-10,023
Undated subordinated notes	-1,764	-1,764
Equity of Japan Closed Block VA	-198	-351
Adjusted allocated equity ongoing business	**14,218**	**12,661**

In addition, NN Group discloses Value of New Business (VNB) and Annual Premium Equivalent (APE).

VNB is the additional value to shareholders created through the activity of writing new business. VNB represents the post-tax market value of liabilities at issue an instant before any cash flow transaction. VNB reflects the economic view of the liability being sold corresponding to NN Group's internal view.

APE is defined as the total of the IFRS annual recurring premiums and 10% of the IFRS single premiums received in a given period.

Notes to the Consolidated annual accounts Continued

31 Principal subsidiaries and geographical information

The table below provides additional information on principal subsidiaries, the nature of the main activities and employees by country.

Principal subsidiaries and geographical information (2018)

Country/Name of principal subsidiaries[1]	Main activity	Average number of employees[2]	Total income	Total assets	Result before tax	Taxation[3]	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		**8,613**	**12,075**	**170,943**	**1,023**	**380**	**-4**
NN Life Insurance Company, Ltd.	Life insurance						
Japan		**901**	**3,779**	**21,463**	**138**	**41**	**-33**
NN Insurance Belgium nv	Life insurance						
Belgium		**693**	**1,328**	**16,510**	**87**	**11**	**21**
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		**509**	**680**	**4,917**	**45**	**6**	**6**
Nationale-Nederlanden Towarzystwo Ubezpieczeń na Życie S.A.	Life insurance						
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	Pensions						
Poland		**883**	**506**	**2,313**	**109**	**22**	**37**
NN Hellenic Life Insurance Co. S.A.	Life insurance						
Greece		**417**	**448**	**1,687**	**3**	**14**	
NN Biztosító Zártkörûen Mûködõ Részvénytársaság	Life insurance						
Hungary		**349**	**277**	**1,337**	**24**	**2**	**2**
NN Životní pojišťovna N.V. (pobočka pro Českou republiku)	Life insurance						
Czech Republic		**499**	**183**	**1,166**	**32**	**7**	**3**
NN Asigurari de Viata S.A.	Life insurance						
Romania		**470**	**196**	**874**	**19**	**3**	**5**
NN Životná poisťovna, a.s.	Life insurance						
Slovak Republic		**214**	**94**	**502**	**10**	**3**	

Notes to the Consolidated annual accounts Continued

31 Principal subsidiaries and geographical information Continued

Country/Name of principal subsidiaries[1]	Main activity	Average number of employees[2]	Total income	Total assets	Result before tax	Taxation[3]	Income tax paid
Germany		9	35	682	33	9	1
France		8	42	549	28	4	1
Italy		6	-1	464	2	3	3
United Kingdom		10	15	393	31	9	7
Denmark			18	178	15		
Turkey		501	45	82	5		
Bulgaria		126	24	81	3		
Luxembourg		41	303	73	38	6	3
Singapore		33		10	3	1	1
Hong Kong				7	2	1	
United States		15		5	4	1	1
Switzerland		12	1	5	4	1	1
Mexico		1	1	4	-1		
Argentina		2	1	1			
Total		14,312	20,050	224,246	1,657	524	55

1 All subsidiaries listed in this table are 100% owned.
2 The average number of employees is on a full-time equivalent basis.
3 Taxation is the taxation amount charged to the profit and loss account.

Notes to the Consolidated annual accounts Continued

31 Principal subsidiaries and geographical information Continued

Principal subsidiaries and geographical information (2017)[1]

Country/Name of principal subsidiaries[2]	Main activity	Average number of employees[3]	Total income	Total assets	Result before tax	Taxation[4]	Income tax paid
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	Life insurance						
Delta Lloyd Levensverzekering N.V.	Life insurance						
Nationale-Nederlanden Bank N.V.	Banking						
Delta Lloyd Bank N.V.	Banking						
NN Investment Partners Holdings N.V.	Asset management						
REI Investment I B.V.	Real estate						
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	General insurance						
Delta Lloyd Schadeverzekering N.V.	General insurance						
NN Re (Netherlands) N.V.	Reinsurance						
Movir N.V.	General insurance						
Private Equity Investments II B.V.	Private equity						
The Netherlands		**9,307**	**9,779**	**172,761**	**1,749**	**275**	**-13**
NN Life Insurance Company, Ltd.	Life insurance						
NN Investment Partners (Japan) Co., Ltd.	Asset management						
Japan		**848**	**3,644**	**21,541**	**210**	**64**	**97**
NN Insurance Belgium nv	Life insurance						
NN Investment Partners Belgium S.A.	Asset management						
NN Insurance Services Belgium nv	General insurance						
Belgium		**743**	**1,215**	**17,055**	**57**	**-2**	**17**
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		**478**	**746**	**4,970**	**70**	**9**	**7**
NN Life Luxembourg S.A.[5]	Life insurance						
NN Investment Partners Luxembourg S.A.	Asset management						
Luxembourg		**72**	**384**	**117**	**62**	**7**	**6**
Nationale-Nederlanden Towarzystwo Ubezpieczeń na Życie S.A.	Life insurance						
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	Pensions						
Poland		**855**	**544**	**2,436**	**107**	**21**	**-1**
NN Biztosító Zártkörûen Mûködõ Részvénytársaság	Life insurance						
Hungary		**348**	**323**	**1,437**	**23**	**3**	**2**
NN Hellenic Life Insurance Co. S.A.	Life insurance						
Greece		**441**	**447**	**1,587**		**-10**	**-7**
NN Životní pojišťovna N.V. (pobočka pro Českou republiku)	Life insurance						
Czech Republic		**452**	**185**	**1,211**	**38**	**7**	**5**
NN Asigurari de Viata S.A.	Life insurance						
Romania		**497**	**204**	**868**	**32**	**8**	**4**
NN Životná poisťovna, a.s.	Life insurance						
Slovak Republic		**231**	**97**	**530**	**8**	**4**	

Notes to the Consolidated annual accounts Continued

31 Principal subsidiaries and geographical information Continued

Country/Name of principal subsidiaries[2]	Main activity	Average number of employees[3]	Total income	Total assets	Result before tax	Taxation[4]	Income tax paid
NN Hayat ve Emeklilik A.S.	Life insurance						
Turkey		479	60	106	-10	-1	
NN Pensionno-Osigoritelno Druzestvo EAD	Pensions						
Bulgaria		124	23	77	2		
Switzerland		13	1	5	5	1	1
United Kingdom		9	14	391	30		2
Germany		11	79	845	77	1	2
France		8	26	495	11	1	
Italy			33	489	37	2	2
Hong Kong				3			
Singapore		35		12	4	1	
Argentina		2		2			
Mexico		1	1	7	-1		
United States		17		3	3	1	
Denmark			11	114	10		
Total		14,971	17,816	227,062	2,524	392	124

1 The 2017 amounts were changed to better align with the current period presentation.
2 All subsidiaries listed in this table are 100% owned.
3 The average number of employees is on a full-time equivalent basis.
4 Taxation is the taxation amount charged to the profit and loss account.
5 Until disposal in 2017.

Notes to the Consolidated annual accounts Continued

32 Taxation

Deferred tax (2018)

	Net liability 2017	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2018
Investments	3,942	-634	-162	-280	18	2,884
Real estate investments	277		20	412		709
Financial assets and liabilities at fair value through profit or loss	36		-15			21
Deferred acquisition costs	349		12	4	22	387
Fiscal reserves	12		-2			10
Depreciation	-2					-2
Insurance liabilities	-4,134	319	1,164	4	1	-2,646
Cash flow hedges	1,241	-71				1,170
Pension and post-employment benefits	14	3	5		-2	20
Other provisions	-26	1	-26			-51
Receivables	-30		4	-1	2	-25
Loans	-7		-1			-8
Unused tax losses carried forward	-113		-810	8		-915
Other	146	-10	-7	-10	5	124
Deferred tax	**1,705**	**-392**	**182**	**137**	**46**	**1,678**
Presented in the balance sheet as:						
Deferred tax liabilities	1,830					1,809
Deferred tax assets	-125					-131
Deferred tax	**1,705**					**1,678**

On 28 December 2018, the Dutch corporate income tax rates was reduced. This implies that the corporate tax rate in 2019 will remain 25%, but that the tax rate for 2020 will become 22.55% and for 2021 and subsequent years will become 20.5%. As a result, the deferred tax assets and liabilities of NN Group were remeasured to the new tax rates. 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 20.5% rate that applies as of 2021. The net impact of the tax rate change was EUR 218 million (positive), of which EUR 243 million (positive), related to the revaluation reserves in equity, is recognised directly in equity and the remaining EUR 25 million (negative) is recognised in the profit and loss account.

In 2018, changes to the tax valuation of certain insurance liabilities in the Netherlands were implemented. These changes impacted the deferred tax on insurance liabilities and the (deferred tax on) tax losses carried forward. There was no impact on total deferred tax.

Notes to the Consolidated annual accounts Continued

32 Taxation Continued

Deferred tax (2017)

	Net liability 2016	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2017
Investments	3,436	-597	-376	1,501	-22	3,942
Real estate investments	231	-6	27	25		277
Financial assets and liabilities at fair value through profit or loss	22		12		2	36
Deferred acquisition costs	375		40	-40	-26	349
Fiscal reserves				12		12
Depreciation	-2					-2
Insurance liabilities	-2,269	299	71	-2,232	-3	-4,134
Cash flow hedges	1,481	-240				1,241
Pension and post-employment benefits	14	-1	1	-2	2	14
Other provisions	-28	1		1		-26
Receivables	-31		3		-2	-30
Loans	1		-8			-7
Unused tax losses carried forward	-371		481	-223		-113
Other	85	13	-15	71	-8	146
Deferred tax	**2,944**	**-531**	**236**	**-887**	**-57**	**1,705**
Presented in the balance sheet as:						
Deferred tax liabilities	2,979					1,830
Deferred tax assets	-35					-125
Deferred tax	**2,944**					**1,705**

The changes through net result in Unused tax losses carried forward are mainly a result of the utilisation of tax losses against taxable profits in the Netherlands.

Deferred tax on unused tax losses carried forward

	2018	2017
Total unused tax losses carried forward	4,024	700
Unused tax losses carried forward not recognised as a deferred tax asset	-260	-253
Unused tax losses carried forward recognised as a deferred tax asset	**3,764**	**447**
Average tax rate	24.3%	25.3%
Deferred tax asset	**915**	**113**

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	
	2018	2017	2018	2017
Within 1 year	22	28		24
More than 1 year but less than 5 years	68	89	16	26
More than 5 years but less than 10 years	37	43	3,026	
Unlimited	133	93	722	397
Total unused tax losses carried forward	**260**	**253**	**3,764**	**447**

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

32 Taxation Continued

As at 31 December 2018 and 31 December 2017, NN Group had no significant temporary differences associated with the parent company's investments in subsidiaries, branches and associates and interest in joint ventures as any economic benefit from those investments will not be taxable at parent company level.

Reference is made to Note 31 'Principal subsidiaries and geographical information' for more information on the taxation per country.

Taxation on result

	2018	2017
Current tax	342	156
Deferred tax	182	236
Taxation on result	**524**	**392**

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.

Reconciliation of the weighted average statutory tax rate to NN Group's effective tax rate

	2018	2017
Result before tax	1,657	2,524
Weighted average statutory tax rate	24.4%	24.6%
Weighted average statutory tax amount	**404**	**622**
Associates exemption	42	-16
Other income not subject to tax	-162	-196
Expenses not deductible for tax purposes	220	3
Impact on deferred tax from change in tax rates	21	9
Deferred tax benefit for previously not unrecognised amounts	-5	-3
Tax for non-recognised losses	-6	2
Write-off/reversal of deferred tax assets	7	-11
Adjustments to prior periods	3	-18
Effective tax amount	**524**	**392**
Effective tax rate	**31.6%**	**15.5%**

In 2018, the effective tax rate of 31,6% was significantly higher than the weighted average statutory tax rate of 24,4%. This is caused by the remeasurement of the deferred tax positions of the Dutch entities due to the corporate income tax rate reduction for the coming years in the Netherlands (enacted and published December 2018) and by the non-tax deductible costs of the goodwill impairment (included in 'Expenses non deductible for tax purposes').

Taxation on components of other comprehensive income

	2018	2017
Unrealised revaluations property in own use	-2	
Unrealised revaluations available-for-sale investments and other	418	338
Realised gains/losses transferred to the profit and loss account	208	198
Changes in cash flow hedge reserve	71	240
Deferred interest credited to policyholders	-319	-248
Remeasurement of the net defined benefit asset/liability		1
Income tax	**376**	**529**

Notes to the Consolidated annual accounts Continued

33 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	
	2018	2017	2018	2017
Financial assets				
Cash and cash equivalents	8,886	9,383	8,886	9,383
Financial assets at fair value through profit or loss:				
– investments for risk of policyholders	30,230	33,508	30,230	33,508
– non-trading derivatives	5,096	5,116	5,096	5,116
– designated as at fair value through profit or loss	722	934	722	934
Available-for-sale investments	104,329	104,982	104,329	104,982
Loans	60,264	58,980	58,903	56,043
Total financial assets	**209,527**	**212,903**	**208,166**	**209,966**
Financial liabilities				
Subordinated debt	2,568	2,870	2,445	2,468
Debt securities issued	2,003	2,047	1,990	1,988
Other borrowed funds	5,774	6,149	5,717	6,044
Investment contracts with discretionary participation features for risk of policyholders	215	218	215	218
Investment contracts for risk of company	1,092	1,136	1,078	1,088
Investment contracts for risk of policyholders	918	749	918	749
Customer deposits and other funds on deposit	15,001	14,910	14,729	14,434
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	2,163	2,305	2,163	2,305
Total financial liabilities	**29,734**	**30,384**	**29,255**	**29,294**

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', which is expected to become effective for NN Group in 2022. 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 is expected to become effective in 2022, the information in the table below is based on the assets held, and business models in place on, 31 December 2018.

Notes to the Consolidated annual accounts Continued

33 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	
	2018	2017	2018	2017	2018	2017
Cash and cash equivalents					8,886	9,383
Financial assets at fair value through profit or loss:						
– investments for risk of policyholders					30,230	33,508
– non-trading derivatives					5,096	5,116
– designated as at fair value through profit or loss					722	934
Available-for-sale investments	95,477	94,855	3,974	4,634	4,878	5,494
Loans	54,909	53,413	4,725	5,006	630	560
Financial assets	**150,386**	**148,268**	**8,699**	**9,640**	**50,442**	**54,995**

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.

Notes to the Consolidated annual accounts Continued

33 Fair value of financial assets and liabilities Continued

Financial assets and liabilities at fair value through profit or loss

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.

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 (2018)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	28,733	709	788	30,230
Non-trading derivatives	68	4,943	85	5,096
Financial assets designated as at fair value through profit or loss	609	113		722
Available-for-sale investments	69,762	33,500	1,067	104,329
Financial assets	**99,172**	**39,265**	**1,940**	**140,377**
Financial liabilities				
Investment contracts with discretionary participation features for risk of policyholders		215		215
Investment contracts (for contracts at fair value)	918			918
Non-trading derivatives	16	2,048	99	2,163
Financial liabilities	**934**	**2,263**	**99**	**3,296**

Notes to the Consolidated annual accounts Continued

33 Fair value of financial assets and liabilities Continued

Methods applied in determining the fair value of financial assets and liabilities at fair value (2017)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	26,845	5,860	803	33,508
Non-trading derivatives	21	4,947	148	5,116
Financial assets designated as at fair value through profit or loss	611	323		934
Available-for-sale investments	73,457	30,177	1,348	104,982
Financial assets	**100,934**	**41,307**	**2,299**	**144,540**
Financial liabilities				
Investment contracts with discretionary participation features for risk of policyholders		218		218
Investment contracts (for contracts at fair value)	749			749
Non-trading derivatives	72	2,083	150	2,305
Financial liabilities	**821**	**2,301**	**150**	**3,272**

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.

Notes to the Consolidated annual accounts Continued

33 Fair value of financial assets and liabilities Continued

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.

Changes in Level 3 Financial assets (2018)

	Investments for risk of policyholders	Non-trading derivatives	Available-for-sale investments	Total
Level 3 Financial assets – opening balance	803	148	1,348	2,299
Amounts recognised in the profit and loss account	-4	-62	90	24
Revaluations recognised in other comprehensive income (equity)			-90	-90
Purchase			68	68
Sale	-11	-1	-57	-69
Maturity/settlement			-94	-94
Other transfers and reclassifications			-272	-272
Transfers into Level 3			77	77
Transfers out of Level 3			-3	-3
Level 3 Financial assets – closing balance	**788**	**85**	**1,067**	**1,940**

Changes in Level 3 Financial assets (2017)

	Investments for risk of policyholders	Non-trading derivatives	Available-for-sale investments	Total
Level 3 Financial assets – opening balance	823	219	1,207	2,249
Amounts recognised in the profit and loss account	-25	-56	90	9
Revaluations recognised in other comprehensive income (equity)		1	120	121
Purchase	6	3	162	171
Sale	-1	-8	-114	-123
Maturity/settlement			-195	-195
Other transfers and reclassifications			-164	-164
Transfers out of Level 3		-18	-18	-36
Changes in the composition of the group and other changes		7	270	277
Exchange rate differences			-10	-10
Level 3 Financial assets – closing balance	**803**	**148**	**1,348**	**2,299**

Other transfers and reclassifications

Other transfers and reclassifications mainly relate to the transfer of investments in real estate funds to associates and joint ventures, in 2018 relating to Vesteda and in 2017 due to an increase in level of influence of certain associates and joint ventures. Reference is made to Note 6 'Associates and joint ventures' for more information.

Transfers into Level 3

In 2018, Transfers into Level 3 reflect certain Asset-backed securities for which market liquidity has decreased and as a result are classified as Level 3.

Notes to the Consolidated annual accounts Continued

33 Fair value of financial assets and liabilities Continued

Changes in Level 3 Financial liabilities (2018)

	Non-trading derivatives
Level 3 Financial liabilities – opening balance	150
Amounts recognised in the profit and loss account	-51
Level 3 Financial liabilities – closing balance	**99**

Changes in Level 3 Financial liabilities (2017)

	Non-trading derivatives
Level 3 Financial liabilities – opening balance	218
Amounts recognised in the profit and loss account	-54
Transfers into Level 3	4
Transfers out of Level 3	-18
Level 3 Financial liabilities – closing balance	**150**

Level 3 – Amounts recognised in the profit and loss account during the year (2018)

	Held at balance sheet date	Derecognised during the period	Total
Financial assets			
Investments for risk of policyholders	-4		-4
Non-trading derivatives	-62		-62
Available-for-sale investments	-5	95	90
Financial assets	**-71**	**95**	**24**
Financial liabilities			
Non-trading derivatives	-51		-51
Financial liabilities	**-51**	**0**	**-51**

Level 3 – Amounts recognised in the profit and loss account during the year (2017)

	Held at balance sheet date	Derecognised during the period	Total
Financial assets			
Investments for risk of policyholders	-25		-25
Non-trading derivatives	-56		-56
Available-for-sale investments	-9	99	90
Financial assets	**-90**	**99**	**9**
Financial liabilities			
Non-trading derivatives	-54		-54
Financial liabilities	**-54**	**0**	**-54**

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2018 of EUR 140,377 million (2017: EUR 144,540 million) include an amount of EUR 1,940 million (1.4%) that is classified as Level 3 (2017: EUR 2,299 million (1.6%). Changes in Level 3 are disclosed above in the table 'Level 3 Financial assets'.

Notes to the Consolidated annual accounts Continued

33 Fair value of financial assets and liabilities Continued

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 788 million as at 31 December 2018 (2017: EUR 803 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 85 million as at 31 December 2018 (2017: EUR 148 million).

Available-for-sale investments

The available-for-sale investments classified as 'Level 3 Financial assets' amounted EUR 1,067 million as at 31 December 2018 (2017: EUR 1,348 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 107 million (2017: EUR 135 million), being approximately 0.5% (before tax) (2017: 0.6% (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 2018 of EUR 99 million (2017: EUR 150 million) relates to non-trading derivative positions. EUR 85 million relates to derivatives used to hedge the interest rate risk associated with the funding position of NN Bank. EUR 15 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 16 million and a 5% decrease in mortality assumptions increases result and equity before tax by EUR 14 million.

Notes to the Consolidated annual accounts Continued

33 Fair value of financial assets and liabilities Continued

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 (2018)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	8,886			8,886
Loans	421	5,601	54,242	60,264
Financial assets	**9,307**	**5,601**	**54,242**	**69,150**
Financial liabilities				
Subordinated debt	2,555	13		2,568
Debt securities issued	2,003			2,003
Other borrowed funds	1,497	4,274	3	5,774
Investment contracts for risk of company	49	414	629	1,092
Customer deposits and other funds on deposit	8,822	6,179		15,001
Financial liabilities	**14,926**	**10,880**	**632**	**26,438**

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (2017)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	9,383			9,383
Loans	481	7,509	50,990	58,980
Financial assets	**9,864**	**7,509**	**50,990**	**68,363**
Financial liabilities				
Subordinated debt	2,858	12		2,870
Debt securities issued	2,047			2,047
Other borrowed funds	1,355	3,786	1,008	6,149
Investment contracts for risk of company		449	687	1,136
Customer deposits and other funds on deposit	8,003	6,907		14,910
Financial liabilities	**14,263**	**11,154**	**1,695**	**27,112**

Notes to the Consolidated annual accounts Continued

34 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	
	2018	2017	2018	2017
Real estate investments	2,374	3,582	2,374	3,582
Property in own use	75	82	75	82
Fair value of non-financial assets	**2,449**	**3,664**	**2,449**	**3,664**

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 (2018)

	Level 1	Level 2	Level 3	Total
Real estate investments			2,374	2,374
Property in own use			75	75
Non-financial assets	**0**	**0**	**2,449**	**2,449**

Methods applied in determining the fair value of non-financial assets at fair value (2017)

	Level 1	Level 2	Level 3	Total
Real estate investments			3,582	3,582
Property in own use			82	82
Non-financial assets	**0**	**0**	**3,664**	**3,664**

Changes in Level 3 non-financial assets (2018)

	Real estate investments	Property in own use
Level 3 non-financial assets – opening balance	3,582	82
Amounts recognised in the profit and loss account during the year	201	1
Purchase	206	2
Revaluation recognised in equity during the year		8
Sale	-1,631	-2
Changes in the composition of the group and other changes	16	-16
Level 3 non-financial assets – closing balance	**2,374**	**75**

Changes in Level 3 non-financial assets (2017)

	Real estate investments	Property in own use
Level 3 non-financial assets – opening balance	2,028	41
Amounts recognised in the profit and loss account during the year	198	-3
Purchase	245	
Sale	-104	
Changes in the composition of the group and other changes	1,215	44
Level 3 non-financial assets – closing balance	**3,582**	**82**

Changes in the composition of the group mainly relates to the acquisition of Delta Lloyd. For more information, reference is made to Note 43 'Companies and businesses acquired and divested'.

Notes to the Consolidated annual accounts Continued

34 Fair value of non-financial assets Continued

Level 3 – Amounts recognised in the profit and loss account during the year on non-financial assets (2018)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	59	142	201
Property in own use		1	1
Level 3 Amounts recognised in the profit and loss account during the year on non-financial assets	**59**	**143**	**202**

Level 3 – Amounts recognised in the profit and loss account during the year on non-financial assets (2017)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	197	1	198
Property in own use	-3		-3
Level 3 Amounts recognised in the profit and loss account during the year on non-financial assets	**194**	**1**	**195**

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.

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:

Notes to the Consolidated annual accounts Continued

34 Fair value of non-financial assets Continued

Significant assumptions

	Fair value	Valuation technique	Current rent/m²	ERV/m²	Net initial yield %	Vacancy %	Average lease term in years
The Netherlands							
Office	124	DCF	257	329	3.5	10	7.9
Commercial	15	DCF	425	7,189	4.0		
Industrial	58	DCF	48-49	48-50	4.7-4.8		7.1
Acquisitions	51	DCF	n/a	n/a	3.8		
Landscape	8	DCF (partial)	n/a	n/a	n/a	100	
Germany							
Retail	313	DCF	201-370	190-369	4.0-4.3	7	6.8
Industrial	193	DCF	44-104	42-82	4.7-5.9	1	3.9
France							
Office	165	DCF	0-674	507-653	-0.1-4.4	65	0.7
Industrial	127	DCF	40-80	42-77	6.2-7.6	7	3.8
Industrial	99	CI	35-51	34-55	1.7-6.4	3	4.3
Spain							
Retail	280	DCF	192-265	200-271	5.6-6.9	4	5.2
Industrial	135	DCF	24-85	24-85	2.2-7.2	26	1.5
Italy							
Retail	256	DCF	210-864	170-850	-8.9-6.7	3	6.5
Belgium							
Retail	132	DCF	102-302	125-300	1.68-5.7	12	1.9
Industrial	23	DCF	48	43	6.9		2.0
Office	14	DCF	179	190	5.0	17	5.0
Office	5	CMT	83	67	10.0	34	2.0
Denmark							
Residential	99	DCF	244	287	4.2	1	N.A.
Industrial	18	DCF	152	127	6.3		11.2
Poland							
Retail	102	DCF	158	166	6.8	4	2.9
Real estate under construction and other	157						
Total real estate	**2,374**						

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.

Notes to the Consolidated annual accounts Continued

35 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 twenty 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.

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 (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 2018, NN Group recognised EUR 793 million (2017: EUR -714 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 2018 is EUR 5,684 million (2017: EUR 4,962 million) gross and EUR 4,514 million (2017: EUR 3,721 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 49 years with the largest concentrations in the range 1 year to 8 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in EUR 15 million income (2017: EUR -19 million income) which was recognised in the profit and loss account.

As at 31 December 2018, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 3,030 million (2017: EUR 2,924 million), presented in the balance sheet as EUR 3,219 million (2017: EUR 3,351 million) positive fair value under assets and EUR 189 million (2017: EUR 427 million) negative fair value under liabilities.

As at 31 December 2018 and 2017 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 161 million (2017: EUR 178 million) and EUR 8 million (2017: EUR 8 million), respectively, relating to derivatives used in cash flow hedges.

Notes to the Consolidated annual accounts Continued

35 Derivatives and hedge accounting Continued

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 2018, NN Group recognised EUR -452 million (2017: EUR -212 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 448 million (2017: EUR 213 million) fair value changes recognised on hedged items. This resulted in EUR -4 million (2017: EUR 1 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2018, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR -651 million (2017: EUR -345 million), presented in the balance sheet as EUR 47 million (2017: EUR 56 million) positive fair value under assets and EUR 698 million (2017: EUR 401 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.

36 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 (2018)

	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	7,154	1,732					8,886
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]						30,230	30,230
– non-trading derivatives	16	89	128	285	4,578		5,096
– designated as at fair value through profit or loss	453		7	12	1	249	722
Available-for-sale investments	473	1,225	2,954	21,341	71,602	6,734	104,329
Loans	239	128	1,442	6,639	50,386	69	58,903
Reinsurance contracts	14	53	113	171	577	82	1,010
Intangible assets	2	2	41	261	24	533	863
Deferred acquisition costs	29	15	90	247	1,462		1,843
Deferred tax assets	1	5	8	42	51	24	131
Other assets	3,034	704	727	89	115	39	4,708
Remaining assets (for which maturities are not applicable)[3]						7,525	7,525
Total assets	**11,415**	**3,953**	**5,510**	**29,087**	**128,796**	**45,485**	**224,246**

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

36 Assets by contractual maturity Continued

Assets by contractual maturity (2017)

	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	9,037	346					9,383
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]						33,508	33,508
– non-trading derivatives	170	118	205	466	4,157		5,116
– designated as at fair value through profit or loss	336		7	53	234	304	934
Available-for-sale investments	669	1,098	2,470	19,423	73,343	7,979	104,982
Loans	312	627	794	5,151	49,157	2	56,043
Reinsurance contracts	14	51	99	183	436	97	880
Intangible assets	12	24	110	162	137	1,396	1,841
Deferred acquisition costs	34	25	115	231	1,286		1,691
Deferred tax assets	1		9		95	20	125
Other assets	1,489	2,528	888	220	343	-91	5,377
Remaining assets (for which maturities are not applicable)[3]						7,182	7,182
Total assets	**12,074**	**4,817**	**4,697**	**25,889**	**129,188**	**50,397**	**227,062**

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.

37 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 50 'Risk management' for a description on how liquidity risk is managed.

Liabilities by maturity (2018)

	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]			12	500	1,850		83	2,445
Debt securities issued				1,411	592		-13	1,990
Other borrowed funds		126	814	2,819	1,958			5,717
Customer deposits and other funds on deposit	8,941	126	536	2,178	2,948			14,729
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	36	634	279	604	1,771		-1,161	2,163
Financial liabilities	**8,977**	**886**	**1,641**	**7,512**	**9,119**	**0**	**-1,091**	**27,044**
Insurance and investment contracts	1,546	1,231	4,849	19,028	105,069	29,395		161,118
Deferred tax liabilities	10	16	-5	150	1,481	157		1,809
Other liabilities	7,222	395	486	245	931	148		9,427
Non-financial liabilities	**8,778**	**1,642**	**5,330**	**19,423**	**107,481**	**29,700**	**0**	**172,354**
Total liabilities	**17,755**	**2,528**	**6,971**	**26,935**	**116,600**	**29,700**	**-1,091**	**199,398**
Coupon interest due on financial liabilities	26	33	147	840	2,237			3,283

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 13 'Subordinated debt'.

Notes to the Consolidated annual accounts Continued

37 Liabilities by maturity Continued

Liabilities by maturity (2017)

	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	13	2,348		106	2,468
Debt securities issued				1,401	600		-13	1,988
Other borrowed funds	157	279	2,964	485	2,310		-151	6,044
Customer deposits and other funds on deposit	8,116	113	476	1,977	3,752			14,434
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	11	44	174	329	1,884		-137	2,305
Financial liabilities	**8,284**	**436**	**3,615**	**4,205**	**10,894**	**0**	**-195**	**27,239**
Insurance and investment contracts	1,239	1,357	5,885	23,252	99,225	32,681		163,639
Deferred tax liabilities	57	21	-7	925	552	282		1,830
Other liabilities	5,860	539	2,067	334	585	170		9,555
Non-financial liabilities	**7,156**	**1,917**	**7,945**	**24,511**	**100,362**	**33,133**	**0**	**175,024**
Total liabilities	**15,440**	**2,353**	**11,560**	**28,716**	**111,256**	**33,133**	**-195**	**202,263**
Coupon interest due on financial liabilities	95	19	116	949	2,226			3,405

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 13 'Subordinated debt'.

38 Assets not freely disposable

Assets relating to securities lending are disclosed in Note 39 'Transferred, but not derecognised financial assets'. Assets in securitisation programmes originated by NN Bank are disclosed in Note 44 'Structured entities'.

39 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

	2018	2017
Transferred assets at carrying value:		
Available-for-sale investments	12,366	7,559
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 44 'Structured entities'.

Notes to the Consolidated annual accounts Continued

40 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 (2018)

					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	4,987		4,987	-1,069	-3,793	125
Financial assets at fair value through profit or loss		**4,987**	**0**	**4,987**	**-1,069**	**-3,793**	**125**
Other items where offsetting is applied in the balance sheet		**156**		**156**	**-40**	**-114**	**2**
Total financial assets		**5,143**	**0**	**5,143**	**-1,109**	**-3,907**	**127**

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2017)

					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	3,170		3,170	-954	-2,183	33
Financial assets at fair value through profit or loss		**3,170**	**0**	**3,170**	**-954**	**-2,183**	**33**
Other items where offsetting is applied in the balance sheet		**105**		**105**	**-35**	**-68**	**2**
Total financial assets		**3,275**	**0**	**3,275**	**-989**	**-2,251**	**35**

Notes to the Consolidated annual accounts Continued

40 Offsetting of financial assets and liabilities Continued

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2018)

					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	1,801		1,801	-1,069	-730	2
Financial liabilities at fair value through profit or loss		**1,801**	**0**	**1,801**	**-1,069**	**-730**	**2**
Other items where offsetting is applied in the balance sheet		**133**		**133**	**-40**	**-92**	**1**
Total financial liabilities		**1,934**	**0**	**1,934**	**-1,109**	**-822**	**3**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2017)

					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	1,340		1,340	-954	-370	16
Financial liabilities at fair value through profit or loss		**1,340**	**0**	**1,340**	**-954**	**-370**	**16**
Other items where offsetting is applied in the balance sheet		**50**		**50**	**-35**	**-15**	**0**
Total financial liabilities		**1,390**	**0**	**1,390**	**-989**	**-385**	**16**

41 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 (2018)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	865	765	1,708	857	42	593	4,830
Guarantees			20	1			21
Contingent liabilities and commitments	**865**	**765**	**1,728**	**858**	**42**	**593**	**4,851**

Contingent liabilities and commitments (2017)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	416	514	1,079	668	50	896	3,623
Guarantees		1	21	1			23
Contingent liabilities and commitments	**416**	**515**	**1,100**	**669**	**50**	**896**	**3,646**

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.

Furthermore, NN Group leases assets from third parties under operating leases as lessee. The future rental commitments to be paid under non-cancellable operating leases are as follows:

Notes to the Consolidated annual accounts Continued

41 Contingent liabilities and commitments Continued

Future lease commitments for operating lease contracts

	Future lease commitments– Buildings	Future lease commitments– Cars	Total
2019	42	12	54
2020	34	8	42
2021	33	4	37
2022	29	2	31
2023	25		25
Years after 2023	114		114
Future lease commitments	**277**	**26**	**303**

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, a Risk Management Programme (RMP) indemnity agreement and a warrant agreement (warrants repurchased on 15 November 2018, refer to Note 12 'Equity'). 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.

42 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. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008 and 2010, Nationale-Nederlanden and Delta Lloyd (and ABN AMRO Levensverzekering in 2010) reached agreements with consumer protection organisations to offer compensation to unit-linked policyholders. The agreements with the consumer protection organisations are not binding to policyholders, and consequently, do not prevent individual policyholders from initiating legal proceedings against NN Group's Dutch insurance subsidiaries.

Notes to the Consolidated annual accounts Continued

42 Legal proceedings Continued

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. Although the European Court does not decide on the applicable standards in specific cases and solely provides clarification on the interpretation of the applicable European directive, the ruling of the European Court of Justice has given clarification on this question of legal principle which is also the subject of other legal proceedings in the Netherlands. Dutch courts will need to take the interpretation of the European Court of Justice into account in relevant proceedings.

In 2013 'Vereniging Woekerpolis.nl', and in 2017 'Vereniging 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.

'Vereniging Woekerpolis.nl' requested the District Court in Rotterdam to declare that Nationale-Nederlanden sold products which are defective in various respects. 'Vereniging 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 'Vereniging Woekerpolis.nl' and ruled that Nationale-Nederlanden has generally provided sufficient information on costs and premiums. 'Vereniging Woekerpolis.nl' has lodged an appeal with the Court of Appeal in The Hague against the ruling of the District Court in Rotterdam.

'Vereniging 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. 'Vereniging Consumentenbond' requests 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.

The claim from 'Wakkerpolis' primarily concentrates on the recovery of initial costs for policyholders and refers to a ruling of the KiFiD in an individual case against Nationale-Nederlanden. In this case, the KiFiD's Dispute Committee and Committee of Appeal ruled 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 its ruling of 22 June 2017, the Appeals Committee concluded that Nationale-Nederlanden, at the time of selling the unit-linked insurance product, should have provided more information to this individual customer than was prescribed by the laws and regulations applicable at that time. In the ruling in the collective action initiated by 'Vereniging Woekerpolis.nl,' the District Court in Rotterdam reached a different conclusion than the Appeals Committee of the KiFiD. The Court's judgment is in line with Nationale-Nederlanden's view, that the provision of information needs to be assessed against the laws and regulations and norms applicable at the time of concluding the unit-linked insurance policy.

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, (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

42 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.

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 the second quarter, 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 November 2017 ING Australia Holdings lodged notices of objections against the final assessments with the ATO. Following payment of part of the claim, the provision amounts to EUR 134 million at 31 December 2018. This does not reflect that the final assessments will be subject to appeal by ING Australia Holdings which may be successful, and also that NN Group may be able to recover part of the amount in its Dutch tax return. The Tax Audit concerns a former subsidiary of NN Group and, therefore, does not impact NN Group's business or strategy going forward.

43 Companies and businesses acquired and divested

Acquisitions (announced in 2018)

Aegon's Life Insurance business in the Czech Republic and Aegon's Life Insurance and Pension businesses in Slovakia

On 15 August 2018, NN Group reached an agreement to acquire 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. The transaction was funded from existing cash resources and does not have a material impact on the operating result and Solvency II ratio of NN Group. The transaction was completed in January 2019.

Acquisitions (2017)

Delta Lloyd

In the second quarter of 2017, NN Group acquired all issued and outstanding ordinary shares in the capital of Delta Lloyd N.V. (Delta Lloyd) for a total consideration of EUR 2,463 million. Included below is an overview of the transaction, a description of Delta Lloyd, 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

43 Companies and businesses acquired and divested Continued

Overview of transaction

In February 2017, NN Group announced a recommended public cash offer for all issued and outstanding ordinary shares in the capital of Delta Lloyd at a price of EUR 5.40 in cash for each share, representing a total consideration of EUR 2,463 million.

On 7 April 2017, NN Group announced that following the expiry of the offer period, 79.9% of all issued and outstanding ordinary shares in the capital of Delta Lloyd had been committed. NN Group also announced an extension to the offer period which granted the holders of shares who had not yet tendered their shares the opportunity to tender their shares, under the same terms and conditions applicable to the offer, in the post-closing acceptance period expiring on 21 April 2017. Furthermore, NN Group announced that all offer conditions as described in the offer memorandum had been satisfied, including obtaining the declarations of no objection from the Dutch Central Bank (DNB), the National Bank of Belgium (NBB) and the European Central Bank (ECB), and competition clearance from the European Commission. In addition, NN Group announced that if, following the settlement date and the post-closing acceptance period, NN Group had acquired less than 95% of the Delta Lloyd shares, NN Group would be entitled to pursue a legal merger whereby remaining holders of Delta Lloyd shares would receive listed ordinary shares in NN Group. In exchange for each Delta Lloyd share, the owner would receive a fraction of one NN Group share equal to the EUR 5.40 offer price per share divided by the NN Group stock price on the day prior to the date on which the notarial deed to establish the legal merger was executed.

On 21 April 2017, NN Group announced that following the post-closing acceptance period it had been committed approximately 93.3% of the issued and outstanding ordinary shares in the capital of Delta Lloyd.

On 8 May 2017, NN Group announced that it would continue the preparations for the legal merger. The Delta Lloyd Executive Board and Delta Lloyd Supervisory Board had approved and consented to the legal merger and the Delta Lloyd General Meeting had resolved to the legal merger on 29 March 2017.

On 31 May 2017, NN Group announced that the legal merger had been executed, whereby remaining holders of issued and outstanding ordinary shares in the capital of Delta Lloyd (other than NN Group) received NN Group shares. In accordance with the legal merger proposal, in exchange for each Delta Lloyd share, the owner received 0.1662 NN Group share, being equal to the offer price of EUR 5.40 per ordinary share in Delta Lloyd, divided by the NN Group volume-weighted average stock price on 30 May 2017 of EUR 32.4946. As a result of the legal merger, Delta Lloyd ceased to exist on 1 June 2017.

Description of Delta Lloyd

Delta Lloyd is a financial services provider offering life insurance, pensions, general insurance, asset management and banking products and services to customers in the Netherlands and Belgium. In order to do so, Delta Lloyd uses multiple channels to distribute its products and services under the following brands: Delta Lloyd, BeFrank, OHRA and ABN AMRO Verzekeringen.

Delta Lloyd offers a range of products from simple insurance products to bespoke and more sophisticated individual and group life insurance products, as well as basic savings and financial planning services through its multiple brands. The broad range of general insurance coverage includes motor vehicles, fire, liability, income protection, and specialist areas such as offshore wind parks. Delta Lloyd and OHRA also distribute health insurance products underwritten by CZ.

Delta Lloyd's Dutch banking activities mainly centre around mortgage loans, bank annuities, savings products and fund investments. Delta Lloyd Asset Management manages and invests Delta Lloyd's assets and those of its policyholders. It also manages the investments of institutional and retail customers.

Rationale for the transaction

The acquisition of Delta Lloyd by NN Group is backed by a strategic rationale and long-term value creation opportunities. NN Group and Delta Lloyd believe that a combination of Delta Lloyd and the Dutch and Belgian activities of NN Group is compelling. The transaction will result in an overall stronger platform within the Benelux from which to provide enhanced customer propositions and generate shareholder return:

- Additional scale and capabilities will result in an improved customer proposition within the Dutch pension market
- Doubling the size of the non-life insurance business will drive underwriting results and customer experience
- The integration of two leading asset management businesses creates additional scale and expertise
- Increased size and scale of the banking business, thereby improving the competitive offering to existing and new customers
- Doubling the presence in Belgium, leading to a strong life insurance market share with a more diversified offering through additional channels

NN Group believes that significant cost synergies will result from the combination. These synergies are anticipated in a range of areas including the integration of operational and supporting activities in Life and Non-life, full integration of Bank & Asset Management, removal of overlap in centralised functions and reduction in project spend.

The combined Group will be better placed to capture opportunities that technological innovation brings and will provide increased possibilities for knowledge sharing, strengthening capabilities and talent development. It will bring a perspective of growth and lead to opportunities for employees of both companies and will facilitate continuous improvement in customer service and experience.

Notes to the Consolidated annual accounts Continued

43 Companies and businesses acquired and divested Continued

Accounting at the acquisition date

The acquisition date of Delta Lloyd by NN Group for acquisition accounting under IFRS is 7 April 2017. On this date, NN Group acquired 79.9% of the ordinary shares in Delta Lloyd and thus obtained control. Furthermore, the announced legal merger as approved by Delta Lloyd at its Extraordinary General Meeting on 29 March 2017 provided certainty that NN Group would acquire full ownership of Delta Lloyd under the same conditions. Therefore, for acquisition accounting under IFRS, NN Group acquired full ownership of Delta Lloyd on 7 April 2017. NN Group used 1 April 2017 as a proxy for the acquisition date for practical reasons as the developments between 1 April 2017 and 7 April 2017 had no material impact. As a result, Delta Lloyd is included in the NN Group consolidation from 1 April 2017.

The values of certain assets and liabilities acquired as at 1 April 2017 as disclosed below differ significantly from the values of the assets and liabilities in the balance sheet of Delta Lloyd immediately before the acquisition by NN Group. This difference is mainly a result from the following amendments as a result of the purchase price allocation as required under IFRS:

- Insurance liabilities were remeasured to fair value as defined in IFRS; this resulted in a significant increase in the amount of insurance liabilities, mainly resulting from applying a different, market consistent, discount rate. 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 Delta Lloyd in an orderly transaction at the measurement date. In arriving at the fair value of the insurance liabilities of Delta Lloyd, future cash flows were estimated using current best estimate actuarial assumptions. Relevant observable input data was used as far as possible. These future cash flows were then adjusted for the compensation 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. Lastly, these adjusted future cash flows were discounted using a current market rate to reflect the time value of money.
- All financial assets and liabilities (including investments, loans and funding liabilities) were remeasured to fair value.
- Acquisition related intangible assets were recognised. These include brand names, client relationships, distribution channels/agreements and software. The valuation techniques used to measure the fair value of the intangible assets acquired were as follows:
  - Brands were valued using a relief from royalty method. Under this method a royalty rate is applied to the forecasted gross written premium for the remaining useful life, discounted using an adjusted cost of equity.
  - Client relationships and distribution channels were 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 assets charges. This amount is then discounted using an adjusted cost of equity.
  - Software was valued using a replacement cost method. Under this method the fair value is calculated by identifying the cost of developing the software (mainly staff expenses) and adjusting the cost for any technical and functional obsolescence, efficiencies and overheads.

The difference between the net assets acquired of EUR 1,317 million and the purchase consideration of EUR 2,463 million represents goodwill and is capitalised in the NN Group balance sheet. This resulting goodwill of EUR 1,146 million is not amortised, but will be tested for impairment at least annually going forward. The amount of goodwill recognised on the acquisition of Delta Lloyd represents mainly the value of synergies to the extent that these are not reflected in the acquisition balance sheet. The goodwill is not tax deductible. For the purpose of the goodwill impairment test, goodwill is allocated to cash generating units (reporting units). This allocation is performed based on the synergy value of the acquisition. The allocation is disclosed in Note 9 'Intangible assets'.

Total fair value of the purchase consideration

	Acquisition date
Fair value of Delta Lloyd shares held previous to transaction	244
Cash paid to acquire Delta Lloyd shares	2,054
Fair value of NN Group shares issued to acquire Delta Lloyd shares	165
Total fair value of the purchase consideration	**2,463**

Cash flow on acquisition

	Acquisition date
Cash paid to acquire Delta Lloyd shares	-2,054
Cash in company acquired	2,961
Cash flow on acquisition	**907**

Notes to the Consolidated annual accounts Continued

43 Companies and businesses acquired and divested Continued

Acquisition date fair value of the assets and liabilities acquired

	Acquisition date
Assets	
Cash and cash equivalents	2,961
Financial assets at fair value through profit or loss:	
– investments for risk of policyholders	9,980
– non-trading derivatives	1,946
– designated as at fair value through profit or loss	105
Available-for-sale investments	30,434
Loans	19,924
Reinsurance contracts	794
Associates and joint ventures	10
Real estate investments	1,138
Property and equipment	69
Intangible assets	447
Deferred tax assets	2,612
Other assets	1,777
Total assets	**72,197**
Liabilities	
Subordinated debt	1,651
Debt securities issued	591
Other borrowed funds	1,706
Insurance and investment contracts	56,665
Customer deposits and other funds on deposit	3,802
Financial liabilities at fair value through profit or loss	694
Deferred tax liabilities	1,610
Other liabilities	3,830
Total liabilities	**70,549**
Fair value of minority interest acquired	331
Net assets acquired	**1,317**
Fair value of purchase consideration	2,463
Fair value of net assets acquired	1,317
Goodwill	**1,146**

Immediately before the acquisition, NN Group already held 45,273,626 ordinary shares in Delta Lloyd. These shares were classified as Available-for-sale investments and at the acquisition date had a fair value of EUR 244 million. A related revaluation reserve of EUR 20 million was recognised in shareholders' equity. As part of the acquisition of Delta Lloyd in the second quarter of 2017, the revaluation reserve on the shares already held was recognised in the profit and loss account, resulting in a gain of EUR 20 million (before tax) in 'Investment income – Realised gains on disposal of Available-for-sale equity securities'.

Other information

	Acquisition date
Acquisition-related costs recognised as expense	25
Total income recognised in profit and loss since date of acquisition	3,157
Net profit recognised in profit and loss since date of acquisition	163
Total income that would have been recognised in profit and loss if Delta Lloyd was acquired from the start of the year[1]	4,227
Net profit that would have been recognised in profit and loss if Delta Lloyd was acquired from the start of the year[2]	12

1 The sum of Total income since the date of acquisition plus the first quarter 2017 Total income for Delta Lloyd stand-alone.

2 The sum of Net profit since the date of acquisition plus the first quarter 2017 Net profit for Delta Lloyd stand-alone.

Notes to the Consolidated annual accounts Continued

43 Companies and businesses acquired and divested Continued
The financial assets acquired do not include any significant receivables, other than investments in debt securities, mortgage loans and other loans.

There were no significant contingent liabilities related to Delta Lloyd that were recognised at the date of acquisition. Reference is made to Note 42 'Legal proceedings' for disclosures on Unit-linked products in the Netherlands.

Divestments (2017)
NN Life Luxembourg
In April 2017, NN Group announced that it had reached agreement with the Global Bankers Insurance Group on the sale of NN Life Luxembourg to an affiliate of Global Bankers Insurance Group. The sale will not impact NN Group's asset management business in Luxembourg. The transaction, which was completed in October 2017, did not have a material impact on the capital position and operating result of NN Group.

44 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	
		2018	2017	2018	2017
Hypenn RMBS I	2019	1,448	1,485	400	397
Hypenn RMBS II	2019	378	425	223	270
Hypenn RMBS III			573		500
Hypenn RMBS IV	2020	444	499	390	445
Hypenn RMBS V	2021	424	470	383	430
Hypenn RMBS VI	2022	770	842	494	535
Arena NHG 2014-I	2019	462	638	385	464
Arena NHG 2014-II	2020	488	653	401	481
Arena NHG 2016-I	2021	463	581	350	415
NN Conditional Pass-Through Covered Bond Company	2028	1,791	600	1,488	497
Total		**6,668**	**6,766**	**4,514**	**4,434**

NN Group companies hold the remaining notes.

Notes to the Consolidated annual accounts Continued

44 Structured entities Continued

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 4 '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.

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 structured entities relate to Asset-backed securities (ABS), classified as loans. Reference is made to Note 4 'Available-for-sale investments' where the ABS portfolio is disclosed.

The majority of the investments in equity instruments of structured entities relate to interests in investment funds that are not originated or managed by NN Group. Reference is made to Note 4 '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 6 '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.

45 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 46 '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 44 '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:

	2018	2017
Assets	193	195
Income	6	2

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 26 'Staff expenses'.

Notes to the Consolidated annual accounts Continued

45 Related parties Continued

Transactions with other related parties

Investment funds

Other related parties include NN Group managed investment funds. Reference is made to Note 44 'Structured entities' for more information.

Pension entities

NN Group operates several pension entities in the Netherlands, including BeFrank PPI N.V., Delta Lloyd Algemeen Pensioenfonds 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.

46 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.

2018

Executive Board and Management Board (2018)

Amounts in thousands of euros	Executive Board	Management Board[3]	Total
Fixed compensation:			
– base salary (cash)	2,372	3,190	5,562
– base salary (fixed shares)	592		592
– pension costs[1]	54	147	201
– individual saving allowance[1]	749	711	1,460
Variable compensation:			
– upfront cash	119	350	469
– upfront shares	119	350	469
– deferred cash	177	441	618
– deferred shares	177	524	701
Other[2]		83	83
Fixed and variable compensation	**4,359**	**5,796**	**10,155**
Other benefits	211	490	701
Employer cost social security[4]	156	191	347
Total compensation	**4,726**	**6,477**	**11,203**

1 The pension costs consist of an amount of employer contribution (EUR 201 thousand) and an individual savings allowance (EUR 1,460 thousand which is in 2018 27.2% of the amount of base salary above EUR 105,075).

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 As per 31 May 2018, Mr Spencer stepped down from his position in the Management Board and as per 30 September 2018, Ms Van Vredenburch stepped down from her position in the Management Board. In the table above, fixed and variable compensation of Mr Spencer up to 31 May 2018 is included and for Ms Van Vredenburch up to 30 September 2018 is included. As per 1 September 2018, Ms Nihot and Ms Stuijt as wel as Messrs Rupprecht and Bosklopper joined the Management Board. In the table above, fixed and variable compensation of Ms Nihot, Ms Stuijt, Mr Rupprecht and Mr Bosklopper as from 1 September 2018 are included.

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 2018. 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 2018, 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 2018.

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 2018: EUR 11.2 million) includes all variable remuneration related to the performance year 2018. 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 2018 and therefore included in 'Total expenses' in 2018, relating to the fixed expenses of 2018 and the vesting of variable remuneration of 2018 and earlier performance years, is EUR 11.5 million.

As at 31 December 2018, members of the Executive Board and Management Board held a total of 140,376 NN Group N.V. shares.

In 2018, 33,458 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

46 Key management personnel compensation Continued

Supervisory Board (2018)

Amounts in thousands of euros	Supervisory Board
Fixed fees	799
Expense allowances	70
International attendance fees	126
Compensation Supervisory Board	**995**

The above mentioned amounts include VAT of EUR 173 thousand for 2018. 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 2018, members of the Supervisory Board held a total of 13,560 NN Group N.V. shares.

Loans and advances to members of the Management Board and Supervisory Board (2018)

Amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Management Board members	495	5.02%	83
Supervisory Board members	427	4.43%	
Loans and advances	**922**		**83**

As at 31 December 2018, no loans and advances were provided to members of the Executive Board.

2017

Executive Board and Management Board (2017)

Amounts in thousands of euros	Executive Board	Management Board[3]	Total
Fixed compensation:			
– base salary (cash)	2,003	3,131	5,134
– base salary (fixed shares)	501		501
– pension costs[1]	60	151	211
– individual saving allowance[1]	726	826	1,552
Variable compensation:			
– upfront cash	100	391	491
– upfront shares	100	391	491
– deferred cash	150	482	632
– deferred shares	150	587	737
Other[2]		105	105
Fixed and variable compensation	**3,790**	**6,064**	**9,854**
Other benefits	190	528	718
Employer cost social security[4]	135	182	317
Total compensation	**4,115**	**6,774**	**10,889**

1 The pension costs consist of an amount of employer contribution (EUR 211 thousand) and an individual savings allowance (EUR 1,552 thousand which is in 2017 31.6% of the amount of base salary above EUR 103,317).

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 As per 1 April 2017, Mr Beckers stepped down from his position in the Management Board. He was succeeded by Mr Bapat, who was appointed as member of the Management Board as per 1 April 2017. In the table above, fixed and variable compensation of Mr Beckers up to 1 April 2017 is included, and fixed and variable compensation of Mr Bapat as per 1 April 2017.

4 The employer cost social security do not impact the overall remuneration received by the Executive Board and Management Board members.

Notes to the Consolidated annual accounts Continued

46 Key management personnel compensation Continued

In the table above, 'Executive Board' refers to the two members of the Executive Board as at 31 December 2017. The two members of the Executive Board are also members of the Management Board. In the table above, 'Management Board' refers to the five members of the Management Board as at 31 December 2017, 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 2017.

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 2017: EUR 10.9 million) includes all variable remuneration related to the performance year 2017. 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 2017 and therefore included in 'Total expenses' in 2017, relating to the fixed expenses of 2017 and the vesting of variable remuneration of 2017 and earlier performance years, is EUR 11.6 million.

As at 31 December 2017, members of the Executive Board and Management Board held a total of 123,562 NN Group N.V. shares.

In 2017, 35,802 share awards on NN Group N.V. (both deferred and upfront) were granted to the Executive Board and Management Board.

Supervisory Board (2017)

Amounts in thousands of euros	Supervisory Board
Fixed fees	770
Expense allowances	67
International attendance fees	92
Compensation Supervisory Board	**929**

The above mentioned amounts include VAT of EUR 161 thousand for 2017. 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 2017, members of the Supervisory Board held a total of 13,560 NN Group N.V. shares.

Loans and advances to members of the Management Board and Supervisory Board (2017)

Amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Management Board members	577	5.02%	83
Supervisory Board members	427	4.43%	
Loans and advances	**1,004**		**83**

As at 31 December 2017, no loans and advances were provided to members of the Executive Board.

Notes to the Consolidated annual accounts Continued

47 Fees of auditors

Fees of auditors

	2018	2017
Audit fees	18	13
Audit related fees	1	2
Fees of auditors	**19**	**15**

The 2017 Annual Accounts included a disclosure of fees paid to auditors of the Delta Lloyd entities of EUR 7 million (Audit fees of EUR 6 million and Audit related fees of EUR 1 million) as the Delta Lloyd Group was audited by another auditor than the auditor of NN Group N.V. As of 2018, the fees for the audit of the remaining Delta Lloyd entities are included in the Fees of auditors of NN Group N.V.

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.

48 Other events

On 18 December 2018, NN Group announced that it has reached an agreement to strengthen the long-term partnership between NN Investment Partners (NN IP) and ING Bank Śląski S.A. in Poland. Under this agreement, ING Bank Śląski will acquire a 45% stake in NN IP in Poland for a total consideration of approximately EUR 41 million, and will distribute NN IP investment funds to the Polish retail market through its extensive branch network.

49 Subsequent events

On 14 February, 2019 NN Group announced an open market share buyback programme for an amount up to EUR 500 million over a period of 12 months commencing 1 March 2019. The share buyback will be deducted from Solvency II Own Funds in full in the first quarter of 2019, whilst it will be deducted from IFRS shareholders' equity when the actual buyback transactions occur. NN Group intends to cancel all of the shares acquired under the programme.

50 Risk management

Introduction

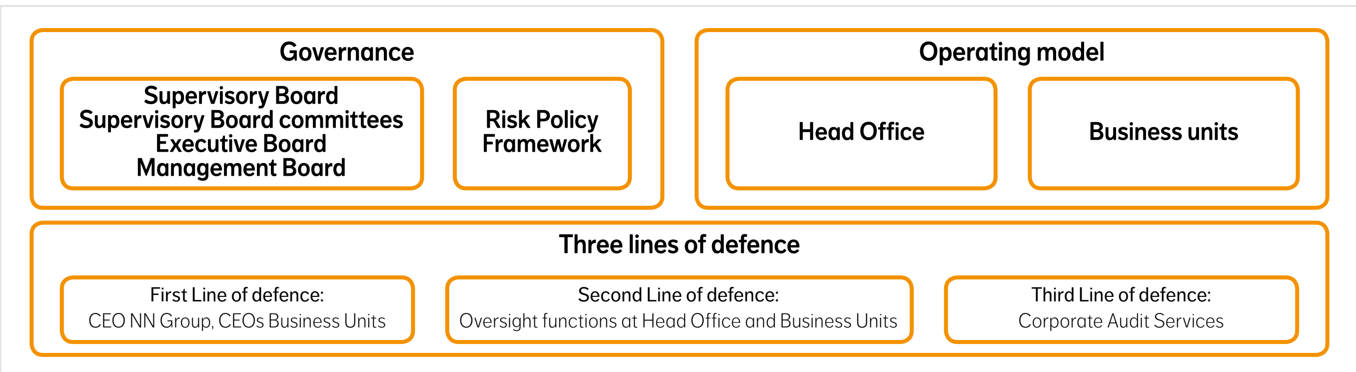
Risk management is fundamental to insurance, banking and investment management. Appropriate risk management enables NN Group to meet obligations towards clients, regulators and other stakeholders. Accepting and managing risk is an integral part of NN Group's business: having the right functions and systems in place to manage risks is important.

NN Group's risk management structure and 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 and governance system is embedded in each of NN Group's organisational layers, from the holding level to the individual business units.

NN Group's risk management system includes its integration into NN Group's strategic planning cycle, the management information generated and a granular risk assessment. NN Group has defined and categorised its generic inherent risk types in a mutually exclusive and collectively exhaustive risk taxonomy and subsequently expressed its appetite for these risk types in three key risk appetite statements.

Risk Management Structure and Governance system

In order to have effective and integrated risk management, NN Group's risk management structure and governance are implemented in the NN Group Operating Model. In the NN Group Operating Model, NN Group is organised in a Head Office and Business Unit structure. In each such organisation layer, risk governance and the three lines of defence concept are implemented.



Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk Management Governance

Executive Board and Management Board

The Executive Board is responsible for ensuring that the Company has adequate internal risk management and control system 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. The Executive Board has designated a Chief Risk Officer (CRO) from among the members of the Management Board, who is entrusted with the day-to-day execution of these tasks.

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 the business affiliated with it. The Supervisory Board also assists the Executive Board with advice. For supervising, advising and monitoring the Executive Board with respect to the design, operation and effectiveness of the internal risk-management and control systems, the Supervisory Board is assisted by two committees.

The Risk Committee assists the Supervisory Board in the performance of its duties in respect of, amongst others, NN Group's risk appetite, risk strategy and policies, risk exposures resulting from the business strategies and plans of NN Group and its affiliated business, the design, operation and effectiveness of the internal risk management and control systems of the group and NN Group's public disclosures on risk and risk management.

The Audit Committee assists the Supervisory Board in the performance of its duties in respect of, amongst others, 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; the periodic financial reports and any ad hoc financial information; and the findings and outcome of the audit work (e.g. those contained in the quarterly audit reports and management letter).

For more details on these two committees, read more in the section 'Report of the Supervisory Board' of this Annual Report.

Risk Policy framework

NN Group's risk policy framework ensures that all risks are managed consistently and that NN Group as a whole operates within set risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. Policies or any potential waivers to the policies have to be approved by the Management Board of NN Group.

NN Operating Model

NN Group consists of a Head Office and its Business Units. In the NN Group Operating Model, the business units may independently perform all activities that are consistent with the strategy of NN Group and the approved (3 year) business plan (the 'Business Plan') and as long as they are consistent with the internal management and risk/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. Particularly when a business unit wishes to deviate from applicable policies or standards, its Business Plan or when there is reason to believe that NN Group's financial position and/or reputation may be materially impacted.

The business unit CEOs are responsible for:

- The financial performance, as well as the business and operational activities, and as such the risk and control, in their respective areas
- The execution in their respective areas of any strategies that conform to the strategic framework of NN Group
- 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 control framework and operating in accordance with NN Group's values
- Sustainability of the corresponding business unit in the long term
- Sharing best practices across NN Group

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, ORSA, policy setting and implementation monitoring, model and assumption review and validation.

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. The NN Group CRO is ultimately responsible for the risk review and opinion.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Three lines of defence concept

The three lines of defence concept, which is implemented throughout NN Group's risk management structure and governance, 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:** 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 the performance, sales, operations, investments, compliance and related risks affecting their businesses. They underwrite the (insurance) products that reflect local needs and thus know their customers and are well-positioned to act in both the customer's and NN Group's best interest.
- **Second line of defence:** Independent oversight functions at the Head Office and at the business units with a major role for the risk management, actuarial, compliance and legal functions. The CRO manages a functional, independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight 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'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.

Control and Support Functions – Second line of defence

Risk Management Function:

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 (directly or indirectly) 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
- 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 business 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

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 Function aims to ensure that NN Group's models are fit for their intended purpose. For this purpose, the Model Validation Function 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 and 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 lifecycle: at initiation, before approval, when the model has been redeveloped or modified, and on a regular basis, based on a yearly 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 comprises of a mix of developmental evidence assessment, process verification and outcome analysis.

The validation cycle determines the maximum period between two model validations. 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.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Compliance Function:

To effectively manage business conduct risk, NN Group has a Compliance Function, which is headed by a Chief Compliance Officer with delegated responsibility for day-to-day management of the Compliance Function. The Chief Compliance Officer reports to the General Counsel & Head of Compliance, the member of the Management Board responsible for the Legal Function and the Compliance Function. 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 of the Chief Compliance Officer with the CEO and the Chair 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 integrity-related rules, regulations and laws for the effective management of Business conduct risk; proactively work with and advise the business to manage Business conduct 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

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, to the business unit Head of Legal or the CRO.

The LCO's have a functional reporting line to the Chief Compliance Officer. If business unit management decides it can meet and manage its compliance obligations without a dedicated full-time or onsite LCO, management must first obtain a waiver from the General Counsel & Head of Compliance.

Actuarial Function:

The primary objective of the Actuarial Function, that reports to the Group CFO and has a functional reporting line to the Group CRO, is to reduce the risk of unreliable and inadequate technical provisions with regard to both Solvency II and IFRS reporting. This contributes to an enhanced perception of customers, regulators and investors of the financial solidity of NN Group.

Representatives of the Actuarial Function are involved in daily actuarial and risk management operations. They will supply their expertise pro-actively where and when deemed relevant and when asked for. Particularly the Corporate Chief Actuary and the Actuarial Function Holders in the business units will provide an objective challenge in the review of the technical provisions as well as quality assurance on the underwriting policy and reinsurance arrangements. The Actuarial Function informs 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.

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, underwriting and reinsurance arrangements; proactively advise the business to manage the risk of unreliable and inadequate technical provisions
- 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 (CAS), 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.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

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.
- 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 Management System

The risk management system is not intended to be a sequential process but has instead been designed as a dynamic and integrated system. The system comprises of three important and interrelated components:

- A **risk control cycle**, embedded in
- An appropriate **organisation**, with
- A comprehensive **risk appetite framework**

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 the role of management is to decide how to manage risk. 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.

With risk management, we do not try to predict the future but instead prepare pro-actively for a wide range of scenarios.

Risk control cycle

NN Group's risk control cycle consists of four steps. The cycle starts with business processes that support the setting and realisation of business and risk objectives. The latter results in a risk strategy: risk appetite, policies and standards. The next steps of the cycle is to identify and assess the risks that need to be managed, followed by effective mitigation through controls and continuous monitoring effectiveness of controls, including reporting of risk levels.

The risk control cycle, combined with the Business Plan/financial control cycle and performance management/HR cycle, enables realisation of business objectives through ensuring BUs and NN Group operate within the risk appetite.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk Strategy – Risk Appetite Framework

Risk appetite is the key link between NN Group's strategy, capital plan and regular risk management as part of Business Plan execution. Accordingly, NN Group's risk appetite, and the corresponding risk tolerances (limits and thresholds), is established in conjunction with the business strategy, both aligned to the overall ambitions.

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, but inform risk tolerances, contributing to avoiding unwanted or excessive risk taking, and aim to optimise use of capital. Risk tolerances are the qualitative and quantitative boundaries (limits and thresholds) consistent with the risk appetite statements.

NN Group expresses its risk appetite via three key risk appetite statements, which are then internally detailed further into nine sub-statements, relevant risk tolerances, controls and reporting. These three statements are intended to also be aligned with the NN Group's four strategic priorities focused on creating long-term value for the company:

NN Group's Strategic priorities	Risk Appetite Statement	Description
Disciplined Capital Allocation	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.
Innovating our business and industry	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.
Value-added products and services		
Agile and cost-efficient operating model	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.

For more details on NN Group's Strategic priorities, read more in the section 'Our performance' of this Annual Report.

Risk Taxonomy

NN Group has defined and categorised its generic risk landscape in a mutually exclusive and collectively exhaustive risk taxonomy as outlined below. The risk taxonomy consists of approximately 50 main risk types clustered in six risk types mapped to NN Group Risk Appetite Statements. For the use in day-to-day risk management, the main risk types are further split into approximately 150 sub risk types.

Risk Appetite Statement	Risk Types	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 Risk	Risks related to (the volatility of) financial and real estate markets. This includes liquidity risk
	Counterparty Default Risk	Risk related to the failure to meet contractual debt obligations
	Non-Market Risk	Risks related to the products NN Group markets
Sound Business Performance (Running the business – operationally)	Non-Financial Risk	Risks related to people, inadequate or failed internal processes, including information technology and communication systems and/or external events.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Key Risk Tolerances

Risk appetite statements are implemented within the business through the use of risk tolerances and limits. Risk policies and procedures provide specific risk tolerances and limits within all relevant risk categories in line with the risk appetite statements.

Risk Appetite Statement	Primary Impact Area	Key Risk Tolerances
Strategic Challenges (Shaping the business)	License to operate	Various metrics related to the Business Plan. **Restricted List:** to prevent investments in securities that are not in line with NN Group's values and/or applicable laws and regulations, NN Group has a Restricted List in place. This list is also leveraged for the risk analysis related to client acceptance for the provision of financial products and services throughout NN Group.
Strong Balance Sheet (Running the business – financially)	Financial	**S2 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 S2 ratio) in accordance with the risk associated with the business activities. **S2 ratio sensitivities:** assess the changes for both 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 event 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. **Sensitivities of Own Funds:** NN Group monitors impact of moderate stress events at business units and the required level of capital at 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 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 issuer (corporate and sovereign), asset type and country of risk. **Bank capitalisation:** amount of capital NN Bank has to hold as required by regulator as part of Basel II framework, expressed as a capital adequacy ratio of equity that must be held as a percentage of risk-weighted assets.
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.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk Assessment & Control

Risk assessments are regularly performed throughout NN Group. For market, counterparty default and non-market risk, 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 judgment in identification and quantification: risk footprints (non-financial risks) and scenario analysis (strategic/emerging risks) are used to assess (report and follow up on) identified risks.

Risk Appetite Statement	Risk Class	Risk Assessment and main mitigation technique
Strategic Challenges (Shaping the business)	Emerging Risks	Scenario Analysis and contingency planning
	Strategic Risks	Scenario Analysis and business planning
Strong Balance Sheet (Running the business – financially)	Market Risk	NN Internal Model; NACA, ALM studies, SAA, Limit structure, Derivatives
	Counterparty Default Risk	NN Partial Internal Model; Limit structure
	Non-Market Risk	NN Partial Internal Model; PARP, Limit structure, reinsurance
Sound Business Performance (Running the business – operationally)	Non-Financial Risk	Risk footprints; Business and Key Controls, Control Testing, Incident Management

As part of the regular 'Own Risk and Solvency Assessment' (ORSA), a bottom-up full scope risk assessment is performed at least annually. Risk control activities are proportional to the risks arising from the activities and processes to be controlled. It is management's responsibility to promote appropriate risk control activities, based on risk identification and risk appetite, by ensuring that all employees are aware of their role in the risk management system.

Own Risk and Solvency Assessment (ORSA)
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. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN Group. Stress testing can also be initiated outside 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.

Internal Capital Adequacy Assessment (ICAAP) and Internal Liquidity Adequacy assessment (ILAAP)
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 the relevant NN Group entities bear.

Product approval and review process (PARP)
The PARP has been developed to enable effective design, underwriting, and pricing of all products 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. At the group level, NN Group establishes a global list of asset classes in which the business units may invest. Each business unit also maintains a local asset list that is a subset of the global asset list prescribing in which asset classes the relevant business unit may invest. The investments in these asset classes are governed through investment mandates given to the asset manager.

Non-financial risks
Business conduct, operations, continuity & security risks and related second order potential reputation impact are monitored in their mutual relationship as 'Non-Financial Risk' (NFR). NFRs are identified, assessed, mitigated, monitored and reported in the overall risk-control cycle within NN Group. Key NFRs are included into the quarterly risk reporting.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

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.

Risk Monitoring

The risk profile is monitored against the risk appetite, risk assessments and the risk limits derived from the risk appetite. Results, including deficiencies, conclusions and advices, are to be reported regularly to the applicable management boards. 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. 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.

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 Report. The first report aims to provide an overview of the quarterly Solvency II capital position and development. The latter 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.

The Own Funds and Solvency Capital Requirement Report includes 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. Solvency II Own Funds and SCR reporting is the NN Group equivalent to the Value at Risk. Solvency II Ratio Sensitivities are therefore the alternative analysis for market risk sensitivities versus IFRS sensitivities according to IFRS 7.

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, allocation of 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 Recovery Plan and the update of the report is performed by first line of defence – Finance.

Risk Profile

Internal Model

On 5 December 2018 NN Group has received approval from DNB to expand its Partial Internal Model (PIM) under Solvency II to include the Delta Lloyd Life and Non-life entities in the Netherlands. The expanded approved Partial Internal Model has been used to calculate regulatory capital requirements effective 31 December 2018. NN Group developed an internal economic capital model in the early 2000s and has used the model since then to inform risk management and business decisions. In preparation for Solvency II, NN Group upgraded the model and, in December 2015, received DNB approval to use its PIM for calculating solvency capital requirements (SCR) under Solvency II.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

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. In addition, the approach to the 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 the specific portfolio characteristics.
- An internal model approach better reflects the reinsured risks of NN Re. A significant proportion of the NN Re risks are a share of the NN Non-life risks where an internal model approach is applied. Variable Annuity risks are not adequately addressed by the Standard Formula, while the internal model captures the integrated market risks and hedging programmes more accurately.

The SCR constitutes a risk-based capital buffer which is calculated based on actual risks on the balance sheet. Under Solvency II, the SCR is defined as the loss in basic own funds resulting from a 1-in-200 year adverse event over a one-year period. The internal 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.

Furthermore, the capital requirement for operational risk is based on the Standard Formula approach across the group. Finally, the non-insurance businesses and international insurance undertakings not based in the EU are accounted for in the consolidated group SCR, in most cases, based on the (local) applicable (sectorial) capital requirements under equivalence. The total group SCR is obtained from the Internal Model and Standard Formula capital requirements using EIOPA's integration technique 3.

Major model change

The internal model expansion was defined as a major model change, extensive governance and project structures were implemented to ensure successful delivery. The programme's main objectives were to develop a single Partial Internal Model for NN Group. This ensures appropriate risk measurement and management for both NN Group and Delta Lloyd entities, as well as the combined Group. The key DNB and Model Validation feedback items, that became available since the initial model approval in 2015 were also addressed.

Bringing Delta Lloyd's Life and Non-life entities into the approved Partial Internal Model is a significant step towards the successful integration of Delta Lloyd into NN Group which enhances risk management both at the entity and the group level. For ABN AMRO Insurance as well as the Belgian Delta Lloyd entity, NN Group considers the Standard Formula appropriate. Compared to the original model, the structure of the updated internal model has not changed materially. The key components of the major model change are:

- Delta Lloyd asset and liability data transferred to NN Group systems
- Recalibrations of all components of the internal model and further model improvements where appropriate
- All risk models internally revalidated to confirm that all models are fit for intended use and to ensure that feedback from various stakeholders which has become available since 2015 has been considered in an appropriate manner (Model Validation, CAS and DNB)
- Specific features of NN Group risk modelling and governance (including data quality, risk management approach and controls) implemented at Delta Lloyd entities

The internal model expansion is based on a comprehensive assessment of the risk profiles, portfolios and existing models of NN Group and Delta Lloyd, which demonstrated broad alignment in terms of risk characteristics. As such, the NN Group model was deemed to be appropriate for the Delta Lloyd Life and Non-life entities, with only minor methodological updates, where necessary, to ensure the model reflects the latest market data, relevant DNB and Model Validation feedback and the current risk profile of the combined NN Group and Delta Lloyd Group.

As part of PIM major model change all risk models in scope were revalidated prior to the DNB submission.

Notes to the Consolidated annual accounts Continued

50 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 options and guarantees by means of standard financial instruments. In the risk calculations, the replications are used to determine and revalue insurance liabilities under a large amount 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 this correlation effects into account when aggregating results at Group level. 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 in a 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 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.

Partly as a result of the granular modelling approach and wide variety of NN's assets and liabilities, the Internal Model is more complex than the Standard Formula.

Inherent model limitations related to the calibration of a 1-in-200 year stress event 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, are managed through qualitative risk assessments to ensure that these are sufficiently covered by the internal model in line with Solvency II requirements. 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 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.

Solvency II ratio of NN Group

The following table shows the NN Group Solvency II ratio as at 31 December 2018 and 31 December 2017 respectively:

	2018	2017
Eligible Own Funds	16,727	15,412
Solvency Capital Requirement	7,274	7,731
NN Group Solvency II ratio (Eligible Own Funds/SCR)	**230%**[1]	**199%**[2]

1 Based on the balance sheet of 30 September 2018, the impact of the expanded approved Partial Internal Model on the NN Group Solvency II ratio was an increase of approximately 9%.

2 The SCR for the Delta Lloyd entities have been calculated on Standard Formula for 2017.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

The SCR is based on the Partial Internal model. As at 31 December 2018 this comprises Internal Model calculation for NN Life, NN Non-life, Delta Lloyd Life, Delta Lloyd Non-life, NN Re, MOVIR and the asset portfolios owned by NN Group N.V., and Standard Formula calculation for ABN AMRO Life and ABN AMRO Non-life, NN Insurance Services and the international insurance entities of NN Group.

As NN Group is designated as a Financial Conglomerate, Solvency II Own Funds and SCR do not include NN Bank. NN Bank has a CRR transitional Total capital ratio of 17.9% and a CRR transitional Common Equity Tier 1 (CET1) ratio of 16.3% at year-end 2018. NN Bank had a Liquidity Coverage ratio (LCR) of 171%.

NN Life Japan is treated as 'equivalent' to calculate the Solvency Capital Requirement. 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.

Solvency Capital Requirement

The following table shows the NN Group Solvency Capital Requirement as at 31 December 2018 and 2017 respectively:

Solvency Capital Requirements

	2018	2017
Market risk	4,055	5,215
Counterparty default risk	274	667
Non-market risk	5,883	5,649
Total BSCR (before diversification)	**10,212**	**11,531**
Diversification	-2,638	-3,208
Total BSCR (after diversification)	**7,574**	**8,323**
Operational risk	659	677
LACDT	-1,456	-1,788
Other	-10	18
Solvency II entities SCR	**6,767**	**7,230**
Non Solvency II entities	507	501
Total SCR	**7,274**	**7,731**

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 all the SCR risk types and explanations for the most important changes in the risk profile over the year of 2018 are presented in the next sections.

The loss-absorbing capacity of deferred taxes (LACDT) benefit decreased mainly due to the lower Dutch corporate tax rates (please refer to Note 32 'Taxation') and a lower BSCR as a result of the inclusion of Delta Lloyd Life and Delta Lloyd Non-life into the Partial Internal Model.

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 line consists of NN Life Japan, Pension Funds and NN Investment Partners.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Solvency II Ratio Sensitivities

Along with the Solvency II Capital Requirement, NN Group regularly calculates the sensitivities for Solvency II Ratio under various scenarios, by assessing the changes for both Eligible Own Funds and SCR. Each quarter, the stress level and type of scenarios are decided upon by the NN Group CRO.

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 over quarters. The sensitivities are selected to reflect plausible, realistic scenarios that could materialise within the foreseeable future and are not calibrated on a defined confidence interval. The impact on the Solvency II ratio is calculated based on an instantaneously stress, and on ceteris paribus basis.

For the calculation of the SCR impacts as part of the Solvency II Ratio Sensitivities, the BSCR and Operational Risk SCR are recalculated for all insurance entities of NN Group and for Japan Life. The other components of the SCR are kept constant.

Main types of risks

As outlined above, the following principal 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 market variables 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, a framework that integrates Environmental, Social, and Governance (ESG) factors in the investment-decision making, and with the possibility of reducing downside risk through various hedging programmes.

Market risk capital requirements

	2018	2017
Interest rate risk	3,036	1,713
Equity risk	2,065	2,093
Spread risk	3,632	3,514
Real estate risk	1,384	1,434
FX risk	456	493
Inflation risk	233	65
Basis risk	104	58
Concentration risk	0	68
Diversification market risk	-6,855	-4,223
Market risk	**4,055**	**5,215**

In 2018, the Market Risk SCR decreased to EUR 4,055 million, mainly driven by the higher diversification benefit as a result of the inclusion of Delta Lloyd Life and Delta Lloyd Non-life into the Internal Model calculations.

The table below sets out NN Group's market value of assets for each asset class as at the end of 2018 and 2017. The values in these tables may differ from those included in the consolidated IFRS balance sheet as derivatives are excluded and due to classification and valuation differences to reflect a risk management view.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Investment assets

	Market value 2018	% of total 2018	Market value 2017	% of total 2017
Fixed income	**153,131**	**86%**	**150,918**	**85%**
Government bonds and loans	71,580	40%	71,415	40%
Financial bonds and loans	9,157	5%	9,399	5%
Corporate bonds and loans	21,143	12%	20,333	12%
Asset-backed securities	3,478	2%	3,851	2%
Mortgages[1,2,3]	46,075	26%	45,156	26%
Other retail loans	1,698	1%	764	0%
Non-fixed income	**15,031**	**9%**	**16,003**	**9%**
Common & preferred stock	3,469	2%	3,702	2%
Private equity	689	0%	887	0%
Real estate[4]	8,307	5%	7,825	5%
Mutual funds (money market funds excluded)	2,566	2%	3,589	2%
Money market instruments (money market funds included)[5]	**9,464**	**5%**	**10,916**	**6%**
Total investments	**177,626**	**100%**	**177,837**	**100%**

1 Mortgages are on fair value.
2 The mortgage value on the consolidated IFRS balance sheet differs from the value in the current table due to the differences in Valuation of mortgages within Delta Lloyd and the exclusion of the IVR portfolio.
3 Mortgage values include mortgages underlying the mortgage structure vehicles.
4 The real estate data exclude the real estate forward commitments, since NN Group has no price risk related to them.
5 Money market mutual funds are included in the Money market instruments.

Total investment assets remained stable between 31 December 2017 and 31 December 2018. Investments in higher yielding assets with an attractive risk return profile such as mortgages, corporates loans and real estate were offset by the sale of German and Dutch government bonds.

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 1,713 million in 2017 to EUR 3,036 million in 2018, mainly as a result of the extension of the Partial Internal Model to Delta Lloyd Life and Delta Lloyd Non-life. The Partial Internal Model applies more conservative shocks than the Standard Formula. The increase also reflects a change in the asset allocation and market movements during the year, which include an increase in Volatility Adjustment and a decrease of the risk-free interest curve. 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 match liabilities. NN Group manages its interest rate position by investing in long-term bonds and interest rate swaps. For NN Group (excluding the Delta Lloyd entities), the interest rate risk management focuses on matching asset and liability cash flows for the durations for which the markets for fixed income instruments are sufficiently deep and liquid. For the Delta Lloyd entities, the interest rate risk management was primarily focused on stabilising the Solvency II ratio on a Standard Formula basis. During 2018 the interest rate risk management for the Delta Lloyd entities has been further aligned to the NN Group approach.

NN Group has implemented limits and tolerances for interest rate risk exposures at NN Group level.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk measurement

For the purpose of discounting EUR-denominated asset cash flows, NN Group uses market 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 Volatility Adjustment (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 (UFR) 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.

NN Group's Solvency II ratio decreases when interest rates or the UFR decrease. At the end of 2018, the EUR risk-free interest rate curve without the Volatility Adjustment was lower compared with the end of 2017 which decreases the Solvency II ratio of NN Group, in line with the interest parallel shock -50bps sensitivity shown in the table below. At the same time the EUR UFR level decreased from 4.20% to 4.05% as of 01 January 2018, which had a slightly negative effect on the Solvency II ratio of NN Group. The Volatility Adjustment increased from 4bps at the end of 2017 to 24bps at the end of 2018, which had a positive effect on Solvency II ratio.

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.

Solvency II ratio sensitivities: interest rate risk of NN Group at 31 December 2018

	Own Funds impact	SCR impact	Solvency II ratio impact
Interest rate: Parallel shock +50 bps	-561	-471	8%
Interest rate: Parallel shock -50 bps	722	554	-7%
Interest rate: 10 bps steepening between 20y-30y	-452	0	-6%
UFR: Downward adjustment to 3.90%	-213	33	-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.

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 adjusted in this scenario.

At the end of 2018, the UFR for EUR under Solvency II was set at 4.05%. In April 2017, EIOPA published an updated methodology to derive the UFR, which is subject to approval by the European Commission. In line with the updated methodology, the calculated value of the UFR for EUR is 3.60%, but annual changes to the UFR will not be higher than 15 basis points. Therefore the UFR for EUR is expected to decrease from 4.05% to 3.90% on 1 January 2019. The UFR downward adjustment scenario provides the impact in Own Funds and SCR using the applicable UFR for 2019 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 remained unchanged.

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

50 Risk management Continued

Risk profile

The table below sets out the market value of NN Group's equity assets as at the 31 December of 2018 and 2017, respectively.

Equity assets

	2018	2017
Common & preferred stock	3,469	3,702
Private equity	689	887
Mutual funds (money market funds excluded)	2,566	3,589
Total	**6,724**	**8,178**

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 (43%) and other European countries (55%), with some exposure also present in the United States and Asia. Note that mutual funds are classified as equity in the table above, but include predominantly fixed income funds. The decrease in mutual funds is largely driven by switches from emerging market fund investments to emerging market bonds. Changes in public and private equities are largely driven by market value movements.

As shown in the 'Market risk capital requirements' table above, the Equity Risk SCR of NN Group slightly decreased from EUR 2,093 million in 2017 to EUR 2,065 million in 2018. This reflects a lower equity exposure as well as lower equity valuations. This was partially offset by an increase of equity risk as a result of the inclusion of Delta Lloyd Life and Non-life in the Partial Internal Model, as equity capital charges are generally higher in the Partial Internal Model than under the Standard Formula.

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. 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 of NN Group at 31 December 2018

	Own Funds impact	SCR impact	Solvency II ratio impact
Equity Downward shock -25%	-1,080	-178	-9%

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 in scope. The credit spread risk widening (or narrowing) reflects market supply and demand, rating migration of the issuer and changes in expectation of default. Also changes in liquidity and other risk premiums that are part of 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 of the credit spread risk module for these entities are corporate bonds and loans.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk profile

As shown in the 'Market risk capital requirements' table, the credit spread risk SCR of NN Group increased from EUR 3,514 million in 2017 to EUR 3,632 million in 2018. This increase is mainly driven by the inclusion of Delta Lloyd Life and Delta Lloyd Non-life in the Internal Model, which uses more conservative Credit Spread capital charges compared with the Standard Formula and the fact that the capital is required to be held against spread risk arising from government bonds under the Partial Internal Model. The increase is also driven by the inclusion of mortgages under this risk submodule for Delta Lloyd Life and Delta Lloyd Non-life (in 2017 these two entities were still based on Standard Formula and mortgages were included in the Counterparty Default Risk SCR).

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 of 2018 and 2017, 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	
	2018	2017	2018	2017
Government bonds	71,580	71,415	68%	68%
Manufacturing	6,575	6,809	6%	6%
Finance and Insurance	9,157	9,399	9%	9%
Asset-backed securities	3,478	3,851	3%	4%
Utilities	2,824	2,801	3%	3%
Information	2,111	2,128	2%	2%
Transportation and Warehousing	1,754	2,046	2%	2%
Real Estate and Rental and Leasing	1,594	1,259	1%	1%
Other	6,285	5,290	6%	5%
Total	**105,358**	**104,998**	**100%**	**100%**

The table below sets out the market value of NN Group's assets invested in government bonds by country and maturity.

Market value government bond and loans exposures (2018)

			Market value of government bond and loans in 2018 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 2018
Japan	A+	98%	316	267	461	1,229	2,836	3,360	1,607	604	10,680
Germany	AAA	0%	77	107	89	480	2,437	3,586	3,777	0	10,553
France	AA	0%	93	100	67	467	749	2,803	2,006	4,016	10,301
Netherlands	AAA	98%	115	54	328	939	1,644	2,501	2,883	30	8,494
Belgium	AA-	33%	346	336	55	745	1,549	2,095	2,664	6	7,796
Austria	AA+	0%	149	211	223	292	2,062	1,873	964	1,058	6,832
European Union[3]	AA-	0%	120	50	105	348	847	1,536	691	11	3,708
Spain	A-	27%	1	15	17	53	365	1,490	1,176	2	3,119
Finland	AA+	0%	92	164	59	69	646	15	979	0	2,024
Italy	BBB	0%	29	76	8	147	313	791	195	0	1,559
Ireland	A+	0%	0	10	0	127	361	333	142	0	973
Other[5] Investment Grade			238	376	269	707	1,789	1,391	226	0	4,996
Other[5] below Investment Grade			73	39	2	114	156	116	45	0	545
Total			**1,649**	**1,805**	**1,683**	**5,717**	**15,754**	**21,890**	**17,355**	**5,727**	**71,580**

1 NN Group uses the second best rating of 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

50 Risk management Continued

Market value government bond and loans exposures (2017)

			Market value of government bond and loans in 2017 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 2017
Germany	AAA	0%	238	90	55	330	1,797	4,870	4,495	0	11,875
Netherlands	AAA	98%	148	152	91	453	1,570	4,282	3,336	29	10,061
France	AA	0%	68	113	111	296	823	2,279	2,429	3,922	10,041
Japan	A+	97%	185	311	251	1,050	2,504	2,939	1,387	603	9,230
Belgium	AA-	36%	231	375	355	575	651	2,783	2,756	6	7,732
Austria	AA+	0%	71	167	205	405	1,793	1,644	953	1,026	6,264
European Union[3]	AA-	0%	68	125	51	384	838	1,284	1,117	12	3,879
Spain	BBB+	27%	28	5	15	50	392	1,458	1,135	0	3,083
Italy	BBB	0%	31	33	83	72	449	1,031	201	5	1,905
Finland	AA+	0%	0	97	170	54	352	161	960	0	1,794
Poland	A-	52%	49	59	56	243	199	391	0	0	997
Other[5] Investment Grade			338	186	310	527	1,276	1,193	362	0	4,192
Other[5] below Investment Grade			44	13	29	8	83	129	56	0	362
Total			**1,499**	**1,726**	**1,782**	**4,447**	**12,727**	**24,444**	**19,187**	**5,603**	**71,415**

1 NN Group uses the second best rating of 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.

Exposures to German, French and Japanese government bonds and loans represents 44% of NN Group total sovereign debt exposure. German and French government bonds and loans are primarily held by Netherlands Life while Japanese government bonds are primarily held by Japan Life. Of the EUR 32 billion German, French and Japanese government bonds and loans held by NN Group, 69% will mature after year 10 and 38% after year 20. These long-term government bonds and loans are sensitive to sovereign credit spread movements versus EUR swap rates. For a combination of Dutch, German, French, Belgian and Austrian government bonds, NN Group has forward sold the underlying bonds using derivatives. With regard to Central and Eastern Europe, the government bond exposures are mainly domestically held. All relative exposures to the top 10 government exposures slightly decreased. 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 (2018)

	Market value of non-government bond securities and loans in 2018 by number of years to maturity									
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	N.A.[2]	Total 2018
AAA	615	455	286	464	424	426	812	1,903	0	5,385
AA	358	309	595	572	718	355	175	131	0	3,213
A	957	726	825	2,925	3,024	326	427	160	0	9,370
BBB	1,110	878	1,148	3,116	4,438	854	961	274	0	12,779
BB	109	123	265	858	825	11	6	31	0	2,228
B	0	0	25	29	99	0	0	7	0	160
No rating available[1]	285	2	44	3	4	48	135	113	9	643
Total	**3,434**	**2,493**	**3,188**	**7,967**	**9,532**	**2,020**	**2,516**	**2,619**	**9**	**33,778**

1 This category also include limited exposure in CCC or below rated instruments of around 3 million and instruments with 'No Rating (NR)'.
2 These include matured bonds in Delta Lloyd Life, Delta Lloyd Non-life and NN Belgium portfolios which were not repaid.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Market value non-government bond securities and loans (2017)

	Market value of non-government bond securities and loans in 2017 by number of years to maturity									
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	N.A.[2]	Total 2017
AAA	649	129	280	595	715	356	918	1,618	0	5,260
AA	476	236	351	989	1,086	505	248	128	0	4,019
A	954	574	918	2,197	3,134	427	662	182	0	9,048
BBB	809	1,183	797	2,680	4,713	614	963	430	0	12,189
BB	80	168	154	489	1,117	8	349	295	0	2,660
B	0	0	11	83	52	0	0	8	0	154
No rating available[1]	108	0	3	38	14	30	0	52	8	253
Total	**3,076**	**2,290**	**2,514**	**7,071**	**10,831**	**1,940**	**3,140**	**2,713**	**8**	**33,583**

1 This category also includes limited exposure in CCC or below rated instruments of around 38 million and instruments with 'No Rating (NR)'.
2 These include matured bonds in Delta Lloyd Life, Delta Lloyd Non-life and NN Belgium portfolios which were not repaid.

The table below sets out NN Group's holdings of loans and other debt securities by fair and book value as at the 31 December of 2018 and 2017, respectively.

Market value all loans and other debt securities (per credit rating)

	Fair value		Book value	
	2018	2017	2018	2017
AAA	27,456	30,306	27,269	30,109
AA	32,758	31,341	32,718	31,277
A	25,200	21,541	25,120	21,474
BBB	16,328	18,304	16,327	18,217
BB	2,471	2,806	2,491	2,780
B	483	429	484	424
CCC	3	38	4	39
CC	0	0	0	0
C	55	3	59	2
D	9	0	9	0
No rating available[1]	595	230	595	232
Mortgages[2]	46,075	45,156	45,832	44,927
Other Retail Loans	1,698	764	1,705	762
Total	**153,131**	**150,918**	**152,613**	**150,243**

1 This category includes instruments with 'No Rating (NR)'.
2 Mortgages refer to all mortgages using the same criteria and is aligned with the Mortgages figure in Investment assets above.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

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 deterioration in the credit rating of mortgages.

Loan-to-Value on mortgage loans[1]

	2018	2017
NHG	31%	31%
LtV <= 80%	43%	35%
LtV 80% – 90%	13%	15%
LtV 90% – 100%	8%	12%
LtV > 100%	5%	7%
Total NN Group	**100%**	**100%**

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.

The Loan-to-Value (LTV) for residential mortgages (which is based on the net average loan to property indexed value) at Netherlands Life (including NN Life and Delta Lloyd Life), the Banking business and Netherlands Non-life (including NN Non-life and Delta Lloyd Non-life) stood at 75%, 73% and 71% respectively at the end of 2018. 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%, 34% and 18% at Netherlands Life, the Banking business and Netherlands Non-life respectively at the end of 2018. 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.

Credit quality: NN Group mortgage portfolio, outstanding[1,2]

	NN Life and Delta Lloyd Life[3]		Banking business		Other[4]	
	2018	2017	2018	2017	2018	2017
Performing mortgage loans that are not past due	21,992	20,102	17,458	17,352	3,244	3,066
Performing mortgage loans that are past due	261	145	237	172	26	17
Non-performing mortgage loans[5]	160	143	155	123	36	25
Total	**22,413**	**20,390**	**17,850**	**17,647**	**3,306**	**3,108**
Provisions for performing mortgage loans	3	7	3	6	1	1
Provisions for non-performing mortgage loans	14	21	7	12	1	2
Total	**17**	**28**	**10**	**18**	**2**	**3**

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 The total value for Mortgages is different in this table vs. Investment Assets Table because of exclusion of mortgages underlying the mortgage structure vehicles of EUR 2,506 million in 2018 and EUR 4,010 million in 2017.
3 Delta Lloyd Life has EUR 7,745 million performing mortgage loans and EUR 92 million non-performing mortgage loans at 31 December 2018.
4 'Other' column includes numbers for the entities NN Non-life, NN Belgium business and remaining small entities.
5 The non-performing loans include 'unlikely to pay' mortgage loans, which may not be past due.

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).

The net exposure decreased because of increasing house prices and payments (contractual and prepayments) on mortgages.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Collateral on mortgage loans[1]

	NN Life and Delta Lloyd Life[2]		Banking business		Other[3]	
	2018	2017	2018	2017	2018	2017
Carrying value	22,414	20,390	17,850	17,647	3,306	3,108
Indexed collateral value of real estate	33,327	28,790	27,415	24,917	5,127	4,443
Savings held[4]	1,107	1,142	1,292	1,262	109	106
NHG guarantee value[5]	5,541	4,948	5,161	5,373	726	703
Total cover value + including NHG guarantee capped at carrying value[6]	22,309	20,235	17,764	17,523	3,303	3,102
Net exposure	**105**	**155**	**86**	**124**	**3**	**6**

1 The total value for Mortgages is different in this table versus the Investment Assets Table because of exclusion of mortgages underlying the mortgage structure vehicles of EUR 2,506 million in 2018 and EUR 4,010 million in 2017.

2 Delta Lloyd Life has net exposure of EUR 11 million as of 31 December 2018.

3 'Other' column includes NN Non-life, NN Belgium Life business and remaining small entities.

4 Savings held includes life policies and investment policies.

5 The NHG guarantee value follows an annuity scheme and is not corrected for the 10% own risk (on the granted NHG claim).

6 The cover value of the real estate does not include haircuts, which are applied in the determination of loan loss provisions, the total cover value includes NHG guarantee capped at carrying value.

Risk mitigation
NN Group aims to maintain a low-risk, well diversified fixed income portfolio. NN Group has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. In order to reduce the credit spread risk, NN Group increased its investments in non-listed and own-originated assets. The concentration risk on individual issuers is managed using rating-based issuer limits on one (group of related) single name(s), effectively managing the default risk of the issuers.

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.

Solvency II ratio sensitivities: credit spread risk of NN Group at 31 December 2018

	Own Funds impact	SCR impact	Solvency II ratio impact
Credit spread: Parallel shock for AAA-rated government bonds +50 bps	-772	-17	-10%
Credit spread: Parallel shock for AA and lower-rated government bonds +50 bps	-622	-99	-5%
Credit spread: Parallel shock corporates +50 bps	129	-137	6%

NN Group has exposure to government and corporate and financial debt, and is exposed to spread changes to 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 three possible scenarios – spread widening for AAA rated government bonds, spread widening for non-AAA rated government bonds, and spread widening for corporates. For all scenarios, a parallel widening of the 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, government-linked instruments (sub-sovereigns and supranational). Corporate spread shocks are applied to the following asset classes: corporate bonds (financials and non-financials), mortgages, covered bonds, subordinated bonds, Asset-backed securities and loans.

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 direct or indirect positions that are sensitive to real estate prices. 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.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk profile

NN Group's real estate exposure (excluding forward commitments) increased from EUR 7,825 million as at 31 December 2017 to EUR 8,307 million as at 31 December 2018. The real estate exposure is mainly present in the portfolios of NN Life, Delta Lloyd 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 actual real estate assets. 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 by sector type excluding leverage as at 31 December 2018 and 2017, respectively.

Real estate assets by sector[1]

	Revalued through P&L 2018	Not revalued through P&L 2018	Revalued through P&L 2017	Not revalued through P&L 2017
Residential	35%	1%	26%	6%
Office	12%	1%	12%	1%
Retail	28%	3%	31%	3%
Industrial	12%	6%	13%	6%
Other	2%	0%	2%	0%
Total	**89%**	**11%**	**84%**	**16%**

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 above, the real estate risk SCR of NN Group decreased from EUR 1,434 million in 2017 to EUR 1,384 million in 2018. This decrease is mainly due the inclusion of Delta Lloyd Life in the Partial Internal Model, as real estate capital charges are generally lower than in the Standard Formula. This was partially offset by higher real estate investments.

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.

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 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 of NN Group at 31 December 2018

	Own Funds impact	SCR impact	Solvency II ratio impact
Real estate Downward shock -10%	-659	-24	-8%

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

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 decreased from EUR 493 million in 2017, to EUR 456 million in 2018. 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 local currency assets. The exceptions are Japan Life, where USD and EUR assets are held to diversify the portfolio and the FX risk is managed through rolling FX forward contracts, and in the large own account portfolio of Netherlands Life.

Inflation risk
Inflation risk is defined as the risk of adverse changes in inflation that result into decrease in basic own funds on the Solvency II balance sheet. Inflation risk is calculated for the Dutch NN insurance entities applying the Partial Internal Model for the SCR calculation.

Risk profile
The SCR for inflation risk increased from EUR 65 million in 2017, to EUR 233 million in 2018, mainly due the inclusion of Delta Lloyd Life and Delta Lloyd Non-life in the Partial Internal Model.

Risk mitigation
The inflation risk is managed through the inflation swaps and 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 increased from EUR 58 million in 2017, to EUR 104 million in 2018, reflecting the more volatile credit spreads and equity markets over the year.

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 decreased from EUR 68 million in 2017, to nil in 2018.

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

50 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 covers any credit risk exposures which are not covered in the spread risk sub-module.

Risk profile
As shown in the 'Solvency Capital Requirements' table above, the Counterparty default risk SCR of NN Group decreased from EUR 667 million in 2017 to EUR 274 million in 2018. This decrease is mainly due to the inclusion of Delta Lloyd Life and Non-life in the Partial Internal Model and the fact that the mortgages no longer get the capital charge under the Counterparty default risk and where moved to the Credit Risk 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 (basis for Standard Formula 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 underlying model is based on the Basel regulatory model

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 variable annuities (VA) portfolio; (ii) the group pension business in the Netherlands for which guarantees are provided; and (iii) other separate account business, primarily the unit-linked business. This section refers to separate account business only.

Variable annuity portfolio
Risk profile
From a risk management perspective, NN Group distinguishes three blocks of variable annuities, namely guaranteed minimum accumulation benefit (GMAB) products of Japan Closed Block VA, guaranteed minimum death benefit (GMDB) products of Japan Closed Block VA and VA products of Insurance Europe.

The account value for this portfolio decreased from EUR 6.1 billion in 2017 to EUR 3.5 billion in 2018, mainly driven by run-off of the Japan Closed Block VA.

Risk mitigation
NN Group has hedging programmes in place for the Japan Closed Block VA business and the European VA business. These hedging programmes target equity, interest rate and FX risks. The market risks that remain for the Japan Closed Block VA business increases with market volatility and basis risk. Basis risk is the difference in market movements between the benchmarks used for hedging and the underlying funds.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Separate account guaranteed group pension business in the Netherlands

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 3.3 billion in 2017 to EUR 2.9 billion in 2018, mainly driven by the runoff of the portfolio. Delta Lloyd Life also has a runoff portfolio with an account value of EUR 1.4 billion. As such, 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 hedge 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, which provide policyholders with fund selection combined with an insurance cover. In a unit-linked policy, 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.

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.

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.

Risk profile

NN Group identifies two related liquidity risks: funding liquidity risks and market liquidity risks. Funding liquidity risk is risk that a company will not have the funds to meet its financial obligations when due. This risk is in particular relevant for NN Bank. Market liquidity risk is the risk that an asset cannot be sold without significant losses. The connection between market and funding liquidity stems from the fact that when payments are due and not enough cash is available, investment positions need to be converted into cash. When market liquidity is low, this would lead to a loss.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk mitigation

NN Group's Liquidity Management Principles include the following:

- Interbank funding markets should be used to provide liquidity for day-to-day cash management purposes
- A portion of assets must be invested in unencumbered marketable securities that can be used for collateralised borrowing or asset sales
- Strategic asset allocation should reflect the expected and contingent liquidity needs of liabilities
- Adequate and up-to-date contingency liquidity plans should be in place to enable management to act effectively and efficiently in times of crisis

NN Group defines three levels of Liquidity Management:

- (i) Short-term liquidity or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk
- (ii) Long-term liquidity management considers business conditions, in which market liquidity risk materialises
- (iii) Stress liquidity management looks at the company's ability to respond to a potential crisis situation

Two types of liquidity crisis events can be distinguished: a market event and an NN Group specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale. The Treasury function at NN Group is responsible for Liquidity Management.

Risk measurement

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested. NN Group manages liquidity risk via a liquidity risk framework ensuring that – even after shock – NN Group's businesses can meet immediate obligations. Accordingly, NN Group does not calculate a specific SCR for liquidity risk as liquidity is sufficiently available in the insurance business units.

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.

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 SLT Health portfolio risk, the NSLT Health portfolio risk and the Health Catastrophe risk. Within NN Group, the health risk stems from morbidity riders in Belgium, Poland, Slovakia and Romania, but also from the yearly renewable health insurance portfolio of Greece. 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 Schade and NN Insurance Services. 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 2017 and at the end of 2018 respectively. The main changes in the risk profile are explained in the subsequent section of this document.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Non-market risk capital requirements

	2018	2017
Insurance risk (IM entities)	4,318	2,775
Business risk (IM entities)	1,326	1,210
Life risk (SF entities)	866	1,826
Health risk (SF entities)	156	198
Non-life risk (SF entities)	104	391
Diversification non-market risk	-887	-751
Non-market risk	**5,883**	**5,649**

The Insurance and Business risks for Internal Model entities increased and the Life, Health and Non-life risk SCR for Standard Formula entities decreased mainly as a result of the inclusion of Delta Lloyd Life and Delta Lloyd Non-life in the Partial Internal Model. The Delta Lloyd Life longevity swaps which were executed to reduce longevity risk under the Standard Formula do not provide a benefit under the Partial Internal Model which explains the higher increase of Insurance Risk for Partial Internal Model entities compared with the decrease of Life Risk under the Standard Formula.

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.

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 the life as well as in the non-life portfolio of NN Group.

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, Delta Lloyd Life, Delta Lloyd Non-life, NN Re and MOVIR) as at 31 December 2017 and 31 December 2018 respectively.

Risk profile
Insurance risk capital requirements

	2018	2017[1]
Mortality (including longevity) risk	4,232	2,720
Morbidity risk	441	339
Property & Casualty risk	560	352
Diversification insurance risk	-915	-636
Insurance risk (IM entities)	**4,318**	**2,775**

1 The SCR for the Delta Lloyd Life and Non-life entities was calculated using standard formula for 2017 therefore was not included in Insurance risk under PIM.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

The SCR for insurance risk is mostly driven by mortality risk, in particular longevity risk in 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 products covering risks such as fire damage, car accidents, personal and professional liability, windstorms, hail, and third-party liabilities. The Property & Casualty (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 November 2017, NN Life entered into an index-based longevity hedge based on the Dutch population. The hedge partially protects NN Group against longevity risk exposure from approximately EUR 3 billion of pension liabilities. NN Group remains exposed to the risk that the mortality of its own portfolio may differ from the mortality of the Dutch population.

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 credit risk policy of NN Group.

Risk measurement

Insurance risk increased from EUR 2,775 million at 31 December 2017 to EUR 4,318 million at 31 December 2018, mainly due to the inclusion of Delta Lloyd Life and Non-life in the Internal Model, partly offset by an increase of interest rates and the Volatility Adjustment. Given the long-term nature of the liability portfolio of NN Group, the capital requirements underlying insurance risk are sensitive to interest rates and volatility adjustment changes due to the discounting impact.

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

Business risk capital requirements

	2018	2017[1]
Persistency risk	305	268
Premium risk	9	9
Expense risk	1,220	1,127
Political risk	0	0
Diversification Business Risk	-209	-194
Business risk (IM entities)	**1,325**	**1,210**

1 The SCR for the Delta Lloyd Life and Non-life entities was calculated using standard formula for 2017 therefore was not included in Business risk under PIM.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

The main contributors to persistency risk are Netherlands Life and the Japan Closed Block VA. Persistency risk increased slightly due to inclusion of the Delta Lloyd Life and Non-life in the Partial Internal Model, which was partially offset by the increase of the interest rate curve including the Volatility Adjustment, as well as the portfolio and assumption 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.

Total administrative expenses for NN Group in 2018 were EUR 2,178 million compared with EUR 2,176 million in 2017. 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 relates primarily to the variable part of NN Group's expenses, and is the risk that future actual expenses exceed the expenses assumed. Expense risk mainly comprises the expense level and expense inflation risks in NN Life and Delta Lloyd Life.

A significant portion of the expense risk 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 choices 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 variables expenses to the 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 risks.

Life Risk

Life risk includes risks arising from the underwriting of life insurance, which includes 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.

Risk profile

Life risk capital requirements

	2018[1]	2017
Mortality risk	130	204
Longevity risk	94	1,113
Morbidity risk	9	36
Expense risk	310	636
Lapse risk	575	652
Catastrophe risk	100	126
Diversification life risk	-352	-941
Life risk (SF entities)	**866**	**1,826**

1 The SCR for the Delta Lloyd Life and Non-life entities was calculated using Partial Internal Model for 2018 therefore was not included in Life risk under Standard Formula.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

As shown in the table above, the life risk SCR of the business units applying Standard Formula decreased from EUR 1,826 million in 2017 to EUR 866 million in 2018. This decrease is explained mainly by the inclusion of Delta Lloyd Life and Non-life in the Partial Internal Model and exclusion from standard formula calculations.

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

	2018[1]	2017
SLT	142	154
NSLT	20	53
Catastrophe risk	11	33
Diversification health risk	-17	-42
Health risk (SF entities)	**156**	**198**

1 The SCR for the Delta Lloyd Life and Non-life entities was calculated using Partial Internal Model for 2018 therefore was not included in Health Risk under Standard Formula.

As shown in the table above, the health risk SCR of the business units applying Standard Formula decreased from EUR 198 million in 2017 to EUR 156 million in 2018. This decrease is explained mainly by the inclusion of Delta Lloyd Life and Non-life in the Partial Internal Model and the corresponding exclusion from Standard Formula calculations.

Risk mitigation

The majority of Health Risk originates from international NN Group entities (Belgium, Poland, Slovakia, Romania, Greece) and they are mitigating 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.

Risk profile

Non-life risk capital requirements

	2018[1]	2017
Premium and reserve risk	91	358
Lapse risk	18	29
Catastrophe risk	29	88
Diversification non-life risk	-34	-84
Non-life risk (SF entities)	**104**	**391**

1 The SCR for the Delta Lloyd Life and Non-life entities was calculated using Partial Internal Model for 2018 therefore was not included in non-life Risk under Standard Formula.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

As shown in the table above, the non-life risk SCR of the business units applying Standard Formula decreased from EUR 391 million in 2017 to EUR 104 million in 2018. This decrease is explained mainly by the inclusion of Delta Lloyd Life and Non-life in the Partial Internal Model and the corresponding exclusion from Standard Formula calculations.

Risk mitigation

Non-life risk is mitigated through appropriated pricing and underwriting policies and through risk transfer via reinsurance. Most of the non-life risk comes from ABN AMRO Leven 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 Group 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 internal 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 internal 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 (cybercrime) or internal causes. Cybersecurity is an integral part of NN Group's risk management strategy
- **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 emerging laws and regulations, 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

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk mitigation

Non-financial risk assessments are done based on historic data as well as on a forward looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk.

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 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.

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 the ambition levels and 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 internal controls. Operational risk management, as part of the second line of defence, is responsible for providing management with an objective assessment of the effectiveness and efficiency of NN Group risks and controls.

Risk measurement

NN Group's SCR for operational risk was EUR 659 million and EUR 677 million as at 31 December 2018 and 31 December 2017, 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

Risk profile

Through NN Group's retirement services, insurance, investments and banking products, NN Group is committed to help our customers secure their financial future. 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.

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 whistleblower 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 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

Business conduct risk is considered to be part of the Operational Risk SCR and is therefore not specifically calculated.

Notes to the Consolidated annual accounts Continued

51 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 target capital target levels which are set in accordance with the risk associated with the business activities, commercial requirements and other relevant factors. 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 3-5 years. NN Group's risk appetite statements, as further described in Note 50 '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 2018, 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 of ongoing business (EBIT) adjusted for special items divided by interest before tax on financial leverage.

Liquidity management

NN Group monitors and manages its liquidity risk based on certain severe stress scenarios, thereby following a bottom-up approach. Liquidity ratios are periodically reported and monitored both on an individual entity and on a consolidated basis.

Liquidity ratios indicate whether an entity can withstand a 12-month period of severe liquidity stress without external or NN Group support. Ratios are calculated as: (i) the liquid assets - in some cases subject to a haircut - of an entity divided by (ii) the outflows it can expect in severe stress scenarios, which includes lapses, outflow of saving deposits and market volatility. Liquidity ratios of entities must be sufficient on a standalone entity basis. At 31 December 2018, all entities reported liquidity ratios higher than 100%.

For the Banking business, DNB requires an annual Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP) which it reviews in its annual Supervisory Review and Evaluation Process (SREP). The ICLAAP includes stress tests to verify capital and liquidity adequacy under conditions of severe but plausible stress. The ICLAAP and the SREP show that NN Bank has a robust capital and liquidity position.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

Main events 2018

Significant events of 2018 are listed below in chronological order.

As per 1 January 2018, the legal merger of NN Bank and Delta Lloyd Bank became effective. As a result of this merger, Delta Lloyd Bank ceased to exist as a separate legal entity and NN Bank acquired all assets and liabilities of Delta Lloyd Bank.

As per 1 January 2018, the legal merger of NN Investment Partners B.V and Delta Lloyd Asset Management N.V. became effective. As a result of this merger, Delta Lloyd Asset Management N.V. ceased to exist as a separate legal entity.

On 2 January 2018, NN Group announced that NN Group N.V. and NN Group Bidco B.V. (NN Group Bidco) executed the legal merger of NN Group Bidco into NN Group N.V. As a result of this, NN Group Bidco ceased to exist and NN Group N.V. assumed all assets and liabilities of NN Group Bidco, including its subordinated notes of EUR 750 million and the Delta Lloyd legal entities. The legal merger became effective on 31 December 2017.

As per 30 March 2018, NN Insurance Belgium and Delta Lloyd Life Belgium merged into one company, NN Insurance Belgium N.V. As a result of this merger, Delta Lloyd Life Belgium ceased to exist as a separate legal entity and NN Insurance Belgium N.V. acquired all assets and liabilities of Delta Lloyd Life Belgium.

On 22 June 2018, NN Group announced it had reached agreement with Dutch residential real estate investor Vesteda regarding the sale of a Dutch residential real estate portfolio of 6,777 units for a total consideration of approximately EUR 1.5 billion. The transaction was completed in June 2018.

On 25 June 2018, NN Group paid a 2017 final dividend of EUR 1.04 per ordinary share, equivalent to EUR 348 million in total. To neutralise the dilutive effect of the stock dividend on earnings per share, NN Group announced the repurchase of ordinary shares for a total amount of EUR 142 million. This share buyback was executed by financial intermediaries under an open market share buyback programme which was completed on 21 December 2018.

On 16 August 2018, NN Group announced it had reached agreement to acquire 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. The transaction was completed in January 2019.

On 10 September 2018, NN Group paid a 2018 interim dividend of EUR 0.66 per ordinary share, equivalent to EUR 222 million in total. To neutralise the dilutive effect of the stock dividend on earnings per share, NN Group announced the repurchase of ordinary shares for a total amount of EUR 95 million. This share buyback was executed by financial intermediaries under an open market share buyback programme which was completed on 21 December 2018.

On 15 November 2018, NN Group announced that it had reached an agreement to repurchase its warrants that were issued to ING Groep N.V. for a consideration of EUR 76 million. All outstanding warrants were cancelled. This transaction eliminates potential share dilution.

On 5 December 2018, NN Group announced that it received approval from DNB, the Dutch supervisory authority, to expand its Partial Internal Model under Solvency II to include the Delta Lloyd Life and Non-life entities in the Netherlands. The expanded approved Partial Internal Model is used to calculate regulatory capital requirements effective 31 December 2018.

On 13 December 2018, NN Group announced that that it has obtained approval from DNB, the Dutch supervisory authority, to execute the legal mergers of Delta Lloyd Levensverzekering N.V. (Delta Lloyd Life) into Nationale-Nederlanden Levensverzekering Maatschappij N.V. (NN Life) and Delta Lloyd Schadeverzekering N.V. (Delta Lloyd Non-life) into Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (NN Non-life). The legal mergers became effective on 1 January 2019. As a result, NN Non-life assumes all assets and liabilities of Delta Lloyd Non-life, and NN Life assumes all assets and liabilities of Delta Lloyd Life, including its subordinated notes of EUR 500 million. On 2 January 2019 S&P issued a press release assigning the rating 'A' to both NN Life and NN Non-Life (after the legal entity merger) with 'Stable' outlook and affirming rating of 'BBB+' of the subordinated notes of EUR 500 million. At the same time the ratings on DL Life and DL Non-Life were discontinued.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

On 18 December 2018, NN Group announced that it has reached an agreement to strengthen the long-term partnership between NN Investment Partners (NN IP) and ING Bank Śląski S.A. in Poland. Under this agreement, ING Bank Śląski will acquire a 45% stake in NN IP in Poland for a total consideration of approximately EUR 41 million. After the transaction NN Group will remain to have a controlling interest over NN IP Poland.

As of 1 January 2019, all individual disability contracts of Delta Lloyd Schadeverzekering N.V. in the Netherlands (AOV individual portfolio) have been transferred to Movir N.V.

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 Solvency Capital Requirement.

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 and BeFrank) are included in Own Funds based on their local available capital and in SCR based on required capital defined by sectoral supervisory rules. As from March 2016 NN Group is designated by the DNB as a mixed financial holding company, also known as a Financial Conglomerate (FICO). As NN Group is designated as FICO by DNB, NN Bank is excluded from the Group Solvency. 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, Delta Lloyd Life, Delta Lloyd Non-Life, Movir and NN Re in the Netherlands) while the Standard Formula is used to calculate capital requirements for operational risk (across the group) and capital requirements for the international insurance entities that fall under Solvency II and for ABN AMRO Life and ABN AMRO Non-Life. The non-insurance businesses and international insurance undertakings not based in the EU (NN Life Japan, NN Turkey) are accounted for in the consolidated group SCR, in most cases, based on the (local) applicable (sectorial) capital requirements under provisional equivalence. Under the Internal Model, the Solvency Capital Requirement is calculated as the post-tax value-at-risk at the confidence interval of 99.5% on a one-year horizon.

The initial regulatory approval of the Partial Internal Model from the DNB was received in December 2015. NN Group received approval from DNB on 5 December 2018 to expand its Partial Internal Model under Solvency II to include the Delta Lloyd Life and Non-life entities in the Netherlands. The expanded approved Partial Internal Model is used to calculate regulatory capital requirements effective 31 December 2018.

Further details on the NN Group capital requirements at 31 December 2018 are provided in Note 50 'Risk Management'.

The Solvency II capital 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 and Delta Lloyd's Dutch life 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 42 'Legal proceedings' for more information.

NN Group was adequately capitalised at year-end 2018 with a Solvency II ratio of 230% based on the Partial Internal Model.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

Eligible Own Funds and Solvency Capital Requirement

	2018	2017
Shareholders' equity	22,850	22,718
Minority interest	234	317
Elimination of deferred acquisition costs and other intangible assets	-1,441	-2,356
Valuation differences on assets	833	1,948
Valuation differences on liabilities, including insurance and investment contracts	-7,677	-9,558
Deferred tax effect on valuation differences	1,571	2,179
Difference in treatment of non-Solvency II regulated entities	-1,242	-1,163
Excess assets/liabilities	**15,129**	**14,085**
Deduction of participation in Bank[1]	-905	-884
Qualifying subordinated debt	4,417	4,394
Foreseeable dividends and distributions	-541	-474
Basic Own Funds	**18,100**	**17,121**
Non-available Own Funds	1,373	1,339
Non-eligible Own Funds		370
Eligible Own Funds to cover Solvency Capital Requirements (a)	**16,727**	**15,412**
– of which Tier 1 unrestricted	10,513	8,935
– of which Tier 1 restricted	1,895	1,885
– of which Tier 2[2]	2,433	2,420
– of which Tier 3	755	1,085
– of which non-Solvency II regulated entities	1,132	1,087
Solvency Capital Requirements (b)	**7,274**	**7,731**
– of which Solvency Capital Requirements calculated on the basis of consolidated data	6,767	7,231
– of which the capital requirements for investment firms, pension funds and credit institutions[2]	226	249
– of which the capital requirements for undertakings included under the D&A method	281	251
NN Group Solvency II ratio (a/b)[3]	**230%**	**199%**

1 As from March 2016, NN Bank is excluded from the Group Solvency following the designation of NN Group as a Financial Conglomerate (FICO) by the Dutch Central Bank (DNB).
2 The Solvency II value of subordinated loans issued to NN Bank of EUR 89 million at 31 December 2018 (at 31 December 2017 EUR 89 million) is deducted from Tier 2 own funds.
3 The Solvency ratios are not final until filed with the regulators. SII ratios are based on the Partial Internal Model.

The final amount of the Solvency Capital Requirement is still subject to supervisory assessment.

The Solvency II ratio of NN Group increased to 230% at the end of 2018 from 199% at the end of 2017. The increase is driven by operating capital generation and market variance, partly offset by capital flows to shareholders. Market variance contributed positively to the ratio reflecting the favourable impact of movements in credit spreads as well as positive real estate revaluations, partly offset by negative equity revaluations and movements in interest rates. Capital flows to shareholders reflect the 2018 interim and final dividend and the impact related to the repurchase of the warrants from ING Groep N.V. The negative impact from the decrease of the Dutch corporate tax rate is mainly offset by the positive impact of the expansion of the Partial Internal Model to the main Delta Lloyd entities in the Netherlands.

Eligible Own Funds increased by EUR 1.3 billion from EUR 15.4 billion at 31 December 2017 to EUR 16.7 billion at 31 December 2018 mainly due to operating capital generation and market variance, partially offset by capital flows to shareholders reflecting the 2018 interim and final dividend and the impact related to the repurchase of the warrants from ING Groep N.V. Market variance reflects the favourable impact of movements in credit spreads as well as positive real estate revaluations, partly offset by negative equity revaluations.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

The Solvency Capital Requirement decreased by EUR 0.4 billion, from EUR 7.7 billion at 31 December 2017 to EUR 7.3 billion at 31 December 2018. The decrease is mainly driven by operating capital generation and market variance reflecting the favourable impact from credit spread movements partially offset by the decrease of interest rates. The negative impact from the decrease of the Dutch corporate tax rate is partly offset by the positive impact of the expansion of the Partial Internal Model to the main Delta Lloyd entities in the Netherlands.

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	2018	2017
4.500%	NN Group N.V.	2014	1,000	Perpetual	15 January 2026	Tier 1	1,083	1,076
4.375%	NN Group N.V.[1]	2014	750	Perpetual	13 June 2024	Tier 1	812	809
4.625%	NN Group N.V.	2014	1,000	8 April 2044	8 April 2024	Tier 2	1,101	1,099
4.625%	NN Group N.V.	2017	850	13 January 2048	13 January 2028	Tier 2	883	872
9.000%	NN Life (originally issued by Delta Lloyd Levensverzekering N.V.)[2]	2012	500	29 August 2042	29 August 2022	Tier 2	538	538

1 These securities were originally issued by Delta Lloyd N.V. which was merged with NN Group Bidco B.V., which was merged at the end of 2017 into NN Group N.V.

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 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 issued by Delta Lloyd Levensverzekering N.V. in 2012 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. Delta Lloyd 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. Following the legal merger of Delta Lloyd Levensverzekering N.V. (Delta Lloyd Life) into Nationale-Nederlanden Levensverzekering Maatschappij N.V. (NN Life), which became effective on 1 January 2019, NN Life assumes all assets and liabilities of Delta Lloyd Life, including its subordinated notes of EUR 500 million. On 2 January 2019 S&P issued a press release affirming rating of 'BBB+' of the subordinated notes of EUR 500 million.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

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 Tier 1
- 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
- The proportional share in the Own Funds of NN Investment Partners, BeFrank PPI, BeFrank and pension funds is classified as Tier 1
- The proportional share in the Eligible Own Funds of NN Life Japan is classified as Tier 1 (European Commission recognised the solvency regime applied to the insurance undertakings in Japan as provisionally equivalent to Solvency II (Commission Delegated Decision (EU) 2016/310 of 26 November 2015)
- Perpetual subordinated debt is classified as Tier 1 based on the transitional provisions (grandfathering)
- Dated subordinated debt is classified as Tier 2 including that based on the transitional provisions (grandfathering).

As at 31 December 2018 NN Group had no ancillary Own Funds (31 December 2017: nil).
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
- Tier 2 and Tier 3 capital together cannot exceed 50% of the Solvency Capital Requirements
- Tier 3 capital cannot exceed 15% of the Solvency Capital Requirements
- 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 3 capital cannot exceed one third of the total amount of Eligible Own Funds

The application of the regulatory restrictions as at 31 December 2018 is reflected in the table below.

Eligible Own Funds to cover the Solvency Capital Requirement

	Available Own Funds	Eligibility restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	**12,407**	**More than one third of total EOF**		**12,407**
Of which:				
– Unrestricted Tier 1	10,513	Not applicable		10,513
– Restricted Tier 1	1,895	Less than 20% Tier 1		1,895
Tier 2 + Tier 3	**3,187**	**Less than 50% SCR**		**3,187**
Tier 2	2,433			2,433
Tier 3	755	Less than 15% SCR; Less than one third of total EOF		755
Non-Solvency II regulated entities	1,132			1,132
Total Own Funds	**16,727**			**16,727**

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
- 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 Solvency Capital Requirements of the respective related undertaking. On 31 December 2018 Excess non-available own funds amounted to EUR 1,373 million. On 31 December 2017 this amount was EUR 1,339 million.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

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.

Cash capital position at the holding company

	2018	2017
Beginning of period	1,434	2,489
Cash divestment proceeds		58
Dividends from subsidiaries[1]	1,593	1,818
Capital injections into subsidiaries[2]	-78	-597
Other[3]	-298	-397
Free cash flow to the holding[4]	**1,216**	**881**
Addition Delta Lloyd cash capital position		413
Acquisitions		-2,234
Capital flow from/to shareholders	-645	-665
Increase/decrease in debt and loans		549
End of period	**2,005**	**1,434**

1 Includes interest on intragroup subordinated loans provided to subsidiaries by the holding company.
2 The 2017 figures includes the change of intragroup subordinated loans provided to subsidiaries by the holding company.
3 Includes interest on subordinated loans and debt with external debtholders, holding company expenses and other cash flows.
4 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 (and in 2017, the addition of Delta Lloyd cash capital position).

The cash capital position at the holding company increased to EUR 2,005 million from EUR 1,434 million at 31 December 2017. The increase reflects the free cash flow to the holding of EUR 1,216 million representing EUR 1,593 million of dividends from all segments, partly offset by a EUR 78 million capital injection into subsidiaries and EUR 298 million other movements that include holding company expenses, interest on loans and debt and other holding company cash flows. The cash capital position at 31 December 2018 also reflects the capital flows to shareholders of EUR 645 million representing the cash part of the 2017 final dividend and the 2018 interim dividend for a total amount of EUR 332 million, the shares repurchased in 2018 for an amount of EUR 237 million and the impact related to the repurchase of the warrants from ING Groep N.V. for an amount of EUR 76 million.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

Financial leverage
The financial leverage and fixed-cost coverage ratio are managed in accordance with a single A financial strength rating target.

Financial leverage

	2018	2017
Shareholders' equity	22,850	22,718
Adjustment for revaluation reserves	-7,097	-6,976
Minority interests	234	317
Capital base for financial leverage (a)	**15,988**	**16,060**
– Undated subordinated notes[1]	1,764	1,764
– Subordinated debt	2,445	2,468
Total subordinated debt	**4,209**	**4,231**
Debt securities issued (financial leverage)	1,990	1,988
Financial leverage (b)	**6,199**	**6,219**
Debt securities issued (operational leverage)		
Total debt	**6,199**	**6,219**
Financial leverage ratio (b/(a+b))	27.9%	27.9%
Fixed-cost coverage ratio[1,2]	13.8x	13.5x

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) of ongoing business to cover funding costs on financial leverage.

The financial leverage ratio of NN Group was stable at 27.9% at 31 December 2018, versus 31 December 2017. The capital base for financial leverage decreased by EUR 72 million mainly driven by capital flows to shareholders of EUR 645 million and negative equity revaluations of EUR 526 million, offset by the 2018 net result of EUR 1,117 million. The net result includes the impairment of the goodwill for Delta Lloyd Life for an amount of EUR -852 million.

The fixed-cost coverage ratio increased to 13.8x at the end of 2018 from 13.5x at the end of 2017.

Proposed 2018 final dividend
At the Annual General Meeting on 29 May 2019, a final dividend will be proposed of EUR 1.24 per ordinary share, or approximately EUR 415 million in total based on the current number of outstanding shares (net of treasury shares). Together with the 2018 interim dividend of EUR 0.66 per ordinary share paid in September 2018, NN Group's total dividend over 2018 will be EUR 637 million, or EUR 1.90 per ordinary share which is equivalent to a dividend pay-out ratio of 50% of NN Group's full-year 2018 net operating result of ongoing business. This represents an increase of 14.5% compared with the total 2017 dividend, reflecting the additional cashflows from the Delta Lloyd transaction. The final dividend will be paid in cash, after deduction of withholding tax if applicable, or ordinary shares from the share premium reserve at the election of the shareholder. 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 shareholders, NN Group ordinary shares will be quoted ex-dividend on 31 May 2019. The record date for the dividend will be 3 June 2019. The election period will run from 4 June up to and including 18 June 2019. 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 12 June through 18 June 2019. The dividend will be payable on 25 June 2019. (For more information: https://www.nn-group.com/Investors.htm).

Going forward, and barring unforeseen circumstances, NN Group intends to pay ordinary dividends on a semi-annual basis. In line with NN Group's stated dividend policy, capital generated in excess of NN Group's capital ambition (which may change over time) is expected to be returned to shareholders unless it can be used for any other appropriate corporate purposes, including investments in value creating corporate opportunities. NN Group is committed to distributing excess capital in a form which is most appropriate and efficient for shareholders at that specific point in time, such as special dividends or share buy backs.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

Share buyback

On 14 February 2019, NN Group announced an open market share buyback programme for an amount up to EUR 500 million over a period of 12 months commencing 1 March 2019. The share buyback will be deducted from Solvency II Own Funds in full in the first quarter of 2019, whilst it will be deducted from IFRS shareholders' equity when the actual buyback transactions occur. NN Group intends to cancel all of the shares acquired under the programme.

The share buyback programme will be executed within the limitations of the existing authority granted by the General Meeting on 31 May 2018 and such authority to be granted by the General Meeting on 29 May 2019. 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 programme will be executed by financial intermediaries and will be performed in compliance with the safe harbour provisions for share buybacks.

NN Group will report on the progress of the share buyback programme on its corporate website on a weekly basis (https://www.nn-group.com/Investors.htm).The execution of the share buyback programme is subject to NN Group maintaining a robust capital position and overall financial flexibility. NN Group will continue to explore options for deploying excess capital for value creating corporate opportunities, in line with its dividend policy.

Following payment of the 2017 final dividend and the 2018 interim dividend, NN Group announced that it would repurchase ordinary shares for a total amount of EUR 237 million, equivalent to the value of the stock dividends, to neutralise the dilutive effect. These share buybacks were executed by financial intermediaries under an open market share buyback programme, which was completed on 21 December 2018.

This share buyback programme was executed within the limitations of the existing authority granted by the General Meeting on 31 May 2018 and was performed in compliance with the safe harbour provisions for share buybacks. The shares were repurchased at a price that did not exceed the last independent trade or the highest current independent bid on Euronext Amsterdam. NN Group intends to cancel all of the shares acquired under the programme (www.nn-group.com/Investors/Share-buyback-programme.htm).

Share capital

In 2018, a total number of 6,375,464 ordinary shares for a total amount of EUR 237 million were repurchased.

The Executive Board of NN Group has decided to cancel 5,850,000 treasury shares representing shares NN Group repurchased as part of the share buyback programme which was completed in December 2018. This cancellation is subject to a two-month creditor opposition period which will end on 28 March 2019.

On 8 March 2019, the total number of NN Group shares outstanding (net 6,840,094 of treasury shares) was 334,218,977.

Credit ratings

On 6 June 2018, Standard & Poor's affirmed NN Group's 'A' financial strength rating and 'BBB+' credit rating with a stable outlook.

On 20 June 2018, Fitch affirmed NN Group's 'A+' financial strength rating and 'A' credit rating with a stable outlook.

Credit ratings on NN Group N.V. on 13 March 2019

	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 2018 were authorised for issue in accordance with a resolution of the Executive Board on 13 March 2019. 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, 13 March 2019

The Supervisory Board
J.H. (Jan) Holsboer, Chair
D.H. (Dick) Harryvan, Vice-chair
D.A. (David) Cole
H.J.G. (Heijo) Hauser
R.W. (Robert) Jenkins
R.A. (Robert) Ruijter
J.W. (Hans) Schoen
C.C.F.T. (Clara) Streit
H.M. (Hélène) Vletter-van Dort

The Executive Board
E. (Lard) Friese, 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	2018	2017
Assets			
Investments in group companies	2	24,194	23,633
Intangible assets	3	510	1,494
Other assets	4	6,301	5,498
Total assets		**31,005**	**30,625**
Equity	5		
Share capital		41	41
Share premium		12,572	12,572
Share of associates reserve		8,923	9,185
Retained earnings		197	-1,190
Unappropriated result		1,117	2,110
Shareholders' equity		**22,850**	**22,718**
Undated subordinated notes	5	1,764	1,764
Total equity		**24,614**	**24,482**
Liabilities			
Subordinated debt	6	1,829	1,826
Other liabilities	7	4,562	4,317
Total liabilities		**6,391**	**6,143**
Total equity and liabilities		**31,005**	**30,625**

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	2018	2017
Result group companies	2,228	2,338
Other income	85	99
Total income	**2,313**	**2,437**
Intangible amortisation and other impairments	984	99
Interest expenses	104	113
Operating expenses	166	185
Total expenses	**1,254**	**397**
Result before tax	**1,059**	**2,040**
Taxation	-58	-70
Net result	**1,117**	**2,110**

Parent company statement of changes in equity

Parent company statement of changes in equity (2018)

	Share capital	Share premium	Share of associates reserve	Other reserves[1]	Shareholders' equity	Undated subordinated notes	Total equity
Balance at 1 January 2018	**41**	**12,572**	**9,185**	**920**	**22,718**	**1,764**	**24,482**
Unrealised revaluations available-for-sale investments and other			-345	22	-323		-323
Realised gains/losses transferred to the profit and loss account			-823		-823		-823
Changes in cash flow hedge reserve			793		793		793
Deferred interest credited to policyholders			-38		-38		-38
Share of other comprehensive income of associates and joint ventures			1		1		1
Exchange rate differences			93		93		93
Unrealised revaluations property in own use			7		7		7
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-312**	**22**	**-290**	**0**	**-290**
Net result for the period				1,117	1,117		1,117
Total comprehensive income	**0**	**0**	**-312**	**1,139**	**827**	**0**	**827**
Transfers to/from associates			50	-50	0		0
Dividend				-332	-332		-332
Purchase/sale of treasury shares				-231	-231		-231
Employee stock option and share plans				2	2		2
Coupon on undated subordinated notes				-58	-58		-58
Changes in composition of the group and other changes				-76	-76		-76
Balance at 31 December 2018	**41**	**12,572**	**8,923**	**1,314**	**22,850**	**1,764**	**24,614**

1 Other reserves include Retained earnings and Unappropriated result.

Parent company statement of changes in equity Continued

Parent company statement of changes in equity (2017)

	Share capital	Share premium	Share of associates reserve	Other reserves[1]	Shareholders' equity	Undated subordinated notes	Total equity
Balance at 1 January 2017	**40**	**12,153**	**10,743**	**-241**	**22,695**	**986**	**23,681**
Unrealised revaluations available-for-sale investments and other			-454	-91	-545		-545
Realised gains/losses transferred to the profit and loss account			-963		-963		-963
Changes in cash flow hedge reserve			-714		-714		-714
Deferred interest credited to policyholders			598		598		598
Share of other comprehensive income of associates and joint ventures			-1		-1		-1
Exchange rate differences			-163		-163		-163
Remeasurement of the net defined benefit asset/liability			-3		-3		-3
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-1,700**	**-91**	**-1,791**	**0**	**-1,791**
Net result for the period				2,110	2,110		2,110
Total comprehensive income	**0**	**0**	**-1,700**	**2,019**	**319**	**0**	**319**
Changes in share capital	1	419			420		420
Transfers to/from associates			142	-142	0		0
Dividend				-317	-317		-317
Purchase/sale of treasury shares				-340	-340		-340
Coupon on undated subordinated notes				-59	-59		-59
Changes in composition of the group and other changes					0	778	778
Balance at 31 December 2017	**41**	**12,572**	**9,185**	**920**	**22,718**	**1,764**	**24,482**

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'.

In December 2017, NN Group N.V. and NN Group Bidco B.V. legally merged. All assets and liabilities of NN Group Bidco B.V. became assets and liabilities of NN Group N.V. and are included in the Parent company balance sheet of NN Group N.V. as at 31 December 2017.

2 Investments in group companies

Investments in group companies

Name	Statutory seat	Interest held 2018	Balance sheet value 2018	Interest held 2017	Balance sheet value 2017
NN Insurance Eurasia N.V.	Amsterdam, The Netherlands	100%	23,081	100%	20,976
Delta Lloyd Houdstermaatschappij Verzekeringen N.V.	Amsterdam, The Netherlands	100%	23	100%	962
Nationale-Nederlanden Bank N.V.	The Hague, The Netherlands	100%	761	100%	585
Delta Lloyd Houdstermaatschappij België B.V.	Arnhem, The Netherlands			100%	582
Nationale-Nederlanden ABN AMRO Verzekeringen Holding B.V.	Zwolle, The Netherlands	51%	231	51%	315
Delta Lloyd Bank N.V.	Amsterdam, The Netherlands			100%	118
NN Insurance International B.V.	The Hague, The Netherlands	100%	63	100%	78
Other			35		17
Investments in group companies			**24,194**		**23,633**

Changes in investments in group companies

	2018	2017
Investments in group companies – opening balance	23,633	22,580
Revaluations	-277	-1,747
Result of group companies	2,228	2,338
Capital contributions	1,559	2,937
Dividend and repayments	-2,971	-1,455
Changes in the composition of the group and other changes	22	-1,020
Investments in group companies – closing balance	**24,194**	**23,633**

In 2017, 'Capital contributions' include EUR 2,463 million in relation to the acquisition of Delta Lloyd. Reference is made to Note 43 'Companies and businesses acquired and divested'.

In 2017, 'Changes in composition of the group and other changes' includes EUR 1,020 million in relation to the merger of NN Group Bidco B.V. and NN Group N.V.

Notes to the Parent company annual accounts Continued

3 Intangible assets

Intangible assets

	2018	2017
Goodwill	294	1,146
Other intangible assets	216	348
Intangible assets	**510**	**1,494**

For the decrease of Goodwill and the accompanying change in the line Intangible amortisation and other impairments in the Parent company profit and loss account, reference is made to Note 9 'Intangible assets' of the Consolidated annual accounts.

4 Other assets

Other assets

	2018	2017
Receivables from group companies	1,835	2,041
Cash	2,447	1,684
Other receivables	2,019	1,773
Other assets	**6,301**	**5,498**

As at 31 December 2018, an amount of EUR 1,475 million (2017: EUR 1,807 million) is expected to be settled after more than one year from the balance sheet date.

5 Equity

Equity

	2018	2017
Share capital	41	41
Share premium	12,572	12,572
Share of associates reserve	8,923	9,185
Retained earnings and unappropriated result	1,314	920
Shareholders' equity	**22,850**	**22,718**
Undated subordinated notes	1,764	1,764
Total equity	**24,614**	**24,482**

As at 31 December 2018, share premium includes an amount of EUR 6,393 million (2017: EUR 6,393 million) exempt from Dutch withholding tax.

Share capital

	Ordinary shares (in number)		Ordinary shares (Amounts in millions of euros)	
	2018	2017	2018	2017
Authorised share capital	700,000,000	700,000,000	84	84
Unissued share capital	358,940,929	359,249,658	43	43
Issued share capital	**341,059,071**	**340,750,342**	**41**	**41**

For details on the changes in share capital, share premium and warrants, reference is made to Note 12 'Equity' in the Consolidated annual accounts.

Notes to the Parent company annual accounts Continued

5 Equity continued

Changes in Retained earnings and unappropriated result (2018)

	Retained earnings	Unappropriated result	Total
Retained earnings and unappropriated result – opening balance	-1,190	2,110	920
Net result for the period		1,117	1,117
Unrealised revaluations	22		22
Transfer to/from share of associates reserve	-50		-50
Transfer to/from retained earnings	2,110	-2,110	0
Dividend	-332		-332
Purchase/sale of treasury shares	-231		-231
Employee stock option and share plans	2		2
Coupon on undated subordinated notes	-58		-58
Changes in the composition of the group and other changes	-76		-76
Retained earnings and unappropriated result – closing balance	**197**	**1,117**	**1,314**

Changes in Retained earnings and unappropriated result (2017)

	Retained earnings	Unappropriated result	Total
Retained earnings and unappropriated result – opening balance	-1,430	1,189	-241
Net result for the period		2,110	2,110
Unrealised revaluations	-91		-91
Transfer to/from share of associates reserve	-142		-142
Transfer to/from retained earnings	1,189	-1,189	0
Dividend	-317		-317
Purchase/sale of treasury shares	-340		-340
Coupon on undated subordinated notes	-59		-59
Retained earnings and unappropriated result – closing balance	**-1,190**	**2,110**	**920**

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

Share of associates reserve

	2018	2017
Unrealised revaluations within consolidated group companies	8,198	8,597
Currency translation reserve	-34	-139
Net defined benefit asset/liability remeasurement reserve	-106	-106
Reserve for non-distributable retained earnings of associates	747	697
Revaluations on investment property and certain participations recognised in income	118	136
Share of associates reserve	**8,923**	**9,185**

Positive components of the Share of associate reserve of EUR 9,063 million (2017: EUR 9,430 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.

Notes to the Parent company annual accounts Continued

5 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 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

	2018	2018	2017	2017
Total shareholders' equity		22,850		22,718
Share capital	41		41	
Positive components of Share of associates reserve	9,063		9,430	
Total non-distributable part of shareholders' equity:		**9,104**		**9,471**
Distributable reserves based on the Dutch Civil Code		**13,746**		**13,247**

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

	2018	2018	2017	2017
Solvency requirement under the Financial Supervision Act	7,274		7,731	
Reserves available for financial supervision purposes	16,727		15,412	
Total freely distributable reserves on the basis of solvency requirements		9,453		7,681
Total freely distributable reserves on the basis of the Dutch Civil Code		13,746		13,247
Total freely distributable reserves (lower of the values above)		**9,453**		**7,681**

Reference is made to Note 51 '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 51 '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.

Notes to the Parent company annual accounts Continued

5 Equity continued

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 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.

6 Subordinated debt

Issuance

In January 2017, NN Group issued subordinated notes with a nominal value of EUR 850 million. The EUR 850 million subordinated notes have a maturity of 31 years and are first callable after 11 years and every quarter thereafter, subject to conditions to redemption. The coupon is fixed at 4.625% per annum until the first call date and will be floating thereafter. These notes qualify as Tier 2 regulatory capital. The proceeds were used to repay EUR 823 million of hybrid loans to ING Group in the first quarter of 2017.

Repayment of Subordinated debt

In January 2017, NN Group redeemed all three perpetual subordinated hybrid loans with variable coupons for a total amount of EUR 823 million. In May 2017, NN Group redeemed the outstanding aggregate principal amount of EUR 476 million of the 6.375% fixed to floating rate subordinated notes due 2027.

Subordinated debt

				Notional amount		Balance Sheet Value	
Interest rate	Year of issue	Due date	First call date	2018	2017	2018	2017
4.625%	2017	13 January 2048	13 January 2028	850	850	838	837
4.625%	2014	8 April 2044	8 April 2024	1,000	1,000	991	989
Subordinated debt						**1,829**	**1,826**

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.

Notes to the Parent company annual accounts Continued

7 Other liabilities

Other liabilities

	2018	2017
Debt securities issued	1,989	1,987
Amounts owed to group companies	2,440	1,962
Other amounts owed and accrued liabilities	133	368
Other liabilities	**4,562**	**4,317**

Debt securities issued

Issuance (2017)

During 2017, NN Group issued senior unsecured notes with a nominal value of EUR 500 million, EUR 300 million and EUR 600 million.

The EUR 500 million senior unsecured notes have a fixed coupon of 0.875% per annum and a maturity of 6 years. The proceeds were used to repay EUR 476 million of Subordinated debt of NN Group on its first call date in May 2017.

The EUR 300 million senior unsecured notes have a fixed coupon of 0.25% per annum and a maturity of 3 years.

The EUR 600 million senior unsecured notes have a fixed coupon of 1.625% per annum and a maturity of 10 years. The net proceeds of both senior unsecured notes were applied to repay the EUR 900 million bridge loan used to finance the acquisition of Delta Lloyd.

Amounts owed to group companies by remaining term

	2018	2017
Within 1 year	2,440	1,825
More than 1 year but less than 5 years		137
Amounts owed to group companies	**2,440**	**1,962**

8 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 2018 were authorised for issue in accordance with a resolution of the Executive Board on 13 March 2019. 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, 13 March 2019

The Supervisory Board
J.H. (Jan) Holsboer, Chair
D.H. (Dick) Harryvan, Vice-chair
D.A. (David) Cole
H.J.G. (Heijo) Hauser
R.W. (Robert) Jenkins
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C.C.F.T. (Clara) Streit
H.M. (Hélène) Vletter-van Dort

The Executive Board
E. (Lard) Friese, 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 2018 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 2018 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 2018 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 2018 annual accounts of NN Group N.V. based in Amsterdam and headquartered in The Hague, as set out on pages 38 to 184 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 2018;
2 the following consolidated statements for 2018: 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 2018;
2 the parent company profit and loss account for 2018;
3 the parent company statement of changes in equity; and
4 the notes comprising a summary of the accounting policies and other explanatory information.

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 EU Regulation on specific requirements regarding statutory audits of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), 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
— IFRS materiality of EUR 140 million. This is in line with 2017.
— Based on core equity: shareholders' equity minus revaluation reserves (1%)

Group audit
— 94% of core equity
— 97% of total assets
— 85% of profit before tax

Key audit matters
— Valuation of insurance contract liabilities and Reserve Adequacy Test (RAT)
— Unit-linked exposure
— Solvency II capital and risk management disclosures
— Delta Lloyd integration
— Valuation of Delta Lloyd goodwill

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 140 million (2017: EUR 140 million). The materiality is determined with reference to core equity (shareholders' equity minus revaluation reserves) and amounts to 1% (2017: 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 (2017: 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 is at the head of a group of entities ("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, Other and Japan Closed Block Variable Annuity (CBVA), each comprising of multiple legal entities and/or covering different countries, except for Japan Life and Japan CBVA.

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.

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. In addition, we included certain components in the scope of our group audit in order to arrive at a sufficient coverage over all relevant significant account balances.

This resulted in a full or specific scope audit for 26 components, in total covering 9 countries, and in a coverage of 94% of core equity, 97% of total assets and 85% of profit before tax. For the remaining 6% of core equity, 3% of total assets and 15% of profit before tax, procedures were performed at the group level including analytical procedures in order to corroborate our assessment that the risk in the residual population is remote. This coverage is in line with our 2017 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.

Independent auditor's report Continued

We visited locations in The Netherlands, Japan, Belgium, Hungary and Czech Republic, where we discussed the audit work performed with the local audit teams and performed detailed file reviews. For all components in the scope of the group audit we held conference calls and/or physical meetings with the auditors of the components. During these visits, meetings and 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.

The group audit team has set component materiality levels, which ranged from EUR 4 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 that are dealt with at group level 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 can be summarised:

Core equity

71%
Audit of the complete reporting package

23%
Audit of specific items

6%
Covered by additional procedures performed at group level

Total assets

91%
Audit of the complete reporting package

6%
Audit of specific items

3%
Covered by additional procedures performed at group level

Independent auditor's report Continued

Profit before tax

75%	10%	15%
Audit of the complete reporting package	Audit of specific items	Covered by additional procedures performed at group level

Audit scope in relation to fraud and non-compliance with laws and regulations

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the annual accounts taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we use the evaluation of management in relation to fraud risk management (prevention, detection and response) including ethical standards to create a culture of honesty, and to compliance with laws and regulations.

Fraud risk

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with management. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. In this risk assessment we made use of our forensic specialists.

Based on the auditing standards we addressed the following presumed fraud risks that were relevant to our audit:

— Fraud risk in relation to the revenue recognition.

— Fraud risk in relation to management override of controls.

Based on our analysis of fraud risk factors (including those resulting from the integration of the Delta Lloyd entities) we have not identified and evaluated any other fraud risks. Reference is made to Key Audit Matter 4, 'Delta Lloyd integration'.

Our audit procedures included an evaluation of the internal controls relevant to mitigate these risks and supplementary substantive audit procedures, including detailed testing of high risk journal entries.

As part of our evaluation of any instances of fraud, we inspected the incident register and follow up by management. Regarding one incident we performed additional procedures to obtain an understanding of the fact pattern, the root causes of the incident, the risk for financial reporting and management's response to mitigate the risk. We performed specific audit procedures with the support of our forensic specialist.

We communicated about our work with 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 procedures to address fraud risks did not result in significant findings.

Compliance with laws and regulations

We also assessed factors related to the risk of non-compliance with laws and regulations, which could have a direct or indirect impact on the annual accounts.

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts through discussion with management and the Audit Committee of the Supervisory Board. We discussed with them the policies and procedures regarding compliance with these laws and regulations. We communicated identified laws and regulations throughout our team and remained alert on any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the annual accounts varies considerably.

Firstly, NN Group is subject to laws and regulations that directly impact the annual accounts, including financial reporting, Solvency II and taxation. We assessed the extent of compliance with these laws and regulations as part of our audit of the annual accounts. For Solvency II we refer to Key Audit Matter 3, 'Solvency II capital and risk management disclosures'.

Secondly, NN Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the annual accounts, for instance through the imposition of fines or litigation. We identified the following areas as most likely to have such an effect: wet financieel toezicht (wft), anti-money laundering regulation and data privacy regulation (GDPR). Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations, which we performed, to inquiry of management and those charged with governance and inspection of regulatory and legal correspondence.

We are not responsible for preventing non-compliance and cannot be expected to detect all non-compliance with laws and regulations.

Our procedures to address the risk of non-compliance to laws and regulations did not result in significant findings.

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 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.

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In comparison to our 2017 audit opinion, we no longer recognise a key audit matter for the acquisition of Delta Lloyd, given the non-recurring character of the transaction. Related to the acquisition of Delta Lloyd, we identified a key audit matter in 2018 for the valuation of the Delta Lloyd goodwill.

1. Valuation of insurance contract liabilities and Reserve Adequacy Test (RAT)

Description

NN Group has insurance and investment contract liabilities of EUR 161 billion representing 81% 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.

The RAT is performed in order to confirm that the insurance contract liabilities, 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 Leven and Delta Lloyd Leven are the most important. The RAT for NN Leven and Delta Lloyd Leven 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 this a key audit matter.

Our response

Our audit approach included testing both the effectiveness of internal controls around determining insurance and investment 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, recognition and amortisation of deferred acquisition costs, 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 actuarial specialists we performed the following substantive audit procedures:

— Assessment of the appropriateness of assumptions used in the valuation of the insurance contract liabilities for significant business units (in particular NN Leven and Delta Lloyd Leven) by reference to company and industry data and expectations of investment returns, future longevity and expense developments;

- Assessment of the appropriateness of the data, assumptions and methodologies applied in 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 2018.

Our observation

Overall we found that management estimated the valuation of the insurance contract liabilities, net of deferred acquisition costs, acceptably. We also found the related RAT disclosure to be adequate. We refer to Notes 10 and 16 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. To the extent that available for sale investments are being sold, the excess in reserve adequacy would decrease. If these unrealised revaluations were to be fully realised, the capital gains would only be partly available to shareholders, since a portion of the gains would be required to strengthen the insurance contract liabilities in order to remain adequate.

2. 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 or quantified at this point. Refer to Note 42 of the annual accounts.

Due to the potential significance and management judgement that is required to assess the developing fact pattern, 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 (for both the NN and Delta Lloyd related exposures). These procedures took into account NN Group's specific developments as well as broader market developments in 2018;
- Obtaining lawyers letters of the external lawyers that are engaged by NN Group in relation to the defense 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 lawyers letters to obtain external confirmation over management's judgements in relation to the related (collective) exposures;
- Obtaining an understanding of the proposed new legislation on mass damage claims, that was approved by the Dutch House of Representatives (Tweede Kamer), and that is now submitted for approval to the Dutch Senate (Eerste Kamer) and how that might impact management's judgements of the exposure;
- 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 42 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 2018 balance sheet (for both EU-IFRS and Solvency II) to be sufficiently substantiated.

We considered the disclosure of the exposure in Note 42, which describes the related risks and management judgements in compliance with the relevant accounting requirements, to be adequate.

3. Solvency II capital and risk management disclosures

Description

Solvency II information is considered to be an important addition to the information provided on an EU-IFRS basis. We refer to Notes 50 and 51 of the annual accounts for the disclosures on risk management and capital management.

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 judgmental and is based on assumptions which are affected by (future) economic, demographic and political conditions.

Independent auditor's report Continued

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 uses the approved Partial Internal Model (PIM) to calculate the capital requirements under Solvency II for NN Group and the insurance subsidiaries in The Netherlands. In 2018 NN Group obtained approval from the Dutch regulator, DNB on the application of the PIM Major Model Change (PIM-MMC) as at 31 December 2018 expanding the internal model for Delta Lloyd Leven and Delta Lloyd Schade. Disclosure of the determination of the metrics, applied assumptions and sensitivity (including the use of the Volatility Adjustment and Ultimate Forward Rate) are considered relevant information for understanding the Solvency II metrics.

Given the importance of this legislation for NN Group and complexity of the application and estimates to determine the Solvency II capital requirements, we determined the adequacy of the Solvency II capital and risk management disclosures 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 160 million (2017: EUR 160 million).

We have assessed the design and operating effectiveness of the internal controls over the Solvency II Capital Requirement calculations, including the company's methodology, model and assumption approval processes (including the approval of the PIM-MMC by DNB) and analytical controls. These internal controls covered, amongst other:

- 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;
- whether the internal controls over Solvency II reporting have been adjusted to reflect the implementation of the PIM-MMC in 2018. We focused in particular on the changes for Delta Lloyd Leven and Delta Lloyd Schade, that had previously been reporting on Standard Formula basis and are now included on a PIM basis. Such changes relate amongst others to the controls over the integrity of source data, reliability of the calculations in accordance with the approved PIM and management's understanding and explanation of the transition from Standard Formula to PIM on the outcome of the calculations, including on the impact on the Group's diversification benefits;
- the appropriateness of 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;

Independent auditor's report Continued

— 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 operating effectiveness 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.

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 Dutch tax legislation that were enacted in December 2018;

— Verifying that the PIM-MMC as approved by DNB was correctly applied in the Solvency Capital calculations at 31 December 2018;

— Performing additional procedures on some of the Technical Model Documentation supporting the models that have been part of the PIM-MMC as approved by DNB, to obtain a detailed understanding of the technical validity and substantiation of expert judgement of such models in the context of the overall model change underlying the 31 December 2018 calculations. We used our actuarial specialists to perform such procedures;

— 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 consolidated on an equivalence basis, meaning that the capital position is based on the local reporting framework (Japanese GAAP). In this context local management identified areas for improvement in the Japanese GAAP reporting and we satisfied ourselves that the consolidated Solvency II position appropriately reflects the financial consequences related to the identified reporting issues;

— 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 2018 and discussing the outcome with the company's actuaries and Group Chief Actuary;

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— 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 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 Note 51 page 167.

Our observation

Overall we found that the calculation of the Solvency II Own Funds and SCR in the capital and risk management disclosures are acceptable in the context of the annual accounts.

We also found the Solvency II capital and risk management disclosures to be adequate. We refer to Notes 50 and 51 of the annual accounts.

4. Delta Lloyd integration

Description

In addition to the direct accounting impact, as disclosed in Note 9 and 43 of the annual accounts, the integration of Delta Lloyd also has a significant impact on the internal control over financial reporting by NN Group. We refer to the Annual Review and Note 50 in the annual accounts.

The risk profile of the Group's financial reporting processes and underlying financial data is impacted by:

— Organisational risk: this includes the risk related to changes in key management positions, people leaving the Company, lack of clarity with regard to roles and responsibilities as a result of the integration and uncertainty on job security for employees potentially impacting their execution of internal controls.

— Risk related to changes in the business processes, support processes, IT applications and underlying IT infrastructure in 2018. This applies both at the business unit level as well as at the Group functions.

— Risk related to changes in the financial reporting processes and systems, both EU-IFRS and Solvency II related.

The factors mentioned above inherently increase the risk of error and the risk of fraud for the 2018 annual accounts. Also refer to the paragraph 'Audit procedures in response to fraud risk'. We determined this to be a key audit matter.

Our response

— Obtaining an understanding of the company's risk assessment in relation to the changes in the internal control environment and processes. These procedures consisted of (corroborative) inquiry and inspection of documents, such as the Integration Plans and Integration Management progress reports;

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- Testing both the effectiveness of internal controls around the changes in financial reporting processes as a result of the integration as well as performing additional substantive audit procedures to mitigate increased risks not sufficiently covered by internal controls;
- Specific areas of attention included the IT General Controls in the Delta Lloyd environment, the analysis of suspense accounts at Delta Lloyd Leven, Delta Lloyd Schade and the former Delta Lloyd Belgium, and the (financial) impact of further alignment of processes, systems and tooling used for financial reporting purposes. For Solvency II specific procedures performed, we refer to Key Audit Matter 3, 'Solvency II capital and risk management disclosures'.

Our observation

In 2018, management on-boarded Delta Lloyd by applying the NN methodology of control testing over financial reporting, however a significant part of the underlying processes, systems and control frameworks were not yet aligned and integrated. Management has prepared plans to realise further improvements in 2019. Most notable progress has been achieved in the reporting over Solvency II.

We expect that the reporting processes will benefit from the planned integration activities, which reduce key-man dependencies, vulnerability of IT systems and will allow for more time to perform (aligned) internal control activities.

The results of the combination of the tests of internal controls and the additional substantive tests as described above were satisfactory.

5. Valuation of Delta Lloyd goodwill

Description

NN Group acquired Delta Lloyd in 2017. As explained in Note 43, NN Group recognised EUR 1,146 million of goodwill as part of the accounting for the acquisition. At 31 December 2018, the total carrying value of goodwill amounted to EUR 532 million, representing 0.2% of the group's total assets. EUR 294 million of goodwill relates to Delta Lloyd.

This goodwill is allocated to a number of Cash Generating Units (CGUs) for which management is required to test the carrying value of goodwill for impairment annually or more frequently if there is a triggering event for testing. Note 9 shows the allocation of Delta Lloyd goodwill to the CGUs in the Group.

As described in Note 9, management concluded that an amount of EUR 852 million of goodwill allocated to the NL Life CGU needed to be impaired and an impairment loss was recognised in the profit and loss account. This impairment significantly impacted the 2018 Net result. The residual goodwill balances related to the Delta Lloyd acquisition were tested by management and found to be sufficiently supported. Given the financial significance and the level of judgement required, we considered this a key audit matter.

Independent auditor's report Continued

Our response

Our audit approach included testing both the effectiveness of internal controls around the Delta Lloyd goodwill impairment test as well as substantive audit procedures. Our procedures over the design and implementation of internal controls focused on controls around the methodology, the design of the model used for the goodwill impairment test, the reliability of assumptions for cash flow projections and the reliability of other input data.

With the assistance of our valuation specialists we performed the following procedures:

— Assessment of the appropriateness of the Delta Lloyd goodwill allocation to reportable units (CGUs) in line with EU-IFRS based on how management monitors the entity's operations.

— Assessment of the appropriateness of the methodology and mathematical accuracy of the calculations in the model.

— Assessment of the assumptions used by comparing them to external data such as expected inflation rates, discount rates and implied growth rates.

— Assessment of the consistency of cash flow projections used in the valuation with information approved by management such as capital plans and business plans (including expected growth rates).

— Reconciliation of the carrying values of the CGUs to the EU-IFRS balance sheet of these entities.

— Assessment of the adequacy of the disclosure around the Delta Lloyd goodwill and goodwill impairment.

Our observation

The results of our procedures on the goodwill impairment of EUR 852 million were satisfactory. We found that the remaining goodwill relating to Delta Lloyd (EUR 294 million at 31 December 2018) is sufficiently supported by the cash flow projections and assumptions used by management in their impairment test. We also found the Delta Lloyd goodwill and goodwill impairment notes to be adequate. We refer to Notes 9 and 43 of the annual accounts.

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 that consists of:

— the Report of the Executive Board ("Annual Review");

— other information in the Financial Report, amongst others including the Corporate Governance Report and the Report of the Supervisory Board; and

Independent auditor's report Continued

— the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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 substantially 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 on 28 May 2015, as of the audit for the year 2016 and have operated as statutory auditor since the financial year 2016.

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.

Independent auditor's report Continued

As part of the preparation of the annual accounts, the Executive Board is responsible for assessing NN Group'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 NN Group 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.

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 Nederlandse Beroepsvereniging van Accountants (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01. This description forms part of our auditor's report.

Amstelveen, 13 March 2019

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 of Shareholders, having heard the advice of the Executive Board. Reference is made to Note 12 '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 www.nn-group.com/in-society.htm or contact us via sustainability@nn-group.com

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

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

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

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.

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