Combining strengths

NN Group N.V.

2017 Annual Review

NN

You matter

The 2017 Annual Report consists of the 2017 Annual Review and the 2017 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 62 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.

2017 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 the social, environmental and governance aspects of our business, and the statement of our CEO. It is targeted at NN Group stakeholders.

2017 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

Further information, including the GRI Index table, can be found online by visiting our corporate website: www.nn-group.com/annual-report

About NN

Our operating environment

Our strategy

Creating and sharing value

Governance

Facts and figures

Cover photo: Runners crossing the finish line during City-Pier-City run, The Hague
Photographer: Bart Hoogveld

We are a financial services company active in 18 countries, with a strong presence in a number of European countries and Japan. Our roots lie in the Netherlands, with a rich history that stretches back more than 170 years.

Life is about living. That is why we do our very best to help our customers achieve their dreams and overcome adversity along the way.

Through our retirement services, insurance, investments and banking products, we are committed to helping people secure their financial futures. That is our purpose at NN.

Because what matters to you, matters to us.
You matter

How we create and share value

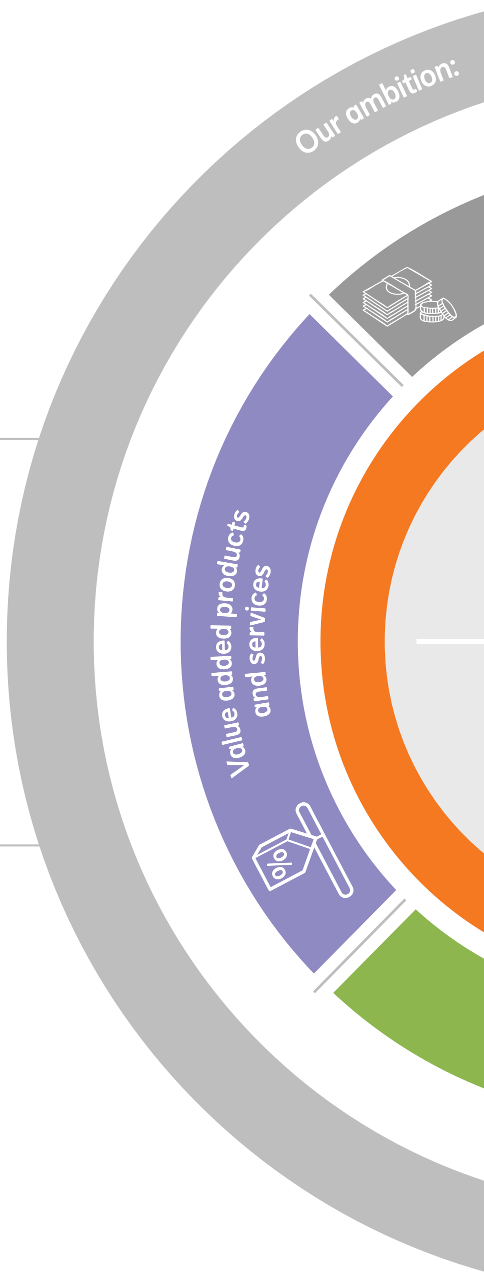
This report aims to provide a balanced view of NN Group's purpose, values, strategy, business model, operating environment and performance

The relationship between these elements, and how we create long-term value for our stakeholders, is illustrated in this diagram. The elements form the structure of our business and this report. More detail on each element can be found throughout the reporting suite, along with our performance measures and targets.

Trends and developments

Regulation

pages 17-23



Key inputs

Premiums and deposits

- Around 17 million customers[1]
- EUR 12.1 billion gross premium income
- EUR 246 billion Assets under Management at NN IP
- EUR 227 billion total assets of NN Group

pages 65-66

Capital

- EUR 22.7 billion shareholders' equity
- EUR 6,219 million total debt
- EUR 15,412 million eligible own funds

page 161 of the Financial Report (Note 51)

Talent and experience

- About 15,000 employees
- 11.8 average years of service

pages 45-47

Relations with stakeholders

- Multiple dialogues and memberships

pages 48, 56-57

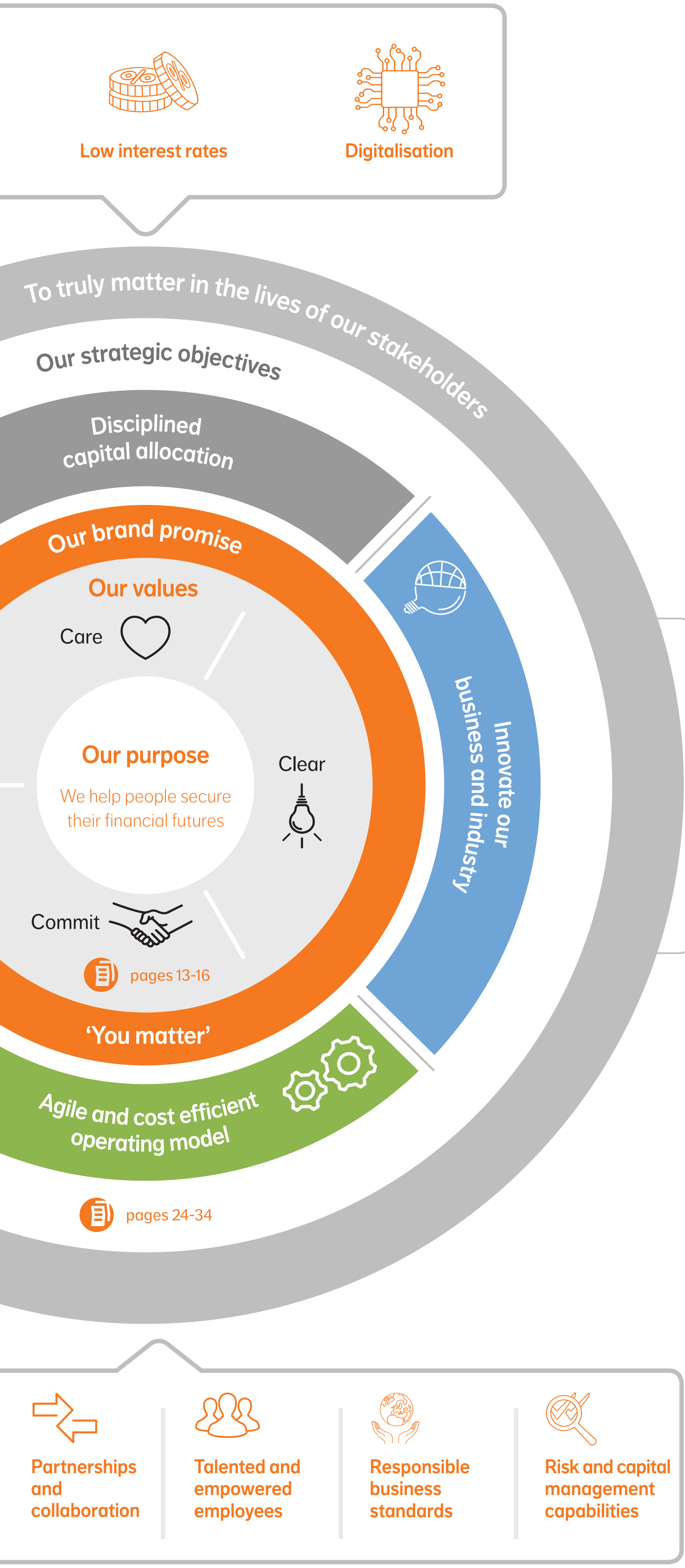
Core skills that enable our strategy

Multi-access distribution

Advanced underwriting and use of technology

pages 25-27

1 Excluding Asset Management, ING Insurance and ABN AMRO Insurance.



Value created

pages 35-50

Customers

- 94% trust in our brand[2]
- Net promoter score +17
- EUR 15.8 billion claims and benefits paid

Investors

- 17.3% shareholder return over 2017
- EUR 524 million dividend paid in 2017
- Free cash flow to the holding of EUR 881 million in 2017[3]
- Capital allocated to value accretive Delta Lloyd acquisition

Employees

- EUR 21.4 million spent on training
- 32% women in senior positions
- EUR 1,496 million salaries and benefits paid
- 66% employee engagement

Society and community

- EUR 124 million income tax paid to governments
- EUR 1 billion paid to suppliers
- EUR 10.9 billion in SRI funds and mandates
- EUR 2.4 million in donations to charitable organisations
- 37,208 young people reached
- 100% carbon neutral (direct operations)

Contributing to the Sustainable Development Goals

pages 51-52

Customers: 1 NO POVERTY; 3 GOOD HEALTH AND WELL-BEING; 8 DECENT WORK AND ECONOMIC GROWTH

Investors: 8 DECENT WORK AND ECONOMIC GROWTH

Employees: 4 QUALITY EDUCATION; 8 DECENT WORK AND ECONOMIC GROWTH

Society and community: 1 NO POVERTY; 3 GOOD HEALTH AND WELL-BEING; 7 AFFORDABLE AND CLEAN ENERGY; 8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

2 Non-life and Pensions in NL.
3 Including EUR 500 million capital injection into Delta Lloyd Life.

Our seven reporting segments

With around 15,000 employees, we aim to deliver high-quality retirement services, insurance, investments, and banking products to retail, SME, large corporate and institutional customers

Our business activities are structured within seven reporting segments.

1. Netherlands Life

Well positioned to capture opportunities in the changing Dutch pension market

Products and services
- Group life/pension products
- Individual life/pension products
- Pension administration (AZL)
- Premium Pension Institution (NN, BeFrank)
- Individual life closed block

Customers
- Small- and medium-sized enterprises (SMEs)
- Large corporate clients and their employees
- Retail customers
- Pension funds

Financial performance

Operating result	EUR 896 million
New sales life insurance (APE)	EUR 368 million
Total administrative expenses	EUR 513 million
Total provision for insurance & investment contracts	EUR 114 billion
– of which for risk policyholder	EUR 21 billion
NN Life Solvency II ratio[1]	217%
DL Life Solvency II ratio[1]	150%
Value of new business (VNB)	EUR 10 million

2. Netherlands Non-life

Leverage strong footprint and decisive action to improve performance

Products and services

Property & casualty
- Motor insurance
- Fire insurance
- Liability insurance
- Transport insurance

Disability & accident
- Individual disability insurance (Movir)
- Health insurance (OHRA Zorg)
- Group income insurance
- Accident insurance

Customers
- Small- and medium-sized enterprises (SMEs)
- Large corporate clients and their employees
- Retail customers
- Self-employed

Financial performance

Operating result	EUR 30 million
Gross premium income	EUR 2,579 million
Total administrative expenses[2]	EUR 398 million
Combined ratio[3,4]	102.0%
– of which Claims[3,4]	73.5%
– of which Expenses[4]	28.4%

3. Insurance Europe

Accelerate growth and generate value

Products and services
- Life insurance (all countries)
- Non-life insurance (Belgium, Spain, Poland)
- Pensions (Bulgaria, Czech Republic, Slovakia, Poland, Romania, Turkey)
- Health insurance (Greece, Hungary, Romania)
- Employee benefits (Spain)

Customers
- Retail customers
- Self-employed
- Small- and medium-sized enterprises (SMEs)
- Corporates and their employees

Financial performance

Operating result	EUR 260 million
New sales life insurance (APE)	EUR 661 million
Value of new business (VNB)	EUR 141 million
Cost/income ratio	40.0%

4. Japan Life

Deliver strong profitable growth and diversify distribution

Products and services
- Corporate-owned life insurance (COLI)
- Protection life insurance

Customers
- Owners and employees of small- and medium-sized enterprises (SMEs), where the company is both the policyholder and the beneficiary of the policy

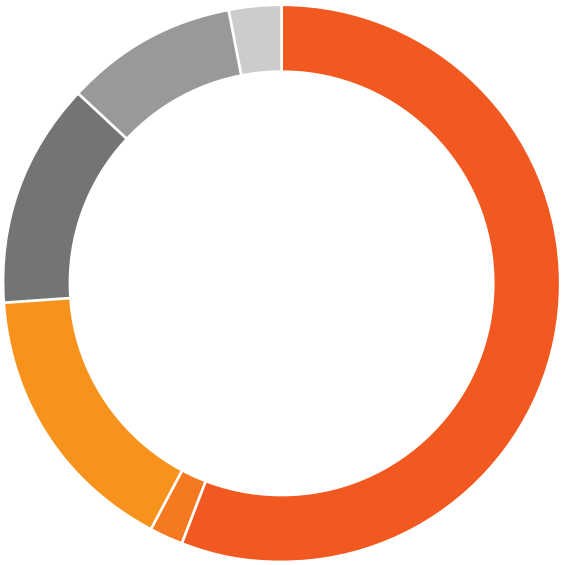
Financial performance

Operating result	EUR 200 million
New sales life insurance (APE)	EUR 762 million
Value of new business (VNB)	EUR 194 million
Cost/income ratio	23.1%

1 Not final until filed with the regulators; NN Life SII ratio based on the Partial Internal Model; Delta Lloyd Life SII ratio based on the standard formula.
2 Including health and broker business.
3 As of 2017 the calculation method excludes the discount rate unwind on D&A insurance liabilities.
4 Excluding health and broker business.
5 The 'Common Equity Tier I ratio phased in' is not final until filed with the regulators.
6 (Annualised) net operating result of the segment, divided by (average) adjusted allocated equity.
7 Expected run-off Japan Closed Block: measured from the end of 2017.

Our seven reporting segments Continued

NN Group operating result ongoing business before tax (excluding segment Japan Closed Block VA)
(% of total – FY2017)



56 % Netherlands Life
2 % Netherlands Non-life
16 % Insurance Europe
13 % Japan Life
10 % Asset Management
3 % Other

5. Asset Management

Increased focus on core investment capabilities

Products and services

Fixed income	
Equity	
Multi-asset	
Fiduciary Management	

Customers

Institutional investors	
Wholesale distributors	
Retail investors	

Financial performance

Operating result	EUR 161 million
Assets under Management	EUR 246 billion
Net inflow AuM	EUR 0 billion
Net inflow 3rd party AuM	EUR 5.1 billion
Cost/income ratio	69.6%

6. Other

The segment ‘Other’ is part of the ongoing business

This segment comprises NN Bank (including Delta Lloyd Bank), NN Re (excluding reinsurance of the Japan Closed Block VA portfolio), the holding result and other results.

NN Bank
NN Bank operates in the Netherlands and offers a range of retail banking products, for example, mortgages and savings products.

NN Re
NN Re is NN Group’s reinsurer. It primarily reinsures risks with NN Group and retrocedes or hedges risks with the market.

Financial performance

Operating result (segment ‘Other’)	EUR 40 million
Holding expenses	EUR -121 million
Operating result banking business	EUR 124 million
Total assets banking business	EUR 21 billion
NN Bank common equity Tier 1 ratio phased in[5]	15.2%
DL Bank common equity Tier 1 ratio phased in[5]	16.7%
Net operating ROE banking business[6]	15.0%
Operating result reinsurance business	EUR 43 million

7. Japan Closed Block VA

Run-off of the book driven by maturities

Japan Closed Block VA comprises NN Group’s closed-block single premium variable annuity (SPVA) individual life insurance portfolio in Japan. These products were predominantly sold from 2001 to 2009. The total portfolio is reinsured by NN Re in the Netherlands.

The portfolio is actively managed and hedged on a market consistent basis and is expected to release capital as the block runs off. The exact timing and amount cannot be predicted as it is influenced by the results of the hedge programme.

Financial performance

Operating result	EUR 20 million
Account value	EUR 4,755 million
Net Amount at Risk	EUR 25 million
IFRS reserves	EUR 188 million
Number of policies	81,808

We expect 60% of the book to run-off by the end of 2019.[7]

Continuing in this Annual Review, our reporting segments are grouped as follows:

- Netherlands Life, Netherlands Non-life and NN Bank are part of Netherlands
- Netherlands Life includes the results of Nationale-Nederlanden Life, Delta Lloyd Life, AZL, the life results of ABN AMRO Insurance and BeFrank
- Netherlands Non-life includes the results Nationale-Nederlanden Non-life, Delta Lloyd Non-life, the non-life results of ABN AMRO Insurance, Movir, OHRA, and the broker results related to health insurance products
- Insurance Europe, Japan Life, Japan Closed Block VA and NN Re are part of International Insurance
- NN Investment Partners and Delta Lloyd Asset Management are part of Asset Management

Our key figures

2017 was a memorable year with solid financial and non-financial performance

Financial highlights

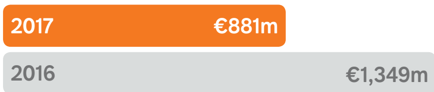
EUR 1,586m

Operating result ongoing business
(2016: EUR 1,227m)

How we performed
Full-year 2017 operating result of the ongoing business increased to EUR 1,586 million, up from EUR 1,227 million in 2016, mainly driven by improved results in most segments and the EUR 205 million contribution of the Delta Lloyd businesses.

EUR 881m

Free cash flow to the holding
(2016: EUR 1,349m)



How we performed
In 2017, our free cash flow to the holding was EUR 881 million, including a EUR 500 million capital injection into Delta Lloyd Life.

199%

Solvency II ratio
(2016: 241%)

How we performed
Our Solvency II ratio remained robust at 199%, in line with our disciplined approach to managing our capital. The decline from 241% at the end of 2016 reflects the acquisition of Delta Lloyd, partly offset by operating capital generation.

EUR 345m

Value of new business (VNB)
(2016: EUR 214m)

How we performed
VNB in 2017 amounted to EUR 345 million, up 60.7% from EUR 214 million in 2016. The increase reflects higher VNB at Japan Life mainly driven by higher sales, an improved product mix and an increase in interest rates, and higher VNB at Insurance Europe driven by higher sales at better margins.

EUR 1,791m

New sales life insurance (APE)
(2016: EUR 1,386m)

How we performed
In 2017, total new sales were EUR 1,791 million, up 33.9% compared to 2016 on a constant currency basis, driven by higher sales at Netherlands Life, Insurance Europe and Japan Life.

EUR 246bn

NN IP Assets under Management
(2016: EUR 195bn)

How we performed
Total Assets under Management were EUR 246 billion at the end of 2017, up from EUR 195 billion at the end of 2016, mainly driven by the acquisition of Delta Lloyd Asset Management.

Read more about how we performed financially in the chapter 'Attractive returns for investors' on pages 39-40, and in the chapter 'Facts and figures' on pages 63-65 of this Annual Review, and in our Financial Report.

Our key figures Continued

Non-financial highlights

+17pts

Net Promoter Score
(2016: +2pts)

2017	+17pts
2016	+2pts

How we performed

In 2017, all of our insurance businesses maintained or improved their relational NPS scores compared with the previous year, with the exception of NN Life Hungary. Their NPS is still well above market average. We aim to increase our NPS scores every year.

EUR 10.9bn

Assets under Management in SRI funds and mandates (2016: EUR 5bn)

2017	€10.9bn
2016	€5bn

How we performed

Assets under Management in Socially Responsible Investment (SRI) funds and mandates increased by 114% compared to 2016. NN Investment Partners launched new SRI products that contributed to this growth. We aim to grow our Assets under Management and product offering in this area every year.

66%

Employee engagement
(2016: 71%)

2017	66%
2016	71%

How we performed

Overall employee engagement dropped compared with last year. This is mainly due to the integration of NN and Delta Lloyd in the Netherlands and Belgium. Our international business units showed an increase in engagement to 73%. We aim to increase our employee engagement going forward.

EUR 2.4m

Donations to charitable organisations
(2016: EUR 1.5m)

2017	€2.4m
2016	€1.5m

How we performed

In 2017, NN Future Matters and Delta Lloyd Foundation joined forces to increase our communities' financial wellbeing. Of our total charitable donations of EUR 2.4 million, 82% went to NN Future Matters focus areas.

37,208

Young people reached through NN Future Matters programme (2016: 27,529)

2017	37,208
2016	27,529

How we performed

Since the start of our NN Future Matters programme in 2015, we have reached out to nearly 74,000 youths in the many communities in which we operate. This brings us closer to our goal of positively impacting the futures of 100,000 young people by 2020.

Neutral

NN Group was CO_2 neutral
(2016: 100% neutral)

2017	100%
2016	100%

How we performed

CO_2 emissions of our direct environmental footprint showed an increase of 15.2% due to the integration of NN and Delta Lloyd. However, the CO_2 emissions per FTE decreased by 10.5%. We fully compensated our CO_2 emissions by the purchase of voluntary carbon units.

Read more about our non-financial objectives and how we performed in the chapter 'Creating and sharing value' on pages 35-50 of this Annual Review.
For additional non-financial indicators refer to the chapter 'Facts and figures' on pages 63-69 of this Annual Review.

CEO statement

2017 was a memorable year for NN Group

"Our company aims to be a positive force in people's lives, now and for generations to come."

2017 was a memorable year for NN Group. We succeeded in further strengthening our businesses, and solidified our position in the Netherlands and Belgium through the acquisition of Delta Lloyd.

Since our Initial Public Offering in 2014, we have focused on building an agile, diverse and financially solid company that matters in the lives of our stakeholders.

Integrating Delta Lloyd

Consolidation in the competitive Dutch market had been anticipated for years. The joining of forces by NN and Delta Lloyd in 2017 was a key step for us in preparing our company for the future. Both organisations have been deeply rooted in Dutch society for over 170 years and share many features and values. As a result of the integration we are well-positioned to capture opportunities the market presents, to create attractive products and services for our customers, and to establish a platform for innovation, knowledge sharing and talent development.

At our Capital Markets Day in November 2017 we outlined our strategy and updated targets for the combined company going forward. Our top priorities are to deliver on the Delta Lloyd transaction, extract synergies and capitalise on our combined strengths. However, we recognise that an integration process of this scale is impactful and does not only bring benefits. It also entails the loss of an appreciated brand, a change in functions, and positions becoming redundant. Last year, we saw a reduction of approximately 900 jobs in our Dutch and Belgian businesses. We are committed to go through this process with respect and care, and I extend my warmest thanks to all colleagues who over the years contributed to where the company is today.

CEO statement Continued

Solid financial performance

With the persistent low interest rate environment, various geopolitical and regulatory developments and circumstances caused by for example weather-related events, 2017 also was a tumultuous year. Still, we maintained commercial momentum and delivered on our cost saving targets, demonstrating the resilience of our businesses.

Our financial performance in 2017 remained robust and our capital allocation disciplined. Our full-year operating results of the ongoing businesses – reflecting a strong contribution of Delta Lloyd and an improved performance of our insurance operations in Europe and Japan – increased by 29.3% to EUR 1,586 million and our net result[1] increased by 77.5% to EUR 2,110 million. Our cash capital position and Solvency II ratio are solid, at EUR 1,434 million and 199% respectively, with our Solvency II ratio reflecting the deduction of the final 2017 dividend of EUR 1.04 per ordinary share that will be proposed at our Annual General Meeting of Shareholders on 31 May 2018. Combined with the interim dividend paid in September 2017, this brings the payout ratio to 45% of the 2017 full-year net operating result of the ongoing business.

Innovating our businesses

The fundamental need of people to protect themselves against life's uncertainties will continue to drive growth in the insurance industry over the long term. With technology and data transforming our competitive landscape, our customers' behaviour and our cost structures, it is crucial that we are prepared to adapt as circumstances evolve. By making our operations more efficient, innovating our existing business, and branching out or joining forces with fintech companies and other business partners, we invest in the business of tomorrow.

Let me share a few examples. Following the successful launch of our innovation lab, Sparklab in the Netherlands in 2016, another five labs went live in different markets in 2017. They introduced a number of value propositions, such as 'Gappie', an on-demand car insurance product for the Dutch market, or an application tailored to support people with diabetes in Hungary. In Slovakia a partnership was set up with Slovenska sporitelna, one of the leading banks, and NN Hayat ve Emeklilik in Turkey entered into astrategic partnership with Hesapkurdu.com, the country's leading online loan aggregator platform for mortgage and consumer loans.

NN also invested in RightIndem, which offers digital, customer-driven claims management solutions, and in Dopay, a company that simplifies payroll management and disbursement in developing countries.

Commitment to teamwork

In our industry, trust is essential and living up to our stakeholders' expectations is key. In order to deliver on our promises, our more than 15,000 colleagues need to feel engaged, appreciated and equipped, especially in times of change. We were pleased to be named top employer in Poland, Spain and Turkey in 2017, and know there is further room for improvement. Regrettably, our Yearly Engagement Survey showed a decrease in employee engagement from 71% to 66%. Given the uncertainty around the integration process in the Netherlands and Belgium, this outcome is understandable. As we progress on our journey, this will have our full attention.

In 2017, we continued to invest in positioning our brand across markets, and improving the customer experience. This resulted in customer satisfaction ratings going up for almost all our businesses. We also entered into new partnerships with different cultural, art and sports organisations. One of the highlights was the launch of the NN Running team, bringing together the best long-distance runners globally. And as of 2018, we will be the title sponsor of the NN North Sea Jazz festival, the largest international indoor music festival.

Being part of society

We want to be a respected company and a good corporate citizen, and we recognise that this comes with responsibilities. This means we strive to bring positive change, and we avoid or manage the negative impacts our business activities may have. As an asset manager, with investments across the economy, we provide capital for households, companies and governments to finance growth. In line with our values – care, clear, commit – we further strengthened our Responsible Investment Framework policy. In 2017, we published a Stewardship Policy and a guidance paper on the Environment. We believe our engaged shareholdership contributes to generating long-term value, and we make active use of our voting rights at companies' shareholder meetings. Our Assets under Management in SRI funds and mandates doubled to more than EUR 10 billion.

In support of our societal commitments and to promote transparency, we made progress in aligning our reporting with the recommendations of the Task Force on Climate-related Financial Disclosures and we indicate how we contribute to the Sustainable Development Goals.

We improved our performance in the Dutch Transparency Benchmark, and are proud to be included in the Dow Jones Sustainability Indices.

After the listing of our company in 2014, we launched our community investment programme, NN Future Matters. Its activities are focused on promoting financial empowerment, a topic that fits well with our mission and the expertise of our people. Having reached nearly 74,000 youngsters since 2015, we are well on track towards meeting our goal of supporting 100,000 young people by 2020.

2018 onwards

Our operating environment changes rapidly, but with our company's financial strength, solid balance sheet and diverse set of businesses, we are well-positioned to face challenges, capture growth and contribute to an economy that works for people, societies and the environment. We made good progress in 2017 and took important steps to facilitate future success. But, as always, work remains to be done. We are determined to further accelerate our pace of change in 2018, by combining our strengths, transitioning to agile ways of working and by fostering the entrepreneurial mindset that is starting to bloom.

All this cannot be done without our colleagues' day-to-day dedication to our company, our customers' trust and the ongoing support of our stakeholders – for which I, also on behalf of our Management Board, express my gratitude.

Lard Friese
Chief Executive Officer

1 After minority interests.

Delta Lloyd transaction and integration

The joining of forces of NN Group and Delta Lloyd in the Netherlands and Belgium is a key step in ensuring a sustainable and profitable business for the future

Both NN Group and Delta Lloyd have been rooted in Dutch society for over a century.

After the IPO in July 2014, NN Group developed into a solid standalone company, with a strong capital position, businesses that perform well, and with colleagues dedicated to serving our customers.

2016 marked the start of the implementation of the new Solvency II regime. In December 2015, we received approval from the Dutch regulator, the Dutch Central Bank (DNB), to use our Partial Internal Model under Solvency II for NN Group and our subsidiaries in the Netherlands. Following the new capital requirements, we continued to be a strongly capitalised company, with a year-end 2016 Solvency II ratio of 241%. This provided us with a solid foundation for growth, ready to take a next step.

Consolidation

We are committed to returning capital in excess of our capital ambition to shareholders, unless it can be used for appropriate corporate purposes, including investments in value-creating opportunities. We continuously perform strategic assessments of each of our businesses within the NN Group portfolio.

In recent years, structural changes have confronted the financial services industry. The Dutch insurance market in particular faces declining margins and a challenging market environment, involving low interest rates, expiring life insurance portfolios, the transition from defined benefit to defined contribution pension schemes, and a fragmented non-life market with premiums under pressure.

In this highly competitive market, size and diversification are required to be able to continue to provide value-adding offerings to our customers, at levels of return that are attractive to our shareholders.

Consolidation is seen as a solution to bring further stability to the market. Because of our strong financial position, NN Group had the opportunity to take a first step in this consolidation process in the Netherlands.

Joining forces

Together, NN Group and Delta Lloyd move forward as a leading player in insurance and pensions in the Dutch market, with a strong position in Belgium. The combined company also provides attractive propositions in asset management and banking products. With this acquisition, we are aiming to combine the best of two organisations into a company that is ready to take on the future. We share similar values and our mission to help people protect what matters most to them.

Integration process

For the integration of Delta Lloyd and NN in the Netherlands and Belgium, we formulated clear principles aimed at maximising synergies and execution certainty. A central Integration Management Office (IMO) steers, coordinates and aligns this process, working in close cooperation with dedicated integration teams in the business units and support functions. The NN operating model is the foundation for the combined company, while we aim to retain and integrate strong elements of the Delta Lloyd organisation, business and culture.

The integration plans incorporate the non-financial covenants as agreed between NN Group and Delta Lloyd.

We have set ambitious targets for the integration process. In 2018, we plan to rebrand all Delta Lloyd products to NN. As of 1 January 2018, the legal mergers of NN Bank and Delta Lloyd Bank, and NN Investment Partners and Delta Lloyd Asset Management were completed. A legal merger of NN and Delta Lloyd Insurance in Belgium is expected in the first half of 2018.

Also in 2018, the integration of the head offices will be realised. We will start negotiations with the trade unions for a new combined collective labour agreement (CLA), to be implemented as of 1 January 2019. NN Group will also seek DNB approval to extend the Partial Internal Model to include Delta Lloyd Life and Delta Lloyd Non-Life.

The legal mergers of NN and Delta Lloyd Life and Non-life are planned to take place during 2019. We will accelerate upgrading the combined organisation, and further reduce costs by rationalisation of products, back-end systems and IT infrastructure.

People integration

In the integration process, the NN brand promise 'You matter' and our values: care, clear, commit, are leading.

Read more in the 'Our culture' chapter of this Annual Review, pages 13-16.

Delta Lloyd transaction and integration Continued

Senior leadership appointments

To support and lead our people during the integration and beyond, a strong and collaborative leadership group needed to be appointed. After the settlement of the offer (12 April 2017), announcing the senior management of the combined company was a top priority. To do this respectfully and with due care, the guiding principle for the senior management selection process was the 'best person for the job' concept, based on a non-discriminatory, fair and business-oriented set of criteria.

Approximately 250 senior leaders from both companies went through an intensive selection process that encompassed individual meetings with HR representatives from Delta Lloyd and NN Group, as well as management assessments by an external specialised recruitment agency, and personal meetings with members of the NN Group Management Board. This led to 125 appointments by mid-July 2017.

We are committed to respecting the talents and strengths of people in both organisations. However, the integration of the companies will, unfortunately, lead to certain positions becoming redundant. In 2017 about 900 internal and external employees (measured in FTE) left the combined company.

Reorganisation framework

The next step was to agree on a reorganisation framework with the trade unions in the Netherlands. This framework, as agreed on in September 2017, sets out clear definitions and procedures that apply to all reorganisations that are part of the integration process. Plans are submitted between 1 September 2017 and 1 January 2019. Subsequently, a new job framework for the combined company was introduced.

Overarching job framework

This redesigned job framework contributes to a fair integration process, and ensures that employees from both companies start with equal opportunities when the Requests for Advice (RfAs) for the integration of their department or unit are submitted to the company's works councils. The framework includes 52 'job families', with each family consisting of three to six levels. Each level provides clear descriptions of what is expected from an employee in his or her job. In close collaboration with NN Group's HR department, the businesses and the trade unions, a specialised external consultant supported the developments of the framework based on their methodology.

The overarching job framework makes job placement in the new organisation easier and more transparent, accelerates the integration process and provided NN with the opportunity to simplify and modernise job structures. The first RfAs focused on integrating teams in the combined company were submitted to the Works Councils of NN Group and Delta Lloyd in October 2017, and approved in November and December 2017. It is anticipated that the integration process for all teams will be finalised in 2020, based on a phased approach.

This integration process is guided by an open and constructive dialogue with the works councils of NN Group and Delta Lloyd, the trade unions, and regulators such as the DNB, the Dutch Authority for the Financial Markets (AFM), and the National Bank of Belgium (NBB).

Measurement

To successfully integrate companies, employees need to be well-informed and engaged regarding the shared future. Every two months, a survey is conducted to collect feedback on the integration process. It measures if people feel ready, willing and able to embrace the changes involved in forming a combined company. The results show how and where we are making progress, and guide us in determining necessary adjustments.

88%

of senior leaders are strongly supportive of the combined company

60%

of colleagues recognise that the combining of the companies is necessary to ensure our future success

Results third Hello You survey, October 2017.

Rebranding

The combined company will continue under the NN Group brand architecture: a strong brand that is clearly identifiable in the market. The Delta Lloyd brand will be phased out gradually as of 2018.

In the Netherlands, all businesses will be NN-branded by 1 July 2018. The current Delta Lloyd brands Ohra and BeFrank will remain. The main aim in the Belgian market is to restore aided brand awareness levels for the NN brand (25%) to the Delta Lloyd level (75%). By year-end 2018, most products and services will be rebranded. For NN IP, selected fund ranges will be renamed in the second half of 2018, with a focus on client communications.

To deliver the brand transformation programme and manage the rebranding, a branding workstream has been set up within the Integration Management Office. Its main goals are to build awareness and understanding of the NN brand among Delta Lloyd stakeholders, to meet synergy objectives and to measure the progress of the Delta Lloyd brand transformation.

Delta Lloyd transaction and integration Continued

Our companies' stories began in the early 19th century

1807
Hollandsche Sociëteit van Levensverzekeringen founded

1845
De Nederlanden van 1845 founded

1853
Nederlandsche Lloyd (Nedlloyd) founded

1863
Nationale Levensverzekering-Bank founded

1892
Amsterdamsche Maatschappij van Levensverzekering (Amstleven) founded

1963
Merger of De Nederlanden van 1845 with Nationale Levensverzekering-Bank into Nationale-Nederlanden. Company listed on the Amsterdam Stock Exchange

1967
Merger of Hollandsche Sociëteit van Levensverzekeringen with Amstleven into Delta Verzekeringsgroep

1969
Merger of Delta Verzekeringsgroep with Nedlloyd into Delta Lloyd. Company listed on the Amsterdam Stock Exchange

1973
Delta Lloyd acquired by Commercial Union (now Aviva), Delta Lloyd delisted

1991
Nationale-Nederlanden merged with NMB Postbank Groep, which established ING Group, Nationale-Nederlanden delisted

2009
Start divestment ING Insurance business from ING Group

Delta Lloyd listed again on the Amsterdam Stock Exchange

2014
NN Group listed again on the Amsterdam Stock Exchange

2016
Announcement of intended offer to Delta Lloyd

NN Group and Delta Lloyd agree on recommended transaction

2017
Start of the joint future

February
Launch of tender offer for Delta Lloyd shares

April
Approval from all regulators; Offer for Delta Lloyd declared unconditional

Start of integration process

June/July
Legal merger effective; Delta Lloyd delisted

Management teams of all business units and support functions appointed

August
Consolidated results for combined entity

Our culture

Our values: care, clear, commit, serve as a compass for decision-making and guide us in our everyday work

Care

We empower people to be their best and respect each other and the world we live in

Clear

We communicate proactively and honestly, while being accessible and open

Commit

We act with integrity and do business with the future in mind

Over the next few pages, we describe how our values are implemented across our businesses, in particular in the integration process of NN Group and Delta Lloyd in the Netherlands and Belgium, and how they support us in creating long-term value for our company and our stakeholders.

Our values are the foundation of our culture and provide the basis for our company-wide policy framework. Our values are reflected in our policies, standards and processes that guide our colleagues in their interactions with each other, with customers and with other stakeholders. Especially in times of change, the values support an open and honest dialogue and provide a strong basis for a healthy company culture.

Living our Values programme

The 'Living our Values' programme raises awareness, involves our employees and enables them to integrate the values into their work. Our senior managers are expected to act as role models in living our values, which is also reflected in our company's leadership profile. The key elements of our NN Leadership profile are: demonstrating integrity, customer focus, and creating a culture of clear direction and open feedback.

The monitoring instruments that measure employee and consumer perceptions about our company include questions on how NN is living our values. Through their scores, our businesses are able to generate insight into their values-related behaviour.

Values week

The 'Living our Values' programme encourages our colleagues to actively engage with the values. The annual NN Values week provides an opportunity to reflect on our values, to talk with colleagues about the values, and address dilemmas people may face in their day-to-day work. In October 2017, all our businesses organised one or more internal values-related activities during NN Values week.

In Belgium and Bulgaria, care, clear, commit days were organised. Greece, Poland and Turkey hosted townhalls and discussion sessions on the values with senior leaders. Donation activities played a central role in Bulgaria, Greece and Slovakia, ranging from society-focused activities to blood donations. In Romania, dilemmas towards (prospective) customers, colleagues, third parties and society were posted with polls on the intranet. In Spain, colleagues attended care, clear, commit training courses. NN Czech Republic organised a Fit Day. Japan will organise values-related activities in April 2018, coinciding with their Sales Awards event.

Values week in the Netherlands

In the Netherlands, 47 different workshops were organised for Values week at all Delta Lloyd and NN locations. 336 employees participated in one or more sessions on topics such as mental health, family caregiving and climate change.

The Netherlands' Values week survey found that 74% of participants thought Values week provided a good opportunity to reflect on our values, compared to 67% in 2016. 95% of all participants would encourage a colleague to join the next Values week, compared to 98% in 2016.

Our culture Continued

NN Code of Conduct

While our values provide us with a compass for decision-making, our NN Code of Conduct gives us more detailed guidelines for specific behaviour. It contains a general Code for all employees, and a Manager Annex describing specific management responsibilities in raising awareness and upholding standards.

The NN Code of Conduct brings together all relevant, conduct-related standards into a small set of comprehensible documents. It outlines our standards with regard to issues such as conflicts of interest, fraud, corruption and Financial Economic Crime (FEC).

The renewed NN Code of Conduct came into effect on 1 September 2016. To provide clarity on what is and what is not acceptable behaviour, a series of workshops on the NN Code of Conduct were held in 2016 and continued throughout 2017 for all employees. The workshops evolved around a dialogue on what it means to apply both our values and our NN Code of Conduct in our day-to-day activities.

To further empower employees to ask questions, Code & Values Desks were set up in all our business units and at group level. In the second half of 2017, the business units confirmed that the Code & Values Desks were in place and that further awareness, if necessary, will be created in 2018.

Written acknowledgement of the NN Code of Conduct has already been mandatory in several businesses for a number of years, and became mandatory for NN Group as a whole in the first half of 2017. In May 2017, NN started an annual process for acknowledgement of the Code of Conduct by every employee via the HR system Workday. In October 2017, NN reached an acknowledgement score of almost 100% for internal NN staff. We have started the acknowledgement for external staff and will further implement this over 2018.

Raising concerns

The NN Group Whistleblower Policy enables every employee to report, also anonymously, a concern outside the normal reporting channels. NN Group guarantees several rights, including protection from retaliation, for an employee who reports a concern in good faith, who provides information, who causes information to be provided, or who otherwise assists in an investigation. The main outlines of the Whistleblower policy are explained in our Code of Conduct. Training materials regarding this subject have been developed and made available for all business units.

Organisational implementation

Our values are an integral part of our Human Resources policies. Compliance with our values is part of our performance management and reward system.

To ensure we hire employees who fit well within our organisation, we have made the values an integral part of our employee value proposition. A personality/culture matching tool has been part of the recruitment website since 2016. With this self-assessment tool, candidates can assess to what extent their personality and values match the culture and values of NN. For our NN traineeship programme, we look for traits in candidates that correspond with our values. We use a special tool called TalentPitch to select this group of employees.

For all new employees, we have an onboarding programme that explains the NN values and the expectation that employees uphold them. In the Netherlands, new employees are also required to take the Oath for Financial Institutions, which is fully integrated in the 'NN statement of Living our Values'.

The importance of role models

The NN Group Management Board, our senior leadership and line managers play a crucial role in setting the example of how to live our values.

As part of our Yearly Engagement Survey (YES), we ask colleagues if their managers consistently act as role models when it comes to living our values, and if they feel encouraged to act with integrity. As demonstrated in the chart below, there was a slight decrease compared to 2016, mainly caused by the fact that business units are in the process of reorganisation.

In the annual performance evaluation and appraisal of our senior leaders, 50% is based on the extent to which they demonstrate behaviour in line with our leadership profile.

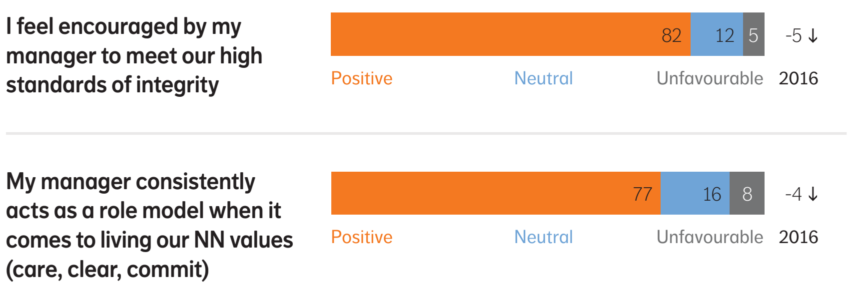
The Management Board members play an active role in the 'Living our Values' programme. As in 2016, the Management Board Members hosted breakfast, lunch and coffee meetings during NN Values week, where colleagues could meet with them in an informal, personal setting for an open conversation.

There is continuous formal and informal dialogue between the works councils and the management representatives for these works councils on conduct and culture in the company.

77%

of employees feel their manager consistently acts a a role model when it comes to living our NN values (care, clear, commit)

Yes results 2017: questions on role models



Our culture Continued

Promoting a culture of long-term value creation

On 7 September 2017, the revised Dutch Corporate Governance Code as published in December 2016 (the Code) was embedded in Dutch law. The application of the Code by NN Group during the financial year 2017 is described in the publication 'Application of the Dutch Corporate Governance Code' by NN Group, dated March 2017, which is available on the website of NN Group (see pages 18-27 of the 2017 Financial Report). An important element of the Code is long-term value creation. The consequences of decisions and actions for the company's long-term value creation, and their impact on stakeholders, should be given a prominent role in decision-making processes. For NN, this approach is strongly embedded in the 'NN statement of Living our Values', which emphasises the importance of doing business with the future in mind. It articulates that we 'value long-term objectives over short-term gains' and 'carefully balance the interests of our stakeholders'.

According to the Code, creating long-term value also means companies are expected to take responsibility for the environment within which the enterprise operates and upon which it has an impact. For NN Group, this responsibility is an integrated part of our values, our Corporate Citizenship statements, policies and programmes. In 2017, we took a number of steps to ensure long-term value creation for our stakeholders is better reflected in our value-creation model, our refined strategy framework (pages 2-3) and our non-financial KPIs (pages 65-69). In addition, in 2017, the Management Board and Supervisory Board discussed and approved the 'NN Group Human Rights Statement' and the 'NN Group Environmental Statement', which explain how our business impacts these themes.

Another element of long-term value creation is the management's awareness and anticipation of new developments in technology and changes in business models. By making innovation part of our strategic priorities, these issues are constantly and thoroughly addressed.

Read more about our strategic priorities on page 24 of this Annual Review.

The charters of the Executive Board, Management Board and Supervisory Board have been revised, amongst others to ensure the focus on long-term value creation, and to ensure that the stakeholder interests that are relevant in this context are taken into account. Future value creation is also part of the strategic planning cycle, target setting and performance management of our leadership.

Embedding conduct and culture in our Control Framework

Conduct and culture are embedded in the design of our Effective Control Framework (ECF) with the purpose of managing risks related to improper employee conduct and/or the lack of a suitable risk culture. Management is in the process of implementing controls that enable them to periodically assess and report on the degree to which our employees live our values, the level of awareness on conduct-related policies and standards, the degree to which related processes are adhered to, and our risk culture.

Values as part of the Delta Lloyd integration

The Delta Lloyd core values and the NN values have a lot in common, focusing on honesty, clarity and integrity. From the start of the integration, it was determined that the culture of NN Group, based on the three NN values, would serve as the blueprint for the culture of the combined company in the Netherlands and Belgium. Therefore, the NN values were introduced as a fundamental part of the integration process. This means they serve as a guide throughout the different stages of the integration, from employee communications to Human Resources processes, such as personnel selection. A multidisciplinary NN/Delta Lloyd workstream was set up to provide advice and guidance on all aspects of the integration of Delta Lloyd from a values perspective.

Monitoring performance

Each year, the Management Board assesses the effectiveness of the implementation of our 'Living our Values' programme and discusses points for improvement. This evaluation is also discussed with the Supervisory Board. We established a number of monitoring instruments to assess how well our values are embedded in our corporate culture. The perception of customers and the general public on how we are living our values is measured through the Global Brand Health Monitor (GBHM). Our employee perception is measured through YES. If there is a decrease or stagnation in performance, this is reported to and discussed with the business units so they can take appropriate action.

Through YES, our employees can express their opinions on different topics, including the extent to which we are living our values and acting with integrity. The 2017 YES showed 85% employee engagement with our brand and values, a decrease of 1% compared to 2016, which is considered to be insignificant.

85%

employee engagement with our brand and values

90%

of employees feel their team cares about customers and treats them with respect

Global Brand Health Monitor – Country performance Greece	Q4-2017	Q4-2016
Aided brand awareness	65%	49%
Brand trust (customers)	69%	60%
Brand preference (life)	13%	10%
You matter company (customers)	73%	69%
NPS	+37	+21

Our culture Continued

As a first step to raise awareness of the NN values, all Delta Lloyd employees in the Netherlands and Belgium received several emails and video messages from NN Group CEO Lard Friese and Netherlands CEO David Knibbe, informing them about the NN values and the importance of common values for the new combined company.

In addition, we again used the 'NN Values challenge' in the Netherlands and Belgium. This game helps employees to apply our values in different work-related situations and stimulates discussion around the values.

In Belgium, 386 NN and Delta Lloyd employees participated in special Strategy and Values dialogue sessions, including interactive modules on our three values: care, clear, commit.

Measuring our progress

To monitor how well the NN values are used in the integration process, questions on the values were included in the Hello You survey. This survey monitors whether employees are ready, willing and able to embrace the combined company. The awareness of the NN values, what they mean in our everyday work, and how business leaders act on the values during the integration were measured. The results of the third survey in October, compared to the second survey in July (the first time the questions on values were included), showed that awareness of the NN values amongst Delta Lloyd colleagues improved from 71% to 77%. Recognition of NN values in Delta Lloyd was around 75% in the Netherlands and 90% in Belgium in October 2017.

This was only five months after the NN values had been introduced. This improvement was also reflected in the results of the question on knowing what the values mean for the everyday job. These improvements indicate the success of including the NN values in all corporate messaging from the start of the transaction and integration process, and initiatives such as the Values challenge.

The response to the question on how management is living the values during the integration process showed a less favourable trend. Although the percentage of employees who are positive remains stable at 54%, the amount of neutral answers remains high at 33%, indicating employees have not yet made up their mind. The percentage of employees who disagree did not change significantly, and is at 13%. The IMO has addressed this outcome with the relevant business units.

Code of Conduct and integration

Besides dilemma workshops for NN employees, a new training programme was developed for all Delta Lloyd employees. As of the fourth quarter of 2017, NN Group Compliance started training all Delta Lloyd managers on the Code of Conduct via face-to-face workshops supported by a Code of Conduct toolbox. After attending these workshops, management trains the Delta Lloyd employees by organising similar face-to-face workshops. The workshops for Delta Lloyd employees were held in the fourth quarter of 2017 and the first quarter of 2018. As of May 2018, all Delta Lloyd employees will be asked to acknowledge the Code of Conduct.

Going forward

Overall employee engagement with our brand and values remains high – at 85%. However, we will continue our 'Living our Values' programme, based on the concept of a global theme and a framework for local initiatives. We will continue to promote and monitor values awareness as part of the integration process. Furthermore, we will keep investing in the role model behaviour of managers, as we believe this is a key component of success in the long term.

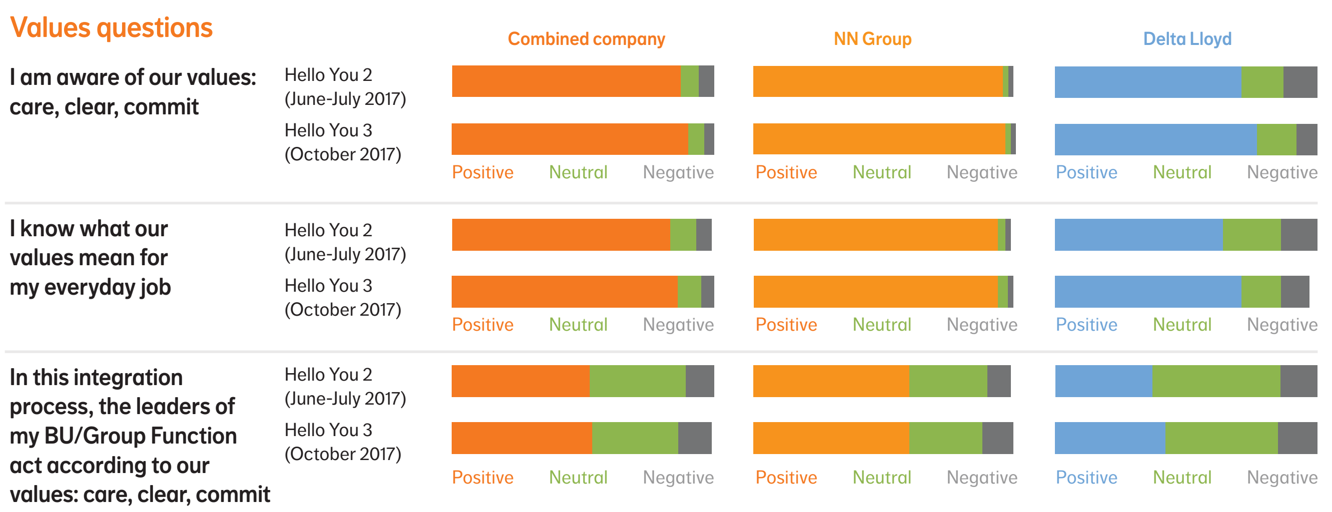
77%

favourable employee perception on openly discussing consistency of actions with values

82%

of our employees feel that their colleagues demonstrate a high standard of integrity

Measuring our progress



Trends and developments

Several external factors impact the environment in which the financial services industry operates

Despite a persistent low interest rate environment, global economic conditions developed positively, also in the countries in which NN Group is active. At the same time, regulatory, demographic and climate change require the sector to continue to adapt.

Rapid progress in digitalisation and changing customer behaviour continue to transform the competitive landscape. Regulation and measures from industry regulators have influenced the offering of products and services.

Combined, these factors imply that the financial services sector as a whole, as well as individual companies, needs to formulate efficient and responsible answers to challenges, in alignment with the interests of customers and other stakeholders.

Economic and demographic changes and outlook

The positive development in global economic conditions that began in the second half of 2016 gained further momentum in 2017.

The global economy is stronger than it has been over the past decade. In advanced economies, growth momentum was broad-based, with stronger activity in the United States, Europe and Japan.

Growth in Europe, with the exception of the United Kingdom (due to Brexit), reflects continued strength in domestic demand, which was supported by monetary conditions and diminished political risk and policy uncertainty, as well as an increase in exports.

Economic growth in the Netherlands was higher in 2017 compared to other mature European countries, and is expected to remain solid in the coming years. In emerging and developing Europe (including Turkey), short-term growth was significantly above EU average growth, and growth prospects continue to be favourable for 2018. In Japan, growth was supported by accommodative fiscal and monetary policies, and by the strengthening of global demand.

In the short term, global growth forecasts are relatively balanced, with strong consumer and business confidence, including in the euro area. A disadvantage is that substantial policy uncertainty remains, reflecting, for example, difficult-to-predict developments in US regulatory and fiscal policies, the potential adoption of trade restrictions, the Brexit negotiations and geopolitical risks.

The outlook for the medium term is more subdued as demographic factors may negatively impact future growth. With fertility rates decreasing and populations ageing, the working-age population is projected to decline in the coming years, which will put pressure on pension and health care systems.

Low interest rates and financial market stability

Market sentiment remained strong and volatility continued to be low in 2017. On the monetary policy front, the US Federal Reserve raised short-term interest rates in March, June and December. In most other advanced economies, the monetary policy stance remained broadly unchanged, with the exception of the European Central Bank's (ECB) announcement that it will halve the pace of its bond-buying asset purchase programme, starting in January 2018.

In 2017, long-term sovereign bond yields stayed broadly stable in Germany, the Netherlands and Japan, and declined by 20–30 basis points in other EU countries, as spreads relative to German yields reduced sharply after the French presidential election. Prices in equity markets have continued to increase due to strong company earnings, high consumer and business confidence, and strong macroeconomic data. As the search for yield intensifies, however, vulnerabilities and market risks increase.

Asset valuations are becoming stretched in some markets, as investors accept higher credit and liquidity risk.

Trends and developments Continued

Regulation

In 2017, consultations started to review part of the Solvency II regime. After many years of careful designing and planning for its implementation, it is important that customers, companies, regulators and investors have time to become familiarised with how the framework functions. It is important to provide for stable regulation and a level playing field in Europe. In early 2017, the new IFRS17 standard was published for the valuation of insurance liabilities, which is expected to be implemented in 2021. Together with the already published IFRS9 standard for asset valuation, accounting standards are now increasingly based on market value approaches.

In 2017, legislation was proposed by the Dutch Government with regard to recovery and resolution planning for insurance companies in the Netherlands. This legislative process is likely to be finalised in 2018. Also at a European level, the topic of recovery and resolution of insurance companies is given attention. Consumer-related legislation, such as the EU Insurance Distribution Directive (IDD), will help insurance firms further improve the quality and transparency of information provided to consumers. Also important is the EU General Data Protection Regulation (GDPR) that will become applicable on 25 May 2018. The GDPR will have a significant impact, as it will provide for a truly unified, high and consistent level of protection of personal data within the European Union (a.o.) introducing new rights for natural persons and obligations for organisations that process personal data. Data protection refers to the protection of personal data of individuals and is derived from the right to Privacy. Both the right to privacy and data protection are fundamental human rights. As a large financial services company, NN processes large numbers of (sensitive) personal data of our customers and employees. This places an extra responsibility on us to do our best to properly and in a timely manner comply with the GDPR.

Competitive landscape

Digital innovations will continue to drive change across the financial services value chain, particularly in the property and casualty (P&C) market and asset management industry. This affects product development and underwriting, back-office operations and online distribution. Social, mobile, analytics and cloud technologies will become utility assets as insurers focus on smarter technologies, such as artificial intelligence, blockchain and the Internet of Things. Digitalisation also brings opportunities for financial services companies to broaden and deepen product offerings and increase partnerships with insurtech startups. The use of (big) data for analysing client propositions offers opportunities to strengthen interaction with customers and create more intuitive partnerships, as well as create better and tailor-made product solutions. Insurers and asset managers are aware this requires ensuring a proper balance between individual choices, privacy and solidarity.

Changing pension systems

Low interest rates, digitalisation and the move to passive investment solutions continue to put pressure on the asset management industry. The outlook for life insurance and pension products differs across countries. On a global scale, life insurers have managed to restore profits allowing them to retain earnings, raise capital buffers, and adapt their business models in response to the low-yield environment. Also, insurers have been adjusting their asset mix to higher-yielding and less liquid assets. In the Netherlands, the market for (individual) life and pension products is challenging. The new Dutch government announced initial ambitions to reform the second pillar of the pension system. The Central and Eastern European (CEE) region maintains significant potential for future growth, and witnessed rising demand for life insurance products and continued growth of the insurance sector in the region.

Uncertain geopolitical developments

In the refinement of business strategies, financial services companies should take due account of other developments, such as ambiguity around geopolitical developments, which potentially lead to uncertainties in the economy and markets. The increased frequency and severity of major weather events mean that climate change has enlarged the risks and costs of insurance. Cyber risks to business and governments are growing, as events in 2017 demonstrated, with a sizable increase in the impact and sophistication of financially motivated cyber-attacks on financial institutions. A greater reliance on technology, combined with the interconnectedness of the global financial system, means that many participants in the system could potentially be at risk.

Being prepared to drive change

From this general assessment we can conclude that the environment in which financial services companies operate is prone to continuous change. Companies must be agile and well prepared to deal with and take advantage of the opportunities these changes bring.

Understanding and addressing our material topics

To earn trust and support, we maintain an open and continuous dialogue with our stakeholders

NN considers employees, customers, shareholders, business partners and society at large (including regulators and societal organisations) to be important stakeholders. We seek their feedback on different topics in order to learn what topics they consider important.

Identifying the most relevant developments and topics within our sector, and the potential impact they have on our company, is an ongoing process, relevant also to our annual reporting efforts. The Global Reporting Initiative's (GRI) Sustainability Standards define material aspects as those that may reasonably be considered important for influencing the decisions of stakeholders, or reflecting the organisation's economic, environmental and social impacts.

As in every year, we checked the list of trends and topics through an analysis of recent laws and regulations, external research, reporting guidelines, benchmarks and peer reports. Instead of an extensive survey amongst internal and external stakeholders, we took a different approach in 2017.

As a result of the acquisition of Delta Lloyd, the first step in our process was the integration of the 2016 materiality matrices of NN Group and Delta Lloyd. As most topics in the matrices were similar, some topics were integrated. For example, talent attraction and retention and training and development were merged into human capital development. The scores of the topics were merged based on the number of employees per organisation.

In line with the GRI Standards, the x-axis of the matrix was adjusted from 'Relevance to NN' to 'NN's impact on the topic'. This resulted in trends, such as demographic change and low interest rates, ending up in the left quartiles of the matrix. Although our impact on these trends is limited, they are truly relevant to our business and therefore described on pages 17-18 of this Annual Review.

To validate the outcome of this exercise, we organised a dialogue session with a group of 20 internal and external stakeholders. The latter included investors, regulators, NGOs and experts in the area of sustainability.

Internally, we invited representatives from different business units and relevant staff functions. During the session, all topics were discussed and rated on a scale of one to five. The process was supported by an external specialised agency to ensure it was balanced and independent.

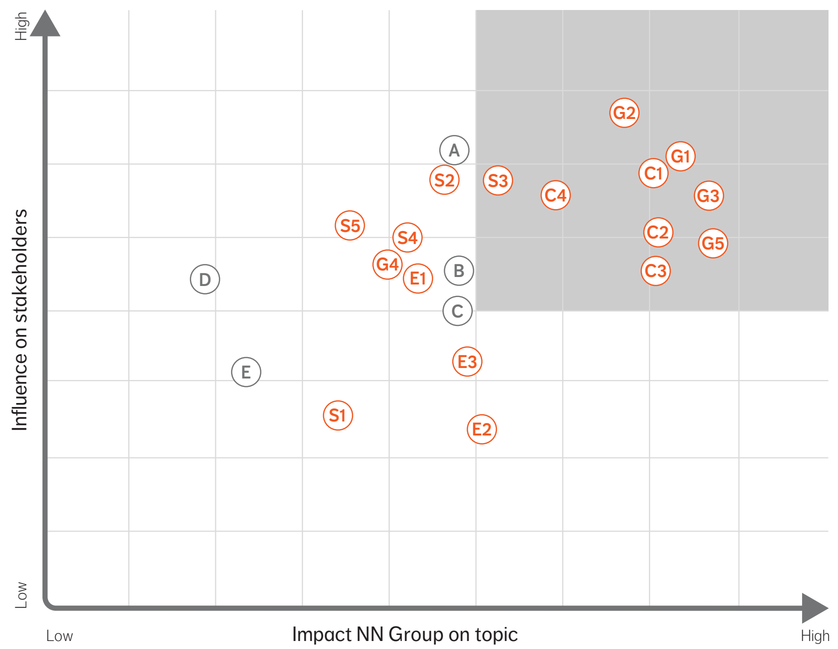
The materiality matrix was discussed with NN Group's Management Board, and validated by the Supervisory Board. The outcome is reflected in the chart below.

The most material topics, indicated in the upper right quarter of the matrix, and NN Group's response to them are described in the next chapter of this Annual Review. Although climate change is placed outside the upper right quarter, we address climate change risks and opportunities in this chapter, and in our response to the recommendations of the Taskforce Climate-related Financial Disclosures (on pages 58-61).

Read more about the trends that are relevant to our business on pages 17-18.

Read more about the most material topics and our response to them on pages 20-23.

Topics recognised as most material by our stakeholders



Customers
- C1 Customer centricity
- C2 Innovation
- C3 New technologies, digital transformation and big data
- C4 Data privacy and security

Good governance
- G1 Transparency
- G2 Business Ethics & Compliance
- G3 Risk management
- G4 Responsible tax practices
- G5 Financial performance

Employees
- E1 Diversity and inclusion
- E2 Employee engagement
- E3 Human capital development

Society and environment
- S1 Financial and economic empowerment
- S2 Sustainable products and services
- S3 Responsible investment
- S4 Human Rights
- S5 Climate change

Macro-economic trends and developments
- A Low interest rates and stability of financial markets
- B Regulations
- C Pension system
- D Demographic change
- E Geopolitical developments

Understanding and addressing our material topics Continued

A number of topics, resulting from the materiality assessment and our own analysis, impact the financial services industry and our company

Material topics

Customers

C1 C2 Customer centricity and innovation

The fundamental need of people to protect themselves against life's uncertainties will continue to drive growth in the insurance industry over the long term. But we are living in a new world: people are increasingly independent. They expect, and are used to, financial services companies delivering 24/7, no threshold access, through any means or device. A company's business model and the way it offers products and services must support this.

Innovation and digitalisation contribute to the further optimisation of product development and distribution capabilities. At the same time, they change the competitive landscape in our industry with new, non-traditional entrants. The result is an intensified focus on customers' needs, and a need for new and improved ways to service them.

Opportunities and risks
Customers are willing to consider products and services that offer something different from traditional savings and pension models. They do, however, continue to demand transparency and prudent management of their investments.

Companies need to decide where they want to invest in order to engage with their customers and build an ecosystem that facilitates customer contact. By doing this correctly and efficiently, a real competitive advantage can be obtained. Continuous feedback and interaction with customers is needed to design easy-to-understand products that anticipate their future needs, and that are priced at customers' expectations. Drivers for customer satisfaction are not only price and service, but also contributing to a more sustainable society and the quality of interaction moments.

Our response
We want to be the intuitive partner for our customers when it comes to planning their financial futures. This can take many forms, including digitalisation, developing new products to anticipate changing customer demands and finding new ways to distribute our products.

Innovation takes place within the business units, by improving our existing offering, process and services to create a digital, personal and relevant customer experience.

For example, in the Netherlands, we have defined 'Next Best Actions'. These are relevant and personal propositions that we offer during our contact with our customers. We use a self-learning engine to determine the most suitable recommendations, resulting in higher customer satisfaction and improved cross-sell ratios.

Cultivating the right innovation mindset is key to ensuring that we have the necessary agility to deliver truly customer-oriented solutions and shorten the time to market. Our six international innovation labs – Sparklabs – provide an out-of-office environment to foster innovative ideas and infuse innovative thinking into our company. In 2017, we had more than 120 experiments (sparks) in our innovation pipeline. When new start-up products or services become successful, we may integrate them into our regular businesses.

We also believe that innovating our customer experience is supported by connecting with relevant partners. An example is our strategic partnership with Hesapkurdu.com, the leading online loan aggregator for mortgages and consumer loans in Turkey. This partnership provides for the exclusive distribution of NN Hayat ve Emeklilik's life and pension products for a period of 15 years.

Since March 2017, we have been a key partner in the Dutch Blockchain Coalition, a public-private consortium aimed at applying blockchain technology in Dutch society.

Read more about our innovation efforts to create the customer experience of tomorrow on pages 35-38 of this Annual Review.

Understanding and addressing our material topics Continued

Material topics

Customers Continued

C3 C4 New technology and data privacy

New technologies continue to impact the digitalisation of society, which is fundamentally changing the behaviours, needs and requirements of customers. The increased availability and sharing of data enables companies to improve the way they develop and offer tailor-made and personalised products and services. The expectation is that a variety of breakthrough technologies are set to spur a fundamental transformation of the financial services industry, such as blockchain, cloud computing, the Internet of Things, telematics, drones and artificial intelligence. With this comes increased risk and exposure to cyber crime activities and unwanted privacy breaches.

Opportunities and risks

Financial services companies are investing in new digital platforms to facilitate connectivity and benefit from these new technologies. At the same time, they possess large amounts of payment data or personal information about their customers. Therefore security awareness and data protection are vitally important.

Attacks on financial services companies can have a major impact, such as claims and lawsuits, but also a loss of trust, driven by customers' concerns about whether their information is truly safe. A major breach can seriously impact a company's reputation and brand.

Our response

Protecting financial and customer data is a key component in our daily business operations. We make every effort to provide optimal security and ensure confidentiality of our customers' data and transactions. Cyber security is an integral part of our risk management strategy, both internally and externally.

We invest in information security and data privacy and have dedicated security teams, consisting of more than 100 security professionals and our Chief Information Security Officer, with support from our NN Security Operation Centre (SoC). They collaborate with Business Unit Security Officers to provide 24/7 protection for our customers and our organisation against current and emerging cyber threats. We work with well-known certification authorities. We use encryption and authentication mechanisms to secure online communication and transactions.

Through education and awareness, security strategies are implemented at all levels of the organisation. Examples are periodic instructions to all employees on how data are to be stored and managed, phishing security tests, and awareness campaigns on password protection. We constantly perform security scans and employ security guidelines which our businesses must meet to properly protect data.

We work closely with various partners such as universities, law enforcement, other financial institutions, Team High Tech Cybercrime (THTC) and the National Cyber Security Centre (NCSC) to support our own cyber security initiatives such as the Dutch Cyber Collective (www.nederlandscybercollectief.nl) and other business innovations.

Read more about our how we approach new technology and data privacy in the business segment chapters on pages 28-34 of this Annual Review.

The EU General Data Protection Regulation (GDPR)

Ensuring proper information security and data privacy is an important element of the GDPR. The GDPR will become applicable in the European Union on 25 May 2018. It aims to give citizens more control over their personal data and will for the first time unify all data protection legislation across Europe.

Under the GDPR, customers have enhanced rights, for example, the 'right of access', meaning that we should be able to respond within a month to any customer's request for information about the why, what and which of their personal data being processed by NN.

The GDPR is in line with our 'NN statement of Living our Values', which states that we use our knowledge responsibly, keep confidential what is entrusted to us and communicate proactively and honestly. NN has processes in place to safeguard personal data, and currently our businesses are busy implementing additional measures to properly and timely comply with this regulation. A central NN GDPR programme has been installed to manage the consistency and coordination of the implementation across our European businesses. All European businesses will appoint a Data Protection Officer (DPO). Through a mandatory e-learning course, all employees will learn about the basic principles of privacy/data protection and what is expected of them.

Understanding and addressing our material topics Continued

Material topics

Good governance

G1 G2 Business ethics and transparency

Several factors play a role in the success of a company that are beyond the scope of customer centricity and generating good financial returns alone. Business ethics and being transparent are crucial for ensuring long-term success. Customers ask for transparent products and services that are easy to understand and also have a positive impact on society and the environment, enabling them to make the right choices. They increasingly care about how companies integrate sustainability aspects into their business and product offerings. Businesses must be committed to operating from a transparent and ethical foundation as it relates to the treatment of employees, respect to the environment, and fair market practices in terms of pricing and consumer treatment.

Opportunities and risks

The reputation of a business among stakeholders is paramount in determining whether a company is a reliable supplier of products or a worthwhile investment. If a company is perceived to not operate transparently or ethically, customers are less inclined to buy its products and investors to buy its stock. Consistent ethical behaviour and transparency can contribute to a positive public image.

Our response

Our values guide our interactions with our stakeholders, and embody responsible business conduct and corporate citzenship. They are published in our 'NN statement of Living our Values'. Additionally, the NN Code of Conduct gives more detailed guidelines for specific behaviour. Written acknowledgement of the Code has been mandatory for NN Group since the first half of 2017, and needs to be acknowledged annually by all employees. Two other standards that guide us in our activities are the 'NN Group Human Rights Statement' and the 'NN Group Environmental Statement'. Before introducing new products and services, they go through our product approval and review process (PARP). We review our product range regularly to ensure that they meet our customer, compliance, risk, capital and profitability requirements. We strive to manage all our assets, in an environmentally and socially responsible way, by integrating environmental, social and governance (ESG) aspects in our investment processes.

Read more about our values on pages 13-16 and responsible business standards on page 26 of this Annual Review.

Dutch unit-linked products

In the Netherlands, unit-linked products have received negative public attention since the end of 2006. We have taken this criticism to heart, as our aim is to support our customers as best we can. In recent years, Dutch insurance subsidiaries of NN Group have made significant progress in reaching out to individual customers who purchased unit-linked products in the past, addressing vulnerable customer groups as a priority ('activeren').

To date, Dutch insurance subsidiaries of NN Group have reached out to 100% of customers with a unit-linked policy. We encouraged all customers to carefully assess their unit-linked products in order to enable them to address their personal situation and offered customers the option to switch to another product or make changes to their policy free of charge.

As at 31 December 2017, the portfolios of Dutch insurance subsidiaries of NN Group comprised approximately 500,000 active policies. Dutch subsidiaries of NN Group will continue to support customers with a unit-linked policy by providing aftercare. In a limited number of cases (less than 1,000), Dutch insurance subsidiaries of NN Group have settled disputes with individual customers. These are tailor-made solutions. A limited number of individual customers and several consumer protection organisations have initiated legal proceedings against Dutch insurance subsidiaries of NN Group.

Read more on pages 117-119 of the Financial Report (Note 43).

G3 Risk and capital management

NN Group's role is to support customers in building and protecting their assets and covering their risks. Our risk and capital management activities seek to keep the company safe and profitable, in the interest of our stakeholders. NN Group adapts our risk management practices to new developments to ensure the business operates in a controlled way.

For more information, refer to the 'Core skills that enable our strategy' chapter on pages 25-27 of this Annual Review, and the 'Risk management' in our Financial Report on pages 129-158 (Note 50).

G5 Financial performance

Prudent financial management is NN Group's main driver to maintain a strong balance sheet. This is key to absorbing market volatility and ensuring NN Group and our operating entities are sufficiently capitalised at all times. This is how we ensure good financial performance, keeping our customers' money safe and generating attractive returns. For 2017, our Solvency II ratio and cash capital position remained robust, at 199% and EUR 1,434 million respectively, in line with our disciplined approach to managing our capital. Our operating performance was strong, with the operating result of the ongoing business at EUR 1,586 million. Our total Assets under Management increased to EUR 246 billion.

Read more about how we manage our balance sheet on pages 39-40 of this Annual Review, and page 37 of the Financial Report.

Understanding and addressing our material topics Continued

Material topics

Society and environment

S3 Climate change

Although not recognised as the most material topic by our stakeholders, we believe it is evident that climate change impacts our businesses. As one of the biggest challenges facing the world today, we can already see the effects of climate change with weather events such as windstorms, drought and sea level rise. The UN Intergovernmental Panel on Climate Change has predicted that if average global temperatures increase more than 2°C this century, these events will become more frequent and severe, posing a significant threat to livelihoods and the wellbeing of society. This underlines the need to take urgent action to meet the goals of the Paris Agreement to keep a global temperature rise this century to a maximum of 2°C, and striving for 1.5°C, above pre-industrial levels.

Risks and opportunities

We are exposed to climate risks primarily through our non-life insurance policies, which cover damage caused by weather events such as windstorms or hail, and through our investment holdings in companies which may be affected by tightening regulation, technological developments and changing consumer preferences. At the same time, climate change creates opportunities for the development of new products and investments that contribute to climate change solutions for ourselves and for the clients and beneficiaries on behalf of whom we invest.

Our response

We manage our greenhouse gas emissions to mitigate the impacts of our direct operations and are a carbon-neutral company. We further improve our understanding of climate risks to provide adequate protection for our customers through our insurance products, while managing the risks posed to our investment portfolio, and using our influence and expertise to encourage investee companies to play their part in the transition to a lower-carbon economy.

We believe that collaboration is important to tackle climate change. In 2017, we strengthened our network by joining the Institutional Investors Group on Climate Change. NN Investment Partners, our asset manager, endorsed the 'Letter from Global Investors to Governments of the G7 and G20 nations' urging them to stand by the Paris Agreement, and expanded its engagement on climate risk by joining the collaborative Climate Action 100+ initiative.

To further understand and manage the risks and opportunities of climate change, it is important that the quality and availability of climate-related financial disclosures continue to improve. NN Group therefore endorsed the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and made steps to integrate them in our own reporting.

For our response to the TCFD, refer to pages 58-61 of this Annual Review.

S3 Responsible investment

Our Responsible Investment Policy Framework sets out our vision and approach on Responsible Investment (RI), which we define as the integration of environmental, social and governance (ESG) aspects in our investment processes and ownership practices. NN Investment Partners (NN IP) formalised its commitment to Responsible Investment by signing the United Nations-supported Principles for Responsible Investment in 2008. NN IP has since made the consideration of ESG factors an integral part of its investment decisions, in the conviction that these may impact both risks and returns. For clients who want to take sustainability a step further, NN IP also offers specialised Socially Responsible Investment (SRI) strategies and tailor-made RI solutions.

For more information, please refer to the chapter on responsible investment on pages 41-44 of this Annual Review.

Our strategy and priorities

The strong foundation of our purpose, brand, values and ambition, combined with a focus on our strategic priorities, enables us to create long-term value

This is how we deliver on our ambition to be a respected company that truly matters in the lives of our stakeholders. Underpinning our strategy are four medium-term strategic priorities.

Addressing material topics, see page 19

Disciplined capital allocation

G4 G5

Capital generated in excess of NN Group's capital ambition will be returned to shareholders, unless it can be used for other appropriate corporate purposes, including investments in value-creating opportunities. We continuously perform strategic assessments of each of our businesses within the NN Group portfolio.

In the Netherlands and Belgium, our focus is on successfully integrating Delta Lloyd into NN Group and extracting the envisaged synergies.

Internationally, our primary focus is on organic growth. We are also open to merger and acquisition opportunities and portfolio optimisation. Any acquisitions will be subject to strict financial and non-financial criteria to assess the attractiveness of these opportunities.

Innovate our business and our industry

C2 C3 G5

Our drive to innovate is about enhancing customer satisfaction, intuitive interaction and simultaneously driving efficiency. We continually look for new ways to meet our customers' needs and keep up with the changing dynamics of the markets. We improve our existing product portfolio, processes and services to create a digital, personal and relevant customer experience.

Going forward, we need to further accelerate our innovation efforts. For example, by embedding new ways of working within our organisation, increasing our portfolio of options, and creating new partnerships within the innovation ecosystems in which we operate.

Agile and cost-efficient operating model

C2 G5

To secure long-term growth, we invest in making our organisation more efficient and agile. Our operating model aims to further stimulate a culture of entrepreneurship and accountability, and is based on clear responsibilities, streamlined decision-making and simplified governance.

Going forward, we are executing our IT roadmap not only to support innovation, but also to increase our efficiency. Our IT roadmap is built on three pillars: speed, quality and craftsmanship.

Another element is moving to a more agile way of working by empowering colleagues and removing silos, allowing them to reduce time to market and increase customer responsiveness. Based on pilots currently running in our Insurance International businesses, we aim to implement this concept in more of our operations.

Value-added products and services

C1 G5 S1 S2

The core of our business model is to help people carry risks that they cannot bear alone, providing protection for what matters most to them. As such, we offer life insurance products to protect people against the financial risk of living a long life without sufficient means of support, or dying at an early age. In some markets, we also offer non-life products to protect the assets that matter to our customers, and savings and investment products to ensure their long-term income.

Going forward, we want our customer service and responsiveness to be available 24/7, through any channel customers want to engage with us.

Read more on how our strategy is being implemented across our key segments on pages 28-34 of this Annual Review.

Core skills that enable our strategy

We invest in our core skills to enable our businesses to deliver on our strategy

Multi-access distribution

Addressing material topics, see page 19

C2 C3

What we do
We are there where our customers want us to be. We operate via agents, brokers, banks and direct servicing, allowing our customers to choose how and when they interact with us. It is a personal approach, with relevant products and services delivered to customers through their preferred channel.

How this helps to create value
Each of our business units offers its own products and services via a multi-channel approach. We share knowledge, data analytics and talent-creating synergies between our different businesses. Our scale enables us to achieve lower costs per customer and invest in digital capabilities and building new channels.

What we do differently
In the Netherlands, we are an omnichannel company offering products through our digital and offline channels, direct writers, via exclusive agreements with partners and via (mandated) brokers. We combine this with a strong brand and high brand preference, which is important in today's digital world.

Internationally, our focus is on building our bancassurance relationships as a key growing channel and increasing the productivity of our tied agents. We significantly increased the proportion of new business sales conducted digitally with straight-through processing, introduced the concept of 100% paperless sales processes and started to issue product policies on demand in real time. We have agreed distribution partnerships with banks across Europe and Japan, where we have been selected as preferred partner because of our product offering and customer service levels.

Advanced underwriting and use of technology

C1

What we do
Underwriting and technology usage are essential to the insurance business. Our underwriters perform a variety of roles that are needed to understand, manage and price risks. Together with our actuarial department, our underwriters determine the level of premiums that we need to charge to insure our clients. We use technology and data analytics to create personal and relevant products and services for our customers.

How this helps to create value
By using technology and data analytics to identify our customers' needs and demands, we improve our product designs. This allows us to move to a more data-driven business model, decreasing costs and increasing customer satisfaction.

What we do differently
Following the concept of our Advanced Data Analytics Lab in the Netherlands, we are building a Data Analytics and Underwriting Hub in Prague, Czech Republic, serving the international businesses. This will enhance our customer segmentation, improve our pricing and claims, and identify and grow more profitable segments.

To further drive the delivery on underwriting improvement plans in our businesses, we launched the International Underwriting Programme. With this programme, we aim to drive sustainable competitive advantage through enhanced underwriting capabilities. Furthermore, we are executing our IT roadmap to drive innovation and increase efficiency. We are investing in new technologies, such as cloud, robotics and machine learning.

Partnerships and collaboration

S2

What we do
We approach our partnerships as a means to create strategic, mutually beneficial opportunities and connections. We generate economic activity by purchasing products and services from local suppliers, in addition to regional and global suppliers. Also in our community investment activities, we work closely with charitable partners to maximise our impact. Our relationships with partners and suppliers are based on our NN values.

How this helps to create value
As a financial services company, NN Group is committed to further improving the operating performance of our business units. For example, in Japan we now have a long-term, beneficial partnership with Sumitomo Life. Its sales network of about 35,000 agents can offer their customers NN Life Japan's innovative COLI products. This partnership also contributes substantially to NN Japan Life's sales.

What we do differently
We want to be an intuitive partner for our customers when it comes to planning their financial futures. We find new ways to distribute our products via partners in and outside the financial sector. For example, Nationale-Nederlanden Poland launched a partnership with Play, the largest telecom provider in the country, providing dedicated health products (heart and cancer insurance) through its newly launched insurance market platform, 'Play Insurance'. Play customers will be able to buy health insurance through the Play smartphone app, making NN products available to over 14 million Play customers. By forging partnerships outside the financial sector, we can drive our innovation of the customer experience in new ways.

Core skills that enable our strategy Continued

Talented and empowered employees

Addressing material topics, see page 19 E1 E2 E3 S1

What we do
NN Group is committed to maintaining a caring, healthy, diverse and respectful workplace in which people can work and thrive. NN Group's ambition to become more agile, and to place customer-driven innovation at the core of our business model, drives our efforts to empower our people and to support an entrepreneurial culture. We facilitate training, internships and assignments to provide our people with the opportunity to find out what career steps are feasible and suitable for them in the future.

How this helps to create value
Our operating model aims to further stimulate a culture of entrepreneurship and accountability within NN, and is based on clear responsibilities, streamlined decision-making and simplified governance. We pay our employees attractive salaries and benefits. We invest in our people by offering training and development. Not only to allow our people to be at their best within NN and to optimally serve our customers and other stakeholders, but also to ensure personal and professional development in the longer term. Furthermore, we strive to have a workforce that reflects the markets in which we operate.

What we do differently
Our values and our brand mantra 'You matter' are the compass for the way we attract, retain and develop our people.

Responsible business standards

G1 G2 G4 S1 S2 S4 S5

What we do
We are committed to doing business in a way that is consistent with our values, which embody responsible business conduct and corporate citizenship. The 'NN statement of Living our Values' is the foundation for all internal policies and standards. Two other corporate standards that guide us in our activities are the 'NN Group Human Rights Statement' and the 'NN Group Environmental Statement'. These statements also reflect our endorsement of international general standards and sector-specific standards, such as the UN Global Compact, the Principles for Responsible Investment and the Principles for Sustainable Insurance; all supported by the United Nations.

How this helps to create value
The statements, guidelines and standards set out our approach to different topics in our roles as an employer, an insurer, a business partner, an investor and a corporate citizen.

In our role as investor, for example, we responsibly manage our own assets, as well as those our customers entrust to us. By integrating environmental, social and governance (ESG) aspects in our investment process, we optimise the risk/return profile of our portfolios. Beyond this economic rationale, NN Group believes that the consideration of these issues is also a matter of good corporate citizenship. This means that not only the values and interests of our beneficiaries should be taken into account, but also those of the broader society.

What we do differently
All relevant standards can be linked to our values. We consider the interests of different stakeholders in the way we do business, in our role as an insurer, investor, employer and as a business partner.

Risk and capital management capabilities

G3

What we do
Risk taking is integral to the business model for insurance, asset management and banking organisations such as NN Group. Through our Risk and Capital Management practices, we seek to meet our obligations to customers and creditors, ensure the business operates in a controlled manor, manage our capital efficiently and comply with applicable laws and regulations.

How this helps to create value
NN Group is in the business of taking and pooling risks for the benefit of our customers. We operate in a systematic and disciplined way, based on agreed risk management principles. Specific risk oversight is also provided by risk management teams that have the objective of protecting NN Group's financial and capital value, and preventing the risk of businesses falling short on our customer promises and long-term business objectives.

What we do differently
Our philosophy is built on a risk control cycle and a comprehensive framework that outlines our risk appetite. We have formulated three key risk appetite statements for the areas of strategic challenges, a strong balance sheet and sound business performance. These are further detailed in nine sub-statements that are used for internal steering. We work systematically, aim for completeness and document what we do. Each risk analysis performed is shared with the responsible management.

Core skills that enable our strategy Continued

At NN Group, we perform a yearly risk assessment to identify and assess the top risks for our company

The 2017 process resulted in the following top risks for NN Group.

These top risks are not ranked in any particular order.

Financial market exposure relates to adverse market movements and volatility. A well-diversified portfolio, a natural hedge with our liabilities and specific hedging programmes aim to keep this risk within set limits.

Related is the **risk of instability of the Eurozone/EU.** Instability could lead to dislocation of financial markets, failing bank systems, an uncertain business environment, recession or geo-political instability.

Adapting our longer-term business model to the changing world in a timely manner is managed through NN Group's strategy process and related Business Planning cycle. The Chief Innovation Officer channels and supports innovation initiatives.

Like many other companies, NN Group may be an (in)direct target of cyber-attacks. **Cyber security threats** are difficult to manage. Data-sets and services are accumulated in the **cloud**. This generates risks caused by cyber-attacks or power outages.

As a pension provider, we address the risk of **longevity,** which currently is the largest quantifiable risk concentration. We are planning further longevity hedges to transfer part of the risk, and seek relief in the longer term by rebalancing our portfolio.

Client and product suitability refers to the risk that products do not cover clients' interests over the full lifetime against a reasonable price. A product approval and review process ensures products meet our criteria.

Just like any large organisation, we have a **risk of ineffective operations and related inefficiencies**, which can lead to slow or incorrect decision-making, a cost base that is too high, and reputational damage.

Without attracting and retaining **the right people**, the ability to effectively manage our business for sustainable success will be compromised. Good talent management is crucial to attract, retain and develop world-class talent. We invest proactively in development throughout the careers of our employees.

Integrating two large companies like NN and Delta Lloyd is by nature a complex task that comes with risks. A dedicated Integration Management Office helps to ensure a timely and well-controlled integration process.

Read more on pages 129-158 of the Financial Report (Note 50).

We invest our assets responsibly. By incorporating environmental, social and governance (ESG) aspects, we optimise the risk-return profile of our assets.

Read more on pages 41-44 of this Annual Review.

Delivering on our strategy

Netherlands

Digital, Personal, Relevant

By joining forces with Delta Lloyd, we strengthened our leading position in the Dutch market.

Our strategy in action in 2017

Disciplined capital allocation
We joined forces with Delta Lloyd, delivering on value-creating opportunities

Innovate our business and industry
In line with our strategic focus to become more digital, we introduced several new concepts and services, for example 'Bundelz', 'Gappie' and 'Brickler'

Agile and cost-efficient operating model
Increasing efficiency is at the core of our strategy

Value-added products and services
We are strengthening our distribution channels for example by supporting our distribution partners with 'Next Best Actions' to customers

The increased scale and strong market position of Netherlands enable us to improve our customer experience, drive efficiency and deliver on cross-sell ambitions.

In the Netherlands, we offer our products and services under the following brand names: Nationale-Nederlanden, Delta Lloyd, Movir, AZL, OHRA and BeFrank, as well as via our ABN AMRO Insurance joint venture and our partnership with ING. We build and capitalise on our leading market position with our 'Digital, Personal, Relevant' strategy:

- Digital: products and channels that customers prefer
- Personal: knowing and engaging with customers based on available data
- Relevant: offering the right solution, at the right time, to the right customers

These are the building blocks that we believe will create a consistent, omnichannel customer experience, through the offering of innovative solutions, delivered by an organisation that operates efficiently.

Our general progress in 2017

In 2017, we improved our customer experience, became more digital and introduced innovative products and services.

In Life, we offer pension solutions in both defined benefits (DB) and defined contribution (DC), with and without guarantees, delivered through efficient IT platforms. Our increase in sales of DC products, which have lower capital requirements, contributed to managing the liability risks of the Life business. The full-year operating result increased to EUR 896 million from EUR 710 million in 2016.

In Non-life, we increased our Net Promoter Score and achieved our expense targets. The full-year operating result of Non-life decreased from EUR 62 million in 2016 to EUR 30 million in 2017, mainly attributable to lower results in Disability & Accident, partly compensated by improved Property & Casualty results. We aim to improve our combined ratio to a level of 97% or lower, through a clear road map, including expense reductions (~20%), premium adjustments, portfolio rationalisation, investments in data, and strengthened underwriting capabilities.

The full-year operating result of Netherlands' banking business was EUR 124 million. The mortgage portfolio of the banking business increased to EUR 17.6 billion, and the customer savings portfolio increased by EUR 4 billion to EUR 14.1 billion.

Delivering on our strategy
Netherlands Continued

Delivering on NN Group's strategic priorities

Disciplined capital allocation

We continue to allocate capital rationally. As a first priority, we ensure that our businesses have the capital they need to realise their strategy. At the same time, we want them to keep improving their market and business positions, whether that be in terms of efficiency, growth or return on capital.

In 2017, NN Group joined forces with Delta Lloyd. Our increased scale makes us more competitive. In the Netherlands, the Nationale-Nederlanden business units will integrate the activities of Delta Lloyd Life, Non-life and Bank in its current organisations.

Innovate our business and industry

To increase its commercial strength, NN Life uses predictive analytics algorithms. Closed book operations are robotised to lower unit costs in line with the declining portfolio.

NN Non-life reduces its claims ratio in Property and Casualty (P&C) through deploying an innovative IT system. Based on big data and artificial intelligence, the system enables Non-life to scout, match and find stolen property on the internet. If the cost of claims due to theft is reduced substantially, it can lead to lower premiums for the customer.

Sparklab, Non-life's innovation lab, launched a variety of initiatives in 2017. For example, 'Bundelz' is the first prepaid car insurance for drivers who only drive occasionally, or for short distances. 'Gappie' is an app customers can use to buy on-demand car insurance when borrowing a car from family or friends.

NN Bank, together with several key partners, is actively participating in a pilot to process mortgage applications through blockchain. This pilot aims to increase process efficiency and customer satisfaction, and decrease fraud risk

Agile and cost-efficient operating model

Increasing efficiency is at the core of our 'Digital, Personal, Relevant' strategy. To realise this, NN Life is reducing the number of platforms used for administration, and has split the pension organisation into a new business domain and a services domain, to create more agility. We outsourced business and IT processes in order to bring in expertise and variabilise expenses for closed block portfolios. We are moving to straight through processes and introducing robotics to support processes in existing legacy environments.

OHRA introduced online claims filing. Since its launch, almost half of all claims have been submitted digitally, and customers now have online insight into the status of these claims. The percentage of questions concerning claim status reduced from 29% in 2016 to 16% in 2017.

By the end of 2020, the combined company intends to deliver an overall expense reduction of EUR 350 million for all business units in scope of the integration, including Belgium, Asset Management and Holding/Corporate activities. Reductions will be realised through integration synergies, simplifying the IT landscape and moving to the cloud, variabilising/lowering fixed expenses through an agile way of working, and continuing to invest in digital capabilities.

Read more about how we are supporting employees who are directly affected by organisational changes as a result of the integration process on pages 45-47 of this Annual Review.

Value-added products and services

In line with the strategic focus to become more digital, personal and relevant, Netherlands introduced several new products, services and initiatives.

We have been further improving our online portal and app to address most customers' needs. Customers can access their personal and policy details, make changes, see documents, interact with NN and receive customer service through digital portals.

ABN AMRO Verzekeringen, the joint venture of NN Group (51%) and ABN AMRO Bank (49%), was ranked best insurer by Dutch magazine Management Team and achieved a top three position in all three categories: customer focus, product leadership and excellent implementation.

The Dutch Cyber Collective, an NN initiative supporting SMEs to reduce cybercrime, launched 'Cyberwacht', an emergency service for hacked companies. 'Cyberwacht' limits damage, investigates causes and removes malicious software.

'Brickler' is an online platform that makes buying and selling a house easier. Brickler is part of NN Bank, but is being developed outside the existing organisaton, according to the lean startup methodology.

Strategic focus for the year ahead

Going forward, our focus will remain on the integration with Delta Lloyd and unlocking the potential of the combined company. Our large customer base provides the opportunity to build a substantial online platform for financial services. The starting point is to offer our products and services through our existing channels, expanding to offerings from and via potentially third parties, in order to create new business opportunities. To take advantage of opportunities that are arising in different market spaces, we are focusing on three key innovation areas: cybersecurity, carefree retirement and vitality. Startup techniques are used to explore these new opportunities.

1.5 million 'Next Best Actions'

We are strengthening distribution channels through improved service leveraging.

For example, we provide 'Next Best Actions' (NBAs) for our customers, giving them relevant purchase or service suggestions through our online, email and call channels.

In addition, we serve our intermediaries by creating relevant NBAs in the online intermediary portal adviseur.nn.nl, for them to use when advising their clients. So if a customer calls us, for example, about car insurance, the intermediary can follow up with a relevant product extension.

These specific suggestions are based on customer profiles and behavioural data. In 2017, over 1.5 million NBAs were proposed. NBAs are continuously tested for relevance, improved and scaled.

Delivering on our strategy Continued

International Insurance

Accelerating growth and generating value

International Insurance operates in 11 countries across Europe and Japan. In Central and Eastern Europe, we are a leader in Life and Pensions. In Japan, we are a top player in corporate-owned life insurance for small- and medium-sized enterprises (SMEs).

Our strategy in action in 2017

Disciplined capital allocation
Capital is allocated to those product lines where good value of new business margins are generated

Innovate our business and industry
Significant steps were taken to develop an innovation-driven mindset across all markets

Agile and cost-efficient operating model
We are adapting our businesses for our customers and partners through new ways of working

Value-added products and services
Our focus on meeting the evolving needs of customers was strengthened through new tailor-made products and services

International Insurance has a strong, growing and profitable portfolio.

To accelerate growth, we aim to set ourselves apart in terms of the levels of engagement and service we provide to our customers. One way we are achieving this is by continually investing in new, innovative, modular protection propositions and by cross-market collaboration. Product proposition principles are developed to identify and serve customers in an increasingly personal and relevant way.

Our general progress in 2017

To strengthen our footprint in Europe and Japan, the focus in 2017 was on continuing to build bancassurance relationships and on transforming the productivity of the tied agent channel.

NN Life Japan entered into a distribution agreement with Sumitomo Life, which started selling NN Life Japan's products in April 2017 through its nationwide network of 35,000 agents. International Insurance expanded its distribution through partnerships with banks in Greece, Poland, Japan, Turkey, Czech Republic, Slovakia and Bulgaria.

Efforts to innovate and develop new protection propositions across all markets were intensified with a focus on engaging our customers through digital channels at times when it really matters. This has led to improved engagement and high Net Promoter Scores (NPS). In addition, it has allowed us to be even more efficient. This has also resulted in lower lapses and capturing maturing policyholders.

Delivering on NN Group's strategic priorities

Disciplined capital allocation

Capital is allocated to those product lines where good value of new business (VNB) margins are generated. In particular, there is strong progress in selling a greater proportion of protection business where margins remain healthy and we are introducing new compelling propositions. In the savings business, capital light products represent 88% of total sales. In addition, the capital tied up in low-return back books will be reduced.

Good financial discipline and a relentless focus on customer service and profitable growth have led to an acceleration in the scale of our businesses in Japan, Poland and across Central and Eastern Europe.

Delivering on our strategy
International Insurance Continued

We expanded the distribution of our products through new bancassurance relationships and partnership agreements. In Greece, we renewed the bancassurance agreement with Piraeus Bank.

A specific example of capital allocation and the strengthening of the company is NN Belgium's joining of forces with Delta Lloyd Belgium.

Innovate our business and industry

Innovation is also a strategic priority in International Insurance. In 2017, significant steps were taken to improve our innovation-driven mindset across all markets.

The Sparklab innovation concept, which was pioneered in the Netherlands, has now been copied in five international markets: Japan, Poland, Hungary, Spain and Turkey. The objective of Sparklab is to work on disruptive thinking where we can experiment with new ideas, test and learn quickly. Each Sparklab focuses on a different theme. For example, in Japan we are working on the SME ecosystem, in Hungary on wellness concepts that complement our current value propositions, and in Turkey on disrupting online distribution.

Sparklab Turkey partnered with the leading Turkish online loan aggregator Hesapkurdu.com. The exclusive partnership with this fintech startup gives us the opportunity to reach and serve their two million unique users online.

A non-Sparklab initiative is the creation of a data analytics and underwriting hub in Prague, Czech Republic, serving the international businesses. This will enhance customer segmentation, improve pricing and claims and help the business to identify and grow in larger, more profitable segments.

Agile and cost-efficient operating model

To facilitate agile working and cost efficiency, NN Life Japan developed and released 'Tamotsu-kun', a premium calculation app designed for iPhone/iPad. With 'Tamotsu-kun', the marketing and sales teams are able to accurately calculate the premium for a proposal anytime and anywhere. This enables them to deliver a more compelling and specific proposal for customers, and accelerate the sales process.

NN Poland developed the 'Banca IT' platform with comprehensive capabilities and products (life and non-life) for bancassurance. The platform facilitates flexible and quick time-to-market for new product launches.

NN Hungary launched a comprehensive agile transformation programme. The objective was to strengthen our capability to promptly react to the frequently changing business and legal environment. NN Hungary also launched 'Green Lane' for three single products. The project aims at a total automation of policy issuance, without any human intervention after the submission of the e-application. It was expanded to regular premium products and sales to existing clients.

Value-added products and services

Over the course of 2017, the focus on meeting the evolving needs of customers was strengthened through new tailor-made products and services. For example, Nationale-Nederlanden Spain launched 'Plan Creciente Empresas', a growing guarantee concept for the employee benefits market. It is a unit-linked product that offers the possibility of attractive returns in the long term, while limiting potential losses, thanks to an innovative financial protection system.

A few years ago, NN Romania upgraded some protection products (term, critical illness, fixed indemnity health riders) to return a percentage of the premium when no claim is made in a fixed period. This had a positive impact on customer experience at the purchase moment. In 2017, clients with fixed indemnity health riders who had made no claim in the fixed period were, for the first time, entitled to a premium return. The feature minimises the perception of some customers that an un-claimed insurance product is poor value. It is also perceived as a saving. The positive impact has been measured in the NPS for the anniversary touch point.

Strategic focus for the year ahead

To further accelerate growth and generate value, we will continue investing in new protection propositions and in bancassurance distribution, as well as in improving our underwriting capabilities, better data analytics, and in emerging capabilities such as digitalisation and organisational agility. These investments are optimised and enabled through convergent technology and platforms.

This will not only enable us to improve the overall value proposition and interact with our customers when and how they want, but also drive higher levels of customer engagement. Ultimately this will deliver a larger and happier customer base.

'Stela' – innovating our business model

NN Insurance Czech Republic and Slovakia have the ambition to become a leader of digitalisation in our sector. An important initiative to improve the customer experience is 'Stela'. This is a salesforce-based platform which offers customers real-time, individualised offerings. 'Stela' achieves this through combining a significantly upgraded broker portal, sales and lead management, and straight through processing (STP), together with underwriting improvements. In addition, it supports the decommissioning of multiple legacy systems. The platform is a cloud-based Salesforce/Vlocity solution and will change the way we sell, the way we market and the way we support our business.

Delivering on our strategy Continued

Asset Management

Increased focus on core investment capabilities

NN Investment Partners is NN Group's asset manager, with strong multi-asset and fixed-income capabilities. Our products are sold around the world.

Our strategy in action in 2017

Disciplined capital allocation
Delta Lloyd Asset Management integrated in the NN IP organisation

Innovate our business and industry
The focus is on reducing complexity and developing different innovation themes

Agile and cost-efficient operating model
Robotisation and the agile way of working have been further implemented throughout NN IP

Value-added products and services
We are committed to delivering value-added products and services that are easy to understand and meet customers' lifetime needs

NN Investment Partners (NN IP) plays an essential role in NN Group by managing the underlying assets of our insurance companies and their clients, and co-developing investment capabilities. Additionally, NN IP gathers third-party assets and provides earnings diversification.

At NN IP, we believe it is important to involve all relevant stakeholders in the design and maintenance of our products and solutions to ensure we have a competitive and attractive offering. As such, understanding client needs and consultation with existing or prospective clients are important elements in product development within NN IP. We also closely follow developments in the market and in society to continue to provide suitable products.

Our progress in 2017

NN IP's performance remained strong in our core strategies of multi-asset, emerging market debt and investment grade credit. A number of assets scored very well with 4 or 5 in Morningstar's risk rating for a three-year period. Returns for the majority of assets exceeded benchmarks.

To support the shift from defined benefit (DB) to defined contribution (DC) assets, triggered by the rapid change in composition of pension savings, NN IP developed new products and engaged with customers to advise them on these developments.

NN IP's focus is to further build on its distinctive capabilities:

- expanding the absolute return offering in our multi-asset strategies
- further developing our alternative credit capabilities in the fixed-income space
- narrowing the fund ranges in equity to focus on strategies that best align with our identity and ability to deliver high performance, while leveraging our European expertise

At the same time, environmental, social and governance (ESG) strategies are becoming increasingly important. NN IP currently manages more than EUR 10.9 billion in SRI funds and mandates.

Read more about NN Group's ESG approach on pages 41-44 of this Annual Review.

Delivering on our strategy
Asset Management Continued

At the end of 2016, De Nationale Algemeen Pensioenfonds (Nationale APF) was established with the support of NN's pension administrator, AZL. Nationale APF enables pension funds from different companies to merge in a pooled vehicle, offering attractive services and solutions with low costs through economies of scale. The focus is on medium-sized and large pension funds. At the end of 2017, Nationale APF had 6,000 participants and EUR 1 billion Assets under Management.

Delivering on NN Group's strategic priorities

Disciplined capital allocation

The activities of Delta Lloyd Asset Management (DL AM) are integrated in the NN IP organisation, which brings combined strength through additional capabilities and significant economies of scale and cost synergies. The result will be a well-diversified player with a strong position in the Dutch and Belgian markets for asset management. By leveraging the existing BlackRock Aladdin platform, the organisation can absorb this scale at limited cost.

Innovate our business and industry

Across the whole spectrum of NN IP's investment capabilities, the focus is on reducing complexity and developing a number of innovation themes. For example, investment decisions are based on a combination of fundamental analysis, behavioural analysis and 'man and machine', meaning machine rigour combined with human creativity and analysis.

This approach allows us to leverage data to make better-informed investment decisions and to spot opportunities in the market at an early stage. NN IP's impact investing fund already fully exploits behavioural analysis, and in multi-asset it is combined with both a traditional fundamental and quantitative approach.

We invested in a broad programme to improve our digital capabilities across various areas: client service, customer journeys, direct distribution and customer relationship management.

Agile and cost-efficient operating model

To facilitate agile working and cost efficiency, DL AM's assets were onboarded to NN IP's existing scalable operating platform. Substantial synergies were achieved through the creation of one platform with a high straight-through processing (STP) rate for the combined company. We expect the resulting cost synergies to be 5-10% of the 2016 combined cost base, to be realised by 2020.

Robotisation and the agile way of working have been further implemented throughout NN IP. Small IT teams work together with business teams to deliver suitable solutions. At the same time, the teams are empowered to apply innovative technologies and to continuously increase value. NN IP is robotising operational manual activities, which were initially transitioned for offshore manual execution and subsequently robotised offshore. In this way, the transition is smoothed and benefits in efficiency are obtained rapidly.

Value-added products and services

NN IP is committed to delivering value-added products and services that are easy to understand and meet customers' lifetime needs. This is why we involve relevant stakeholders in the product design processes.

An example is 'NNTFI24', an app introduced in Poland with transactional capabilities for retail investors and DC pension scheme clients. The app is connected to an online execution-only platform (similar to 'FitVermogen') through which clients can open an account and manage their investment and pension portfolio from their mobile devices.

In the Netherlands, we cooperate with independent non-profit platform Nibud for financial education and introduced 'StudieFit'. 'StudieFit' is an investment solution to fund the education of people's loved ones. The online tool is easy to use and illustrates possible investment outcomes.

In 2017, we introduced 'Alternative Credit' as a new asset class for institutional investors. To improve their financial decision-making we developed a 150+ page book on this asset class. In the book, we introduce a unique way to evaluate the various investments within this asset class. We also explain in depth all alternative credit investments available in the market, not only the strategies we provide. Institutional investors can download this book for free on our website. We distributed the content of the book through advertorials in various institutional markets and spoke at many seminars about this topic.

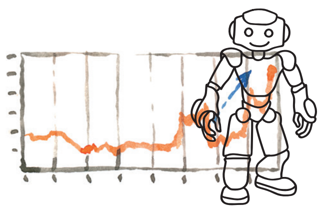
In the second half of 2017, we introduced a similar campaign on the radical changes currently occurring in the fixed-income asset class. For this campaign we again offer many different publications, such as our 'SpotLights', 'FocusPoints' and 'MindScopes', about how institutional investors can benefit from the new normal in this market.

Strategic focus for the year ahead

The acquisition of DL AM brings both scale and skills to our business. Going forward, NN IP will sharpen its focus on core investment capabilities, increase the agility of the organisation and further develop its distinctive identity. In this way, NN IP will be able to further create value for stakeholders, both third-party and NN insurance businesses.

Robo-profiling capacity

Within our Dutch online execution-only platform 'FitVermogen', robo-profiling capacity was developed. It is intended to introduce improved online investment risk profiling, with the aim of providing better service for (potential) investors. For example, with the use of computerised adaptive testing and item response theory, only relevant questions are asked through an interactive approach, instead of following a set order. The smart Q&A machine provides a direct and dynamic visual feedback loop to clients based on their answers to the profiling questions and their investment goal. This makes the client feel more understood, and creates a better customer experience. The robo-profiling is still in the pilot phase and will be further developed.



Delivering on our strategy Continued

All our businesses delivered on our strategy, building a company that truly matters in the lives of our stakeholders.

35,000

In Japan, Sumitomo Life, started selling NN Life Japan's products through its nationwide network of 35,000 agents

'NN has long-term experience in financial services. It treats its customers in a correct and respectful way.'

Pavel Ninov, Bulgaria

4,400

NN Bank supported 4,400 mortgage customers at risk of being in arrears

'I am repeating myself, but I am 200% sincere: thank you!'

Ivo De Smedt, Belgium

2m

Partner and leading Turkish online loan aggregator Hesapkurdu.com gives us the opportunity to reach their 2 million unique users online

2017
All businesses delivered on our strategy

4 or 5

The majority of NN IP assets scored very well with 4 or 5 in Morningstar's risk rating. Returns for the majority of the assets exceeded benchmarks

1,507

NN IP voted at 1,507 shareholder meetings on 18,978 agenda items and 348 resolutions put forward by shareholders

6,000

At the end of 2017, Nationale Algemeen Pensioenfonds had 6,000 participants and EUR 1 billion Assets under Management

EUR 10.9bn

Assets under Management in SRI funds and mandates; an increase of 114% compared to 2016

Creating and sharing value

Excellent customer experience

In this chapter, we describe how our business model is focused on creating long-term value for our customers.

Our commitments

Our commitments to our customers

- Be a preferred brand and a company that truly matters in the lives of our stakeholders
- Deliver value-added propositions that are easy to understand and serve our customers' lifetime needs
- Be there where our customers want us to be through our multi-access distribution approach
- Educate people about finance, raising their financial awareness through campaigns and (online) tools

Our objectives and targets

- Increase aided brand awareness
- Be recognised by general public as a 'You matter' company: a people-oriented service provider in the long-term financial planning industry
- Improve relational Net Promoter Scores (NPS)
- Increase the number of products and services with social and environmental added value[1]

How we performed in 2017

- Aided brand awareness improved compared to 2016 in most countries
- Recognised by general public as the 'You matter' company: improved in most countries compared to 2016
- Relational NPS[2] increased: +17, outperformed market average
- Awareness of customer need for value-added products and services

1 For our performance on increasing the number of products with social and environmental added value, we also refer to pages 29 and 31, and pages41-44.

2 NPS target setting varies by business unit. Measurements for asset management is conducted amongst both institutional and retail investors.

Creating value as an insurer and asset manager

Our customers entrust their money to us when purchasing our products and services. Our role is to support them in building and protecting their assets and covering their risks. The core of our business model is to help people carry risks that they cannot bear alone, providing protection for what matters most to them.

Through our risk management practices, we seek to meet our obligations to customers and creditors, manage our capital efficiently and comply with applicable laws and regulations. Our underwriters perform a variety of roles that are needed to understand, manage and price risks. We use data analytics to create personal and relevant products and services for our customers.

Meeting our customers' needs

We are committed to delivering value-added products and services that are easy to understand and meet customers' lifetime needs. We offer life insurance products to protect people against the financial risk of living a long life without sufficient means of support, or dying at an early age. In some markets, we also offer non-life products to protect the assets that matter to our customers, and savings and investment products to ensure their long-term income.

Products that we introduce or adapt are launched after careful product approval and review processes (PARP). PARP ensures, in all our markets, that transparency and customer interest remain a top priority.

Through our multi-access distribution approach, we are there where our customers want us to be.

We aim to become a more agile organisation, to deliver value for money for our customers and secure long-term growth. Our focus on customer-driven innovation drives our efforts to empower our people and to support a more entrepreneurial culture.

Truly matter in the lives of our customers

NN Group wants to be known as the 'You matter' company: a people-oriented financial services provider.

We strive to meet customers' needs throughout all stages of their lives, for which understanding their needs and interests is crucial. This is clearly expressed in our Customer Golden Rules:

- We offer fair value to customers
- We explain the risks, returns and costs of our products and services
- We regularly assess products, services and distribution practices
- We only work with professional and licensed distributors

Our Customer Golden Rules form a key component in our approach towards becoming a customer-driven company, and are an integral part of our PARP process.

Further building our brand

Our campaigns focus on understanding the deeper motivations of people in life and play an important role in becoming more relevant for customers. In 2017, we launched an international awareness campaign on social media, asking five 'big life questions' to people across nine European countries, with the aim of finding out what matters to them. The videos show that we all face the same kind of questions in life and try to find a response that best fits our personal situation. The campaign reached more than 17.5 million unique users, and had 4 million full video views and 100,000 engagements across several social platforms.

Creating and sharing value
Excellent customer experience Continued

In the second half of 2017, our central Branding team developed a brand commerce framework in close cooperation with the business units. This framework, enabled by today's digital possibilities, focuses on customers and their specific needs and interests. Through videos and photos, we share stories about customer value propositions and specific themes in life, for example, retirement. In these international campaigns, we aim to connect the NN brand with local commercial opportunities. As the framework has been codeveloped with the businesses, it enables us to create and roll out digital campaigns in a more cost efficient way.

Customer empowerment

Creating long-term value for our customers is also a matter of empowering them to improve their own financial decision-making. This includes increasing their understanding of financial concepts, offering financial planning tools, and collaborating with specialised partners.

To increase awareness of pensions in the Netherlands, we partnered with initiatives of Wijzer in Geldzaken, a stakeholder platform coordinated by the Dutch Ministry of Finance. After introducing our online service 'Pension Help' in 2016, we continued improving the tool. 'Pension Help' starts ten years before a person's retirement date, and helps users by sending them customised and relevant information step-by-step. Registered customers receive relevant information three times a year, based on their personal circumstances and situation.

We launched the 'Your Later Service' campaign via our Nationale-Nederlanden website in the Netherlands. This campaign encourages people to visit our online tools which increase awareness of their personal financial situation.

In the Netherlands, we worked together with online magazines Me-to-we, Saar Magazine and Mynd to contribute to pension-related blogposts to increase pension awareness, especially for women.

In addition to raising awareness, we consider it important that our customers find our policies and materials accessible and understandable. For example, OHRA made policies easier to read and understand though the use of icons, a clearer structure and useful examples.

Also in the Netherlands, we introduced a tool to support our brokers in their duty of care for our customers. We reached out to all brokers and customers for whom this was relevant.

In Bulgaria, we broadened our value proposition and included financial advice with our pensions and life insurance products. The advice covers five areas of financial planning: pension, investment, insurance, tax and estate planning. This is new for the Bulgarian market.

In Spain, we launched the 'Real news for real people' campaign, in which we explained financial concepts. Between June and December, we provided easy-to-understand information on financial topics and economic concepts and their potential impact on people's personal financial situations. The blog 'Seguros de tú a tú' also aims to contribute to this increased understanding.

Fitvermogen.nl, the online platform for investment funds of NN Investment Partners (NN IP), cooperated with Startpunt Geldzaken to launch a free online financial plan. Startpunt Geldzaken is a partnership of Nibud and a number of other organisations focused on financial matters. Since the introduction of the new study financing system in the Netherlands, parents and grandparents have found alternative ways to put money aside to fund their (grand) children's education. The tuition fee plan provides insight into the risks as well as the expected yield of the investment.

Linked to this is the introduction of 'StudieFit', an investment solution to fund the education of loved ones. 'StudieFit' was developed together with Nibud and includes an online tool which customers can tailor to their personal situation. It includes an online calculator that illustrates possible financial scenarios.

NN IP also introduced alternative credit as a new asset class for institutional investors. To provide investors with financial decision-making tools, a book on this asset class was published that explains all alternative credit investments available in this market. Investors can download the book for free on the NN IP website.

ForYouWoman in Spain

In Spain, Nationale-Nederlanden's tied agents started selling 'ForYouWoman'. It mainly offers insurance coverage in case of breast cancer, including several services such as second medical opinion, home help and childcare services for customers when they need it the most, as well as help with cancer prevention.

Creating and sharing value
Excellent customer experience Continued

Supporting customers in arrears

We try to be there for our customers not only when things are going well, but also during difficult times.

In 2017, NN Bank continued with a project focused on mortgage customers at risk of being in arrears. Via an early warning system, we proactively reach out to this group to offer our support. As there is no single solution to financial difficulties, we offer assistance in various ways.

Based on a customer's personal situation, we can, for example, provide a job coach or a budget coach, or restructure the mortgage contract. We helped 4,400 mortgage customers in 2017, of whom 4,113 have been restored through an adequate payment scheme. About 280 customers made use of job coaching, budget coaching or restructuring of their mortgage contract.

Delta Lloyd Foundation set up the Coalition against Debt to help low-income households get rid of their long-term debt. Together with health insurer CZ, Delta Lloyd Foundation took the initiative to work with other creditors on solutions to the increasing problem of payment arrears and debts. This is done by working together and exchanging knowledge to facilitate and promote healthy payment behaviour among customers. Creditors that participate in the coalition adhere to ten principles which prescribe an ethical way of approaching customers.

Financial inclusion

NN reaches out to people who may not have access to insurance and who could benefit from additional support. We are aware of the financial and social challenges that people may face in life. Therefore, we try to anticipate these specific needs and individual situations, and provide a positive and inclusive experience for many different groups of people.

In Romania, we offer a health insurance product that provides affordable access to private care, as health care is becoming increasingly expensive for lower- and middle-income families. The core of this new proposition is extensive care for patients and less financial worry for their families. This health care product also aims to address the long-term sustainability of Romanian public healthcare.

In Japan, we offer a life insurance product that provides critical illness coverage in case of cancer, acute cardiac infarct and stroke. It was developed to support small business owners who are unable to manage their company due to critical illness.

NN Group is involved in the Netherlands Investment Institution (NLII), which gives institutional investors the opportunity to invest in the Dutch economy, and allows entrepreneurs and SMEs to benefit from additional financing opportunities. We also have a partnership with microfinance organisation Qredits through our membership of the Dutch Association of Insurers (Verbond van Verzekeraars).

NN Group is involved with the Foundation for Sustainable Micro Pensions in Developing Countries (SDMO), through our membership of the Dutch Association of Insurers. In Ghana, SDMO supports a micro pension project which targets employees in the informal sector. They will be able to save for their pension via a defined contribution scheme. The payment of contributions and information provision is arranged via mobile phone. A license to start business was obtained from the Ghanese supervisor in 2016, and the first few thousands of clients were entered into the books in early 2017.

Additionally through our membership of the Dutch Association of Insurers, we support another SDMO project in India. SDMO work with local partner the Development of Human Action (DHAN) Foundation. DHAN Foundation developed a defined contribution scheme of which the administration and investment management is arranged by a local provider of life insurance. Participants save an average of INR 100 per month to supplement their government pension. The goal is to have 200,000 participants in 2021.

Dilemma: Long-term objectives over short-term gains

We consider digital innovation to be an important driver for our long-term success. One way of innovating our business is by launching a minimum viable product (MVP): a product that has enough features to attract early adaptors, providing us with feedback that enables us to adjust the product if necessary. To develop relevant MVPs, we define clear focus areas for innovation that fit the company's long-term strategy.

However, when introducing an MVP, the purpose is to iterate and adapt while developing, so we intentionally do not define long-term objectives or gains. This short-term approach to experimenting, which is based on trial and error, may result in a distorted view of innovation. The challenge is finding the right balance in developing MVPs while not losing sight of the long-term vision of the company. This is a dilemma jointly faced by the innovation teams and the finance and risk teams – how much capital do we invest, and how much risk are we willing to take today to help prepare our company for tomorrow's success?

Creating and sharing value
Excellent customer experience Continued

Measuring our brand and reputation

We measure how our customers value our products and services using, amongst others, the Net Promoter Score (NPS). With NPS we collect, evaluate, and act on a constant stream of customer feedback. This information drives improvements in our product portfolio and customer service, thereby helping us to become a more customer-driven company. In 2017, all of our insurance businesses maintained or improved their relationship NPS (NPS-r) scores compared with the previous year, with the exception of NN Life Hungary. Their NPS is still well above market average.

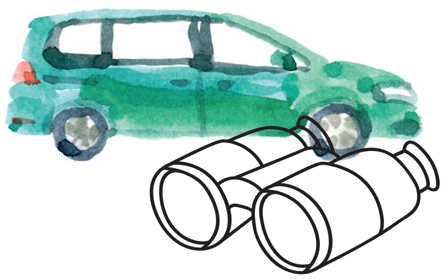
We measure NPS in all our markets, for all business lines covering banking, life insurance and pensions. Our insurance business in Japan is included in a separate study. Measurements for asset management are conducted amongst both institutional and retail investors. For institutional clients we report the overall NPS (+25).

The NN Global Brand Health Monitor tracks how our brand is perceived externally by our customers and the general public. Twice a year, we measure our main brand indicators and provide insight into the development of the brand performance. The Global Brand Health Monitor measures the brand awareness and brand preference per country, and whether customers feel we are living our values and come across as the 'You matter' company.

Dilemma: The use of data in underwriting

In recent years, the amount of available (personal) data has increased sharply as a result of technological developments and digitalisation. For our industry, the question of whether and how to make use of data is an important one. Embracing the use of data can help further improve our product offerings and increase their relevance in order to better serve our customers. However, the abundance of data may lead to new insights that could potentially lead to differentiation (in risk profile and pricing).

For example in car insurance, customers can already opt to have their driving behaviour tracked, with the incentive that careful driving can result in lower premiums. Although differentiation can bring value to certain customer groups, it also raises questions regarding the sustainability of a foundation of insurance: the principle of solidarity. Navigating carefully, in line with our values and applicable (data protection) legislation, and engaging in dialogue with stakeholders, will continue to be key as we move forward.



Net Promoter Score

Country	NPS-r compared to 2016	NPS-r compared to market average
1 Bulgaria	Improved	Above
2 Czech Republic	Improved	Above
3 Greece	Improved	Above
4 Hungary	Decreased	Above
5 Japan	Improved	Equal
6 Poland	Improved	Above
7 Romania	Improved	Above
8 Slovakia	Improved	Above
9 Spain	Unchanged	Equal
10 The Netherlands	Improved	Above
11 Turkey	Unchanged	Equal

Creating and sharing value

Attractive returns for investors

In this chapter, we describe how we remain financially strong and competitive, and create value for our investors.

Our commitments

Our commitments to shareholders

- Deliver on the Delta Lloyd transaction
- Further improve performance
- Accelerate the transformation of the business model
- Continue to allocate capital rationally

Our objectives and targets

- EUR ~350 million cost reduction[1] by 2020, reflecting cost synergies from Delta Lloyd acquisition and existing standalone cost reduction plans
- Annual earnings growth of 5-7% on average in the medium term[2]
- Over time, generate free cash available to shareholders in a range around the net operating result of the ongoing business[3]

How we performed in 2017

- Operating result growth of 29.3%[4]
- Reduced expense base of business units in scope by EUR 133 million[5]
- Net operating ROE of 10.3%[6]
- Total free cash flow of EUR 881 million[7]
- Proposing a total 2017 dividend of EUR 1.66 per share[8]

1 In total for the following units: Netherlands Life, Netherlands Non-life, Belgium, Asset Management, Banking business and Corporate/Holding entities.

2 Annual growth rate of operating result before tax of the ongoing business on average in the medium term; new targets based on 2017 operating result.

3 Net operating result of the ongoing business, adjusted to reflect the deduction of the accrued coupon on undated subordinated notes classified in equity; assuming normal markets, no material regulatory changes and no material special items other than restructuring charges.

4 Operating result before tax of the ongoing business 2017 versus 2016.

5 Administrative expense base of the business units in scope: Netherlands Life, Netherlands Non-life, Belgium, Asset Management, Banking business and Corporate/Holding entities.

6 Net operating ROE of the ongoing business in 2017.

7 Reflecting EUR 500 million capital injection into Delta Lloyd Life in 2017.

8 Representing a payout ratio of around 45% of the net operating results of the ongoing business.

Creating value as a listed company

To manage our business, we raise financial capital from equity and debt investors. Maintaining a strong balance sheet is key to absorbing market volatility and ensuring NN Group and our operating entities are sufficiently capitalised at all times.

Dividends

NN Group intends to pay an ordinary dividend in line with our medium-term financial performance and envisages an ordinary dividend payout ratio of 40-50% of the net operating result from ongoing business. NN Group intends to pay interim dividends calculated at approximately 40% of the prior year's full-year dividend. Barring unforeseen circumstances, NN Group intends to declare an interim dividend with the disclosure of our second-quarter results and to propose a final dividend at the annual general meeting of shareholders. When proposing a dividend, NN Group takes into account, among others, the capital position, leverage and liquidity position, regulatory requirements, and strategic considerations, as well as the expected developments thereof.

Dividends are paid either in cash, after deduction of withholding tax if applicable, or in ordinary shares from the share premium reserve at the election of the shareholder. We intend to neutralise the dilutive effect of the stock dividend through repurchase of ordinary shares. In addition, capital generated in excess of NN Group's capital ambition is expected to be returned to shareholders unless it can be used for any other appropriate corporate purposes, including investments in value-creating 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 buybacks.

At the Annual General Meeting on 31 May 2018, a final dividend for 2017 will be proposed of EUR 1.04 per ordinary share. Together with the 2017 interim dividend of EUR 0.62 per ordinary share paid in September 2017, NN Group's total dividend for 2017 will be EUR 1.66 per ordinary share, which is equivalent to a dividend payout ratio of around 45% of NN Group's full-year 2017 net operating result of the ongoing business.

The Delta Lloyd transaction

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 to acquire their shares for EUR 5.40 (cum dividend) in cash for each share, representing a total consideration of EUR 2.5 billion. On 7 April 2017, the offer was declared unconditional.

Read more about the Delta Lloyd transaction and integration on pages 10-12 of this Annual Review and pages 119-123 of the Financial Report (Note 44).

Shares issued and share buyback programme

On 24 April 2017, NN Group issued 8,749,237 ordinary shares, representing an aggregate value of EUR 255 million, to Stichting Fonds NutsOhra in exchange for the preference shares A held by Stichting Fonds NutsOhra and the perpetual subordinated loan provided to Delta Lloyd.

On 1 June 2017, NN Group allotted 5,069,969 ordinary shares, representing an aggregate value of EUR 165 million, as part of the legal merger of Delta Lloyd N.V. into NN Group Bidco B.V.

On 26 June 2017, NN Group issued 4,082,061 ordinary shares as stock dividend for payment of the 2016 final dividend, representing an aggregate value of EUR 129 million.

On 11 September 2017, NN Group issued 2,346,671 ordinary shares as stock dividend related to the 2017 interim dividend, representing an aggregate value of EUR 78 million.

To neutralise the dilutive effect of stock dividends, we repurchased in 2017 ordinary

Creating and sharing value
Attractive returns for investors Continued

shares for EUR 347 million, related to the 2015 final dividend, the 2016 final and interim dividend and the 2017 interim dividend. NN Group reported on the progress of the share buyback programme on a weekly basis on our corporate website: www.nn-group.com/investors/share-buyback-programme.htm.

In August 2017, 14,348,967 NN Group treasury shares were cancelled, which were repurchased under the share buyback programme. The total number of NN Group shares outstanding (net of 6,609,781 treasury shares) on 31 December 2017 was 334,140,561.

Debt instruments
In March 2015, NN Group established a Debt Issuance Programme which facilitates the issuance of debt instruments.

In January 2017, NN Group issued EUR 500 million of senior unsecured notes with a fixed-rate coupon of 0.875% per annum and a maturity of six years. These notes do not qualify as Own funds under Solvency II. The proceeds were used to repay EUR 476 million of non-qualifying subordinated notes of NN Group on their first call date in May 2017.

In January 2017, NN Group also issued EUR 850 million of subordinated notes with a maturity of 31 years, and first callable after 11 years, with a fixed rate coupon of 4.625% per annum until the first call date and a floating rate coupon thereafter. These subordinated notes qualify as Tier 2 capital under Solvency II. The proceeds were used to repay the EUR 823 million remaining hybrids loans outstanding with ING Group.

In June 2017, NN Group issued two senior unsecured notes with a total issue size of EUR 900 million to fully repay the EUR 900 million bridge loan used to finance the Delta Lloyd acquisition: EUR 300 million senior notes with a fixed rate coupon of 0.25% per annum and a maturity of three years and EUR 600 million senior notes with a fixed rate coupon of 1.625% per annum and a maturity of ten years.

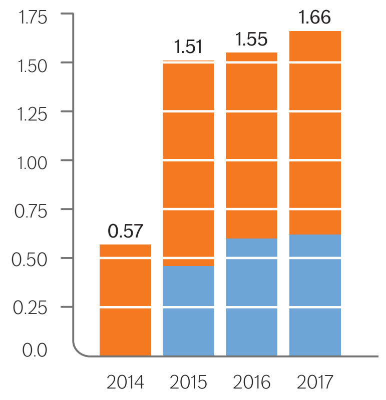
NN Group effectively reduced debt by EUR 405 million through the Stichting Fonds NutsOhra transaction in April 2017 and by EUR 575 million on the repayment of the Delta Lloyd senior unsecured notes in November 2017.

Credit ratings
On 11 May 2017, Standard & Poor's lowered our financial strength rating by one notch to 'A' and our long-term counterparty credit rating by one notch to 'BBB+'. On 23 October 2017, Fitch affirmed our 'A+' financial strength rating and 'A' credit rating with a stable outlook. On 26 October 2017, Standard & Poor's affirmed our 'A' financial strength rating and 'BBB+' credit rating with a stable outlook.

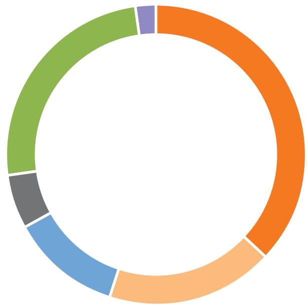
Shareholder investment
According to the AFM register as at 12 March 2018, the following shareholders have an interest of 3% or more in NN Group on the notification date: APG Asset Management N.V. (3% – 2 August 2017), BlackRock, Inc. (3.60% – 29 May 2017), RRJ Capital II Ltd. (9.6% – 23 May 2017), Norges Bank (4.91% – 2 May 2017), Thornburg Investment Management (3.03% – 7 Aug 2016), and Franklin Mutual Series Fund Inc. (3.87% – 27 May 2015). The stated percentages are the interests reported by the relevant shareholder to the AFM on the indicated dates. It is possible that the stated interests differ from the current interests of the relevant shareholder.

More information about our financial management is available in the Financial Report, and on our corporate website: www.nn-group.com/Investors.htm

Dividend per share (EUR)



Diverse shareholder base
(IPREO shareholder analysis as at 31 January 2018 (%))



United States	37
Asia	18
United Kingdom	12
The Netherlands	6
Rest of Europe	25
Rest of the World	2

Financial performance in EUR million

	2017	2016
Operating result ongoing business	1,586	1,227
Net result (after minority interests)	2,110	1,189
Net operating ROE	10.3%	8.1%
Free cash flow to the holding	881[1]	1,349

Strong balance sheet

	2017	2016
Solvency II ratio	199%	241%
Total assets in EUR billion	227	169
Shareholders' equity in EUR million	22,718	22,695
Financial leverage ratio	27.9%	20.8%

1 Including EUR 500 million capital injection into Delta Lloyd Life.

Creating and sharing value

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

We strive to manage our own assets, as well as those our customers entrust to us, in an environmentally and socially responsible way.

Our commitments

Our commitments to our stakeholders

- Integration of environmental, social and governance (ESG) factors into our investment process
- Active ownership through voting and engagement
- Exclusions, societal values and criteria
- Specialised Responsible Investment (RI) strategies and tailor-made responsible investment (RI) solutions

Our objectives and targets for 2020

- Further develop Responsible Investment Framework policy
- Continue to grow Assets under Management in SRI funds and mandates, and expand product offering

How we performed in 2017

- Publication Stewardship Policy
- Development of investment guidance paper on Environment
- More than doubled (+114%) our Assets under Management in SRI funds and mandates to EUR 10.9 billion

NN Group's Responsible Investment (RI) Framework policy sets out our vision and approach on responsible investment, which we define as the integration of environmental, social and governance (ESG) aspects in our investment processes and ownership practices.

Our asset management company, NN Investment Partners (NN IP), formalised its commitment to RI by signing the United Nations-supported Principles for Responsible Investment (PRI) in 2008. NN IP has since made the consideration of ESG factors an integral part of the investment process in the conviction that these may impact both risks and returns. For clients who want to take sustainability a step further, NN IP offers specialised Socially Responsible Investment (SRI) strategies and tailor-made RI solutions.

Supporting ESG integration

In February 2017, NN IP established a new RI team. The team's primary goal is to drive the further development of RI at NN IP, and to support all investment teams in their ESG integration and active ownership strategies. The team consists of three professionals, and reports to the Chief Investment Officer at NN IP.

NN IP published a Stewardship Policy, which describes our approach towards our fiduciary duty to act responsibly on behalf of the end beneficiary. As an asset manager we are responsible for improving long-term value for the end beneficiary. Our Stewardship Policy is based on seven principles, and provides an overview of how we implement our commitment to stewardship. The principles relate to various aspects of stewardship including governance and exercising our voting rights.

To support the implementation of NN Group's RI Framework policy, we continued our development of investment guidance papers that address areas defined by the UN Global Compact. In 2016 we published a paper on human rights. In 2017 we added a paper on the environment.

These papers are available on our corporate website: www.nn-group.com/In-society/Responsible-investment/Responsible-investment-policy-framework.htm.

Influencing companies to take responsibility

An important part of our strategy is to earn long-term returns from the companies in which we invest. One of the most powerful tools of active ownership is well-informed proxy voting. Voting rights are exercised on behalf of: (i) the proprietary portfolio and (ii) the Dutch, Belgian and Luxembourg funds with at least EUR 100 million Assets under Management. As part of the information barriers, there are separate voting committees in place for proprietary and client assets.

During 2017, NN IP voted at 1,507 shareholder meetings (97% of total votable meetings) on 18,978 agenda items and 348 resolutions put forward by shareholders. These resolutions focus on ESG issues. We supported shareholder resolutions related to environmental and social matters in a large number of cases. We abstained from voting or voted against when these resolutions would not provide proportionate benefits to shareholders or society at large. For two examples of how we voted on environmental shareholder resolutions, please refer to the box on the next page.

Creating and sharing value
Investing responsibly Continued

Company dialogues and engagement are part of our fundamental approach to the investment process. Because of the active investment strategies of NN IP, our analysts and portfolio managers are in frequent dialogue with investee companies. These dialogues are tracked in a database. The chart on page 44 shows the breakdown between environmental, social and governance issues as a topic of discussion during our company meetings in 2017. In total, 341 dialogues were logged by our equity analysts and ESG specialists in the database. These dialogues included 52 engagements conducted by our ESG specialists, which can be individual engagements, in collaboration with other institutional investors, or supported by an external service provider. Moreover, these engagements often also have a thematic approach, for example the palm oil sector.

1,507
number of shareholder meetings at which we voted

EUR 10.9bn
AuM in SRI funds and mandates

341
number of ESG dialogues

Continued focus on climate risks

Climate change presents a material risk to many companies and we are aware of the risks this may present to our investments. As such, we are committed to play our part in addressing the issue.

As in previous years, we supported the annual Information Request that the Carbon Disclosure Project (CDP) sends to publicly listed companies worldwide. Through this request, companies are encouraged to adopt a long-term mindset, and to provide better disclosure on risks and opportunities related to climate change and water. In 2017, we also became an investor signatory of the CDP Forests programme.

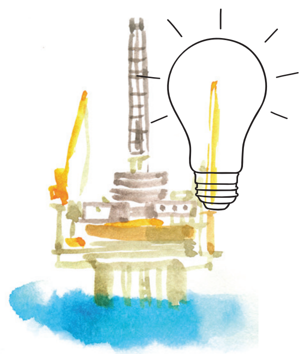
Since the beginning of 2016, NN IP has proactively engaged on climate risks with 20 large companies in the power utility sector. Through this effort, supported by Global Engagement Services (GES), one of Europe's leading engagement providers, we encourage companies to achieve a long-term carbon risk exposure reduction and improved competitiveness in a lower-carbon economy. We have had constructive dialogues with most of the companies. As an example, NN IP helped one of the largest US power utility companies to improve its two-degree scenario planning. We focused our engagement on showing that the company can do more to find a balance between short-term financial performance and long-term expectations for a switch to renewable energy production.

NN IP also engages with several companies in the power utility sector that resist changes that would challenge the current business model. In these situations, the focus is on clarifying that transparency is expected, and they need to demonstrate responsible carbon-related risk management. We decided to extend our engagement for a third and final year, so that we can bring the recommendations of the Taskforce Climate-related Financial Disclosures (TCFD) to the attention of the companies that we are engaging with.

Climate-related shareholder resolutions at oil & gas majors

We supported resolutions at the AGMs of oil and gas majors Occidental Petroleum and ExxonMobil, seeking the publication of an annual assessment of the long-term impact of climate change on their businesses. These resolutions received support of 66% and 62% at their respective AGMs. Meanwhile, the shareholder resolution filed at Royal Dutch Shell (RDS) was supported by 6% of the votes cast, and was therefore rejected by the AGM. This resolution requested that RDS sets company-wide greenhouse gas emission targets that are in line with the Paris climate agreement to keep global warming to well below 2°C. We voted 'abstain' because we believed that the resolution went too far due to the request to set targets for the emissions from the use of its products by customers (Scope 3).

However, in the remarks we made at the AGM, we expressed that RDS should improve its disclosures on the GHG emissions that are within the managerial sphere of RDS, and we continued to engage with them. Positively, RDS announced in November 2017 its ambition to halve the emissions from its operations and energy use, and those resulting from the use of its end products by 2050. In addition, it seeks to increase its spending on clean energy.



Creating and sharing value
Investing responsibly Continued

In 2017, we expanded our engagement on climate risk to the chemicals sector by joining the Climate Action 100+. This is a new, five-year investor initiative to engage with the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change. As part of the initiative, NN IP will enter into dialogue and work with three major companies in the chemicals sector in which it invests, and support other investors in their engagement efforts in the oil and gas and mining sector. A clear engagement agenda is set for all companies in the initiative. Each year, a progress report will be made public.

The Climate Action 100+ was initiated by different regional investor climate change platforms, including the European Institutional Investor Group on Climate Change (IIGCC), in partnership with the PRI. NN Group joined the IIGCC in July 2017 to benefit from access to IIGCC's platform for knowledge sharing and collective influence.

To encourage policymakers to take action on climate change, NN IP endorsed a 'Letter from global investors to governments of the G7 and G20 nations'. This letter, signed by 400 global investors managing more than USD 22 trillion in assets, reiterates the investors' call for governments to stand by their commitments to the Paris Agreement, and put in place policy measures to achieve their nationally determined contributions with the utmost urgency.

To learn more about climate-related risks, we performed a carbon footprint analysis on a large portion of NN Group's Proprietary Assets. For more details, refer to pages 61 and 67 of this Annual Review. This analysis creates a starting point for monitoring and evaluating the investment risks associated with carbon emissions. It also helps us to prioritise our engagement efforts with the most carbon-intense sectors in our portfolio. To build our understanding of other metrics and forward-looking tools that are introduced to help assess climate-related risks (and opportunities), we joined a new working group of the IIGCC. The initial focus will be on scenario analysis.

Making a positive impact through our investments

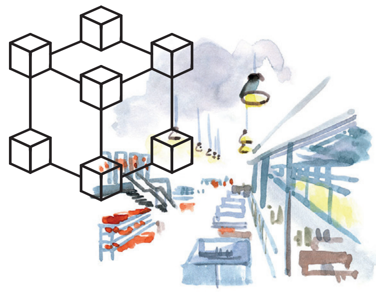
NN IP offers a wide range of specialised SRI funds and responsible investment solutions. These products meet our customers' growing demand for products that have a positive impact on society and the environment, in addition to generating solid financial returns. The total Assets under Management in our sustainable equity and fixed income products grew by 114% to EUR 10,852 million at year-end 2017. The increase reflects market performance and net inflows, as well as the addition of the Delta Lloyd Equity Sustainable Global Fund, which is an enhanced passive equity fund with strict ESG criteria.

The NN Euro Green Bond fund was awarded the new LuxFLAG Climate Finance Label, which indicates that a fund's investments help to finance climate change initiatives. Furthermore, NN (L) Global Equity Impact Opportunities helped NN IP win the Cashcow Award for Best Provider of Impact Investments at the Dutch Investment Fair in November 2017. Cashcow is a multimedia platform for private investors in the Netherlands.

On behalf of NN Group's proprietary assets, we consider opportunities that will have a positive impact on society whilst meeting our investment criteria. Our combined investments in green bonds and renewable projects in our infrastructure debt portfolio amounted to EUR 540 million at year-end 2017. We also invest in measures that improve the energy efficiency of our own real estate investments, and use the Global Real Estate Sustainability Benchmark (GRESB) to assess the environmental and broader sustainability performance of this portfolio. In the 2017 Real Estate Assessment, NN's portfolio performed well, improving its score for the third consecutive year and outperforming the majority of the 850 GRESB participants. We also participated in the GRESB Debt Assessment for the first time: our commercial real estate loan portfolio, managed by NN IP, received a score above the benchmark average. For our GRESB scores, please refer to page 66.

Engaging on palm oil

Through its investments, NN Investment Partners is exposed to palm oil. We believe we can use our influence to improve environmental and social standards in the sector. Due to the complexity of the supply chain of palm oil, we do not think that excluding palm oil producers is beneficial at this point in time. Engagement is, in our view, a better approach, and through our engagement we will focus not only on the palm oil producers, but also on the traders, processors, food producers, and retailers. All these different companies can influence the supply chain and work towards the overall improvement of the sector and acceptance of higher standards. For our engagement approach, we have developed several objectives that focus on different stakeholders in the sector. We published an ESG perspective on this engagement to raise attention to the issue and how we act on it.



Creating and sharing value
Investing responsibly Continued

Measuring societal impact

Impact investing, an investment strategy that intends to generate a measurable, beneficial social or environmental impact alongside a financial return, is a growing form of investing. It has, however, many challenges, such as the availability of data and a common language. NN IP published various viewpoints on how to overcome these challenges, and also called on green bond issuers to report on quantitative impacts. The measurement of the impact of companies is an important aspect of both the NN Global Sustainable Opportunities and the NN Euro Green Bond fund.

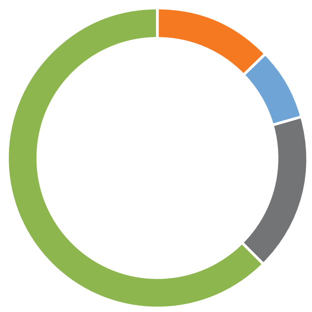
NN took part in a joint effort as part of the Sustainable Finance Platform chaired by the Dutch Central Bank (DNB), and contributed to the creation of a guidance document on SDG impact measurement. The guidance document suggests a limited number of impact indicators per SDG which can be used by investors and investee companies.

Communication on ESG to clients

NN IP plays an active role in advocating the importance of ESG integration within the investment industry. 2017 initiatives include the following:

- We contributed to a permanent education programme of the Dutch Association of Investment Analysts (VBA). NN IP shared perspectives on the value of adding green bonds and sustainable alternative credit possibilities to a matching portfolio.
- In response to the growing interest in RI propositions by Belgian investors and distributors, NN IP Belgium launched an ESG campaign during September 2017. This campaign explained the 'what, how and why' of responsible investing at NN IP.
- NN IP organised a number of events, such as the fourth annual event for Dutch insurance companies, which focused on various topical issues including the growing focus on responsible and impact investing. We also hosted several responsible investor conferences in Europe for our European institutional client base.

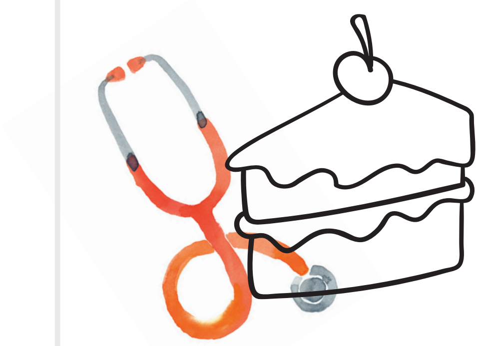
Company dialogues on ESG[1]
(%)



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

Dilemma: Promoting change through engagement

NN is committed to actively engaging with stakeholders and building long-term relationships with relevant parties in the communities in which we operate. As an asset manager, we want to invest based on criteria that are aligned with our values and meet the broader expectations of society. However, as stakeholders have varying views, and solutions to issues are rarely straightforward, it can be difficult to set a clear direction or strike the right balance.



For example, investing in the food manufacturing sector poses potential dilemmas as it exposes us to food and beverage companies that manufacture products containing high levels of sugar. Sugar is considered to be one of the biggest contributors to obesity, and almost all packaged foods and beverages contain this component. Companies that produce foods that contain high levels of sugar may, in the long run, be exposed to financial, regulatory and reputational risks due to the health impact of their product range.

However, we believe that excluding the sector due to its potential health impact is not the most effective approach, as many companies also play a role in advancing the sector towards more nutritious foods and beverages. Engaging with companies about product reforms, labelling and marketing may help reposition the sector over time, so it more closely aligns with our values and the expectations of our stakeholders.

Creating and sharing value

Engaged employees

In this chapter, we describe how our business model enables us to support our 15,000 colleagues by nurturing a culture where their ideas, talents and personalities matter.

Our commitments

Our commitments to our people

- Empower our employees to bring our brand promise to life for our customers
- Offer our employees an attractive, stimulating working environment
- Encourage diversity of thinking
- Invest in new critical capabilities and personal development
- Offer competitive salaries and benefits

Our objectives and targets for 2020

- Continue to strengthen employee engagement
- At least 30% women in senior management positions

How we performed in 2017

- Decrease in employee engagement from 73% to 66%
- 32% women in senior management positions
- EUR 21.4 million spent on training and development; an increase of 28% per FTE
- Human Capital Return on Investment (ROI) of 2.3[1]

1 Human Capital ROI = (operating result ongoing business + employee expenses)/employee expenses.

Integration process Delta Lloyd

HR activities in 2017 were to a large extent determined by the integration process of Delta Lloyd and NN Group in the Netherlands and Belgium. Top priorities in this regard were the selection process of senior management by mid-July 2017, the approval of the Reorganisation Framework by the members of the trade unions in September 2017, and subsequently introducing an updated and uniform Job Framework, which contributed to a fair integration process and a focus on equal opportunities.

We remain committed to supporting the employees who are directly affected by the organisational changes as a result of the integration process. To guide and help them through these challenging times, we introduced various initiatives to provide employees with training, coaching and advice. In addition, we stimulate and enable ongoing development, with a view to improve and strengthen the employability of all our employees.

Please read more details of the strategic considerations of the transaction and integration process, and the role of HR in the people integration process, on pages 10-12 of this Annual Review.

Creating value as an employer

Our operating model aims to stimulate a culture of entrepreneurship and accountability, and is based on clear responsibilities, streamlined decision-making and simplified governance.

Agility and adaptive leadership

Managing an agile organisation requires a way of thinking and leading people that facilitates change. Therefore we are developing a 'train the trainer' programme for all senior leaders, focused on nurturing an adaptive style of leadership. Its emphasis is not only on solving present issues, but also on discovering future potential. It asks our leaders to develop the ability to be vulnerable and authentic, build emotional commitment, and create a safe environment for growth and innovation.

During the annual NN Group International Leadership Conference (ILC), which targets approximately 250 of our senior leaders, workshops were conducted by Management Board members to gather input for this training programme. The programme, which is developed taking NN Group's current leadership profile into account, will be launched in 2018.

Additionally, we are developing new ways of working based on the agile philosophy. Our business units in Poland and Hungary are the first to pilot this new way of working, focused on giving people more autonomy and accountability in achieving their strategic agenda.

In 2017, we launched a global HR information system called Workday to further simplify our HR processes. This is an important step in creating a more technology-based work environment, and ensuring a clear service delivery model across countries. Workday made it possible to standardise our global HR processes, and it enables us to model our workforce according to business needs.

Creating and sharing value
Engaged employees Continued

'You matter' culture
To recruit and retain the best people within our industry, we accelerated our activities to reach our ambition to become an employer of choice. In 2017, we won awards for being a Top Employer in Spain, Poland and Turkey.

Our employee value proposition is mainly focused on inspirational leadership, a meaningful and performance-oriented environment, ample learning opportunities and a healthy work-life balance. Throughout their entire career, we want our people to experience a 'You matter' culture, which we believe is a precondition to obtaining positive employee referrals.

Building on this approach, we are gradually promoting our employer brand in our key markets by enhancing our presence on various online and social career platforms. To increase our visibility as an employer of choice in the Netherlands, we posted vlogs of employees on our career website to support and personalise our vacancies.

The recruitment strategy of attracting young people to our company takes into consideration a tightening labour market, and aims to mitigate the risks of an aging workforce. To realise this on an international scale, we developed a global traineeship programme, combining the current initiatives within NN Investment Partners, International Insurance and the Dutch NN and Delta Lloyd entities.

This new programme will simplify our hiring approach, and position NN as one company to the graduate market. The programme will be launched in early 2018. Additionally, by facilitating internships for students, we stay connected to a young workforce.

Training and development
NN is committed to life-long learning and offers many options for managers and employees to develop new insights, competencies and skills. Training and development is a fundamental part of our performance management approach. In 2017, NN Group invested EUR 21.4 million in training and development.

To offer our people unique learning opportunities and to help them build valuable networks, we offer long- and short-term assignments internally, within other departments or businesses. Job rotation schemes provide additional opportunities to explore new career paths.

When appointing people in senior leadership positions, NN is a supporter of promoting from within. This policy demonstrates that there are growth paths available, and safeguards institutional knowledge by retaining our best people.

In 2017, 24 changes took place in the senior leadership group, of which 88% were internal appointments. Of all leadership appointments, 33% were women.

The promote from within policy is embedded in a structured Talent and Succession Plan that is updated annually and reviewed by the Management Board. It ensures we have the right leaders, with the right forward-looking skills, in the right positions at the right time. Special attention in succession planning is given to displaying role model behaviour in line with our values.

Leading people requires many different skills. These often improve with experience, but training and feedback helps managers to move more smoothly through the learning curve. In 2017, we continued delivering the NN leadership curriculum for first line managers, mid-careers and senior leaders. In our programmes, we encourage current and future leaders to live our values, demonstrate personal excellence, develop a deep understanding of the markets in which we operate, and enable others to perform at their potential. First steps have been taken to integrate leadership programmes across NN Group and Delta Lloyd.

At the same time, we are looking for new ways to optimise how experienced employees apply their knowledge and pass down their skills, while working side by side with younger employees. This exchange works both ways, as is reflected in our reverse mentoring programme that was introduced in 2017. The programme matches junior with senior employees to, for example, familiarise them with how to attract younger generations to the workplace.

Diversity programme at NN Investment Partners
Creating a network and inspire employees

NN Investment Partners is continuing efforts related to diversity. A dedicated community and magazine 'Added value' was launched, which aims to inspire employees. The Diversity Network was created as a space for all NN IP employees to explore the various facets of diversity, to connect and inspire each other on this topic. We continue to sponsor employee participation in several female professional and development networks as well as attendance of female leadership programmes at business schools. Currently, a recruitment game is being developed to better attract people with diverse backgrounds to our company.

Recognising performance
The performance reward of our people is based on a combination of financial, non-financial and behavioural objectives. NN continued the path of transforming traditional annual performance reviews to a more interactive process of continued performance management. A pilot of this new method for senior leaders was received positively, and in 2017, additional pilots were launched in the Netherlands and Poland.

Creating and sharing value
Engaged employees Continued

Equal opportunities and diversity

NN is an international company with a diverse business culture that combines the talents, experiences and insights of many individuals. In 2017, 48% of our total workforce were female. Of our senior leaders, 32% were female and 35% had a non-Dutch nationality.

Our aim is to further increase female leadership, better balance our cultural diversity, bring in more young talent, and build an inclusive climate with no barriers with regard to gender, religious beliefs, sexual orientation or otherwise.

In 2017, NN We was established, an internal network that promotes diversity and inclusion. NN We introduced the Collaboration Awards, an award open to all colleagues that aims to recognise initiatives and success stories of colleagues that showed inclusiveness and collaboration. In 2017, 19 teams competed for the award.

The integration of NN Group and Delta Lloyd offers opportunities to further develop the inclusiveness and diversity of the combined company. In 2017, the Young NN and Delta Lloyd networks merged to create NN Young Professionals.

Employee rights and representation

The way we consult with our people depends on local legislation and culture. In some countries, employee consultation is a legal requirement and in many European countries, it is arranged through works councils.

Our open dialogue with the work councils accommodates collective interests and facilitates the sharing of information and indirect participation by all employees.

At NN Group level, we work with a Central Works Council and a European Works Council. Delta Lloyd also has a Central Works Council. Over time the integration will lead to a unified employee representation for the combined company. Until the integration process merits a unified employee consultation structure, the current structures will remain in place. An overview of the Central Works Council members of NN Group and Delta Lloyd, and the European Works Council members of NN Group can be found on page 33 of the Financial Report.

The majority of NN Group's and Delta Lloyd's employees are covered by a collective labour agreement (CLA), or locally agreed policies. The existing CLAs, Social Plans and Pension Schemes of NN and Delta Lloyd will remain applicable to their respective employees until new plans for the combined company have been agreed with the trade unions. The negotiations will start in 2018. The new combined CLA and Social Plan will be applicable to all employees in the Netherlands and is expected to be introduced in January 2019.

Vitality and wellbeing

We strive to create a healthy work environment and support a good work-life balance. In 2017, all NN businesses launched a variety of health and vitality programmes.

In the Netherlands, we launched 'It's my Life', a programme consisting of workshops, challenges and a dedicated app. It aims to help people create a better personal lifestyle, combined with an improved work-life balance.

Other new wellbeing programmes were launched in Spain, Romania and Hungary. These programmes were aimed at the physical, mental and emotional wellbeing of our employees. The programmes included, for example, healthy breakfasts, yoga, mindfulness and different online challenges. NN Life in Japan successfully introduced an online stress test and follow up by the company doctor.

Encouraging employees to develop a long-term healthy lifestyle is a spearhead of the NN Human Resources Strategy. Most of the programmes launched in 2017 will continue in 2018.

Engagement levels

To understand how our employees feel about our company, and to get an understanding of their engagement levels, we ask their opinion and get their views through a Yearly Engagement Survey (YES). In 2017, 73% of all employees (NN and DL) completed the survey, which shows the commitment of our employees to have their voice heard and make our company an even better place to work.

In 2017, overall engagement decreased from 71% to 66%, which for a large part is a result of the on-going reorganisations and the integration process in the Netherlands and Belgium. The engagement score in the Insurance International business was 73%.

The results reflect that colleagues feel we live our values. The survey results also show our continued focus on our customers, and the need and demand to continue to invest in efficiency, collaboration and innovation. Issues such as workflow and processes have room for improvement. In the Netherlands, the company culture can be further improved. The same is true for the international businesses on collaboration and teamwork. Recognising the importance of employee engagement, NN Group will adopt a new tool and new way of measuring and tracking employee engagement in 2018.

EUR 21.4m
spent on training and development

32%
of our senior leaders were female and 35% had a non-Dutch nationality

73%
of our employees (NN and DL) completed the Yearly Engagement Survey (YES)

Creating and sharing value

Creating a positive impact for society and the communities in which we operate

In this chapter, we describe how our strategy enables us to create long-term value as a corporate citizen.

Our commitments

Our commitments to society and communities

- Invest in local communities through donations and volunteering
- Minimise our direct environmental footprint

Our objectives and targets for 2020

- Reach out to at least 100,000 young people through our NN Future Matters programme; help 11,625 households out of poverty and debt[1]
- Reduce direct CO_2 emissions by 15% (base year 2014) or approximately 3% per year

How we performed in 2017

- 37,208 young people reached through NN Future Matters programme, now at 74% of our 2020 target
- EUR 2.4 million donated to charitable organisations
- 14,099 employee volunteering hours in NN Future Matters focus areas
- 15.2% increase in direct CO_2 emissions, due to the integration of Delta Lloyd and NN; CO_2 emissions (tonnes) per FTE decreased by 10.5%

1 Delta Lloyd Foundation annual report available on 1 May 2018.

Creating value as a corporate citizen

We contribute to the society and communities in which we live and work in various ways. We generate economic activity by purchasing products and services from local, regional and global suppliers. We pay taxes to the governments in the markets in which we operate, and therefore provide revenue to fund public services. To ensure this mindset is embedded in the organisation, we have a set of tax principles to provide guidance and clarity. We also invest in our local communities through our charitable partners and volunteering efforts.

Sustainable supplier management

With an annual spend of around EUR 1 billion, our procurement activities support our business strategy. A substantial part of this investment goes towards real estate, professional services, IT, business services, marketing and communications, and facility management. Our relationship with suppliers is based on our values, and we aim to work together in a mutually beneficial way. We have a supplier qualification process and governance in place for managing sustainability, related to social, environmental and financial aspects, which is improving every year.

Managing our environmental footprint

We recognise that we have a responsibility to help protect the environment with regard to our own operations. As a financial service provider, our direct environmental impact is limited as we mainly operate in an office environment. Nevertheless, we are committed to minimising our footprint by efficiently using natural resources, by identifying and implementing green alternatives, and ultimately by compensating the remainder of our carbon footprint.

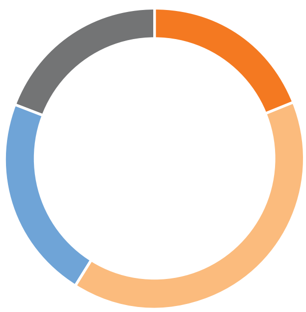
We have been carbon neutral since 2007, as we compensate our CO_2 emissions by purchasing voluntary carbon credits.

NN has a target to reduce carbon emissions covering emissions from our direct operations: emissions from energy consumed on NN sites, and emissions from our business travel (air and car). Our target is to reduce our carbon emissions by 15% by 2020 (base year: 2014). In 2017, the carbon emissions increased by 15.2% reflecting the integration of Delta Lloyd. However, CO_2 per FTE decreased by 10.5%.

It is our ambition to purchase at least 70% of our electricity from renewable resources. In addition to environmental targets related to carbon emissions, we are committed to reducing our paper consumption and waste.

Following the trend for further digitalisation, we continue to focus our sustainability initiatives on energy and business travel efficiency and paper-use reduction. We also encourage the recycling of materials inside our office buildings. NN Group's Facility Management teams work to improve the energy efficiency of our buildings. For example, in Romania, we installed temperature sensors and a smart lighting system which saves energy.

Energy consumption (%)



Electricity	19
Renewable electricity	40
Natural gas	22
District heating	19

Creating and sharing value
Positively impacting society and communities Continued

To encourage our people to drive cleaner, NN increased the number of electric cars in the NN car pool. We installed additional charging stations at our offices in the Netherlands and facilitate the installation of a charging station at an employee's home when they choose an electric car. In the Netherlands, NN participated in the 'Low Car Diet' competition, which aims to make employees more conscious of their travel choices. NN now participates in a car-sharing project to promote carpooling amongst our people.

Responsible tax strategy

Good tax management is a responsibility of any company. NN Group does not make use of tax havens or tax-avoiding structures. While executing our tax strategy, we take our set of tax principles and applicable law into account. This is also the reference when choosing business partners or when structuring transactions.

NN Group shares our tax strategy with our stakeholders, including the tax authorities. We seek to develop good, open working relationships with tax authorities. In the Netherlands, this is based on the 'horizontal monitoring' principle. More information on how NN Group entails this principle, as well as a description of the function, roles and responsibilities of the NN Group Tax department, is included in the NN Group Tax Charter, which will be available on our corporate website.

The focus of NN Group's Tax department in 2017 was on integrating the Delta Lloyd activities with regard to the NN tax standards and procedures, and on the tax reporting lines. To create a future-proof tax department, a roadmap was designed for the years 2018-2020. Targets include set-up and improvement of the tax control framework on operational taxes, a more proactive management of tax risks within the businesses, and further enhancing tax transparency towards stakeholders. This roadmap was discussed with the Audit Committee of the Supervisory Board as part of the regular review of NN Group's tax strategy and risks.

We provide an overview of corporate income tax on a country-by-country basis. Besides corporate income tax, NN Group also paid taxes resulting from operations such as value added tax (VAT), insurance premium tax and wage tax in 2017. These taxes are collected on behalf of NN Group or on behalf of customers and employees. The majority of the operational taxes are paid to the Dutch Treasury. In 2017, NN Group paid EUR 1,255 million in wage taxes, of which NN contributed EUR 403 million in Dutch social premiums and employment taxes on behalf of our employees and EUR 852 million on behalf of our clients. NN Group paid VAT of EUR 33 million and insurance premium tax of EUR 217 million in 2017 to the Dutch Treasury.

In 2017, new Base Erosion and Profit Shifting (BEPS) reporting requirements came into effect. NN was able to timely deliver all necessary information to the responsible tax authorities.

Financial tax disclosures

The income tax charge of EUR 392 million in 2017 represents an effective tax rate of 15.5% (2016: 18.7%). The effective tax rate in 2017 was lower than the weighted average statutory tax rate of 24.6% mainly caused by tax exempt income and certain prior year adjustments. More information on the effective tax rate is available on pages 98-100 of the Financial Report (Note 33).

The income tax paid is reflected in the consolidated statement of cash flows in the Financial Report and amounted to EUR 124 million in 2017 (2016: EUR 197 million). The lower income tax paid in relation to the income tax charge reflects differences between accounting and tax rules, as well as tax losses and tax credit carry-forwards. We further provide details of both the tax charge and the tax paid per reporting segment and per country.

Refer to pages 95-98 of the Financial Report for a full country-by-country report (Note 32).

Community investment

NN Future Matters is NN Group's overarching community investment programme. It aims to empower people and support them in growing their economic opportunities. The programme specifically targets 10- to 25-year-olds and underserved groups. In 2017, we reached out to 37,208 youngsters.

As a result of the joining of forces of NN Group and Delta Lloyd, in the Netherlands NN's community investment programme NN Future Matters and the Delta Lloyd Foundation work closely together to increase financial wellbeing in our communities. In 2017, steps were taken to prepare for the integration of NN and Delta Lloyd's community investment activities. This process will continue in 2018.

Since 2014, we have gradually targeted our overall charitable giving towards the NN Future Matters focus areas. In 2017, 82% of our total charitable donations of EUR 2.4 million went to NN Future Matters related target areas.

Impact measurement

The Social Innovation Relay (SIR) is a global competition that challenges students to develop an innovative business concept that addresses a social need. NN employees act as mentors for the students. Based on the Theory of Change methodology, researchers at the Impact Centre Erasmus surveyed students at three different points during their participation.

After participating in SIR, students demonstrated improved skills and competences, such as entrepreneurial intention, communication and creativity skills, entrepreneurial behaviour and social awareness.

'The overall experience broadened my perspective and taught me valuable lessons that I think will be essential to me as I progress in life.'

Student testimonial

Creating and sharing value
Positively impacting society and communities Continued

We focus our efforts, resources and expertise on three complementary target areas: promoting financial empowerment, creating economic opportunities and alleviating financial distress. These three themes align with both our purpose and with the knowledge and expertise of our employees, and have been proven to positively impact communities. With the involvement of international and local partners, the programme aims to be both globally consistent and locally relevant.

Promoting financial empowerment
By supporting people to develop financial knowledge, we help them foster a secure and stable financial future. Responsible financial behaviour is often best developed at an early age, so many of our initiatives are focused on young people. During the 2017 Money Week in the Netherlands, NN colleagues gave a total of 299 guest lectures in primary schools, teaching 7,500 children about money and financial risk scenarios.

Creating economic opportunities
By helping young people develop useful skills, we believe we help them increase their opportunities in the labour market. In cooperation with JINC, a Dutch not-for-profit organisation, our colleagues provide job training to young people who may lack specific role models or a supportive network.

Through Stichting FutureNL we joined Expedition micro:bit to support students to become familiar with coding and programming, as these skills are increasingly important in schools and in today's job market. Each participating school received a 'Digi-klooikoffer' with 30 micro:bit computers. Besides a financial contribution, 38 volunteers from NN Group provided guest lectures at 19 schools.

Another way of creating economic opportunities is by encouraging entrepreneurship. In 2017, the Social Innovation Relay (SIR) again took place as the flagship programme of the NN Group and Junior Achievement Europe partnership. The SIR is a global competition that challenges secondary school students to develop an innovative business concept that addresses a social need. A total of 14,232 students participated in 10 countries.

The NN Future Matters scholarship programme is a collaboration between NN and EP-Nuffic. With a particular focus on students who are the first in their families to go on to higher education, this programme gives students from 11 selected countries the opportunity to complete a Master's programme in the Netherlands. The students are matched with an NN mentor, who supports them during the year.

Alleviating financial distress
Even in prosperous societies, formal social support services are sometimes unable to reach out to the disadvantaged and underserved of society. Through fundraising and partnerships with local charities, we aim to support families with children that are in financially challenging circumstances.

For example, in the Netherlands, we partner with the LINDA.foundation, a charity that helps families in financial distress. In 2017, we organised several initiatives with colleagues and suppliers to raise funds. Our customers are also involved in the LINDA.foundation through our credit card that donates EUR 0.10 for each transaction to the LINDA.foundation.

In Japan, NN Life made a donation for every charity runner who completed the NaHa marathon. The donation supports an effort to provide educational support to children living in foster homes in Okinawa and is part of our local corporate citizenship programme, 'Mirai no Shacho' (Future CEO).

In Romania, the 'Hai la gradinita!' project aims to bring children in the poorest communities to preschool. With OvidiuRo's assistance, we provide children with access to kindergarten and age-appropriate education materials.

To celebrate the third anniversary of NN Future Matters in 2017, and to provide NN countries with the opportunity to further strengthen their structural partnerships with local charities in line with NN Future Matters, we made additional donations that totalled EUR 160,000 to local charities in 11 of the markets in which we operate.

Other good causes
In addition to the global community investment target areas under the NN Future Matters umbrella, our businesses and corporate foundations support other local initiatives within the areas of health and environmental care. With these activities, we connect with our employees, customers and business partners, and address societal needs together.

From Debt to Opportunities
The Delta Lloyd Foundation works with various local partners to advance financial literacy and ultimately improve people's financial security. With the From Debt to Opportunities programme, the foundation aims to achieve a 15% reduction in poverty caused by long-term debt. The goal is to reach 11,625 households by 2020. The foundation collaborates with the Amsterdam University of Applied Sciences to research the impact and effect of all initiatives within the programme. In 2017, the foundation supported 28 local projects. Besides financial support, 305 employees volunteered 4,556 hours.

14,099
employee volunteering hours in NN Future Matters focus areas

EUR 2.4m
donations to charitable organisations

37,208
young people reached through NN Future Matters programme

18
NN Future Matters scholarship students

Creating and sharing value

NN Group endorses the Sustainable Development Goals that were adopted by world leaders and came into force in 2016

As the Sustainable Development Goals (SDGs) address the world's largest societal challenges, such as poverty, climate, health care and education, we believe that the public and private sector should work together to help achieve these goals.

To better understand and implement the SDGs, we have been cooperating with peers and other stakeholders. Following the 2016 report 'Building Highways to SDG Investing' to which NN contributed, we engaged with a group of companies on the development of metrics for the SDGs in 2017.

This working group, an initiative of the Sustainable Finance Platform chaired by the Dutch Central Bank (DNB), developed the publication 'SDG impact indicators: A guide for investors and companies' that was launched in October 2017.

Focusing our efforts

To further refine our approach to the SDGs, in early 2017, we invited a group of 20 stakeholders to engage in a conversation on our potential impact on the SDGs, and how these relate to our strategy. The dialogue, which was attended by government representatives, regulators, investors, NGOs, academics and peers, was hosted by Dorothee van Vredenburch, Chief Change and Organisation of NN Group and member of our Management Board.

As a financial services company with a purpose to help people secure their financial futures, we learned that SDG 8 (Decent work and economic growth) and SDG 12 (Responsible consumption and production) resonate most with our stakeholders when they look at our core activities.

SDG 1 (No poverty) and SDG 4 (Quality education) can be addressed through our insurance products and services, and community investment activities.

Regarding our investment activities, we discussed that different investment instruments, such as ESG integration, dialogue and engagement, and impact investing, can be linked to additional SDGs, more specifically SDG 3 (Good health and well-being) and SDG 7 (Affordable and clean energy). Refer to the illustration on the next page for more information on our impact.

After additional internal alignment, these focus areas were validated by our Management Board and Supervisory Board in November 2017. Although we will focus on the SDGs mentioned above, we will link to more SDGs through our activites and performance. These can relate to our supply chain, our own operations, our business activities and/or our community investment activities.

Impact investing at NN Investment Partners

NN Investment Partners (NN IP) developed a pragmatic method to judge the contribution of investee companies. The impact-driven strategy is focused on companies that directly address social challenges alongside making a financial return. It is benchmark-unaware, meaning the portfolio is constructed without reference to any index or other benchmark.

NN IP's impact themes, Diminish stress on ecosystems, Health and well-being, and Fulfilment of lives, form the starting point of the investment process. Using our proprietary database, we identify stocks that have a material exposure to these themes. The next step is to look at intentionality.

Impact companies make a positive contribution to society by their business product or operating model. Once we have our universe of preferred impact stocks, we create a portfolio of 35 to 60 names diversified across our impact themes.

This method allows NN IP to measure the exposure of investee companies to the SDGs and therefore the investment opportunities in the SDGs. Our two specific impact equity funds currently hold EUR 631 million Assets under Management (AuM).

Furthermore, NN IP offers a green bond fund that holds EUR 173 million AuM. The NN Euro Green Bond fund was awarded the new LuxFLAG Climate Finance Label, which indicates that a fund's investments help to finance climate change initiatives.

Outreach and cooperation

In the spirit of SDG 17 (Partnerships for the goals), we engage with various stakeholders on raising awareness of and making progress in reaching the global goals. For example, NN participates in the SDG Young Professional Network of the Confederation of Netherlands Industry and Employers (VNO-NCW). Furthermore, we sponsor a series of three SDG masterclasses initiated and organised by the Dutch Association of Investors for Sustainable Development (VBDO). NN hosted the second masterclass in January 2018, on 'Integrating SDGs in day-to-day investment management'. Representatives from NN IP, IUCN and Amundi presented during this well-attended meeting.

Going forward

In the coming years, we will track the progress we make in addressing the SDGs, in particular the goals we focus on. As the SDGs are set for 2030, we seek to improve our performance and the way we measure our progress every year.

Creating and sharing value
Contribution to the Sustainable Development Goals Continued

Our focus

As an insurance and asset management company with a purpose to help people secure their financial futures, SDG 8 (Decent work and economic growth) and SDG 12 (Responsible consumption and production) resonate most with our core activities.

SDG 8
Decent Work and Economic Growth

- Employee engagement of 66% measured via yearly engagement survey
- Spending around EUR 1 billion on procurement globally
- Offering specialised SRI funds and mandates that often use a best-in-class approach (EUR 10.9 billion in AuM)
- Reaching out to 37,208 young people in 2017 to create economic and labour market opportunities through NN Future Matters

SDG 12
Responsible Consumption and Production

- Reducing our CO_2 emissions per FTE by 10.5% and purchasing 69% electricity from renewable sources in 2017
- Embedding ESG aspects in our procurement activities (EUR 1 billion)
- Providing car insurances Fairzekering and VOOROP in the Netherlands which reward drivers who drive safely and promote safe driving behaviour, which can also lead to lower carbon emissions
- Integrating ESG factors in our investment process and decision-making (EUR 246 billion in AuM)

Additional SDGs we address through our business and community investment activities

SDG 1 (No poverty) and SDG 4 (Quality education) can be addressed through our insurance products and services, and community investment activities.

SDG 1
No Poverty

- Investing EUR 0.9 million by Delta Lloyd Foundation to alleviate poverty. Aiming to impact 11,625 low-income households in the Netherlands by 2020
- Providing EUR 2.4 million donations to charitable organisations (in total)
- Providing access to financial services, a.o. through SDMO micro-pension project from Association of Insurers

SDG 4
Quality Education

- Spending EUR 21.4 million on training and development of our employees
- Providing scholarships to 18 students from 11 countries as part of NN Future Matters, our global community investment programme

Regarding our investment activities, different investment instruments, such as ESG integration, dialogue and engagement, and impact investing, can be linked to additional SDGs, more specifically SDG 3 (Good health and well-being) and SDG 7 (Affordable and clean energy).

SDG 3
Good Health and Well-being

- Products and services with social added value that promote good health and well-being for customers (a.o. cancer treatment in Spain, Poland)
- Contributing to the financial well-being of our customers and consumers, including awareness raising on pensions of 261,739 people in The Netherlands

SDG 7
Affordable and Clean Energy

- Purchasing 69% electricity from renewable sources in 2017
- NN is carbon neutral by offsetting our remaining carbon emissions through the purchase of 25 kt. voluntary CO_2 credits
- Insuring renewable energy projects thereby contributing to the generation of sustainable energy for households
- Investing EUR 356 million of own assets in direct renewable infrastructure projects and green bonds used for renewable energy

Governance and compliance

NN Group has a two-tier board structure

NN Group N.V. is a public limited liability company (naamloze vennootschap) incorporated under the laws of the Netherlands. It operates under a two-tier board system consisting of an Executive Board and a Supervisory Board. The company also has a Management Board.

Supervisory Board

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

More information about the Supervisory Board is available in the Report of the Supervisory Board, pages 10-17 of the Financial Report.

Executive Board

The Executive Board is entrusted with the management, strategy and operations of NN Group under the supervision of the Supervisory Board.

Management Board

The Management Board is entrusted with the day-to-day management of NN Group and the overall strategic direction of the company.

More information about corporate governance is available in the 'Corporate governance' chapter, pages 18-27 of the Financial Report.

The interests of NN Group and our stakeholders

In performing their duties, the Boards must carefully consider and act in accordance with the interests of NN Group and our associated business, taking into consideration the interests of NN Group's stakeholders. The organisation, duties and working methods of the Executive Board, Management Board and Supervisory Board are detailed in the charters of these Boards. These charters are available for download on the NN Group corporate website.

Read more information on the governance relating to our corporate citizenship approach at www.nn-group.com/In-society/Governance-memberships-and-endorsements.htm.

Dutch Corporate Governance Code

In 2017, the revised Dutch Corporate Governance Code was embedded in Dutch law. As a result, NN Group is obliged to report on our compliance with the principles and best practice provisions as laid down therein with respect to the financial year 2017. NN Group fully complies with the revised Code. A booklet on NN Group's application of the Code is available for download on the NN Group corporate website. More information is available in 'Promoting a culture of long-term value creation' in the 'Our culture' chapter on pages 13-16.

Read more www.nn-group.com/who-we-are/corporate-governance.htm.

NN Group Compliance Charter & Framework

NN Group is committed to upholding our 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. The purpose of the NN Group 'Compliance Charter and Framework', which was renewed in June 2015, is to help businesses effectively manage their compliance risks. This document is available for download on the NN Group corporate website. Note that a new version of the document is expected over the course of 2018, following the implementation of NN's Effective Control Framework.

Read more www.nn-group.com/who-we-are/corporate-governance.htm.

Our Management Board

The Management Board is entrusted with the day-to-day management and overall strategic direction of NN Group

Executive Board

Lard Friese (1962)
Chief Executive Officer

Appointed: 2014 Reappointed: 2017
Nationality: Dutch

Lard Friese was appointed member and vice-chair of the Executive Board of NN Group on 1 March 2014, and Chief Executive Officer (CEO) and chair of the Management Board and Executive Board on 7 July 2014. He was reappointed on 1 June 2017. Previously he was appointed to the Management Board of ING Insurance as from 3 November 2011. Lard is responsible for the strategy, performance and day-to-day operations of NN. He has been with the company since 2008 and has experience in the financial services industry dating from 1988, most recently with NN Insurance Eurasia and Nationale-Nederlanden.

Delfin Rueda (1964)
Chief Financial Officer

Appointed: 2014 Nationality: Spanish

Delfin Rueda was appointed to the Executive Board as Chief Financial Officer (CFO) on 1 March 2014 and member of the Management Board on 7 July 2014. Previously he was CFO and member of the Management Board ING Insurance Eurasia N.V. since 2012. Delfin is responsible for NN's finance departments and investor relations. He has experience in the financial services industry dating from 1993, most recently with Atradius. Prior to joining ING in 2012, he was Chief Financial and Risk Officer and member of the Management Board at Atradius. He has also held leadership positions at J.P. Morgan, UBS and Andersen Consulting.

Management Board

David Knibbe (1971)
Chief Executive Officer Netherlands

Appointed: 2014 Nationality: Dutch

David Knibbe was appointed to the Management Board on 7 July 2014. On 1 September 2014, he was appointed CEO of Netherlands. In this role, David is responsible for NN's insurance and banking business in the Netherlands and is leading the integration of NN and Delta Lloyd. He has experience in the financial services industry dating from 1997, most recently with NN Group. He has held management positions at ING Bank, ING Piraeus in Greece, NN Investment Partners and Nationale-Nederlanden. David Knibbe is chair of the Dutch Association of Insurers.

Dorothee van Vredenburch (1964)
Chief Change and Organisation

Appointed: 2014 Nationality: Dutch

Dorothee van Vredenburch was appointed to the Management Board of NN Group as Chief Change and Organisation (CCO) on 7 July 2014. Dorothee is responsible for NN's human resources, communications and sustainability. She joined the company in 2009 as managing director of Corporate Communications and Affairs of ING Group. She has experience in the financial services industry dating from 1987, starting as an investment banker. She has held leadership positions at Citigate First Financial, amongst others.

Jan-Hendrik Erasmus (1980)
Chief Risk Officer

Appointed: 2016
Nationality: South African and British

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. He is also responsible for IT globally. Previously, he was a Partner in Oliver Wyman's Financial Services business, and held leadership positions in Oliver Wyman, Lucida plc and Prudential plc. Jan-Hendrik has experience in the financial services industry dating from 2003, across insurance, risk and investment management in the UK and internationally.

Robin Spencer (1970)
Chief Executive Officer International Insurance

Appointed: 2015 Nationality: British

Robin Spencer was appointed to the Management Board on 1 August 2014 and as CEO International Insurance on 1 September 2014. He is responsible for NN's Insurance Europe, Japan Life, Japan Closed Block VA and NN Re businesses. Robin was previously Chief Executive Officer of Aviva UK & Ireland General Insurance. He has experience in the financial services industry dating from 1995, across life, non-life and asset management in the UK and internationally.

Robin Spencer will step down as CEO of International Insurance and member of the Management Board of NN Group effective 1 June 2018.

Satish Bapat (1966)
Chief Executive Officer NN Investment Partners

Appointed: 2017 Nationality: Dutch

Satish Bapat was appointed CEO of NN Investment Partners and member of the Management Board of NN Group as of 1 April 2017. From 2013 to 2017, he held the position of CEO of NN Life Japan. He has experience in the financial services industry dating from 2006, both within and outside the Netherlands. Satish has held leadership positions at, amongst others, ING Investment Management, Robeco and ABN AMRO.

Stan Beckers (1952)
Chief Executive Officer NN Investment Partners

Stepped down: 1 April 2017
Nationality: Belgian

Stan Beckers joined NN Group as CEO of NN Investment Partners on 1 July 2013. After 38 years in the financial services industry, he retired on 1 April 2017.

Our Management Board Continued

<
Left to right
Satish Bapat
Robin Spencer
David Knibbe

>
Left to right
Dorothee van Vredenburch
Lard Friese

<
Left to right
Delfin Rueda
Jan-Hendrik Erasmus

Stakeholder engagement and our international commitments

To earn trust and support, NN Group maintains an open and continuous dialogue with our stakeholders about various topics and issues

These topics include our products and services, our business performance, and our role in society. We do this across all levels of the organisation, and from NN Group to business unit levels.

NN Group identifies stakeholders based on their relevance to NN Group. Parties are regarded as stakeholders when they have the potential to influence or be influenced by our business. We consider employees, customers, shareholders, business partners and society at large (including regulators and societal organisations) our important stakeholder groups. We seek feedback from them on different topics in order to learn which issues they consider important. This input is used in defining our strategy and in our decision-making processes, and tells us how we can best align the interests of our business with the needs and expectations of our various stakeholder groups.

The instruments to conduct this dialogue include regular interactions and feedback sessions for customers on our products and services, roundtable sessions with policymakers, academics and peers, works council meetings and continued dialogue with our employees, frequent bilateral contact with regulatory and government authorities and societal organisations (including non-governmental organisations, labour unions and industry organisations), and briefing sessions and roadshows for journalists, analysts and investors.

In 2017, we organised two specific multi-stakeholder dialogues, one on the Sustainable Development Goals and one on materiality. Furthermore, we were confronted with various developments, issues and challenges. These were brought to our attention by and/or discussed with different stakeholders. Please find a non-exhaustive overview of the key topics discussed with different stakeholders on the next page.

International commitments and endorsements

As a company based in the Netherlands, we adhere to Dutch law and the Dutch Corporate Governance Code (read more on page 19 of the Financial Report). We observe the laws and regulations in the markets where we operate.

We adhere to international standards and guidelines, including the UN Global Compact and the OECD Guidelines for Multinational Enterprises.

To underline our ambition, NN Group and/or our respective businesses endorsed various international initiatives, such as:

- Principles for Sustainable Insurance
- Principles for Responsible Investment
- Carbon Disclosure Project
- Recommendations of the Taskforce Climate-related Financial Disclosures

We are a member of various (inter)national network organisations, including:

- UN Global Compact
- United Nations Environment Programme Finance Initiative (UNEP FI)
- International Corporate Governance Network (ICGN)
- Institutional Investors Group on Climate Change (IIGCC)

For an overview of all endorsements and memberships go to our website: www.nn-group.com/in-society.

Our approach to human rights

Respect for human rights is an integral part of our values as confirmed in the 'NN statement of Living our Values'. The principles contained in the UN Guiding Principles for Business and Human Rights guide us in implementing human rights in our business activities and interactions with stakeholders. The principles make a clear reference to internationally accepted standards, such as the UN 'Universal Declaration of Human Rights'.

In early 2017, we published an overarching corporate human rights statement, the 'NN Group Human Rights Statement'. This statement, endorsed by the Management Board, underlines our commitment to human rights. NN Group seeks to meet our responsibility to respect human rights in our role towards employees, suppliers, clients, investments and the communities in which we operate.

The 'NN Group Human Rights Statement' serves as an umbrella document and relates to various policies and related due diligence. Examples of such internal policies are our Human Capital policy, Procurement policy and our Responsible Investment Policy Framework. To provide our stakeholders, including investors and NGOs, with more insight and to guide our analysts in their assessment, we published the 'Investor Guidance paper on Human Rights'. We aim to publish an additional Investor Guidance paper on labour rights in 2018.

Stakeholder engagement and our international commitments Continued

Stakeholder groups, topics discussed, outcome

Stakeholder group	Engagement	Frequency	Topics discussed	Outcome
Customers (retail)	Client panel, NPS survey, Global Brand Health Monitor	Continuously	Products and services, customer service, complaint management	Improve products and customer processes, achieve greater customer satisfaction.
Customers (institutional)	Client survey, client event, roundtables	Continuously	Legislative changes, customer satisfaction	Product and process improvements. To be a solid, professional and sustainable pension provider/investor. Provide information on responsible investing.
Financial advisors, brokers, agents	Training, products and services	Continuously	Products and services	Stimulate good cooperation to achieve greater satisfaction among financial advisors, ultimately leading to customer satisfaction.
Shareholders, analysts, investors	Annual shareholders meeting, quarterly analyst calls, roadshow meetings	Regularly	Strategy, financial and operational developments, capital position	Align, inform and engage shareholders, analysts and investors during the year.
Employees	Townhall meetings, Hello You surveys, works councils, unions, International Leadership Conference	Continuously	Values, engagement, Code of conduct, reorganisation, integration process	Ensure employees are engaged and well informed. Monitor employee perceptions.
Investee companies	Voting at shareholder meetings, dialogues with company management, engagement	Regularly	Climate change, human rights, landgrabbing, palm oil, data privacy, disclosures	Promote value through consistent and transparent voting behaviour. Obtain better disclosures. Improve decision-making, including environmental, social and governance aspects.
Regulators, government bodies	Physical meetings, regular reporting, information exchange	Regularly	Economic and financial market developments, risk assessments, regulation	Ensure compliance with and discuss impact of regulations.
Non-governmental organisations (NGOs)	Correspondence, meetings, reports, benchmarks	Regularly	Sustainable development, human rights, controversial weapons, benchmarking methods	Share knowledge, reach mutual understanding and work on an IMVO covenant for the insurance sector.

Stakeholder engagement and international commitments Continued
Taskforce on Climate-related Financial Disclosure

Our response to the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD).

In June 2017, the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) issued its final recommendations on climate-related financial disclosures. NN Group endorsed these recommendations. This section provides our response and is structured along the four pillars of the TCFD framework: governance, strategy, risk management, and metrics and targets

Governance

The NN Group Executive Board ensures that the company has adequate internal risk-management and control systems in place so that it is aware of any material risks run by our company and that these risks can be managed properly. Each year, the Executive Board defines the company's risk appetite and tolerance statements. This is ratified by the Supervisory Board. For more detail on risk management, refer to pages 129-158 of the Financial Report.

The Executive Board's responsibilities also include the formulation of the company's strategy in line with its view on long-term value creation. Any non-financial aspects relevant to the company (or the chain within which it operates), such as environmental, social and governance (ESG) matters, are taken into account. The Supervisory Board supervises the policy pursued by the Executive Board, whilst the Management Board is entrusted with the day-to-day management and the overall strategic direction of our company. These responsibilities are laid out in the charters of these Boards as published on our corporate website.

Within the Management Board, the Chief Change and Organisation (CCO) has corporate citizenship, including sustainability, in her portfolio. Additionally, all members of the Management Board play a role in integrating sustainability in their respective businesses or functions where relevant. To steer and advise the Management Board on the implementation of the overall corporate citizenship strategy, we have a dedicated Corporate Citizenship team within the Corporate Relations department of NN Group. This team works closely with the different NN businesses and functions.

ESG-related governance within our investment activities

Climate change is an ESG factor that we believe has the potential to materially impact the performance of investment portfolios. The consideration of ESG is part of all the investment processes, and governed by our Responsible Investment (RI) Framework policy.

At NN Investment Partners (NN IP), the executive team provides strategic direction and oversees the implementation of the RI Framework policy in the investment processes. The executive team receives input from NN IP's ESG Committee. The committee is chaired by the Chief Investment Officer and comprises the Responsible Investment team and senior representatives from NN IP's various business segments and NN Group. Besides advising NN IP's executive team on its positioning on responsible investing, the ESG Committee has a mandatory advisory role on NN Group RI-related policies and the restricted list towards the Management Board of NN Group.

To support all investment teams in the integration of ESG within the investment process, and to further drive the development of responsible investing and engagement, NN IP has a RI team consisting of three specialists. This team reports directly to the Chief Investment Officer of NN IP.

Climate change dialogue

In 2017, a multi-disciplined working group, called the Climate Change Dialogue, was set up to align our reporting with the TCFD framework. Relevant disciplines represented are: risk management, finance, legal, insurance, reinsurance, investment and corporate citizenship. The group convened to discuss a gap analysis of current reporting with the TCFD framework and a qualitative mapping of risks and opportunities.

In February 2018, the findings and recommendations for further alignment were discussed and validated by the Management Board. The ongoing role of the Climate Change Dialogue was confirmed, and this working group will continue to advise the Management Board on climate risk analysis, climate-related business opportunities and external developments in this area.

Strategy

Climate change is a complex subject that contains significant areas of uncertainty, particularly when considering long-term horizons. The ways in which businesses might be impacted by climate change are also diverse. To align with the TCFD framework, we mapped the potential risks (and opportunities) of climate change on our business according to the categorisation: transition and physical risks.

Transition risks

Transition risks are financial risks related to the emerging lower-carbon economy. In the December 2015 Paris Agreement, governments around the world committed to the goal of keeping the increase in average global temperature to well below 2°C and pursuing efforts to limit it to below 1.5°C. Staying below a 2°C threshold would require a significant shift in the trajectory of greenhouse gas (GHG) emissions. The longer it takes for GHG emissions to begin to meaningfully decline, the faster the speed of the transition required. Government action to reduce GHG emissions through policy and regulations could impact profitability of companies, particularly in carbon-intensive sectors.

The global transition to a lower-carbon economy might impact the asset side of our balance sheet through our investments. This is the case when the pricing of financial assets does not fully reflect the risk of different transition pathways. Besides public policy, a potential re-pricing of financial assets could be influenced by factors such as technological developments and changing consumer preferences. Whilst these risks may be more mid to long term, our investments might also be exposed to short-term risks such as a sudden change in market sentiment around climate risks, for example, for specific industries in which we invest.

Stakeholder engagement and international commitments Continued
Taskforce on Climate-related Financial Disclosure Continued

To gain insight into transition risks, NN Group performed a comprehensive carbon footprint analysis of a large part of our balance sheet assets. Due to the high allocations to Eurozone government bonds and diversification within the corporate fixed income and equity portfolios, the exposure to the highest emitting sectors in our portfolio is relatively limited. Although approach and methodologies differ, this was also shown by a study published by the Dutch regulator, the Dutch Central Bank (DNB), in October 2017, in which NN participated. Dutch insurers have around 4.5% of their total balance sheet assets invested in carbon-intensive sectors. Nonetheless, it remains difficult to predict how the transition to a lower-carbon economy could impact the investments as there could be cross-over effects to other sectors.

Transition risks might also impact some of our revenues when we fail to adjust product propositions to sustainability requirements. Furthermore, negative feedback from government, media and society, for example, on meeting our societal objectives to contribute to the transition to a lower-carbon economy, could impact our reputation.

Finally, the transition might confront corporates in some instances with new legal or future regulatory challenges and associated fines for shortfalls in their responsibilities to the broader environment or society. Such climate change-related litigation remains an emerging and evolving area, making it difficult to assess. Given the relative size of NN's general liability insurance portfolio to corporate clients, we currently foresee risks in this area to be low. However, we will monitor developments.

Physical risks

Physical risks relate to the physical consequences of climate change. They could be event-driven, such as increased severity and frequency of severe weather events (e.g. hurricanes and floods), or they could relate to longer-term shifts in climate patterns (e.g. sustained higher temperatures) that might cause a rise in sea level or chronic heat waves.

These risks are particularly relevant to our non-life insurance business, where weather events such as windstorms or hail result in higher expenditures (claims and operational costs), influencing the margins of our property & casualty (P&C) insurance products. Our non-life insurance business is predominantly located in the Netherlands.

The Royal Netherlands Meteorological Institute (KNMI) developed long-term weather scenarios in 2015 that indicate that the prevalence of weather conditions such as hail and rainfall and related losses will increase in the following decades. Note that P&C is predominantly a one-year renewal business, making it possible to adjust our risk models and define premiums (or introduce excess) that fit to predicted possible losses. Also, external reinsurance will under certain conditions partially mitigate potential impacts.

Customer trust and satisfaction issues can negatively impact our revenues. For example, flood risk is not covered in most P&C products, such as building and contents insurance in the Netherlands. This is also the case for NN Group. Faced with large damages, customer satisfaction could be affected when our customers are unaware of uninsured risks. Such aspects may occasionally lead to reviews of national risk management approaches, such as in the UK, where a national flood risk pool has been established for high risk areas. At this moment, there is not such a pool in the Netherlands, but the topic is regularly discussed amongst stakeholders.

Customer satisfaction could also be affected should insurers have to charge customers higher insurance premiums, making affordability an issue. NN Group acknowledges the importance of trust and customer satisfaction for the insurance industry, focusing on clearly informing our customers, and being transparent about coverage, alongside helping to initiate adaption or resilience in a changing environment. We will therefore focus on actions to raise awareness on climate change among all our stakeholders.

Physical risks might also impact our investment portfolio. For example, a severe windstorm or flood in Europe that damages the buildings underlying our real estate portfolio could result in asset impairments. Extreme natural catastrophes can cause economic damage, potentially indirectly impacting financial markets through the real economy. These risks are mostly relevant for our life insurance investment portfolio given the long-term horizon of the liabilities.

Prolonged and multiple periods of heat waves and other consequences of rising temperatures may result in increased morbidity and mortality, thereby impacting our life and income insurance liabilities.

Although it is challenging to predict long-term threats, we currently foresee that it should have less impact on our life and income insurance liabilities than other threats, such as changes in demographics or pandemics.

As a financial services provider NN Group relies heavily on reliable data and efficient IT infrastructure for an uninterrupted and effective service to customers. In the case of severe climate conditions leading to flooding in our data centres, services to customers might be severely impacted. Non-financial criteria are therefore important considerations when choosing new locations for our data centres.

Climate-related opportunities

Besides risks, the energy transition could also bring opportunities for companies across sectors and industries, for example, in the area of energy efficiency and green infrastructure solutions for climate change mitigation or adaption. The latter area could provide a particularly good fit for insurance investors. The bond market is seen as having the potential to finance the large-scale investments that are needed in the transition to a lower-carbon and climate change-resilient economy.

Helping our customers adapt to climate change or supporting them in opportunities related to energy transition could generate new sources of revenue. For example, within the insurance business we offer insurance in the area of renewable energy. Delta Lloyd insured its first Dutch wind farm in 2008; we are now the largest Dutch insurer of offshore wind farms. We insure both the construction phase of a wind farm and the operational phase when the wind turbines start operating.

Within our asset management business, we are seeing increased client demand for investment strategies that offer positive societal impact in addition to financial return. Over the past two years, NN IP expanded its range of products with a specific sustainable focus. For more detail, refer to page 43.

Stakeholder engagement and international commitments Continued
Taskforce on Climate-related Financial Disclosure Continued

Finally, proactively addressing climate change could positively influence our reputation, resulting in improved quality and sustainability of earnings. At NN Group, we want to help our customers secure their financial futures. We can support our customers' resilience to climate change through insurance products and prevention measures. Furthermore, we can support the green economy with both insurance and investment products and services.

Resilience of our strategy

In our insurance business, we explicitly consider large catastrophic losses in economic capital modelling to ensure NN Group is resilient to such extreme scenarios. The Solvency II supervisory framework requires that insurers hold sufficient capital to cover the losses of a 1-in-200-year event, over a 1-year time period. In addition, insurers also consider risks beyond this one-year time period as part of their Own Risk and Solvency Assessment (ORSA), and hold a level of capital that is in line with their defined risk appetite.

NN Group, and each of our regulated (re)insurance subsidiaries, prepares an ORSA at least once a year. In 2017, Nationale-Nederlanden Non-life (NN Non-life) modelled the financial impact of an extreme windstorm in Europe combined with the collapse of some major reinsurers and an economic crash. This scenario was amongst the stress test scenarios initiated by the Dutch regulator, the Dutch Central Bank (DNB), in 2017. We used this scenario to test how our reinsurance agreements will protect us from significant effects on our balance sheet.

For this scenario, we anticipate a negative financial impact for NN Non-life. Our management discussions defined additional mitigating measures that we deem appropriate to manage the risk of this scenario. During 2017, we revisited and adjusted existing reinsurance contracts on catastrophe risk, taking into account the combined NN and Delta Lloyd organisation and corresponding risk appetite and risk levels. Other measures include preventive action to reduce claims through more proactive communication with clients, as well as better data analytics to determine potential concentration risks related to catastrophe risk and re-underwrite if needed.

Risk management

Integration of climate factors into risk management policy framework

As part of NN Group's control framework, all business units consider social and environmental risks, supported by a comprehensive policy framework. Our policies set out our minimum standards for risk management and internal control in the relevant area within the group.

Other policies that make reference to climate factors include the RI Framework policy. This policy is supported by more detailed guidance, position papers, awareness raising, and training for areas identified as high risk. This includes, for example, our 'Investment Guidance paper on the Environment', which illustrates due diligence processes we apply, and highlights relevant standards and principles to promote best practices and avoid negative impact of companies in which we invest.

The Procurement policy governs our approach to manage and control business operations risks, non-financial and reputation risks in our supply chain. Suppliers are asked to provide detailed information on their policies regarding human rights, environmental care, labour rights, anti-bribery and corruption. Our procurement employees are trained to integrate sustainability aspects into the supplier qualification process.

The Business Continuity Management policy defines the procedures to determine and assess risks, including the requirement to perform a risk/threat assessment every year, and manage the consequences of those risks. These procedures mitigate financial, non-financial and reputation damage caused by long-term disruption of critical business activities after a disaster, natural or otherwise.

Processes to manage climate risks within investments

We believe that the consideration of ESG factors, next to traditional financial data, helps to make more informed decisions and optimise the risk-return profile of investment portfolios. At NN IP, assessing the materiality of ESG factors, such as climate change, is an integral part of the investment process where the analysts identify material risks and opportunities within the investment case. In doing so, they make use of information from ESG data/research providers, amongst which Sustainalytics, MSCI, Bloomberg and ISS-Ethix Climate Solutions.

In addition to analysing individual investment-level risks, we also perform analysis at a portfolio level to better understand the potential risks related to climate change. In 2017, we conducted a carbon footprint analysis for a large portion of NN Group's proprietary assets. We published the results and insights on our website, and updated the footprint and intensity numbers at year-end 2017 (refer to section on Metrics and targets). We find the analysis particularly useful to prioritise our engagement efforts with the most carbon-intense sectors in our portfolio.

We consider active stewardship to be one of the most important tools to manage climate risks. We believe it is a responsibility for us as long-term investors. Through voting, we support shareholder resolutions related to climate risk, disclosure and performance. Furthermore, we engage in-depth with investee companies to address the risks associated with climate change. For more detail refer to pages 41-44.

Processes to manage climate risks within insurance underwriting

Within our P&C insurance business, the physical risks of climate change are managed through the use of catastrophe risk modelling in underwriting, risk assessments and required capital calculations. Our non-life insurance business and NN Re work closely together to share knowledge, insights and experience, and to ensure a consistent approach and understanding of the risks. We use external vendor models, which rely on meteorological modelling and historical storms, to estimate the impact and damage caused by large natural catastrophes such as windstorms. These models are part of the Solvency II Partial Internal Model of NN Group.

Stakeholder engagement and international commitments Continued
Taskforce on Climate-related Financial Disclosure Continued

Short-term contracts and portfolio diversification are other key risk-mitigating actions. NN offers a broad range of non-life insurance products that provide protection against damage and loss from a wide range of causes. The portfolio can be categorised as (i) income/accident, comprising disability and accident (D&A) and travel insurance, and (ii) property and casualty (P&C) products, comprising fire (also known as property insurance), motor and transport insurance, and other insurances. Our non-life products are primarily in the Netherlands. The business segment Netherlands Non-life accounted for 2% of NN Group's operating result before tax of the ongoing business, and 21% of gross premium income in 2017.

Through our reinsurance programme, we reinsurance ourselves against natural catastrophes. Finally, the management of climate risks is informed by regulatory capital requirements, which require the adequacy of capital for the risks we are exposed to.

Metrics and targets

Own direct operations

NN Group is committed to reducing the environmental impact of our own operations. We have set quantitative targets to reduce our GHG emissions and consumption of scarce resources. Please see pages 48-49.

Investments

To inform and monitor our exposure to carbon risks within our investment portfolio, we updated our Carbon Footprint Disclosure at year-end 2017. In 2017, the assessed Assets under Management (AuM) increased to EUR 103 billion due to the addition of Delta Lloyd's assets. The measurement, which represented 56% of NN's total Proprietary Assets, shows a decrease in portfolio carbon footprint (273 tCO_2e/EURm invested vs 309 tCO_2e/EURm invested). We also calculated the weighted average carbon intensity, which is the main metric recommended by the TCFD.

This metric remained stable at 231 tCO_2/EURm of revenue, although the intensity of Corporate Bonds somewhat increased whilst Equity decreased. For more detail, refer to page 67. Due to various limitations related to quality and availability of data, and the fact that it provides a snapshot of emissions at one particular point in time, we have not yet used the results of the carbon footprint analysis to set targets. However, we are looking at ways to make environmental or carbon criteria a more explicit consideration in the management of our portfolio.

NN seeks to increase our investments in those activities that are needed to support the transition to a lower-carbon economy. In 2017, we signed new debt investments in an offshore wind farm in Germany and a solar park in Spain. During the year, we added Delta Lloyd assets, which also include infrastructure investments in wind and solar. Upon completion the projects in the total renewable energy portfolio will have the capacity to provide electricity for around 800,000 households. Green bonds provide another way to invest in climate friendly activities and support the energy transition. At year-end 2017, our combined investments in renewable infrastructure and green bonds held on behalf of NN's proprietary assets amounted to EUR 540 million.

We continue to invest in measures that increase the energy-efficiency of our real estate investments. To assess the environmental and broader sustainability performance of our portfolio, we use GRESB, a leading global standard for assessing real estate's ESG performance. In the 2017 Real Estate Assessment, NN's portfolio performed well, improving its score for the third consecutive year and outperforming the majority of the 850 GRESB participants. We also participated in the GRESB Debt Assessment for the first time. Our commercial real estate loan portfolio, managed by NN IP, received a score above benchmark average. For our GRESB scores, please refer to page 66.

For our asset management clients, NN IP offers a wide range of specialised SRI funds and responsible investment solutions. These products meet the growing demand for products that generate good financial returns alongside care for society and the environment. Our objective is to continue to grow assets in SRI funds and mandates and expand the product offering. At year-end, the AuM in our sustainable equity and fixed income products amounted to EUR 10.9 billion. This was an increase of 114% versus the prior year.

Insurance

Property insurance is impacted by climate risks, as buildings and their contents are exposed to natural catastrophes including storms, hail or impacts of rainfall. Some metrics we use to assess the future performance of our property insurance business on catastrophe or climate risks are the Probable Maximum Loss (PML) and the mitigation of risk.

The PML is the estimated maximum amount likely to be claimed under (re)insurance policies as a result of a catastrophic event. For example, the event could be a windstorm, flood or other disaster that has a given probability of occurrence over a defined time period. The PML is identified using postal codes and assumes the normal functioning of protective features of the buildings.

NN Group estimates the PML for catastrophic events using its Partial Internal Model. The NN Group Partial Internal Model applies external vendor models to assess the impact of relevant natural disasters on the actual NN portfolio. Windstorms are considered to be the main natural peril for the NN portfolio. The 1-in-200-year probability of occurrence is the starting point for the decision-making process on purchasing reinsurance covers. Reinsurance covers are placed with strongly capitalised external reinsurers. These covers reduce both the losses to NN Group from large events as well as multiple smaller events. Both the applicability of the external vendor models as well as the reinsurance structure and cover are reviewed annually at renewal.

Next steps

This is the first year that NN Group has incorporated the TCFD recommendations in the Annual Report. Whilst we tried to provide a complete response, there are still next steps needed to fully report in line with the recommendations. This mostly concerns the impact on the strategy and financial planning in the short, medium and long term, where a climate-related scenario analysis could help to provide additional insights. NN is currently exploring the possibilities to perform such an analysis for our investments. Furthermore, we will investigate other climate change-related risk and opportunities metrics and embed them in the relevant businesses.

Our approach to reporting

We take a holistic approach to reporting. Our Annual Report consists of two components: this Annual Review and the Financial Report.

In the Annual Review, we aim to provide a concise, accurate and balanced account of NN Group's performance over the past year. In-depth information, particularly regarding our financial performance, can be found in the Financial Report. NN Group N.V. is referred to in this document as 'NN Group' or 'NN'.

We aim to strengthen our integrated reporting every year. Elements such as our value creation model and our materiality matrix are again included in the Annual Review. The same applies for our performance data regarding responsible investment, human capital, community investment and environmental footprint. This review therefore 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.

NN Group also publishes a Solvency and Financial Condition Report (SFCR), which includes public quantitative and qualitative disclosures on Solvency II. The SFCR is published on NN Group's corporate website in the Investors/Annual Report section.

We believe that this reporting strategy enables us to tailor our reporting for different stakeholders, many of whom require different depths of information.

The online versions of the Annual Review and the Financial Report contain a number of links. Links to sources on the NN Group website are also included.

Reporting profile

This is NN Group's fourth Annual Report since our separation from ING Group and becoming a publicly listed company on 2 July 2014. It is published on 15 March 2018. We report annually, on a calendar year basis (1 January – 31 December).

Reporting process

Information in the annual report is based on extensive reporting from our countries, businesses and functions. All information is reviewed by NN Group's Disclosure Committee and is subject to approval of our Executive Board and Supervisory Board before publication.

Relevant topics were selected for the 2017 Annual Report, more specifically the Annual Review, through a materiality assessment using internal and external research and other sources. In addition, a dialogue session was held with internal and external stakeholders to help steer our focus. For more information, see page 19.

We aim to provide transparency and enhance the reliability of the reported content for our stakeholders. Therefore, our external auditor, KPMG, provided limited assurance on the non-financial information in the Annual Review. We provide evidence to our external auditor to support the statements we make in this report. The non-financial information in scope of the assurance engagement of KPMG is defined as related to the material topics: customer centricity, innovation, digital transformation and data privacy, transparency and business ethics, risk management, responsible tax practices, diversity and inclusion, employee engagement, human capital development, financial and economic empowerment, sustainable products and services, responsible investment, human rights and climate change. The non-financial information is included on the following pages of the Annual Review: About NN (pages 2-16), Our operating environment (pages 19-23), Our strategy (pages 24-34), Creating and sharing value (pages 35-52), Governance (pages 56-61), Facts and figures (pages 65-69). Please refer to pages 70-73 of this report for KPMG's Assurance report.

Boundary and scope of the data in the Annual Review

The boundaries of the Annual Review are defined by the topics included in the materiality assessment and the results that are presented in the materiality matrix.

The scope of the reported data is the range of entities over which NN Group has management control. The aforementioned applies to all material items as depicted in the materiality matrix in the Annual Review, unless otherwise stated.

The scope for community investment and environmental data is all businesses with more than 100 FTE. NN Group used an online system, Credit360, to gather the information and data for community investment and environmental footprint. We have tried to limit any uncertainties in the reported data through our internal validation process, including application of validation rules in Credit360.

We sourced the Human Resources (HR) data directly from the HR data analytics department. The financial data reported in this review has been fully sourced and aligned with NN Group's 2017 Financial Report.

The acquisition of Delta Lloyd (see pages 10-12) had an impact on our scope. All 2016 numbers are for NN Group standalone. The 2017 numbers include Delta Lloyd since 1 April 2017. The acquisition did not change our corporate citizenship ambition, strategy, definitions and reported data.

Reporting guidelines

The information and data in the NN Group Annual Review is prepared in accordance with the Sustainability Standards (Core) from the Global Reporting Initiative (GRI). It aims to make information available in a manner that is understandable and accessible to stakeholders using the report and reflects different aspects of the organisation's performance to enable a reasoned assessment of overall performance.

The GRI Index table states the indicators NN Group is reporting on, including where to find the respective information, either in this Annual Review, Financial Report and/or the NN Group website. The index table can be found on www.nn-group.com/annual-report. In this document you can also find the Progress reports for the UN Principles for Sustainable Insurance and the UN Global Compact.

Going forward

Going forward, we will continue to tailor our reporting to serve different stakeholder groups. This includes further integration of financial and non-financial information and indicators to provide stakeholders with a complete picture of how we create long-term value for our company and stakeholders.

Facts and figures

Consolidated balance sheet

As at 31 December

Amounts in millions of euros, unless stated otherwise	notes	2017	2016
Assets			
Cash and cash equivalents	2	9,383	8,634
Financial assets at fair value through profit or loss:	3		
– investments for risk of policyholders		33,508	30,711
– non-trading derivatives		5,116	4,421
– designated as at fair value through profit or loss		934	873
Available-for-sale investments	4	104,982	79,767
Loans	5	56,343	33,920
Reinsurance contracts	17	880	231
Associates and joint ventures	6	3,450	2,698
Real estate investments	7	3,582	2,028
Property and equipment	8	150	86
Intangible assets	9	1,841	342
Deferred acquisition costs	10	1,691	1,631
Assets held for sale	11		6
Deferred tax assets	33	125	35
Other assets	12	5,077	3,117
Total assets		**227,062**	**168,500**
Equity			
Shareholders' equity (parent)		22,718	22,695
Minority interests		317	12
Undated subordinated notes		1,764	986
Total equity	13	**24,799**	**23,693**
Liabilities			
Subordinated debt	14	2,468	2,288
Debt securities issued	15	1,988	598
Other borrowed funds	16	7,991	7,646
Insurance and investment contracts	17	163,639	115,708
Customer deposits and other funds on deposit	18	14,434	10,224
Financial liabilities at fair value through profit or loss:	19		
– non-trading derivatives		2,305	2,008
Liabilities held for sale	11		2
Deferred tax liabilities	33	1,830	2,979
Other liabilities	20	7,608	3,354
Total liabilities		**202,263**	**144,807**
Total equity and liabilities		**227,062**	**168,500**

Amounts for 2016 have been restated for the change in NN Group's accounting policy for the Reserve Adequacy Test. Reference is made to Note 1 'Accounting policies' for more details.
References relate to the notes starting with Note 1 'Accounting policies' of the Financial Report. These form an integral part of the Consolidated annual accounts.

Facts and figures Continued

Consolidated profit and loss account
For the year ended 31 December

	notes	2017	2017	2016	2016
Gross premium income	21		12,060		9,424
Investment income	22		5,275		3,801
Result on disposals of group companies			-150		-114
– gross fee and commission income		1,187		936	
– fee and commission expenses		-382		-340	
Net fee and commission income	23		805		596
Valuation results on non-trading derivatives	24		-513		14
Foreign currency results and net trading income			-138		-90
Share of result from associates and joint ventures	6		399		377
Other income			78		60
Total income			**17,816**		**14,068**
– gross underwriting expenditure		14,140		11,590	
– investment result for risk of policyholders		-1,622		-1,156	
– reinsurance recoveries		-187		-116	
Underwriting expenditure	25		12,331		10,318
Intangible amortisation and other impairments	26		118		19
Staff expenses	27		1,517		1,174
Interest expenses	28		335		345
Other operating expenses	29		991		749
Total expenses			**15,292**		**12,605**
Result before tax			**2,524**		**1,463**
Taxation	33		392		273
Net result			**2,132**		**1,190**

Amounts for 2016 have been restated for the changed classification of interest income/expense on derivatives for which no hedge accounting is applied. Reference is made to Note 1 'Accounting policies' for more details.

Key financial and non-financial indicators

Financial indicators (in EUR million)

	2017	2016	2015
Operating result ongoing business	1,586	1,227	1,435
Net result (after minority interests)	2,110	1,189	1,565
Net Operating ROE	10.3%	8.1%	10.8%
Solvency II ratio	199%	241%	239%
Value of new business	345	214	202
Assets under Management (end of period, in EUR billion)	246	195	187
Dividend proposal (per ordinary share, in EUR)	1.66	1.55	1.51
NN Group share price (COB 31 December 2017, in EUR)	36.12	32.20	32.55

Key non-financial indicators

	2017	2016	2015
Customer satisfaction and loyalty			
– insurance business units using NPS	100%	100%	100%
– insurance business units scoring on/above level previous year	91%	95%	n.a.
– insurance business units scoring on/above market average	100%	n.a.	95%
Countries/business units offering tools improving financial decision-making (#)	13	13	13
Assets under Management in SRI funds or mandates (end of period – in EUR million)	10,852	5,062	4,509
– as part of the total Assets under Management	4.4%	2.6%	2.4%
Employee engagement score	66%	71%	73%
– participation in the engagement survey	73%	86%	84%
Total donations to charitable organisations (x EUR 1,000)[1]	2,400	1,500	1,500

1 Includes cash donations to charitable causes, corporate foundations and partnerships.

Sustainability ratings

	2017	2016	2015
Sustainalytics (position/# insurance companies)	3/145 (Leader)	13/151 (Outperformer)	13/149 (Outperformer)
Oekom	C (Prime)	C (Prime)	C (Prime)
Carbon Disclosure Project	C	B	95C
Dow Jones Sustainability Index (out of 100)	80 (Included)	77	68
FTSE4Good	Included	Included	Included
Dutch Transparency Benchmark (out of 200)	183	176	157

Key financial and non-financial indicators Continued

Customer-related indicators (in EUR million)

	2017	**2016**	2015
Total claims and benefits paid	15,772	11,681	14,225
New sales life insurance (APE)	1,791	1,386	1,295
Gross premium income	12,060	9,424	9,205

Responsible investment indicators (in EUR million)

	2017	**2016**	2015
Assets under Management in SRI funds and mandates (end of period)	10,852	5,062	4,509
– as part of total Assets under Management NN Investment Partners	4.4%	2.6%	2.4%
Funds			
– NN Duurzaam Aandelen Fonds	734	679	682
– NN (L) European Sustainable Equity Fund	308	91	148
– NN (L) Global Sustainable Equity Fund	1,717	673	544
– NN Global Sustainable Opportunities Fund	263	265	–
– NN (L) Global Equity Impact Opportunities	368	–	–
– Delta Lloyd Equity Sustainable Global Fund	2,942	–	–
– NN (L) Euro Sustainable Credit (excluding Financials)	679	587	471
– NN (L) Euro Sustainable Credit (including Financials)	117	96	85
– NN (L) Euro Green Bond Fund	173	61	–
– NN (L) Patrimonial Balanced European Sustainable	234	102	–
Subtotal	7,534	2,554	1,930
Mandates			
– Sustainable Fixed Income Mandates	1,319	1,038	1,548
– European Sustainable Equity Mandates	387	349	333
– Global Sustainable Equity Mandates	1,612	1,121	699
Subtotal	3,318	2,508	2,580
Total	10,852	5,062	4,509
Voting			
Shareholders meetings where we voted (#)[1]	1,507	1,437	2,013
– as % of total votable meetings	97%	94%	96%
Agenda items on which we voted (#)	18,978	18,335	26,580
How we voted on agenda items (%)			
– for	89.6%	90.1%	89.7%
– against	10.1%	9.6%	10.2%
– abstain	0.3%	0.3%	0.3%
Countries where we voted (#)	54	51	52
Shareholder resolutions on which we voted by topic	348	347	532
– environmental	56	54	67
– social	74	73	98
– governance	218	220	367
GRESB Real Estate and Debt Assessment scores[2]			
Private real estate – portfolio average (vs. benchmark average)	74 (61)	72 (59)	66 (55)
Commercial real estate debt – portfolio average (vs. peer average)	68 (55)	–	–

1 Excludes voting related to Delta Lloyd assets.

2 NN calculates the GRESB scores on a value-weighted basis, and compares these to the relevant benchmark average. Scores are on a scale of 1 to 100. The real estate portfolios are part of NN Group's proprietary assets.

Key financial and non-financial indicators Continued

Carbon footprint of NN Group's proprietary assets

	2017	2016
Assessed Assets under Management (in EUR billion)	103	81
Fixed income	99	78
Equity	4	3
Carbon footprint (tCO_2e/EUR million invested)	273	309
Fixed income	278	316
Equity	120	146
Weighted average carbon intensity (tCO_2e/EUR million of revenue)	231	232
Government Bonds	233	232
Corporate Bonds	276	238
Equity	171	260

In the context of an investment portfolio, a carbon footprint measures the amount of greenhouse gas (GHG) emissions and intensity associated with the underlying portfolio holdings. The footprint is measured in carbon dioxide equivalents (CO_2e).

Scope of our carbon footprint disclosure

The carbon footprint of NN Group's proprietary fixed income and listed equity holdings was measured as per 31 December 2017, and is based on the latest carbon dioxide emissions data for governments and companies available to us.

In 2017, the assessed AuM increased to EUR 103 billion due to the addition of Delta Lloyd's assets. This represents 56% of NN Group's total proprietary assets. The main asset categories that were not in scope of this carbon footprint analysis included mortgages, real estate, private equity, derivatives and cash.

The fixed income holdings that we assessed included government bonds and corporate fixed income securities. The Corporate Fixed Income portfolio comprised mainly corporate bonds, but also asset-backed securities and loans (although the data availability on these two asset categories was limited).

The analysis is based on scope 1 and 2 emissions data provided by ISS-Ethix Climate Solutions, a leading global provider of investment climate data. The coverage, or the percentage of (assessed) portfolio assets for which (actual or estimated) emissions data was available, is: 82%.

The methodology for the footprint measurement remained the same as last year. More detail on how we calculated the metrics can be found in NN's Carbon Footprint Disclosure report of August 2017, published on the NN Group website.

Key financial and non-financial indicators Continued

Human capital indicators

	2017	2016	2015
Workforce (end of year)			
Total full-time equivalents (FTEs)	14,853	11,545	11,643
Total number of employees (headcount)	15,406	11,995	12,105
– Netherlands Life	2,924	2,162	2,183
– Netherlands Non-life	2,157	935	901
– Insurance Europe	4,847	4,254	4,228
– Japan	868	775	697
– Asset Management	1,165	1,098	1,191
– Other	3,445	2,771	2,905
Part-time employees	22.0%	15.8%	16.1%
Temporary employees	5.8%	5.9%	5.8%
Average years of service	11.8	n.r.	n.r.
Male/female ratio	52/48	52/48	53/47
Male/female ratio managers	65/35	66/34	66/34
Male/female ratio Senior Leaders Group	68/32	80/20	82/18
Wellbeing and engagement			
Sick leave[1]	3.3%	2.4%	2.8%
Engagement score	66%	71%	73%
Participation in engagement survey	73%	86%	84%
Employee participation			
Employees covered by Collective Labour Agreement (CLA)	75.1%	70.1%	70.9%
Employees represented by an employee representative body	87%	n.r.	n.r.
Formal meetings held with employee representative bodies (#)	127	n.r.	n.r.
Complaints[1]			
Grievances on labour practices (#)[2]	10	12	5
Total incidents of fraud involving employees (#)	8	1	2
Talent development			
Total spending on training and development (in EUR million)	21.4	13.7	13.0
Spending/average FTE	1.441	1,111	1,094
Human capital return on investment[3]	2.3	2.3	2.5
Employees with completed standard performance process (2016/2017)	91.8%	98.4%	87%
Employee turnover			
New hires (#)	1,521	1,358	1,651
Employee turnover	14.9%	10.2%	10.4%
– voluntary employee turnover	7.8%	5.8%	5.2%
– involuntary employee turnover	7.2%	4.4%	5.2%
Redundancies[4] (#)	902	n.r.	n.r.
Open positions filled by internal candidates	26.8%	29.2%	25.4%
Employee compensation			
Total employee wages and benefits (in EUR million)	1,496	1,160	1,159
Ratio of CEO compensation to the average employee compensation[5]	29:1	n.r.	n.r.

1 Netherlands only; this counts for more than 60% of the total organisation.

2 This number covers data of the Dutch business of NN only. It does not include the complaints received in relation to the integration process of Delta Lloyd and Nationale-Nederlanden, given the specific nature of these complaints.

3 Human capital ROI is calculated as: (operating result ongoing business + employee expenses)/employee expenses.

4 The scope of the number of redundancies differs from the involuntary employee turnover ratio, as it is limited to (actively) managed involuntary terminations, not including i.e. people leaving because of death, or end of their fixed term contract.

5 For more information, refer to the Remuneration report on pages 28-32 of the Financial Report.

n.r. indicates not reported.

Key financial and non-financial indicators Continued

Community investment indicators

	2017	2016	2015
Total donations to charitable organisations (x EUR 1,000)[1]	2,400	1,500	1,500
Of which donations from corporate foundations (country/name)			
The Netherlands/Together for Society	218	182	293
The Netherlands/Delta Lloyd Foundation	850		
Hungary/NN Foundation for Children's Health	–	9	33
Romania/Foundation for Life	11	29	137
Total hours of volunteering work (in Future Matters focus areas)	14,099	5,685	5,593
Total number of young people reached through NN Future Matters programme[2]	37,208	27,529	9,069

1 Includes cash donations to charitable causes, corporate foundations and partnerships.

2 Numbers reached include partnership with JA and EP-Nuffic, the Future Matters anniversary donations and main Dutch programmes (excluding the From Debt to opportunites programme).

Environmental indicators

	2017	2016	2015
CO_2 emissions of our direct operations			
% of CO_2 emissions offset annually	100%	100%	100%
CO_2 emissions (kilotonnes)[1]	25	22	27
CO_2 emissions from energy consumed on NN sites	11	9	12
– of which electricity	6	6	6
– of which natural gas	3	2	3
– of which district heating	2	1	3
CO_2 emissions from air travel	4	4	6
CO_2 emissions from car travel	10	9	8
CO_2 emissions (tonnes)/FTE	1.7	1.9	2.3
Business travel			
Air travel (km x 1 million)	22	24	25
Car travel (km x 1 million)[2]	56	45	45
Energy consumption			
Total energy consumption (MWh x 1,000)	59	37	55
Electricity	11	12	12
Renewable electricity	24	10	19
– Renewable electricity as % of total electricity	69%	45%	61%
Natural gas	13	11	13
District heating[3]	11	5	11
Paper			
Total paper use (kg)	776,380	830,409	872,996
– Sustainable paper (i.e FSC) (kg)	678,418	693,580	730,277
– Sustainable paper as % of total paper	87%	84%	84%
Waste			
Total waste (kg)	389,517	471,162	573,875
– Recycled waste (kg)	320,897	215,325	152,053
– Recycled waste as % of total waste	82%	46%	26%

1 The increase in total CO_2 emissions is a result of the integration of NN and Delta Lloyd.

2 The comparative figure for 2015 has been restated according to new data.

3 Decrease in 2016 mainly caused by a reduction of office space in the Netherlands.

Assurance report of the independent auditor

Assurance report of the independent auditor

To: the Stakeholders and the Supervisory Board of NN Group N.V.

Our conclusion

We have reviewed the Non-Financial Information in the Annual Review 2017 (hereafter: the Non-Financial Information) of NN Group N.V. (hereafter: NN Group) based in Amsterdam and headquartered in The Hague. A review is aimed at obtaining a limited level of assurance.

Based on our procedures performed, nothing has come to our attention that causes us to believe that the Non-Financial Information is not prepared, in all material respects, in accordance with the GRI Standards and the applied supplemental reporting criteria as described in 'Our approach to reporting' on page 62.

The scope of our review of the Non-Financial Information is defined on page 62 of the Annual Review.

Basis for our conclusion

We have performed our review on the Non-Financial Information in accordance with Dutch law, including Dutch Standard 3810N: 'Assurance-opdrachten inzake maatschappelijke verslagen' (Assurance engagements relating to sustainability reports).

This review engagement is aimed at obtaining limited assurance. Our responsibilities under this standard are further described in the 'Our responsibilities for the review of the Non-Financial Information' section of our report.

We are independent of NN Group N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our key review matter

Key review matters are those matters that, in our professional judgement, were of most significance in our review of the Non-Financial Information. We have communicated the key review matters to the Supervisory Board. The key review matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our review of the information within the scope of our engagement as a whole and in forming our conclusion thereon, and we do not provide a separate conclusion on these matters.

Assurance report of the independent auditor Continued

KPMG

Acquisition of Delta Lloyd

Description

In 2017, NN Group acquired Delta Lloyd. As NN Group incorporated Delta Lloyd's information fully into the 2017 Annual Review, this resulted in potential challenges in the reporting. These related amongst others to judgement required to balance the narrative information in the Annual Review on the combination and to the consolidation of the non-financial indicators, including possible differences in definitions, scope and methodologies. The integration of information from NN Group and Delta Lloyd was therefore a significant area for our procedures.

Our response

To evaluate whether the narrative information on the combination was sufficiently included in the 2017 Annual Review, our assurance procedures included, amongst others, obtaining an understanding of the principles that NN Group applied to collect and document information regarding the subsequent integration process as the basis for preparing the Annual Review. We assessed proper inclusion of the insights of interviewed staff regarding the integration process. Finally, we performed an overall assessment of the section in the Annual Review regarding the Delta Lloyd transaction and integration based on the evidence obtained to determine whether this section of the Annual Review presents a balanced overall picture of NN Group's (non-financial) performance over the year.

Regarding the possible differences in definitions, scope and methodologies, our procedures per indicator started with an evaluation of the possible risks related to possible differences in definitions, scope and methodologies between standalone NN Group and Delta Lloyd figures. We noted that most of the indicators were either measured at consolidated group level at year-end or reported on separately, lowering the risk of material misstatement due to differences in definition, scope and methodology. We have also evaluated whether sufficient disclosures are added to the Annual Review to explain the deviations in consolidated figures other than by referring to the integration with Delta Lloyd as a single cause for deviations.

Our observation

Based on our procedures performed it appears that the section in the Annual Review regarding the Delta Lloyd acquisition and integration sufficiently reflects both positive and negative aspects of the integration process. Additionally, based on our procedures performed, it appears that the reported consolidated figures per indicator are calculated using the same definitions, scope and methodologies, and that sufficient explanation is included in the Annual Review regarding outcomes per indicator.

Unexamined prospective information

The Non-Financial Information includes prospective information such as ambitions, strategy, plans, expectations and estimates and risk assessments. Inherently the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the Non-Financial Information.

Unreviewed references to external sources

The references to external sources or websites in the Non-Financial Information are not part of the Non-Financial Information itself as reviewed by us. We therefore do not provide assurance on this information.

Assurance report of the independent auditor Continued

Consistency of the non-financial information included in other parts of the Annual Review

In addition to the Non-Financial Information and our assurance report thereon, the Annual Review contains other information.

Based on the following procedures performed, we conclude that the other information included in other parts of the Annual Review is consistent with the Non-Financial Information and does not contain material misstatements.

We have read the other parts of the Annual Review. Based on our knowledge and understanding obtained through our review of the Non-Financial Information, we have considered whether the information included in other parts of the Annual Review contains material misstatements.

The scope of the procedures performed is substantially less than the scope of those performed in our review of the Non-Financial Information.

Responsibilities of the Executive Board and Supervisory Board for the Non-Financial Information

The Executive Board of NN Group is responsible for the preparation of the Non-Financial Information in accordance with the GRI Standards and the applied supplemental reporting criteria as disclosed in 'Our approach to reporting' on page 62, including the identification of stakeholders and the definition of material matters. The choices made by the Executive Board regarding the scope of the Non-Financial Information and the reporting policy are summarised in 'Our approach to reporting' of the Annual Review. The Executive Board is also responsible for such internal control as it determines is necessary to enable the preparation of the Non-Financial Information that is free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing NN Group's reporting process.

Our responsibilities for the review of the Non-Financial Information

Our responsibility is to plan and perform the assurance engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and are less extensive than a reasonable assurance engagement. The level of assurance obtained in limited assurance engagements is therefore substantially less than the level of assurance obtained in an audit engagement.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the Non-Financial Information. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

Assurance report of the independent auditor Continued

We apply the 'Nadere Voorschriften Kwaliteitssystemen' (Regulations on quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our review engagement included, among others, the following procedures:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the organisation.
- Identifying areas of the non-financial where material misstatements, whether due to fraud or error, are likely to arise, designing and performing assurance procedures responsive to those areas, and obtaining assurance evidence that is sufficient and appropriate to provide a basis for our conclusion;
- Developing an understanding of internal controls relevant to the assurance engagement in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the effectiveness of the company's internal control;
- Evaluating the appropriateness of the reporting criteria used and their consistent application, including the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by management and related disclosures in the Non-Financial Information;
- Interviewing relevant staff at corporate level responsible for the non-financial strategy and policy;
- Interviewing relevant staff responsible for providing the Non-Financial Information, carrying out internal control procedures on the data and consolidating the data in the Annual Review related to the indicators;
- An analytical review of data and trends;
- Reviewing relevant internal and external documentation, on a limited test basis, in order to determine the reliability of the Non-Financial Information.
- Evaluating the overall presentation, structure and content of the Non-Financial Information, including the disclosures, and evaluating whether the Non-Financial Information represents the underlying transactions and events free from material misstatement.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the review and significant findings, including any significant findings in internal control that we identify during our review.

Amstelveen, 14 March 2018

KPMG Accountants N.V.

P.A.M. de Wit RA

Glossary

Agile	The agile way of working is a methodology whereby people of different expertise and teams are given autonomy and work together towards a common goal. The goal of agile is faster product and service delivery. NN is investing in becoming more agile to secure long-term growth.	AR p. 24, 29, 31, 33, 45
App	An application; typically a small, specialised programme downloaded onto mobile devices. Apps support NN Group's ability to provide a quick, easy, confidential customer experience across digital channels.	AR p. 25, 29, 33
Assets under Management in SRI funds and mandates	Assets under Management in SRI funds and mandates are assets that are managed with a specific focus on sustainability. This includes our Socially Responsible Investing (SRI) funds and mandates.	AR p. 7, 41, 65, 66
Brand awareness	The extent to which consumers are familiar with the distinctive qualities or image of NN; the recognisability of the NN Brand in the general public.	AR p. 35, 38
Carbon footprint	The total amount of greenhouse gases produced to directly and indirectly support ongoing activities, usually expressed in equivalent tonnes of carbon dioxide (CO_2).	AR p. 43, 48, 59, 60, 61, 67
CDP	Carbon Disclosure Project. A global disclosure system for companies, cities, states and regions to manage their environmental impacts and for investors or purchasers to access environmental information for use in financial decisions.	AR p. 42, 56, 65
Central Works Council	The Central Works Council (CWC) is an entity required by the Dutch Works Council Act of 2013. It is a standing works council formed by representatives from eight Dutch work councils. The CWC is informed or consulted about important NN Group developments in the Netherlands and international developments to the extent that Dutch interests are influenced.	AR p. 47 FR p. 33
Climate Action 100+	A five-year initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.	AR p. 23, 43
COLI	Corporate-owned life insurance	AR p. 4, 25, 30
Corporate governance	The way in which a company is governed and how it deals with the various interests of its customers, shareholders, employees, business partners and society at large.	AR p. 15 FR p. 18-27
Credit rating	Credit ratings, as assigned by rating agencies (such as Standard & Poor's and Fitch), are indicators of the likelihood of timely and complete repayment of interest and instalments of fixed income securities.	AR p. 40
Data privacy	Data privacy, also called data protection or information privacy, is the aspect of information technology that deals with the ability of NN Group to protect the personal data of its customers and other stakeholders.	AR p. 19, 21
DHAN	Development of Human Action Foundation. The Foundation works to make significant changes in the livelihoods of the poor through innovative themes and institutions.	AR p. 37
Diversity and inclusion	NN Group's approach to diversity includes hiring people of various race, ethnicity, gender, age, sexual orientation, physical abilities and personal philosophies, as well as creating an inclusive culture and diversity of thought – one that welcomes, acknowledges, respects, challenges and benefits from our differences.	AR p. 19, 45-47

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Glossary Continued

Digitalisation	The process of adopting and integrating digital technologies and solutions by an industry or organisation. Digitalisation brings opportunities for NN to broaden and deepen product offerings and increase partnerships with insurtech startups.	AR p. 17, 18, 20, 21, 31, 38, 48
Dutch Cyber Collective	The Dutch Cyber Collective, an initiative of Nationale-Nederlanden, is an overarching Dutch association committed to effectively reducing cybercrime for Dutch SMEs.	AR p. 21, 29
Emerging (market) economies	An emerging market economy describes a nation's economy that is progressing toward becoming more advanced, usually by means of rapid growth and industrialisation. These countries experience an expanding role both in the world economy and on the political frontier.	AR p. 17, 32
Employee engagement	Employee engagement is a property of the relationship between an organisation and its employees, measured by NN Group through the YES employee survey.	AR p. 3, 7, 9, 15, 16, 19, 45, 47, 52
Employee Value Proposition	The Employee Value Proposition (EVP) represents what our employees experience and benefit from during their employment period within NN and what we expect from them. It is the rational and emotional articulation of the tangible benefits employees receive as a result of working for the NN Group. The EVP highlights the attractive factors in NN for the labour market.	AR p. 14, 46
Environmental footprint	The effect that NN Group has on the environment, for example the amount of natural resources used and the amount of waste produced in direct operations.	AR p. 6, 48, 62
Environmental, social and governance (ESG) factors	ESG factors are a subset of non-financial performance indicators which include sustainable, ethical and corporate governance issues such as managing the company's carbon footprint and ensuring there are systems in place to ensure accountability.	AR p. 22, 23, 26, 27, 32, 41, 42, 58
Euronext Amsterdam	A conglomerate of the former entities: Amsterdam Stock Exchange, Brussels Stock Exchange and Paris Stock Exchange. Located in Amsterdam, the Netherlands.	AR p. 78
European Works Council	The European Works Council (EWC) is a standing works council body as required by the 2009 European Works Council Directive 2009/38 of the European Commission. The EWC is formed by chosen employee representatives of all eleven European countries where NN Group is active. EWC-members are informed about transnational matters twice a year.	AR p. 47 FR p. 33
Financial sector oath or promise	Ethics statement introduced in early 2013 for employees in the Dutch financial sector, along with the introduction of a social charter and update of the Banking Code. The oath or promise applies not only to employees of banks but also to employees of other financial enterprises, including insurance companies, investment firms and financial service providers. By taking the oath or promise, employees proclaim that they are bound by the Code of Conduct attached to the oath or promise for the ethical and careful practice of their profession.	AR p. 7
Fintech	A line of business based on using software to provide financial services. Financial technology companies are generally providers of new solutions which demonstrate an incremental or radical innovation development of applications, processes, products or business models in the financial services industry.	AR p. 9, 31
General Data Protection Regulation (GDPR)	Regulation by which the European Parliament, the Council of the European Union and the European Commission intend to strengthen and unify data protection for all individuals within the European Union.	AR p. 18, 21

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Glossary Continued

Global Real Estate Sustainability Benchmark (GRESB)	GRESB is an industry-driven organisation committed to assessing the sustainability performance of real assets globally, including real estate portfolios. On behalf of close to 60 institutional investors, GRESB Real Estate has assessed almost 1,000 property companies and funds globally.	AR p. 43, 61, 66
Global Reporting Initiative (GRI)	The Global Reporting Initiative is an international independent standards organisation that helps businesses, governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption.	AR p. ifc, 19, 51, 62
Green alternatives	Choices that NN Group makes with regards to energy, resource use and waste management that serve to protect the environment more so than traditional options.	AR p. 48
ICE	Impact Centre Erasmus – A centre for scientific knowledge and skills aimed at gaining traction with a diverse group of organisations on the realisation of their social ambitions. (Paraphrased from Dutch from their website.)	AR p. 49
ICGN	International Corporate Governance Network – in place to influence policy by providing a reliable source of investor opinion on governance and stewardship.	AR p. 56
Information barriers	The ethical barriers between different divisions of a financial (or other) institution to avoid conflict of interest. Also historically known as 'Chinese Walls'.	AR p. 41
Institutional investors	Entities which pool money to purchase securities, real property and other investment assets or originate loans. Institutional investors include banks, insurance companies, pension funds, hedge funds, investment advisors and endowments.	AR p. 5, 23, 33, 36, 37, 42, 56
Integrated reporting	A process founded on integrated thinking that results in a periodic integrated report by NN Group about value creation over time and related communications regarding aspects of value creation.	AR p. ifc, 62
International Integrated Reporting Council (IIRC)	A global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition is promoting communication about value creation as the next step in the evolution of corporate reporting.	AR p. ifc
Internet of Things	A network of devices that can connect to the internet and to each other, allowing the devices to be controlled remotely and data to be transferred. The Internet of Things is among the technologies expected to spur a transformation of the financial services industry.	AR p. 18, 21
Junior Achievement Europe	Junior Achievement Europe is Europe's largest provider of education programmes for entrepreneurship, work readiness and financial literacy.	AR p. 50
KiFiD	The Dutch institute for consumer complaints about the financial services industry (Klachteninstituut Financiële Dienstverlening).	FR p. 118
Longevity	Length or duration of life.	AR p. 27
Materiality matrix	The materiality matrix presents the developments and topics which are important to our business and the relevance of these to our external stakeholders.	AR p. 19, 62
Net Promoter Score (NPS)	A management tool that can be used to gauge the loyalty of a firm's customer relationships. It serves as an alternative to traditional customer satisfaction research.	AR p. 3, 7, 28, 30, 31, 35, 38, 65
NGO (Non-Governmental Organisation)	An organisation that is neither a part of a government nor a conventional for-profit business. Usually set up by citizens, NGOs may be funded by governments, foundations, businesses, or private persons.	AR p. 19, 56, 57
NLII	Netherlands Investment Institution – established to enable institutional investors such as pension funds and insurers to invest directly in the Dutch economy.	AR p. 37

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Glossary Continued

NN Future Matters	Future Matters is the global community investment programme for NN Group. It aims to empower people in the markets where we operate to improve their financial wellbeing, and to support them in growing their economic opportunies.	AR p. 7, 9, 48-50, 52, 69
NN Group Compliance Charter & Framework	A policy set in place by NN Group to help businesses to effectively manage their compliance risks.	AR p. 53
Ordinary share	An equity instrument that is subordinated to all other classes of equity instruments. Ordinary shares participate in the net profit for the financial year after other types of shares such as preference shares.	AR p. 9, 39, 65
Partial Internal Model	A method of calculating the Solvency Capital Requirement (SCR) that combines a standard formula and an approved, internally developed internal model. NN Group's Partial Internal Model was approved by the Dutch regulator (DNB) in December 2015.	AR p. 6, 10, 60, 61
Product Approval and Redesign Process (PARP)	The Product Approval and Redesign Process (PARP) refers to the assessment of a product in relation to its customer suitability, financial and non-financial risks and profitability. The PARP is conducted when NN Group introduces a new product, changes the characteristics of an existing product or reviews a product. This is to ensure that our products are acceptable for our company, our customers and our society in general.	AR p. 22, 35
Qredits	Qredits – A microfinancing organisation assisting entrepreneurs with loans, mentoring and e-learning.	AR p. 37
Remuneration	Reward to NN Group's employees in the form of salary or compensation, either fixed or variable, including benefits.	AR p. 68 FR p. 28-32
Report of the management board	The NN Group N.V. 2017 Report of the management board (Bestuursverslag), as referred to in section 2:391 of the Dutch Civil Code. Specific chapters to be mentioned in this matter are the Annual Review and the following chapters in the Financial Report: the Financial Developments, the Report of the Supervisory Board, Corporate Governance, the Remuneration Report, the Report of the Executive Board on internal control over financial reporting and the Statements Dutch Financial Supervision Act and Dutch Corporate Governance Code.	AR FR
Responsible Investment (RI) Framework policy	The Responsible Investment (RI) Framework policy sets out NN Group's vision, approach and key principles on responsible investment. NN Group defines RI as the systematic integration of relevant ESG factors into investment decision-making and active ownership practices.	AR p. 9, 23, 41, 56
Retail investors	An individual who purchases securities for his or her own personal account rather than for an organisation.	AR p. 5, 33, 35, 38
Robotisation	The automation of a system or process by use of robotic devices.	AR p. 32, 33
SDMO	Sustainable Micro Pensions in Developing Countries organisation – joint initiative of the Association of Insurers and the Pension Federation in the Netherlands with support of the Dutch Ministry of Foreign Affairs.	AR p. 37, 52
Settlement Date	The date on which a trade must be settled and the buyer must make payment. 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. Settlement Date of the offering was 7 July 2014.	FR p. 18-23, 26, 50, 119
SME	Small- and medium-sized enterprise.	AR p. 4, 29, 30, 31, 37
Sparklab	NN's innovation labs.	AR p. 9, 20, 29, 31

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Glossary Continued

Social Innovation Relay	The Social Innovation Relay is an initiative of Junior Achievement supported by NN Group. It works to inspire secondary school students to develop innovative business concepts that address social challenges.	AR p. 49, 50
Socially Responsible Investment (SRI) funds	Socially Responsible Investment (SRI) funds are specialised sustainable investment products which cater to the increasing demand for products that not only generate good financial returns, but are also good for society and the environment.	AR p. 3, 7, 9, 23, 32, 34, 41-43, 52, 61, 65
Solvency II ratio	Measurement of NN Group's capital position, calculated as the ratio of Own Funds (OF) to the Solvency Capital Requirement (SCR) based on NN Group's approved Partial Internal Model.	AR p. ifc, 4, 6, 9, 10, 18, 22, 40, 60, 62
SPVA	Single premium variable annuity	AR p. 5
Stakeholders	The groups and individuals who, directly or indirectly, influence – or are influenced by – the attainment of the company's objectives, such as shareholders and other lenders, employees, suppliers, customers and civil society.	AR p. 2, 3, 8, 9, 11, 13, 15, 17, 19, 22, 23, 24, 26, 32, 33, 34, 35, 38, 41, 43, 44, 49, 51, 53, 56, 59, 62
Sustainable Development Goals (SDGs)	The Sustainable Development Goals (SDGs), otherwise known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.	AR p. 44, 51, 52
Taskforce Climate-related Financial Disclosures (TCFD)	The Financial Stability Board launched the industry-led Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations on climate-related financial disclosures. The Task Force published its final recommendations in June 2017.	AR p. 23, 42, 58, 61
UN Global Compact	The United Nations Global Compact is an initiative of the United Nations to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. It is a principle-based framework for business, stating ten principles in the areas of human rights, labour, environment and anti-corruption.	AR p. 26, 41, 56, 62
Value creation model	An operating model which focuses on how NN Group can create revenue which exceeds expenses which results in a profit, or value, to the stakeholders.	AR p. 2, 15, 62
YES	The Yearly Engagement Survey (YES) is a questionnaire measuring how NN Group's brand and values are experienced by our employees, how our leaders live up to the high standards we set and how we fulfil our employee value proposition as an organisation. The results reflect employee engagement expressed as a percentage score.	AR p. 14, 15, 47

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Contact and legal information

We welcome input from our stakeholders. If you would like to provide us with feedback, please feel free to contact us.

Prepared by
NN Group Corporate Relations

Design
Radley Yeldar | ry.com

Contact us
NN Group N.V.
Schenkkade 65
2595 AS Den Haag
The Netherlands
P.O. Box 90504, 2509 LM Den Haag
The Netherlands
www.nn-group.com

Commercial register of Amsterdam, no. 52387534

For further information on NN Group, please visit our corporate website or contact us via external.communications@nn-group.com

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

Visit our website

Further information can be found online by visiting our website www.nn-group.com/annual-report

Disclaimer
NN Group's 2017 Annual Report consists of two documents: the 2017 Annual Review and the 2017 Financial Report. More information – for example the GRI Index Table and SFCR – are available on the corporate website in the Investors/Annual report section.

Certain of the statements in this 2017 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 euro or European Union countries leaving the European Union, (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 and the interpretation and application thereof, (13) changes in the policies and actions 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 us 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 the other risks and uncertainties detailed in the Risk Factors section 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.

NN Group N.V.
Schenkkade 65
2595 AS Den Haag
P.O. Box 90504, 2509 LM Den Haag
The Netherlands
www.nn-group.com

Combining strengths

NN Group N.V.

2017 Financial Report

NN

You matter

The 2017 Annual Report consists of the 2017 Annual Review and the 2017 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 62 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.

2017 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 the social, environmental and governance aspects of our business, and the statement of our CEO. It is targeted at NN Group stakeholders.

2017 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. Target audiences are shareholders, rating agencies and other stakeholders interested in the financials and governance of NN Group.

Visit our website

Further information, including the GRI Index table can be found online by visiting our corporate website **www.nn-group.com/annual-report**

What you can read in this Financial Report

Introduction

We are a financial services company active in 18 countries, with a strong presence in Europe and Japan. Our roots lie in the Netherlands, with a rich history that stretches back 170 years.

Life is about living. That is why we do our very best to help our customers achieve their dreams and overcome adversity along the way.

Through our retirement services, insurance, investments and banking products, we are committed to helping people secure their financial futures. That is our purpose at NN.

**Because what matters to you, matters to us.
You matter**

Financial developments

NN Group

Analysis of result

amounts in millions of euros	2017	2016
– Netherlands Life	896	710
– Netherlands Non-life	30	62
– Insurance Europe	260	198
– Japan Life	200	154
– Asset Management	161	133
– Other	40	-30
Operating result ongoing business	**1,586**	**1,227**
Non-operating items ongoing business	1,430	555
– of which gains/losses and impairments	1,065	279
– of which revaluations	346	296
– of which market & other impacts	19	-19
Japan Closed Block VA	-9	-99
Special items before tax	-234	-107
Amortisation of acquisition intangibles	-99	
Result on divestments	-150	-114
Result before tax	**2,524**	**1,463**
Taxation	391	273
Minority interests	22	1
Net result	**2,110**	**1,189**
Basic earnings per ordinary share in EUR[1]	**6.21**	**3.55**

1 Basic earnings per ordinary share is calculated as the net result, adjusted to reflect the deduction of the accrued coupon on undated subordinated notes classified in equity, divided by the weighted average number of ordinary shares outstanding (net of treasury shares).

Key figures

amounts in millions of euros	2017	2016
New sales life insurance (APE)	1,791	1,386
Value of new business (VNB)	345	214
Total administrative expenses	2,164	1,734
Net operating ROE[1]	10.3%	8.1%
Solvency II ratio[2]	199%	241%

1 As of 1 January 2017, NN Group changed its accounting policy for the Reserve Adequacy Test. The change represents a change in accounting policy under IFRS and is implemented retrospectively. The impact on previous periods is limited to the consolidated balance sheet and equity. Reference is made to Note 1 'Accounting policies' for more details.

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.

Note: 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 the section 'Alternative Performance measures (Non-GAAP measures)' in the 2017 Consolidated Annual Accounts.

Operating result

The full-year 2017 operating result of the ongoing business increased to EUR 1,586 million from EUR 1,227 million in 2016. The increase reflects higher fees and premium-based revenues in Insurance Europe, an improvement in mortality and surrender results as well as larger in-force volumes at Japan Life, and higher results in the banking business. A higher investment margin at Netherlands Life also contributed to the increase. These items were partly offset by lower results at Netherlands Non-life. The inclusion of the results of the Delta Lloyd businesses for a total amount of EUR 205 million also contributed to the higher operating result. The operating result of the ongoing business for the full-year 2017 benefited from a total of EUR 104 million of private equity dividends and non-recurring items.

Result before tax

The 2017 full-year result before tax increased to EUR 2,524 million from EUR 1,463 million in 2016, reflecting higher non-operating items, the higher operating result of the ongoing business and improved results at Japan Closed Block VA. These items were partly offset by higher special items, the amortisation of acquisition intangibles and a negative result on divestments.

Sales and Value of New Business

In 2017, total new sales were up 33.9% on a constant currency basis to EUR 1,791 million, driven by higher sales at Netherlands Life, Insurance Europe and Japan Life.

The value of new business (VNB) in 2017 amounted to EUR 345 million, up 60.7% from EUR 214 million in 2016. The increase reflects higher VNB at Japan Life mainly driven by higher sales, an improved product mix and an increase in interest rates, as well as higher VNB at Insurance Europe driven by higher sales at better margins.

Net operating Return On Equity (ROE)

For full-year 2017 the net operating ROE increased to 10.3% from 8.1% for 2016, driven by the higher net operating result.

Financial developments Continued

Netherlands Life

Analysis of result

amounts in millions of euros	2017	2016
Investment margin	843	745
Fees and premium-based revenues	429	336
Technical margin	180	93
Operating income	**1,452**	**1,175**
Administrative expenses	513	426
DAC amortisation and trail commissions	43	39
Expenses	**556**	**465**
Operating result	**896**	**710**
Non-operating items	1,351	451
– of which gains/losses and impairments	967	179
– of which revaluations	340	282
– of which market & other impacts	44	-10
Special items before tax	-42	-14
Result before tax	**2,204**	**1,147**
Taxation	329	178
Minority interests	13	1
Net result	**1,862**	**968**

Key figures

amounts in millions of euros	2017	2016
New sales life insurance (APE)	368	229
Value of new business (VNB)	10	9
Total administrative expenses	513	426
Net operating ROE[1]	9.0%	8.1%
NN Life Solvency II ratio[2]	217%	203%
Delta Lloyd Life Solvency II ratio[2]	150%	

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity.

2 The solvency ratios are not final until filed with the regulators. The Solvency II ratios for NN Group and NN Life are based on the Partial Internal Model. The Solvency II ratio for Delta Lloyd Life (Delta Lloyd Levensverzekering N.V.) is based on the Standard Formula.

The full-year operating result increased to EUR 896 million from EUR 710 million in 2016. The increase reflects a EUR 123 million contribution of Delta Lloyd, a higher investment margin and lower administrative expenses. The investment margin for full-year 2017 includes private equity dividends and a dividend from an indirect stake in ING Life Korea for a total amount of EUR 93 million, whereas 2016 included private equity dividends for a total amount of EUR 72 million. Fees and premium-based revenues declined year-on-year reflecting the run-off of the individual life closed book as well as lower margins in the pension business.

The full-year result before tax increased to EUR 2,204 million compared with EUR 1,147 million in 2016, reflecting the higher operating result, higher gains on government bonds and equity, as well as higher revaluations of real estate investments. The increase also includes higher market and other impacts reflecting movements in provisions for unit-linked guarantees and separate account pension contracts. These items were partly offset by lower revaluations on private equity.

New sales (APE) increased to EUR 368 million in 2017 from EUR 229 million in 2016, mainly driven by the inclusion of Delta Lloyd and higher sales of defined contribution pension contracts.

The value of new business (VNB) in 2017 was EUR 10 million, compared with EUR 9 million in 2016. The inclusion of Delta Lloyd and the impact of higher sales were offset by lower renewals of separate account pension contracts.

Financial developments Continued

Netherlands Non-life

Analysis of result

amounts in millions of euros	2017	2016
Earned premiums	2,497	1,555
Investment income	117	109
Other income	3	1
Operating income	**2,617**	**1,665**
Claims incurred, net of reinsurance	**1,898**	**1,145**
Acquisition costs	382	244
Administrative expenses	329	219
Acquisition costs and administrative expenses	**710**	**463**
Expenditure	**2,608**	**1,608**
Operating result insurance businesses	**8**	**57**
Operating result health business and broker business	22	5
Total operating result	**30**	**62**
Non-operating items	49	50
– of which gains/losses and impairments	34	23
– of which revaluations	22	27
– of which market & other impacts	-6	
Special items before tax	-19	-7
Result before tax	**60**	**104**
Taxation	-3	17
Minority interests	9	0
Net result	**54**	**87**

Key figures

amounts in millions of euros	2017	2016
Gross premium income	2,579	1,578
Total administrative expenses[1]	398	281
Combined ratio[2,3]	102.0%	99.6%
– of which Claims ratio[2,3]	73.5%	69.8%
– of which Expense ratio[3]	28.4%	29.8%
Net operating ROE[4]	4.3%	14.1%

1 Including health and broker businesses.

2 As of 2017, the calculation methodology for the combined ratio has been updated and now excludes the discount rate unwind on the D&A insurance liabilities. All comparative combined ratios have been updated to reflect this change.

3 Excluding health and broker businesses.

4 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity.

The full-year operating result of Netherlands Non-life decreased from EUR 62 million in 2016 to EUR 30 million in 2017, of which EUR 11 million related to Delta Lloyd. The decrease in the operating result is mainly attributable to an unfavourable claims experience in Disability & Accident partly compensated by improved Property & Casualty results. The current year includes the impact of the strengthening of insurance liabilities in the Motor and Miscellaneous portfolios of EUR 40 million, while 2016 included the impact of severe storms.

The result before tax decreased to EUR 60 million from EUR 104 million in 2016, mainly due to the lower operating result as well as the impact of special items related to restructuring expenses.

The combined ratio for 2017 was 102.0% compared with 99.6% in 2016.

Financial developments Continued

Insurance Europe

Analysis of result

amounts in millions of euros	2017	2016
Investment margin	91	72
Fees and premium-based revenues	679	548
Technical margin	196	201
Operating income non-modelled business	3	3
Operating income Life Insurance	**969**	**824**
Administrative expenses	386	320
DAC amortisation and trail commissions	325	310
Expenses Life Insurance	**711**	**629**
Operating result Life Insurance	**258**	**195**
Operating result Non-life	1	4
Operating result	**260**	**198**
Non-operating items	-10	69
– of which gains/losses and impairments	9	73
– of which revaluations		6
– of which market & other impacts	-19	-9
Special items before tax	-21	-44
Result on divestments	20	
Result before tax	**248**	**224**
Taxation	26	66
Net result	**222**	**158**

Key figures

amounts in millions of euros	2017	2016
New sales life insurance (APE)	661	502
Value of new business (VNB)	141	85
Total administrative expenses (Life & Non-life)	398	333
Net operating ROE[1]	10.2%	11.3%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity. As of 1 January 2017, NN Group changed its accounting policy for the Reserve Adequacy Test. The change represents a change in accounting policy under IFRS and is implemented retrospectively. The impact on previous periods is limited to the consolidated balance sheet and equity. Reference is made to Note 1 'Accounting policies' for more details.

The full-year operating result of Insurance Europe was EUR 260 million compared with EUR 198 million in 2016, driven by higher fees and premium-based revenues reflecting higher fees on Assets under Management and higher life sales across the region. The contribution of Delta Lloyd was EUR 25 million. The operating result for 2017 benefited from EUR 15 million of non-recurring items.

The result before tax for full-year 2017 increased to EUR 248 million from EUR 224 million in 2016, reflecting the higher operating result, lower special items and the gain on the sale of NN Life Luxembourg. These items were partly offset by lower non-operating items as 2016 included capital gains following the sale of Belgium government bonds.

Full-year 2017 new sales (APE) increased to EUR 661 million from EUR 502 million in 2016, driven by higher life sales across the region and the contribution of sales by Delta Lloyd.

The full-year 2017 value of new business (VNB) increased to EUR 141 million from EUR 85 million in 2016, driven by higher sales at better margins. The contribution to 2017 VNB by Delta Lloyd was EUR 15 million.

Financial developments Continued

Japan Life

Analysis of result

amounts in millions of euros	2017	2016
Investment margin	-7	-21
Fees and premium-based revenues	599	589
Technical margin	11	-33
Operating income	**602**	**535**
Administrative expenses	139	120
DAC amortisation and trail commissions	264	260
Expenses	**403**	**381**
Operating result	**200**	**154**
Non-operating items	-11	-7
– of which gains/losses and impairments	8	
– of which revaluations	-19	-8
Special items before tax		-5
Result before tax	**188**	**141**
Taxation	55	31
Net result	**133**	**111**

Key figures

amounts in millions of euros	2017	2016
New sales life insurance (APE)	762	656
Value of new business (VNB)	194	121
Total administrative expenses	139	120
Net operating ROE[1]	9.0%	7.0%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity. As of 2017, the net operating result and adjusted allocated equity used to calculate the Net operating ROE of Japan Life are adjusted for the impact of internal reinsurance ceded to NN Group's reinsurance business.

The full-year 2017 operating result of Japan Life was EUR 200 million, up 34.0% compared with 2016, excluding currency effects. The increase was driven by an improvement in the technical margin due to better mortality and surrender results and an increase in fees and premium-based revenues due to larger in-force volumes and higher sales. A higher investment margin due to increased volumes at higher yields also contributed to the higher operating result. These items were partly offset by higher administrative expenses to support business growth and higher DAC amortisation and trail commissions.

The result before tax for full-year 2017 was EUR 188 million, up 37.2% from 2016, at constant currencies, reflecting the higher operating result.

Full-year 2017 new sales (APE) were EUR 762 million, up 22.4% from 2016 at constant currencies, due to higher sales of COLI products launched in 2017 and sales through the Sumitomo partnership which started in April 2017.

The value of new business (VNB) for 2017 increased to EUR 194 million, up 70.2% from 2016, excluding currency effects, mainly driven by higher sales, an improved product mix and an increase in interest rates.

Financial developments Continued

Asset Management

Analysis of result

amounts in millions of euros	2017	2016
Fees	530	463
Operating income	**530**	**463**
Administrative expenses	369	330
Operating result	**161**	**133**
Non-operating items		-1
– of which gains/losses and impairments		-1
Special items before tax	-22	-6
Result before tax	**139**	**126**
Taxation	32	32
Net result	**107**	**94**

Key figures

amounts in millions of euros	2017	2016
Total administrative expenses	369	330
Assets under Management (in EUR billion)	246	195
Net operating ROE[1]	27.7%	24.7%

1 Net operating ROE is calculated as the (annualised) net operating result of the segment, divided by (average) adjusted allocated equity.

The full-year 2017 operating result was EUR 161 million, up 21.3% from EUR 133 million in 2016. Higher fee income as a result of the inclusion of Delta Lloyd, higher average AuM and higher margin AuM were partly offset by an increase in administrative expenses due to the inclusion of Delta Lloyd and higher staff-related expenses.

The result before tax for 2017 was EUR 139 million, up 10.1% compared with EUR 126 million for 2016, reflecting the higher operating result, partly offset by higher special items reflecting restructuring expenses.

Financial developments Continued

Other

Analysis of result

amounts in millions of euros	2017	2016
Interest on hybrids and debt[1]	-130	-103
Investment income and fees	102	55
Holding expenses	-121	-55
Amortisation of intangible assets	-2	-6
Holding result	**-150**	**-109**
Operating result reinsurance business	43	12
Operating result banking business	124	63
Other results	23	4
Operating result	**40**	**-30**
Non-operating items	51	-6
– of which gains/losses and impairments	48	5
– of which revaluations	4	-12
Special items before tax	-129	-30
Amortisation of acquisition intangibles	-99	
Result on divestments	-170	-114
Result before tax	**-306**	**-181**
Taxation	-45	-27
Net result	**-261**	**-153**

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

Key figures

amounts in millions of euros	2017	2016
Total administrative expenses	347	244
– of which reinsurance business	13	15
– of which NN Bank	214	174
– of which corporate/holding	120	55
NN Bank common equity Tier1 ratio phased in[1]	15.2%	14.0%
DL Bank common equity Tier1 ratio phased in[1]	16.7%	
Total assets banking business (in EUR billion)	21	15
Net operating ROE banking business[2]	15.0%	10.0%

1 The 'Common equity Tier 1 ratio phased in' is not final until filed with the regulators.
2 Net operating ROE is calculated as the (annualised) net operating result of the banking business, divided by (average) adjusted allocated equity.

The operating result of the segment Other for full-year 2017 improved to EUR 40 million from EUR -30 million in 2016, mainly reflecting higher operating results at the banking and reinsurance businesses and a EUR 16 million provision release related to a legacy entity (NNOFIC), partly offset by a lower holding result.

The holding result for full-year 2017 decreased to EUR -150 million from EUR -109 million in 2016, mainly due to higher holding expenses and higher interest on hybrids and debt, partly compensated by higher investment income and fees, all of which were impacted by the inclusion of Delta Lloyd. The higher holding expenses also reflect a revised method for charging head office expenses to the segments.

The 2017 full-year operating result of the reinsurance business improved to EUR 43 million from EUR 12 million in 2016, mainly driven by higher underwriting results and non-recurring benefits of EUR 16 million.

The 2017 full-year operating result of the banking business increased to EUR 124 million from EUR 63 million in 2016, reflecting the inclusion of Delta Lloyd, as well as a higher interest result and lower additions to the loan loss provision.

The 2017 full-year other results in the segment Other were EUR 23 million versus EUR 4 million in 2016, reflecting a EUR 16 million provision release related to a legacy entity (NNOFIC).

The 2017 full-year result before tax of the segment Other was EUR -306 million compared with EUR -181 million in 2016, due to a provision related to ING Australia Holdings of EUR 185 million, higher special items related to restructuring expenses and the amortisation of acquisition intangibles. These items were partly compensated by the higher operating result and higher non-operating items, as well as the EUR 10 million gain on the sale of Mandema & Partners completed in January 2017. The non-operating items reflect the EUR 20 million gain on Delta Lloyd shares already held by NN Group on the date the offer was declared unconditional and EUR 27 million of gains on the sale of equity investments by NN Re.

Financial developments Continued

Japan Closed Block VA

Analysis of result

amounts in millions of euros	2017	2016
Investment margin	-2	-2
Fees and premium-based revenues	39	57
Operating income	**37**	**55**
Administrative expenses	12	15
DAC amortisation and trail commissions	5	7
Expenses	**17**	**22**
Operating result	**20**	**33**
Non-operating items	-29	-132
– of which market & other impacts	-29	-132
Result before tax	**-9**	**-99**
Taxation	-2	-24
Net result	**-7**	**-75**

Key figures

amounts in millions of euros	2017	2016
Account value	4,755	8,201
Net Amount at Risk	25	352
IFRS Reserves	188	674
Number of policies	81,808	154,315

The full-year 2017 operating result before tax was EUR 20 million compared with EUR 33 million in 2016, down 38.8% excluding currency impacts, mainly due to lower fees and premium-based revenues driven by the run-off of the portfolio.

The full-year result before tax was EUR -9 million compared with EUR -99 million in 2016. The full-year 2017 included a hedge-related result of EUR -27 million whereas 2016 included a hedge-related result of EUR -93 million and a EUR 51 million reserve increase reflecting lower lapse assumptions.

Portfolio run-off resulted in a 47.0% decrease in the number of policies in 2017.

The Net Amount at Risk decreased to EUR 25 million at the end of 2017 from EUR 352 million at the end of 2016, as a result of equity markets appreciation and the run-off of the portfolio.

Report of the Supervisory Board

Introduction

As chair of the Supervisory Board of NN Group, I am pleased to present the 2017 Annual Report. Whereas 2016 ended with the agreement between NN Group and Delta Lloyd on the transaction to combine both companies' businesses, 2017 was defined by enacting this transaction and integrating the two companies in the Netherlands and Belgium.

As the Supervisory Board, we take into account the interests of NN Group's stakeholders when overseeing and advising the Executive and Management Board of NN Group. The foundation for everything we do incorporates NN Group's governing laws and regulations, with special attention this year for the implementation of the revised Dutch Corporate Governance Code that became effective on 1 January 2017, the company's values: care, clear, commit, and the Code of Conduct. This foundation enables the execution of NN Group's strategy, which aims to create long-term value.

With the integration of NN Group and Delta Lloyd in the Netherlands and Belgium being one of the company's top priorities, we focused on NN Group's Executive and Management Boards balancing their integration efforts with their regular business responsibilities and managing the combined group as one international company. Integrating two companies also results in additional pressure on the combined group's employees: our people. In these demanding times, it is of great importance to continue to put our brand promise 'You matter' at the starting point of everything we do – for our people and for our customers.

At the same time, we continuously engaged with the Executive and Management Boards on the company's business model and defining future growth and capital generating possibilities for the benefit of NN Group's sustainable future. Not only did we have a constructive dialogue on financial topics regarding this matter, we also extensively discussed non-financial topics such as social and environmental risks and opportunities, responsible investing, and non-financial key performance indicators and targets.

Speaking on behalf of my fellow Supervisory Board members, we are pleased to have contributed to the progress NN Group made in 2017. We support the company's ambition to continue to build a respected company that truly matters in the lives of our stakeholders. I invite you to read our collective input, actions and involvement outlined in the report to follow.

Jan Holsboer
Chair Supervisory Board NN Group

Jan Holsboer (1946)
Chair

Appointed: 2014 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. He is a member of the Nomination and Corporate Governance Committee, Remuneration Committee and Audit Committee.

Most important other positions:
- Chair of the supervisory board TD Bank N.V.
- Supervisory board member of YAFA S.p.A (Italy)
- Member of the supervisory board of YAM Invest N.V.

Dick Harryvan (1953)
Vice chair

Appointed: 2016 Nationality: Dutch

Dick Harryvan was appointed to the Supervisory Board on 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

Heijo Hauser (1955)
Member

Appointed: 2014 Nationality: German

Heijo Hauser was appointed to the Supervisory Board on 7 July 2014. He chairs the Risk Committee and is a member of the Audit Committee.

Robert Jenkins (1951)
Member

Appointed: 2016 Nationality: American

Robert Jenkins was appointed to the Supervisory Board on 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
- Chair of the Board of Governors of the CFA Institute

Yvonne van Rooij (1951)
Member

Appointed: 2014 Nationality: Dutch

Yvonne van Rooij was appointed to the Supervisory Board on recommendation by the Works Council on 1 March 2014 and reappointed to the NN Group N.V. Supervisory Board on 2 June 2016.

She chairs the Remuneration Committee and is a member of the Nomination and Corporate Governance Committee.

Most important other positions:
- Chair of Nederlandse Vereniging van Ziekenhuizen
- Member of the supervisory board Holding PricewaterhouseCoopers Nederland B.V.
- Chair of the supervisory board of Philips Electronics Nederland B.V.

Robert Ruijter (1951)
Member

Appointed: 2017 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 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 Wavin N.V.
- Non-executive board member of Inmarsat plc
- Non-executive board member of Interxion N.V.

Hans Schoen (1954)
Member

Appointed: 2014 Nationality: Dutch

Hans Schoen was appointed to the Supervisory Board on 7 July 2014. He chairs the Audit Committee and is a member of the Risk Committee.

Clara Streit (1968)
Member

Appointed: 2017 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 (Zürich)
- Member of the supervisory board of Vonovia SE (Düsseldorf)
- Member of the board of directors of Jerónimo Martins SGPS S.A. (Lisbon)
- Member of the board of directors of Unicredit S.p.A. (Milan)

Hélène Vletter-van Dort (1964)
Member

Appointed: 2015 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:
- Chair of the supervisory board of Intertrust N.V.
- Non-executive board member of Barclays International
- Professor of financial law & governance at the Erasmus School of Law

Report of the Supervisory Board Continued

<
Left to right
Robert Ruijter
Jan Holsboer
Dick Harryvan

Left to right
Robert Jenkins
Yvonne van Rooij
v

<
Left to right
Hans Schoen
Hélène Vletter-van Dort
Heijo Hauser

Clara Streit
v

Report of the Supervisory Board Continued

Supervisory Board facts & figures

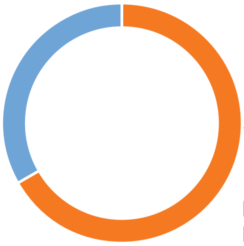
9

Supervisory Board meetings held in 2017

4

Supervisory Board Committees

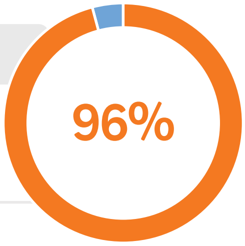
Supervisory Board composition



Male 6
Female 3

Attendance rate

overall attendance of the Supervisory Board meetings



19.6 hours

spent on Permanent Education sessions arranged by NN Group on average

Attendance rate of the individual Supervisory Board members

Board member	Attendance
Holsboer (Chair)	100%
Van Rooij	100%
Schoen	100%
Hauser	100%
Vletter-van Dort	89%
Jenkins	89%
Harryvan	100%
Streit*	100%
Ruijter*	75%

* Attendance rate calculated with respect to Supervisory Board meetings in 2017 following their appointment on 1 June 2017, being four Supervisory Board meetings.

This Report of the Supervisory Board should be read in conjunction with the Section on Corporate Governance (pages 19-27) and the Remuneration Report (pages 28-32), which are deemed to be incorporated by reference in this report. The Supervisory Board of NN Group (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 advises the members of the Executive Board on how to perform their duties, in accordance with the best interests of NN Group, its businesses and all relevant stakeholders.

In 2017, the Supervisory Board focused on several key topics related to long-term value creation for NN Group's stakeholders:

Balancing operational functioning, entrepreneurship and innovation

In our current market and evolving technological environment, innovation has become a primary focus for NN Group. Similar to many of our peers, NN Group must support operational excellence within its current infrastructure, while at the same time keeping pace with our fast-changing environment to ensure we remain a competitive company. Throughout 2017 the Supervisory Board advised and supervised the Executive and Management Boards on decisions that prioritised resources and maintained a balance between addressing current needs and adequately preparing for the future of a combined company after the acquisition and integration of Delta Lloyd. To do so, the Supervisory Board was kept up to date on the current operational functioning of the company as well as the latest innovative initiatives coming from within.

Report of the Supervisory Board Continued

Delta Lloyd transaction and integration

On 7 April 2017 NN Group declared its recommended public cash offer on all Delta Lloyd shares unconditional and subsequently the transaction was finalised by the legal merger between NN Group and Delta Lloyd effective 1 June 2017, which was approved by the Supervisory Board. The Executive and Management Boards of NN Group regularly updated the Supervisory Board on the transactional steps and the integration approach for Delta Lloyd, the principles being applied, ambition setting, the best practises and teachings from others, people, and the risk evaluation and monitoring of the integration. The Supervisory Board ensured a rigid decision-making process, and offered support, guidance and experience throughout the transaction and integration process. Our 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 Group values and Code of Conduct were upheld. In all of our decision-making processes, the Supervisory Board considered the different perspectives of NN Group stakeholders. Specifically, the Supervisory Board reviewed the integration from the perspective of customers, employees, shareholders, regulators and other key stakeholders.

Transition Committee

The Transition Committee is established to supervise, monitor and advise on the fairness of the Delta Lloyd integration and safeguard the interests of the combined company, including the covenants in respect of corporate governance, the post-closing legal merger, strategy, organisation, integration and employees as agreed between NN Group and Delta Lloyd. It consists of three members, being Mr Holsboer (chair), Mr Friese and Mr Ruijter, who succeeded Mr van der Noordaa (former CEO of Delta Lloyd). The Transition Committee met seven times in 2017 and the majority of these meetings were also attended by Mr Knibbe (CEO Netherlands) and Ms van Vredenburch (CCO NN Group). Furthermore, the Transition Committee met three times with the NN Group Works Council and later on with a joint delegation of the NN Group and Delta Lloyd Works Councils. The latter meetings were attended by Ms van Vredenburch as well.

Living our values

Over the course of 2017 the Supervisory Board engaged in discussions with NN Group on the implementation and effectiveness of the 'Living our Values' programme. Also discussed were the tools used to measure the programme's effectiveness, such as the values-related questions in the employee Yearly Engagement Survey (YES) and questions to customers in the Global Brand Health Monitor.

The Supervisory Board was also introduced to the 'NN Values challenge' and additional actions that will be taken to further embed the values into the NN Group corporate culture. The Supervisory Board welcomed the initiatives to prioritise NN Group's values, and will continue to work with NN Group to monitor progress and address areas of improvement.

Composition

The composition of the Supervisory Board is such that members act critically and independently from each other, the Executive and Management Boards, and any one particular interest.

The knowledge, expertise and background of each member are considered in the context of the Supervisory Board as a whole. The Supervisory Board aims to have a strong representation of diversity in terms of experience, age, career stage and nationality, with a focus on enhancing gender diversity. The selection of Supervisory Board members aims to fulfil this diversity and create a robust body able to effectively oversee the activities of NN Group and its businesses. Up to 1 June 2017 the Supervisory Board was comprised of the following seven Members: Mr Holsboer, Mr Harryvan, Mr Hauser, Mr Jenkins, Ms van Rooij, Mr Schoen, and Ms Vletter-van Dort. On 1 June 2017 Mr Ruijter and Ms Streit, referred to as Continuing Members, were appointed to the Supervisory Board. The Continuing Members were members of the former Delta Lloyd Supervisory Board and monitor and protect the interests of Delta Lloyd's stakeholders, with their appointments ending on 12 April 2020.

All members of the Supervisory Board are independent as defined by Best Practice Provision 2.1.8 of the 2016 Dutch Corporate Governance Code.

Continuous learning

It is essential that NN Group's Supervisory Board is knowledgeable about how NN Group and its businesses are run. The Supervisory Board Induction Programme (Induction Programme) and the Permanent Education Programme for Supervisory Board members (Permanent Education Programme) cover topics necessary to ensure the continuous learning of Supervisory Board members, at the time of and throughout their appointments.

Following their appointments on 1 June 2017, Mr Ruijter and Ms Streit participated in the Induction Programme, in which they became familiar with NN Group, its history, its values, its strategic roadmap, operations, governance, businesses, and NN's (historical) financial and operational performance, including risks and challenges. Additionally, each of them was informed of their specific responsibilities as well as the key legal and compliance obligations that apply to Supervisory Board members.

The members of the Supervisory Board followed the 2017 Permanent Education Programme, which was developed using input received from the 2016 annual Supervisory Board self-assessment and requests from the Supervisory Board members, NN Group's Executive and Management Boards, and staff. On average, the Supervisory Board spent approximately 19.6 hours attending permanent education sessions arranged by NN Group.

To ensure that the Supervisory Board members were properly informed regarding the consequences of the Delta Lloyd acquisition on the combined integrated financial reporting, a special education session was added to their permanent education programme in addition to what was discussed in their regular Supervisory Board meetings. This education session provided training on Solvency II disclosures and acquisition accounting under IFRS and illustrative impacts from the Delta Lloyd acquisition.

Report of the Supervisory Board Continued

Permanent education session topics included an update on security, cloud and cybercrime, Corporate Governance Code developments, environmental and social risks, responsible investment, IFRS accounting, management of derivatives, developments in the insurance industry, competition law and its implications, privacy and data protection, and executive remuneration.

Aside from the Permanent Education Programme, the members of the Supervisory Board also met with NN Group and Delta Lloyd colleagues and teams, as well as some of the heads of group support functions to learn more about NN Group's and Delta Lloyd's businesses and activities. The members of the Supervisory Board also participated in a number of education and knowledge sessions organised by external organisations.

Self-assessment

As in previous years, the Supervisory Board and Supervisory Board Committees evaluated their performance for the financial year 2017. In doing so, the Supervisory Board and the Supervisory Board Committees were supported by an external party and looked at the functioning of the Supervisory Board as a whole, the functioning of the Supervisory Board committees and their respective chairs, and the functioning of the individual Supervisory Board members. Individual interviews with Supervisory Board members, Executive Board members and the General Counsel took place, followed by online questionnaires completed by each Supervisory Board member. Finally, a feedback session with the full Supervisory Board took place in January 2018 resulting in an action list to follow up on the feedback.

Key discussion topics and activities

Supervisory Board meetings

The Supervisory Board held nine Supervisory Board meetings in 2017, one of which was held as part of the Supervisory Board's visit to the business units of NN Group and Delta Lloyd in the Netherlands. The average attendance rate for Supervisory Board meetings was 96%. None of the Supervisory Board members was frequently absent at these meetings and in all meetings there was sufficient presence to constitute a valid quorum.

In addition to the formal meetings, the chair and other members of the Supervisory Board maintained regular contact with NN Group's Chief Executive Officer and other members of NN Group's Executive and Management Boards. In these meetings, topical issues as well as the general affairs of NN Group and its businesses were discussed. The Supervisory Board met with regulators, and the chair of the Supervisory Board and the Works Council-nominated members met with (representatives of) the Central Works Council.

During the year, the Supervisory Board was updated on topical issues in its formal meetings. Several presentations were given on NN Group's business activities and key initiatives. In the meetings, the Supervisory Board was briefed on the discussions and resulting recommendations from Supervisory Board committee meetings.

The Supervisory Board discussed and approved several items, such as the financial results of NN Group (and related press releases and disclosures) and proposed transactions, such as the Delta Lloyd acquisition, NN Group's proposed interim and final dividend and increase of NN Bank's debt issuance programme, in line with NN Group's governance structure.

With regards to governance, the Supervisory Board discussed the current governance structure of NN Group and related documents, the application and the impact of the revised Dutch Corporate Governance Code dated 8 December 2016, as well as the following amendment of NN Group's charters of the Executive Board, Management Board and Supervisory Board.

Additional key topics discussed by the Supervisory Board were:

Political and regulatory environments

The Supervisory Board was kept abreast of developments around the world having a (potential) impact on NN Group's businesses. Special attention was given to the results of the Dutch elections and insurance and pension reforms underway in a number of countries.

IT security and controls

NN Group frequently provided updates to the Supervisory Board on the implementation of (IT) controls and the improvement thereof to ensure that these controls are stable and sustainable.

Culture

Culture and governance are important elements in ensuring that all NN Group businesses seamlessly continue their evolution. Management's aim to enhance accountability and ownership throughout NN's businesses will help the company further on this path. The way in which NN Group conducts its business and the way in which NN Group colleagues approach their daily work must comply with NN Group's values: care, clear, commit, and the overarching Code of Conduct. The Supervisory Board supervises the Executive Board with respect to all of NN Group's activities upholding the rules, guidelines and expectations encompassed in NN Group's values and Code of Conduct.

Capital allocation

The Supervisory Board discussed potential capital deployment options with the Executive and Management Boards, including the Delta Lloyd transaction. The focus of these discussions was supervising the Executive and Management Boards for adherence to NN Group's Capital Policy, and monitoring that the proposed options had been considered against each other. Additionally, the Supervisory Board oversaw that attention continued to be paid to NN Group's business-as-usual activities and key performance indicators.

Delivering on NN Group objectives and strategy

Throughout 2017, the Supervisory Board was regularly updated on how NN Group was delivering on its objectives and strategy. The Supervisory Board attended a full-day workshop on NN Group's strategy and long-term planning in January 2017. There, NN Group's Executive and Management Boards outlined NN Group's strategic objectives and business plan for 2017-2019, which outlined the Executive and Management Boards' roadmap for NN Group to continue to be a respected company that creates significant shareholder value. Discussion points included the development of an operating model that supports delivery of outperformance, driving innovation in NN Group's businesses, clear capital allocation choices, and leveraging NN Group's asset management capabilities.

In order to have a robust outlook on long-term value creation, the Supervisory Board regularly discussed environmental, social and governance aspects relevant to the company. This included the 'NN Group Environmental Statement', the UN Sustainable Development Goals, the 'NN Human Rights Statement', inclusion of the company in the Dow Jones Sustainability Indices and non-financial KPIs.

Report of the Supervisory Board Continued

Executive Board assessment

In the first quarter of 2017, the Supervisory Board assessed the performance of the Executive Board (members) for the financial year 2016. In this context, the Supervisory Board members met with the Management Board members individually, by means of two-on-one meetings. The services of Willis Towers Watson were used to benchmark the remuneration of the Executive Board members with comparable companies on the external market.

Risk management and control systems

As part of the ongoing transformation of NN Group, the Executive and Management Boards kept the Supervisory Board informed on the priority change items for 2017. This included developing risk versus return metrics and embedding them within decision-making processes, upskilling and improving the efficiency of the risk team, as well as developing a sustainable control environment and operational culture.

The Supervisory Board also prioritised operational excellence within the company, focusing on management's assessment of the adequacy and effectiveness of NN Group's risk management and control systems for both financial and non-financial risks. The Supervisory Board was regularly updated on the enhancement of NN Group businesses units' operational processes and controls, and how the business units were performing compared to peer and customer expectations.

The Supervisory Board was also regularly updated on the Executive and Management Boards' approach to risk identification and management related to the Delta Lloyd integration.

Shareholder base

The Supervisory Board was regularly updated on the activities of NN Group's investor relations team with respect to NN Group's shareholder base and on share price performance. Information relating to the composition of and developments within NN Group's shareholder base is used as input to maintain good relationships with investors. More information about NN Group's shareholder base can be found on page 40 of the Annual Review.

Legislative and regulatory developments

The regulatory environment in which NN Group operates continues to evolve, requiring businesses to quickly adapt to these changes. The Supervisory Board was regularly informed of developments in and outside of the Netherlands. The Supervisory Board stressed the importance of NN Group's continued attention and adherence to rapidly developing laws and regulations, such as the revised Dutch Corporate Governance Code that became effective on 1 January 2017. Furthermore, the Supervisory Board was kept up-to-date on supervisory developments impacting NN Group's businesses.

Supervisory Board Committees

Four committees support the Supervisory Board: the Audit Committee, the Risk Committee, the Remuneration Committee, and the Nomination and Corporate Governance Committee. The committees are responsible for preparing items delegated to them on which 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 items. The key inputs and underlying considerations leading to a recommendation are recorded for each committee.

Audit Committee

The Audit Committee assists the Supervisory Board in supervising the activities of the Executive Board with respect to, for example, the structure and operation of the internal risk-management and control systems to the extent relating to financial reporting, the financial-reporting process, the preparation and disclosure of periodic financial reports and any ad hoc financial information, compliance with legislation and regulations, the performance of NN Group's internal auditors and the independence and performance of NN Group's external auditors.

The Audit Committee met seven times in 2017 with a 97% attendance rate. The members of the Audit Committee are Mr Schoen (chair), Mr Harryvan, Mr Hauser, Mr Holsboer and Mr Ruijter as from 1 June 2017, the date of his appointment to the Supervisory Board. Mr Ruijter was unable to attend one Audit Committee meeting, due to conflicting obligations already existent upon his appointment to the NN Group Supervisory Board.

Composition of the Audit Committee

- Mr Schoen, a financial expert, chaired the Audit Committee for the full financial year 2017
- Mr Harryvan was a member of the Audit Committee for the full financial year 2017
- Mr Hauser was a member of the Audit Committee for the full financial year 2017
- Mr Holsboer was a member of the Audit Committee for the full financial year 2017
- Mr Ruijter became a member of the Audit Committee on 1 June 2017, the date of his appointment to the Supervisory Board

The composition of the Audit Committee is such that specific business know-how, financial, accounting, actuarial and financial management expertise relating to the activities of NN Group are represented.

In accordance with the Charter of the Audit Committee, other attendees of the Audit Committee meetings were the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer of NN Group, the internal and external auditors, the General Managers responsible for financial and management accounting, and the General Counsel and Head of Compliance. Regularly, and when deemed necessary, subject matter specialists attended the meetings.

During the year, the chair of the Audit Committee separately met with the Chief Financial Officer of NN Group, the Head of Internal Audit, subject matter experts and the external auditors to discuss topical issues.

The internal and external auditors attended each of the Audit Committee meetings in 2017. The Audit Committee encouraged them to share their insights and findings at the general Audit Committee meetings and in the six closed sessions that took place afterwards, where the Audit Committee met with the internal and external auditors without other attendees.

Report of the Supervisory Board Continued

Discussion topics

The Audit Committee discussed periodic financial reports and related press releases as well as supporting documentation, such as actuarial analyses, reports on internal control on financial reporting, and general periodic reports from the internal and external auditors. Specific attention was given to the integration of Delta Lloyd, IFRS Reserve Adequacy Test (RAT), upcoming accounting and regulatory changes for insurers (IFRS 9 and IFRS 17, and the upcoming international review of the Solvency II framework), interim and final dividend payments to shareholders, as well as specific financial transactions.

The Audit Committee also discussed the audit scope, materiality and key audit matters, and reviewed the external auditors' independence and fees every quarter. The Audit Committee worked closely together with the Risk Committee on specific topics such as Solvency II, operational excellence, reliability and continuity of electronic data processing and the internal non-financial risk management and control systems. The Audit Committee also reviewed and endorsed the amended Audit Committee Charter, included in the Supervisory Board Charter.

The main discussion topics of the Audit Committee were:

Integration of Delta Lloyd

The Audit Committee was updated on the approach taken to evaluate the acquisition opening balance sheet of Delta Lloyd, related valuation issues, the resulting goodwill and the approach used to integrate the financials of Delta Lloyd going forward. Specific training education was provided on the fundamentals of acquisition accounting under IFRS.

Legal proceedings

The Audit Committee was regularly updated on developments with regards to legal proceedings, amongst which the developments regarding Dutch unit-linked products. The Audit Committee's input was used to consider if and to what extent these developments may impact NN Group's disclosures.

Insurance contract liabilities

The Audit Committee was frequently informed of the adequacy levels of the insurance liabilities in NN Group's business units, including changes thereto and the reasoning behind them. The Audit Committee also addressed the methodologies and controls applied by the business units. Furthermore, the Audit Committee was updated on the introduction and the application of the amended RAT methodology.

Reliability and continuity of electronic data processing

The Audit Committee also addressed information technology within NN Group and was informed of and discussed the status and developments with respect to the reliability and continuity of electronic data processing across NN Group's businesses. Particular attention was given to the IT strategy, automation and modernisation of the IT processes and landscape and the actions identified to improve controls and the audit process in these areas.

Financial reporting risk

The Audit Committee discussed on a quarterly basis the financial reporting topics and related processes and controls. In this discussion, the Audit Committee evaluated the above discussion topics and other considerations, including the risk of fraud, on internal controls in the financial reporting process for their potential impact on the quarterly reporting.

The Audit Committee assessed 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'.

Tax

As a responsible taxpayer, NN Group takes into account long-term considerations and carefully weighs the interest of all stakeholders. The Audit Committee received an annual update from NN Group's Finance and Tax departments on NN Group's tax strategy and principles as well as tax developments internally and externally.

External Auditor

The Audit Committee maintained its close contact with the external auditor, KPMG, throughout the year, with the chair of the Audit Committee having regular meetings with the audit partners. The Audit Committee reviewed and discussed the quarterly and annual reports and the management letter from KPMG. Ernst & Young was retained as the statutory auditor for the Delta Lloyd entities through 2017 and the Audit Committee discussed the intended appointment of KPMG as auditor of the Delta Lloyd entities for 2018.

Risk Committee

The Risk Committee assists the Supervisory Board in supervising the activities of the Executive Board with respect to NN Group's strategy, its financial policies and risk policies, including the risks inherent in its business activities and the financing of NN Group.

The Risk Committee met four times in 2017 with a 100% attendance rate. The members of the Risk Committee are Mr Hauser (chair), Mr Jenkins, Mr Schoen, Ms Streit and Ms Vletter-van Dort. Ms Streit became a member of the Risk Committee on 1 June 2017 (the date of her appointment to the Supervisory Board). All meetings were also attended by the chair of the Supervisory Board, Mr Holsboer, and Mr Ruijter as from the date of his appointment to the Supervisory Board. Mr Harryvan also attended the Risk Committee meeting held in August 2017.

Report of the Supervisory Board Continued

Other attendees at the Risk Committee meetings were the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer of NN Group, the internal and external auditors, the General Counsel & Head of Compliance and the Head of Enterprise Risk Management. During the year, the chair of the Risk Committee regularly liaised with the Chief Risk Officer of NN Group and also held regular meetings with the external auditors, NN Group's Chief Compliance Officer and relevant subject matter experts.

In its meetings, the Risk Committee discussed NN Group's periodic Enterprise Risk Management Report (ERM Report) on key financial and non-financial risks. Specific attention was given to risk positions versus risk appetite and risk limits, asset and liability management and investments, in-force and new products, compliance and operational risks, and emerging and strategic risks, including risks related to the Delta Lloyd integration. Additionally, the Risk Committee regularly discussed business continuity, IT security and cyber risks and required controls, and NN Group's progress and plans in managing these risks. The Risk Committee discussed NN Group's key risks in its Own Risk and Solvency Assessment (ORSA) Report and endorsed NN Group's 2017 Risk Appetite statement and identified mitigating actions for top risks.

The Risk Committee also discussed and endorsed risk management policies in line with NN Group's governance requirements, such as NN Group's Recovery Plan, General Principles of Risk Management and Personal Account Dealing policy, and reviewed and endorsed the amended Risk Committee Charter included in the Supervisory Board Charter.

Additionally, the Risk Committee addressed the following topics:

Effective control environment
The Risk Committee discussed progress of the implementation of the Effective Control Framework (ECF) project, the first phase of which has been developed and implemented as part of NN Group's overall ERM framework.

Risk organisation and governance
The Risk Committee was regularly informed of the upgrading and modernisation efforts of the risk organisation, and the tools employed to strengthen risk management in NN Group and its businesses. Furthermore, regular updates were provided on the activities undertaken to support the successful integration of Delta Lloyd.

Compliance and integrity
Integrity and values are an important aspect of running any business, particularly ensuring the right 'tone at the top'. The Risk Committee closely monitored internal and external developments in these areas.

Financial risks
The Risk Committee discussed market volatility, particularly with regards to low interest rates. The Risk Committee was regularly briefed on how NN Group was managing its investment and reinvestment risks and their potential impact on NN Group's Solvency ratio. The Risk Committee was also informed on and discussed the impact of the Delta Lloyd integration on the cash capital position of NN Group and Solvency II.

Remuneration Committee
The Remuneration Committee advises the Supervisory Board, amongst other things, on the terms and conditions of employment, including the remuneration of members of the Executive Board and the policies and general principles on which the terms and conditions of employment of members of the Executive Board, members of the Management Board, senior managers and other employees of NN Group and its subsidiaries are based.

The Remuneration Committee met six times in 2017 and had a 100% attendance rate. The members of the Remuneration Committee are Ms van Rooij (chair), Mr Holsboer, Mr Harryvan, Mr Jenkins and Mr Ruijter. The latter became a member of the Remuneration Committee on 1 June 2017 (the date of his appointment to the Supervisory Board).

The Chief Change and Organisation and the Chief Executive Officer of NN Group also joined the meetings of the Remuneration Committee, unless the committee determined otherwise. The Head of Reward (or a representative) also joined these meetings. In addition to the regularly scheduled meetings, the chair and the members of the Remuneration Committee were in regular contact with the Chief Change and Organisation and the Head of Reward.

The Remuneration Committee used the services of Willis Towers Watson to benchmark the remuneration of the Supervisory Board, the Executive Board and the Management Board with comparable companies on the external market.

Review policies Executive Board and Supervisory Board
The Remuneration Committee addressed the remuneration policies of NN Group. Matters that were covered in 2017 included review and endorsement of NN Group's remuneration policy, including policies for board members, endorsement to propose a change to the Supervisory Board remuneration to NN Group's General Meeting, which was adopted at the 2017 Annual General Meeting (AGM), and review and endorsement of the pay ratio to be published in terms of the Corporate Governance Code. More information on the remuneration of the Supervisory Board members can be found in the Remuneration Report on pages 31-32 of this Financial Report.

Performance management and compensation packages Executive Board
The Remuneration Committee also reviewed the performance assessment on performance year 2016 and reviewed and endorsed the variable remuneration proposals for the Executive Board and the Management Board.

The Remuneration Committee discussed and endorsed the objectives for the Executive Board for performance year 2017 and 2018.

Report of the Supervisory Board Continued

Other topics discussed

The Remuneration Committee also discussed the performance management programme for NN Group. The Remuneration Committee approved the NN Group Remuneration Framework as well as the risk assessment thereof, and the list of Identified Staff for NN Group. Identified Staff-related remuneration matters were reviewed and approved in line with the NN Group Remuneration Framework, including the variable remuneration proposals for the Identified Staff for performance year 2016 and the assessment of possible cases for holdback of deferred variable remuneration by way of malus. The Remuneration Committee also reviewed and endorsed the amended Remuneration Committee Charter, included in the Supervisory Board Charter.

Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee advises the Supervisory Board, amongst other things, on the composition of the Supervisory Board and Executive Board and assists the Supervisory Board in monitoring and evaluating the corporate governance of NN Group as a whole and the reporting thereon in the annual report and to the General Meeting.

The Nomination and Corporate Governance Committee met five times in 2017 and had an attendance rate of 100%. The members of the Nomination and Corporate Governance Committee are Ms Vletter-van Dort (chair), Mr Harryvan, Mr Holsboer, Ms van Rooij, and Ms Streit who became a member following her appointment to the Supervisory Board on 1 June 2017.

The Chief Executive Officer also attended these meetings, except during discussion of matters in relation to the Chief Executive Officer. In relation to the duties described in the charter of the Nomination and Corporate Governance Committee, the chair and some of the members of the Nomination and Corporate Governance Committee met with each member of the Executive and Management Board.

Some of the key activities of the Nomination and Corporate Governance Committee included the evaluation process of the Supervisory Board, the review and endorsement of the implementation of the revised Dutch Corporate Governance Code and the amended charters of the Supervisory Board and Committees and the Executive and Management Board, which were brought in line with the Dutch Corporate Governance Code provisions and other amended regulations. The succession plan for the (members of the) Executive Board, including the reappointment of the Chief Executive Officer, Management Board and other key staff, as well as NN Group's talent management programme, were also discussed and evaluated. The Nomination and Corporate Governance Committee was consulted and informed on the selection process of the chief executive officers in the Dutch and Belgian business units and the heads of the corporate staff departments as part of the Delta Lloyd integration process.

The Nomination and Corporate Governance Committee also discussed the rotation plan for the Supervisory Board.

The Nomination and Corporate Governance Committee evaluated, discussed and recommended to the Supervisory Board the composition of the Supervisory Board and its committees as per the date of appointment of the continuing members, and individual Supervisory Board competencies and skills and outlined key actions to address matters raised. In this context the Nomination and Corporate Governance Committee also prepared the discussion for the proposed appointments of Mr Ruijter and Ms Streit.

Also, the Nomination and Corporate Governance Committee assessed the functioning of the Executive Board members and provided input for the Management Board's performance assessment. Individual meetings with the Executive and Management boards formed part of the assessments.

Annual accounts and dividend

The Executive Board prepared the 2017 annual accounts and discussed these with the Supervisory Board. The 2017 annual accounts will be submitted for adoption by the General Meeting at the 2018 AGM as part of the Financial Report.

NN Group will propose to pay a final dividend of EUR 1.04 per ordinary share, or EUR 348 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.

Appreciation

NN Group showed a strong performance in 2017, especially taking into account the ever-changing market environment and the transaction and integration with Delta Lloyd in the Netherlands and Belgium. In these challenging circumstances, the company was able to ensure attention to day-to-day business activities. We wish to express our appreciation to Stan Beckers, who retired on 1 April 2017, for his contribution to NN Group. Mr Beckers was a member of the NN Group Management Board during NN Group's IPO in 2014 and, as chief executive officer of NN Investment Partners, positioned NN Investment Partners as a strong business line of NN Group. The announcement on 7 April 2017 that NN Group declared its recommended public cash offer on all Delta Lloyd shares unconditional, and the finalisation of the transaction by effectuating the legal merger between NN Group and Delta Lloyd and the kick-off of the integration of the two companies were important milestones. The continuous involvement of the Supervisory Board in this journey and open dialogue and cooperation between the Executive Board, the Management Board and the Supervisory Board of NN Group was very much appreciated by the Supervisory Board. We are pleased with our ability to, together, continue to bring the company to progressive outcomes.

On 12 March 2018 it was announced that Robin Spencer will step down as CEO International Insurance and member of the Management Board of NN Group effective 1 June 2018. The Supervisory Board appreciates the contribution Mr Spencer has made to the development of the company, in particular his role in strengthening the international businesses.

The Supervisory Board wishes to express its gratitude to the members of the Executive Board and the Management Board, and all employees of NN Group and its businesses for their dedication and commitment in 2017, and for their continued effort and support to build a company that truly matters in the lives of NN Group's stakeholders.

The Hague, 14 March 2018
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, having 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). After settlement of the offering on 7 July 2014 (Settlement Date), ING Group still held a majority of the shares in the share capital of NN Group. As required under the restructuring plan developed by ING Group as a condition of receiving approval from the European Commission for the Dutch state aid it received in 2008 and 2009 and approved by the European Commission, ING Group divested more than 50% of its shareholding in NN Group before 31 December 2015. On 31 December 2015, ING Group held 25.8% of the issued and outstanding ordinary shares in the share capital of NN Group. ING Group was obliged to divest its remaining interest before 31 December 2016 and fulfilled this obligation by completing its divestment of NN Group on 19 April 2016. As of 5 October 2015, NN Group applies 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.

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 for EUR 5.40 (cum dividend) in cash for each share, representing a total consideration of EUR 2.5 billion. 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 2017 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 2017 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	2018*

* Terms of appointment will end at the close of the annual general meeting of NN Group N.V. in 2021 and 2018 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 from the Settlement Date. 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. 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 is responsible for the business strategy, performance and day-to-day operations of NN Group. Mr Friese has been employed by ING since 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. He 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 on 1 January 2011 until 3 November 2011. From 30 March 2011 until the Settlement Date 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). Besides being a member of the Executive Board, Mr Friese is a member of the board of representatives of Foundation VUmc CCA and a member of the Geneva Association.

Delfin Rueda was appointed to the Executive Board as chief financial officer on 1 March 2014. 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 the Settlement Date. Mr Rueda is responsible for NN Group's finance departments and investor relations. 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 (2005-2012). 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 has 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 was appointed supervisory board member and chairman of the audit committee of the supervisory board of Adyen B.V. effective 20 January 2017.

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 30.

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 both 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 2017 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
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
Robin Spencer	Chief Executive Officer International Insurance	30 January 1970	Male	British	1 August 2014
Dorothee van Vredenburch	Chief Change and Organisation (CCO)	10 September 1964	Female	Dutch	7 July 2014

Stan Beckers who had been appointed to the Management Board as chief executive officer NN Investment Partners as from the Settlement Date stepped down as such on 1 April 2017.

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 20.

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 in Accounting degree from the University of Bombay (India). He is also a public accountant (USA).

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. As an MB member he is also responsible for IT 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 head 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. Besides being a member of the Management Board, Mr Erasmus was elected vice-chair of the CRO Forum for 2018.

David Knibbe was appointed to the Management Board as from the Settlement Date. From 1 January 2011 until 1 September 2014, he served as chief executive officer of ING Insurance Europe. From 1 September 2014, Mr Knibbe was appointed chief executive officer of Netherlands. In his role as chief executive officer Netherlands, Mr Knibbe is responsible for NN's insurance and banking business in the Netherlands and is leading the integration of NN and Delta Lloyd. During 2010, Mr Knibbe was chief executive officer Insurance Corporate Clients in the Netherlands. From 2007 to 2008, Mr Knibbe was general manager of Nationale-Nederlanden Individual Life (retail life and individual pensions), which then became Intermediary Pensions and Retail Life with the addition of the SME pensions business in 2008. In 2009, Mr Knibbe became general manager Pensions with the addition of corporate pensions and removal of retail life from his area of responsibility. Prior to that, from 2004 to 2007, Mr Knibbe was director Disability and Accident Insurance of Nationale-Nederlanden. From 2002 to 2004, he was managing director of ING's life insurance and employee benefits joint venture with Piraeus Bank in Greece. Mr Knibbe was head of Investments of Central-Holland of ING Bank from 2000 to 2002. Mr Knibbe started his professional career in 1997 when he joined ING, serving in various positions in investment management and banking. Mr Knibbe has a degree in monetary economics from the Erasmus University in Rotterdam (the Netherlands). Besides being a member of the Management Board, Mr Knibbe is chair of the board of the Dutch Association of Insurers (Verbond van Verzekeraars), member of the board and secretary of the Confederation of Netherlands Industry and Employers (VNO-NCW) and member of the board of the Johan Cruyff Foundation.

Robin Spencer was appointed to the Management Board on 1 August 2014 and as chief executive officer International Insurance on 1 September 2014. He is responsible for all NN Group's international insurance businesses as well as reinsurance globally. He has over 20 years' experience in the insurance industry across life, non-life and asset management in the UK and internationally. Mr Spencer was previously chief executive officer of Aviva UK & Ireland General Insurance and member of Aviva's executive committee. From 2010 to 2012, Mr Spencer was chief risk officer of Aviva and was chair of the European CRO Forum in 2012. Mr Spencer was chief executive officer

Corporate governance Continued

of Aviva Canada from 2007 to 2010 having previously been the chief financial officer of Aviva Canada from 2005 to 2007. While in Canada, Mr Spencer was on the board and, in 2009, chair of the Canadian Property and Casualty Insurance Compensation Corporation. Mr Spencer started his career as a financial analyst with Procter & Gamble and is a qualified accountant (ACMA). He holds an MA in economics from Aberdeen University (UK).

On 12 March 2018 it was announced that Mr Spencer will step down as chief executive officer International Insurance and member of the Management Board of NN Group effective on 1 June 2018.

Dorothee van Vredenburch was appointed to the Management Board as chief change and organisation as from the Settlement Date. From 1 October 2013 until the Settlement Date, she first was a member of the management board of ING Verzekeringen and, after the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, of NN Group. Ms Van Vredenburch has also been a member of the management board of ING Insurance Eurasia since 1 November 2012. Ms Van Vredenburch is responsible for NN Group's HR, communications and sustainability. Ms Van Vredenburch joined ING in 2009 as managing director of Corporate Communications and Affairs of ING Group and, from 2010, also of ING Insurance Eurasia. Prior to joining ING in 2009, Ms Van Vredenburch served as managing director and chair of the board for Citigate Europe (from 2001 to 2005) and in 2007 she founded RedZebra Group, a Netherlands-based consulting firm. Ms Van Vredenburch started her career in 1987 as an investment analyst at Amro International Services (London) and held similar roles at Swiss Bank Corporation and at Carnegie International Securities Ltd. in London until 1992. In 1993, she founded First Financial Communications B.V., a financial communications firm that later became part of the global marketing and communications Incepta Group (Citigate), which merged with Huntsworth Plc. Ms Van Vredenburch holds a BTEC HND degree in business and finance from CCAT in Cambridge (UK). Besides being a member of the Management Board, Ms Van Vredenburch is a member of the board of Junior Achievement Europe, member of the board of Stichting Koninklijk Concert Gebouworkest and member of the advisory board of Women in Financial Services (WIFS).

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.

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 Commercial Division 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 2017 the Supervisory Board consisted of nine 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, the 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.

Corporate governance Continued

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

As at 31 December 2017 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	2018
Jan Holsboer	Chair	8 May 1946	Male	Dutch	1 March 2014	2020
Robert Jenkins	Member	17 January 1951	Male	American	2 February 2016	2020
Yvonne van Rooij	Member (recommended by Works Council)	4 June 1951	Female	Dutch	1 March 2014	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	2018
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

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 a 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, among others, member of the supervisory board of ANWB B.V., 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 from the Settlement Date. 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. From 14 May 2012 until the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, he was a member of the supervisory board of ING Verzekeringen. From 14 May 2012 until the Settlement Date, 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, among 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 and chair of the board of governors of the CFA Institute.

Yvonne van Rooij was appointed to the Supervisory Board on 1 March 2014 and reappointed on 2 June 2016. From 14 May 2012 until the legal merger between NN Group and ING Verzekeringen which became effective on 1 March 2014, she was a member of the supervisory board of ING Verzekeringen. From 14 May 2012 until the Settlement Date, Ms Van Rooij was also a member of the supervisory boards of ING Group, ING Bank and ING Insurance Eurasia. In addition to being a member of the Supervisory Board, Ms Van Rooij is member of the supervisory board of Holding PricewaterhouseCoopers Nederland B.V., chair of Nederlandse Vereniging van Ziekenhuizen (the Dutch Hospital Association), chair of the supervisory board of Philips Electronics Nederland

Corporate governance Continued

B.V., a member of the board of Stichting Administratiekantoor Koninklijke Brill N.V., a member of the board of Stichting Instituut GAK, a member of the advisory board of Stichting Nationaal Fonds Kunstbezit and a member of the supervisory board of Stichting Gemeentemuseum Den Haag. Ms Van Rooij is a member of the board of the Confederation of Netherlands Industry and Employers (VNO-NCW). Ms Van Rooij's previous positions include, among others, minister of foreign trade, member of the Dutch Parliament and member of the European Parliament.

Robert Ruijter was appointed to the Supervisory Board on 1 June 2017. He is former chair of the supervisory board of Delta Lloyd N.V. and one of the Continuing Members. He is a former managing director and chief financial officer of KLM Royal Dutch Airlines, former director of finance of the Philips Group and former 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 from the Settlement Date. From September 1977 until October 2008, Mr Schoen worked at KPMG Accountants and was a partner from 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 is a former senior partner of McKinsey & Company Inc. in Munich and Frankfurt. 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 a member of the board of directors of Jerónimo Martins SGPS S.A. (Lisbon) and a member of the board of directors of Unicredit S.p.A (Milan).

Hélène Vletter-van Dort was appointed to the Supervisory Board on 6 October 2015. In addition to being a member of the Supervisory Board, Ms Vletter-van Dort is, among others, a professor of financial law & governance at the Erasmus School of Law, chair of the supervisory board of Intertrust N.V. and arbitrator with the Netherlands Arbitration Institute. Ms Vletter-van Dort is appointed non-executive board member of Barclays International as per 1 August 2017. Ms Vletter-van Dort is a former member of the supervisory board of the Dutch Central Bank (DNB) and former chair of its committee on supervisory policy. Other previous positions include, among others, visiting research professor at New York University, professor of securities law at the University of Groningen, judge at the Enterprise Chamber of the Amsterdam Court of Appeal, lawyer at Clifford Chance in Amsterdam (the Netherlands), member of the supervisory board of Fortis Bank Nederland (Holding) N.V. and Fortis Bank (Nederland) N.V., chair of the Appeal Panel of the Single Resolution Board and member of the Monitoring Committee Corporate Governance Code.

More information on the composition of the Supervisory Board can be found in the Supervisory Board Report, on pages 10-11.

Remuneration

Information on the remuneration of the members of the Supervisory Board can be found in the Remuneration Report, on pages 31–32.

Committees of the Supervisory Board

From its members, the Supervisory Board has established four committees: the Audit Committee, the Risk Committee, the Remuneration Committee, and the Nomination and Corporate Governance Committee. The function of these committees is to prepare the discussions and decision-making undertaken by the Supervisory Board. 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 be found in the Supervisory Board Report on pages 15-18.

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 Lard Friese as member of the Executive Board ended on 1 June 2017, he was reappointed because of his international experience in the insurance sector, his experience as board member, combining leadership and entrepreneurship, as well as the professional manner in which he fulfilled his membership and chairmanship of the Executive Board. Furthermore, his reappointment served continuity which was key after the takeover of Delta Lloyd and the upcoming integration process. The reappointment of Mr Friese was in accordance with the profile of the Executive Board, applicable at the time. With the reappointment of Mr Friese, 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 2017.

As from 1 June 2017, the gender balance of having at least 30% men and at least 30% women amongst the members of the Supervisory Board is met.

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.

Corporate governance Continued

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. The profile of the Executive Board and Management Board and the profile of the Supervisory Board both include a diversity policy. The guiding principles included in the profiles are taken into account when (re-) appointing board members. The principle of having at least 30% men and at least 30% women is applied in the succession planning for all Management Board positions. 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 47 in the Annual Review.

Conflicts of interest

No transactions were entered into in 2017 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 management report; adopt the annual accounts; release the members of the Executive Board and the members of the Supervisory Board from liability for their respective duties; appoint and reappoint members of the Supervisory Board; decide on dividend to be declared, if applicable; and decide on other items that require shareholder approval under Dutch law. Extraordinary general meetings are held whenever the Supervisory Board or the Executive Board deems such to be necessary. In addition, one or more shareholders who jointly represent at least 10% of the issued share capital of NN Group may, on application, be authorised by the court in interlocutory proceedings of the district court to convene a general meeting.

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

Admission to the general meeting

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

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 interest 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.

Corporate governance Continued

As at 31 December 2017, 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.

On 1 June 2017, the General Meeting designated the Executive Board for a term of 18 months, starting on 1 June 2017 and thus ending on 1 December 2018, 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 1 June 2017, plus a further 10% of the issued share capital of NN Group per 1 June 2017 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 1 June 2017, the General Meeting designated the Executive Board for a term of 18 months, starting on 1 June 2017 and thus ending on 1 December 2018, 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 1 June 2017, the General Meeting authorised the Executive Board for a term of 18 months, starting on 1 June 2017 and thus ending on 1 December 2018, 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 1 June 2017. 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 40 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 40 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 has agreed to issue warrants to ING Group that will be exercisable for a number of ordinary shares in the share capital of NN Group up to 9.99% in the aggregate of the issued ordinary shares immediately following the Settlement Date or 34,965,000 ordinary shares. These warrants include certain customary anti-dilution provisions which provide for adjustments of both the initial exercise price and the number of ordinary shares in the share capital of NN Group to which the holder of the warrants is entitled to, in case of corporate events which lead to an immediate impact on the share price such as a tender offer, stock split, rights issue, extraordinary dividend, et cetera. The warrants became exercisable starting on the first anniversary of the Settlement Date and will expire on the tenth anniversary of the Settlement Date. Upon exercise of a warrant, the holder thereof will receive the number of ordinary shares in the share capital of NN Group into which such warrant is exercisable against payment of the aggregate exercise price. The holders of warrants will not be entitled, by virtue of holding warrants, to vote, to consent, to receive dividends, if any, to receive notices with respect to any general meeting or to exercise any rights whatsoever as the holders of shares in the share capital of NN Group, until they become holders of the ordinary shares in the share capital of NN Group issued upon exercise of the warrants.

Dutch Corporate Governance Code

NN Group is subject to the Dutch Corporate Governance Code. On 7 September 2017 the revised Dutch Corporate Governance Code as published in December 2016 (the Code) was embedded in the law. The application of the Code by NN Group during the financial year 2017 is described in the publication 'Application of the Dutch Corporate Governance Code by NN Group', dated March 2018, 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 two separate revolving credit facility agreements entered into with two separate syndicates of lenders. Both revolving credit facility agreements include a change of control provision which entitles the relevant lenders to cancel the commitment under the relevant facility and declare any outstanding amounts under the relevant facility immediately due and payable whereupon such amounts will become 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. 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 2017.

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

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.

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 March 2018, which is available on the NN Group website, also serves as the corporate governance statement referred to in section 2a of the Decree with respect to the contents of the management report (Vaststellingsbesluit nadere voorschriften 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 47 '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 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.

Pay ratio[1]

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 2017
- 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 2017

1 As stated in the Dutch Corporate Governance Code.

For the CEO, the total remuneration used in the pay ratio is the total remuneration as disclosed in the Remuneration report. For the staff members, the total remuneration used in the pay ratio is the total remuneration as disclosed in the Consolidated Annual Accounts Note 27 '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 pay ratio of CEO compensation compared to the average employee compensation during 2017 is 29:1.

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

With respect to performance year 2017, the total amount of variable remuneration approved is EUR 96 million. The amounts will be processed in March or April 2018. The total number of staff of NN Group eligible for variable remuneration is 10,389. In 2017, 8 persons employed within NN Group, NN Life and NN IP received a total remuneration of more than EUR 1 million.

II Remuneration of the Executive Board

The Executive Board members were appointed to the Executive Board on 1 March 2014. The Executive Board members have an engagement contract (in Dutch: overeenkomst van opdracht) with NN Group N.V. and have been appointed to the Executive Board for a period of three years (CEO) and four years (CFO), which terms of appointment ends at the close of the Annual General Meeting of NN Group N.V. in 2017 and 2018 respectively. Their contracts allow for re-appointment to the Executive Board for consecutive periods of up to four years.

The re-appointment of Mr Friese as CEO of the Executive Board, with effect from the close of the Annual General Meeting of 1 June 2017 for a term of four years, was adopted by the shareholders. The reappointment of Mr Friese means that his membership and chairmanship of the Executive Board and Management Board of the Company will continue. The term of appointment will terminate at the close of the Annual General Meeting to be held in 2021.

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 of the Executive Board was approved by the General Meeting on 28 May 2015 and effective with retroactive effect as per 1 January 2015. The Supervisory Board conducted a scenario analyses to determine whether this policy is effective in changing circumstances. This remuneration policy has not been amended since its effective date and was also applicable in 2017. The data presented in this report relates to remuneration awarded to the members of the Executive Board in respect of the whole of 2017.

Remuneration Report Continued

Similar to 2016, the 2017 remuneration of the Executive Board members consisted 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. The total compensation of the Executive Board is benchmarked annually against market data that includes peers both inside and outside the financial sector in the Netherlands and abroad. The peers are selected with reference to asset base, market capitalisation, revenue and number of employees. In line with the remuneration policy as adopted at the General Meeting of 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.

Executive Board base salary

As announced in the General Meeting of 1 June 2017, the Supervisory Board has decided to increase Mr Friese's base salary by 10% with effect from 1 January 2017 and the base salary of Mr Rueda by 5% with effect from 1 January 2017.

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

This difference was larger if compared to the median for the new peer group that applies as a result of the acquisition of Delta Lloyd. Even after this increase, the salaries of the members of the Executive Board are still lower than the median, as established in the remuneration policy.

Executive Board variable remuneration

The remuneration policy for the Executive Board 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). 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 2017 variable remuneration of the Executive Board are provided below.

The performance targets of the Executive Board were set by the Supervisory Board of NN Group at the start of the 2017 performance year. In 2017 the financial and non-financial performance objectives include the following:

Performance objectives Executive Board[1]

2017 Financial performance objectives Executive Board	2017 Non-financial performance objectives Executive Board
Free cash flow at holding, operating result before tax ongoing business, cost reduction in the Netherlands, Value New Business	Organisation & people, including focus on employee engagement, development of leadership and talent and driving organisational agility
	Strategically position NN Group for sustainable and future growth, including: • Execution Delta Lloyd integration plans • Developing a sustainable control environment and operational culture
	Customer & society measures, including serving our customers' lifetime needs and deliver excellent experience and engagement and corporate reputation among general public[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 20% for the CEO and 25% for the CFO of the total performance objectives.

In 2017 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 comprise a collective defined contribution (CDC) plan up to the annual tax limit (EUR 103,317 as per 1 January 2017) and a taxable individual savings allowance on pensionable fixed remuneration exceeding the tax limit. This pension arrangement for the Executive Board is the same as the pension arrangement that is applicable to all staff of NN Group in the Netherlands. It was approved by the General Meeting on 28 May 2015 and is effective as per 1 January 2015.

Remuneration Report Continued

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

Executive Board other emoluments

Members of the Executive Board were eligible for a range of other emoluments, such as health care insurance, lifecycle saving scheme and expat allowances (CFO only). Executive Board members were also able to obtain banking and insurance services from NN Group in the ordinary course of business and on terms that apply to all employees of NN Group in the Netherlands. As per 31 December 2017, the members of the Executive Board have no loans outstanding with NN Group and no guarantees or advanced payments were granted to members of the Executive Board. The table below provides details on the amount of emoluments that was paid by NN Group to the benefit of the Executive Board.

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

	Lard Friese		Delfin Rueda	
	2017	**2016**	**2017**	**2016**
Base salary in cash	1,142	1,038	861	820
Base salary in shares	286	260	215	205
Total base salary	**1,428**	**1,298**	**1,076**	**1,025**
Variable remuneration	286	260	215	205
Total direct remuneration	**1,713**	**1,558**	**1,292**	**1,230**
Employer contribution to pension fund	30	26	30	26
Individual savings allowance	419	331	307	256
Other emoluments	51	56	139	156

2017 Variable remuneration of the Executive Board (in EUR 1,000 and gross)

	Upfront cash paid	Deferred cash granted	Upfront shares granted	Deferred shares granted	Total
Lard Friese	57	86	57	86	286
Delfin Rueda	43	65	43	65	215

Long-term incentives awarded in previous years and in 2017 to the Executive Board

Members of the Executive Board receive deferred cash and upfront- and deferred share awards under NN Group's Aligned Remuneration Plan ('ARP').

Until March 2014 (prior to the IPO) similar awards were made under the Long-Term Sustainable Performance Plan ('LSPP') at ING Group. Share-based LSPP awards which were outstanding to active NN Group employees on the IPO date (2 July 2014) were converted into similar awards over NN Group shares.

All unvested awards that were made under the LSPP to the Executive Board members have vested ultimately on 14 May 2017. The table below provides an overview of the number of NN shares awarded and vested for the Executive Board during 2017 under the LSPP and ARP plans.

Overview of number of NN Group shares awarded and vested for the Executive Board during 2017

	Plan	Award Date	Balance per 1 January 2017	Awarded during 2017	Vested during 2017	Balance per 31 December 2017	Vesting Price in euros
Lard Friese	Deferred Shares Plan	14 May 2014	3,148		3,148	0	31.96
	Deferred Shares Plan	1 June 2015	6,880		3,440	3,440	31.92
	Deferred Shares Plan	29 March 2016	2,242		747	1,495	30.70
	Deferred Shares Plan	20 March 2017		2,587		2,587	
	Upfront Shares Plan	20 March 2017		1,725	1,725	0	30.90
Delfin Rueda	Deferred Shares Plan	14 May 2014	2,469		2,469	0	31.96
	Deferred Shares Plan	1 June 2015	5,666		2,833	2,833	31.92
	Deferred Shares Plan	29 March 2016	1,943		647	1,296	30.70
	Deferred Shares Plan	20 March 2017		2,043		2,043	
	Upfront Shares Plan	20 March 2017		1,362	1,362	0	30.90

The table below shows an overview of the (vested) NN shares held by the members of the Executive Board as per 31 December 2017 (including the shares vested during 2017) and 31 December 2016.

	2017	**2016**
Lard Friese	36,380	27,090
Delfin Rueda	31,110	23,859

Remuneration Report Continued

III Remuneration of the Supervisory Board

The Supervisory Board was comprised of the following members in 2017:

- Mr Holsboer, Mr Harryvan, Mr Hauser, Mr Schoen, Mr Jenkins, Ms van Rooij and Ms Vletter-van Dort.
- Mr Ruijter and Ms Streit, who 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.

More information on the composition of the Supervisory Board and its Committees can be found in the Report of the Supervisory Board, on pages 10-18 of this Financial Report.

The remuneration of the members of the Supervisory Board was set by the General Meeting of NN Group on 6 May 2014 and was amended by the 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 amount of Supervisory Board (Committee) meetings per calendar year was adopted by the NN Group shareholders at the General Meeting on 1 June 2017 and has become effective as per 1 January 2017.

NN Group does not grant variable remuneration, shares or options to the Supervisory Board. Supervisory Board members may obtain banking and insurance services from NN Group in the ordinary course of business and on terms that are customary in the sector. As per 31 December 2017, the members of the Supervisory Board have EUR 426,890 loans outstanding with NN Group. No repayments were done during the year. No guarantees or advanced payments were granted to members of the Supervisory Board.

In line with market practice, a distinction is made between chair, vice-chair and other 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.

Annual remuneration for the members of the Supervisory Board NN Group (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 (per meeting)	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.

Remuneration Report Continued

Fees and allowances of Supervisory Board members[1]

In EUR and gross	Fees 2017	Fees 2016	Total fixed gross expense allowance 2017	Total fixed gross expense allowance 2016	Total international attendance fees 2017	Total international attendance fees 2016	VAT 2017	VAT 2016
J.H. (Jan) Holsboer (Chair)	110,000	120,797	9,000	7,500		3,500	24,990	27,677
D.H. (Dick) Harryvan (Vice-chair)[2]	90,000	99,314	6,500	7,000		3,500	20,265	23,061
H.J.G. (Heijo) Hauser	74,500	79,125	6,500	7,000	32,000	26,000	23,730	23,546
J.W. (Hans) Schoen	74,500	80,125	6,500	7,000		3,500	17,010	19,031
Y.C.M.T. (Yvonne) van Rooij	70,500	76,736	6,500	7,000		3,500	16,170	18,320
H.M. (Hélène) Vletter-van Dort	70,500	75,977	6,500	7,500		3,500	16,170	18,265
R.W. (Robert) Jenkins[2]	66,500	67,327	6,500	5,500	32,000	21,000	22,050	19,704
R.A. (Robert) Ruijter[3]	41,125		3,792				9,433	
C.C.F.T. (Clara) Streit[3]	38,792		3,792		12,000		11,463	

1 This table shows the fixed fees, expense allowances and international attendance fees for the members of the Supervisory Board for 2016 and 2017.

2 The appointments of Mr Jenkins and Mr Harryvan on 6 October 2015 became effective on 2 February 2016. Fees and allowances that they received as from 2 February 2016 are shown.

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	Wim Scheers
Bulgaria	Vasil Tsanov	Tsvetomir Iliev
Czech Republic	Vladimir Koudela	Petr Jilek
Greece	Nikolaos Ploumis	Maria Tabakopoulou
Hungary	Csilla Dobos	–
Luxembourg	Christophe Guissart	Olga Sadaba Herrero
Netherlands	Reinoud Rijpkema (chair) Robert Coleridge Alexander ter Haar	Elisabeth Juillard
Poland	Agnieszka Brodzik	Agnieszka Majerkiewicz
Romania	Corina Radu	Melania Manole
Slovakia	Nikoleta Molnarova (vice chair)	Vladimir Balaz
Spain	Angel Otero	Trini Aguilar

Members COR DLG

Rachel Struijk (chair)
Robert Heinsbroek (vice chair)
Richarda Hogeboom
Ronald Knier
Sjoerd Comello
Eric Spakman
Renate Stoop

Members COR 2017

Hans Askamp		OR S&I
Leo Baars		OR NN Bank
Alfred Botterman		OR S&I
Robert Coleridge		OR Leven
Jaap Engberts		OR NNIP
Martin Groeneweg		OR Zicht
Alexander ter Haar		OR Leven
Elisabeth Juillard		OR Staven
Jan Krutzen		OR AZL
Frank Meijer		OR S&I
Dennis Molenberg		OR Zicht
Afra Peeters-Stans		OR Leven
Hennie Post	vice chair	OR Staven
Reinoud Rijpkema		OR Staven
Ruby van Trikt		OR Staven
Koen van Vliet		OR NN Bank
Mervyn Verploegen		OR NN Bank
Michel Vonk	chair	OR S&I
Miriam ter Weeme		OR NNIP
Oscar Willems		OR Leven

Report of the Executive Board on internal control over financial reporting

The Executive Board is responsible for establishing and maintaining adequate internal control over financial reporting.

Internal control over financial reporting is a process designed under the supervision of principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the annual accounts for external purposes 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) and that receipts and expenditures are being made only in accordance with authorisations of management and directors.
- 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 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.

The Executive Board of NN Group N.V. assessed the effectiveness of the internal control over financial reporting during 2017. In making this assessment, the Executive Board performed tests based on the criteria of the Committee of Sponsoring Organisations of the Treadway Commission ('COSO') in Internal Control – Integrated Framework (2013 framework).

Based on the Executive Board's assessment, with reference to the Best Practice Provision 1.4.3(ii) of the Dutch Corporate Governance Code, the Executive Board concluded that the risk management and control systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies.

The Hague, 14 March 2018

Lard Friese
CEO, Chair of the Executive Board

Delfin Rueda
CFO, Vice-chair of the Executive Board

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 those International Financial Reporting Standards (IFRS) that were 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. 2017 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. 2017 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 2017 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 risk management organisation and framework as described in the Report of the management board (bestuursverslag), including Note 50 'Risk management' to the Consolidated annual accounts provides sufficient insights into any material failings in the effectiveness of the internal risk management and control systems.
- Based on the current state of affairs it is justified that the financial reporting is prepared on a going concern basis and that the annual report states 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 Hague, 14 March 2018

Lard Friese
CEO, Chair of the Executive Board

Delfin Rueda
CFO, Vice-chair of the Executive Board

Consolidated annual accounts

Annual accounts contents

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

Consolidated balance sheet

As at 31 December	notes	2017	2016
Assets			
Cash and cash equivalents	2	9,383	8,634
Financial assets at fair value through profit or loss:	3		
– investments for risk of policyholders		33,508	30,711
– non-trading derivatives		5,116	4,421
– designated as at fair value through profit or loss		934	873
Available-for-sale investments	4	104,982	79,767
Loans	5	56,343	33,920
Reinsurance contracts	17	880	231
Associates and joint ventures	6	3,450	2,698
Real estate investments	7	3,582	2,028
Property and equipment	8	150	86
Intangible assets	9	1,841	342
Deferred acquisition costs	10	1,691	1,631
Assets held for sale	11		6
Deferred tax assets	33	125	35
Other assets	12	5,077	3,117
Total assets		**227,062**	**168,500**
Equity			
Shareholders' equity (parent)		22,718	22,695
Minority interests		317	12
Undated subordinated notes		1,764	986
Total equity	13	**24,799**	**23,693**
Liabilities			
Subordinated debt	14	2,468	2,288
Debt securities issued	15	1,988	598
Other borrowed funds	16	7,991	7,646
Insurance and investment contracts	17	163,639	115,708
Customer deposits and other funds on deposit	18	14,434	10,224
Financial liabilities at fair value through profit or loss:	19		
– non-trading derivatives		2,305	2,008
Liabilities held for sale	11		2
Deferred tax liabilities	33	1,830	2,979
Other liabilities	20	7,608	3,354
Total liabilities		**202,263**	**144,807**
Total equity and liabilities		**227,062**	**168,500**

Amounts for 2016 have been restated for the change in NN Group's accounting policy for the Reserve Adequacy Test. Reference is made to Note 1 'Accounting policies' for more details.

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		2017		2016
Gross premium income	21		12,060		9,424
Investment income	22		5,275		3,801
Result on disposals of group companies			-150		-114
– gross fee and commission income		1,187		936	
– fee and commission expenses		-382		-340	
Net fee and commission income	23		805		596
Valuation results on non-trading derivatives	24		-513		14
Foreign currency results and net trading income			-138		-90
Share of result from associates and joint ventures	6		399		377
Other income			78		60
Total income			**17,816**		**14,068**
– gross underwriting expenditure		14,140		11,590	
– investment result for risk of policyholders		-1,622		-1,156	
– reinsurance recoveries		-187		-116	
Underwriting expenditure	25		12,331		10,318
Intangible amortisation and other impairments	26		118		19
Staff expenses	27		1,517		1,174
Interest expenses	28		335		345
Other operating expenses	29		991		749
Total expenses			**15,292**		**12,605**
Result before tax			**2,524**		**1,463**
Taxation	33		392		273
Net result			**2,132**		**1,190**

Amounts for 2016 have been restated for the changed classification of interest income/expense on derivatives for which no hedge accounting is applied. Reference is made to Note 1 'Accounting policies' for more details.

Net result

For the year ended 31 December	2017	2016
Net result attributable to:		
Shareholders of the parent	2,110	1,189
Minority interests	22	1
Net result	**2,132**	**1,190**

Earnings per ordinary share

amounts in euros	2017	2016
Earnings per ordinary share		
Basic earnings per ordinary share	6.21	3.55
Diluted earnings per ordinary share	6.20	3.54

Reference is made to Note 30 '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		2017		2016
Net result		**2,132**		**1,190**
– unrealised revaluations available-for-sale investments and other	-541		2,425	
– realised gains/losses transferred to the profit and loss account	-963		-230	
– changes in cash flow hedge reserve	-714		406	
– deferred interest credited to policyholders	598		-689	
– share of other comprehensive income of associates and joint ventures	-1		3	
– exchange rate difference	-163		-5	
Items that may be reclassified subsequently to the profit and loss account		-1,784		1,910
– remeasurement of the net defined benefit asset/liability	-3		-13	
– unrealised revaluations property in own use			-2	
Items that will not be reclassified to the profit and loss account		-3		-15
Total other comprehensive income		**-1,787**		**1,895**
Total comprehensive income		**345**		**3,085**
Comprehensive income attributable to:				
Shareholders of the parent		319		3,082
Minority interests		26		3
Total comprehensive income		**345**		**3,085**

Reference is made to Note 33 '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	2017	2016
Result before tax		2,524	1,463
Adjusted for:			
– depreciation and amortisation		157	44
– deferred acquisition costs and value of business acquired		-149	-49
– underwriting expenditure (change in insurance liabilities)		-2,651	-1,603
– other		-339	-697
Taxation paid		-124	-197
Changes in:			
– non-trading derivatives		-37	1,132
– other financial assets at fair value through profit or loss		26	-459
– loans		-2,830	-2,194
– other assets		199	-28
– customer deposits and other funds on deposit		438	2,190
– financial liabilities at fair value through profit or loss – non-trading derivatives		-708	-10
– other liabilities		-1,827	-1,722
Net cash flow from operating activities		**-5,321**	**-2,130**
Investments and advances:			
– group companies, net of cash acquired	44	907	-6
– available-for-sale investments	4	-11,451	-10,154
– associates and joint ventures	6	-753	-313
– real estate investments	7	-245	-400
– property and equipment	8	-22	-25
– investments for risk of policyholders		-6,889	-5,789
– other investments		-60	-693
Disposals and redemptions:			
– group companies		58	
– available-for-sale investments	4	13,603	7,180
– associates and joint ventures	6	332	355
– real estate investments	7	104	
– property and equipment	8	1	
– investments for risk of policyholders		12,316	12,384
– other investments		96	
Net cash flow from investing activities		**7,997**	**2,539**
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		7,469	13,452
Repayments of other borrowed funds		-8,824	-11,708
Dividend paid	13	-370	-298
Purchase/sale of treasury shares	13	-340	-503
Coupon on undated subordinated notes		-78	-45
Net cash flow from financing activities		**-1,793**	**898**
Net cash flow		**883**	**1,307**

Consolidated statement of cash flows Continued

Included in Net cash flow from operating activities

For the year ended 31 December	2017	2016
Interest received	4,248	3,297
Interest paid	-369	-387
Dividend received	502	371

Cash and cash equivalents

For the year ended 31 December	notes	2017	2016
Cash and cash equivalents at beginning of the period	2	8,635	7,436
Net cash flow		883	1,307
Effect of exchange rate changes on cash and cash equivalents		-135	-108
Cash and cash equivalents at end of the period		**9,383**	**8,635**
Cash and cash equivalents comprises the following items:			
Cash and cash equivalents	2	9,383	8,634
Cash and cash equivalents classified as assets held for sale	2		1
Cash and cash equivalents at end of the period		**9,383**	**8,635**

Consolidated statement of changes in equity

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**

Consolidated statement of changes in equity Continued

Consolidated statement of changes in equity (2016)

	Share capital	Share premium	Reserves	Total Shareholders' equity (parent)	Minority interest	Undated subordinated notes	Total equity
Balance at 1 January 2016	**40**	**12,153**	**8,265**	**20,458**	**9**	**986**	**21,453**
Unrealised revaluations available-for-sale investments and other			2,425	2,425			2,425
Realised gains/losses transferred to the profit and loss account			-230	-230			-230
Changes in cash flow hedge reserve			406	406			406
Deferred interest credited to policyholders			-689	-689			-689
Share of other comprehensive income of associates and joint ventures			3	3			3
Exchange rate differences			-7	-7	2		-5
Remeasurement of the net defined benefit asset/liability			-13	-13			-13
Unrealised revaluations property in own use			-2	-2			-2
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**1,893**	**1,893**	**2**	**0**	**1,895**
Net result for the period			1,189	1,189	1		1,190
Total comprehensive income	**0**	**0**	**3,082**	**3,082**	**3**	**0**	**3,085**
Dividend			-298	-298			-298
Purchase/sale of treasury shares			-503	-503			-503
Employee stock option and share plans			-10	-10			-10
Coupon on undated subordinated notes			-34	-34			-34
Balance at 31 December 2016	**40**	**12,153**	**10,502**	**22,695**	**12**	**986**	**23,693**

Amounts for 2016 have been restated for the change in NN Group's accounting policy for the Reserve Adequacy Test. Reference is made to Note 1 'Accounting policies' for more details.

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

These Consolidated annual accounts of NN Group are significantly impacted by the acquisition of Delta Lloyd N.V. ('Delta Lloyd') in the second quarter of 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 44 '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.

Upcoming changes in IFRS-EU

In 2017, no changes to IFRS-EU became effective that had an impact on the Consolidated annual accounts of NN Group. Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2017 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.

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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. NN Group will have 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 (measured at a 31 December 2015 reference date). NN Group's activities are predominantly connected with insurance as defined in this Amendment and, therefore, NN Group qualifies for this deferred effective date of IFRS 9. NN Group will apply the temporary exemption and, therefore, NN Group will implement IFRS 9 in 2021 together with IFRS 17.

NN Group is preparing for the implementation of IFRS 9 and IFRS 17 in a combined project (see below).

IFRS 15 'Revenue from Contracts with Customers'

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 is also no impact on the 2017 Net result. The implementation of IFRS 15 will not have significant impact on the 2018 Consolidated annual accounts of NN Group.

IFRS 16 'Leases'

IFRS 16 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.

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. IFRS 17 is expected to be effective as of 1 January 2021, subject to endorsement in the EU.

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).

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). 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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

Changes in accounting policies & presentation

Reserve Adequacy Test (RAT)

As of 1 January 2017, NN Group changed its accounting policy for the Reserve Adequacy Test. The policy that is applied as of 1 January 2017 is set out below in the section 'Accounting policies for specific items – Insurance and investment contracts, reinsurance contracts – Adequacy test'.

The differences between the new policy and the policy applied until 2016 are:
- In the new policy, the adequacy is assessed by comparing the balance sheet liability to a best estimate liability; in the policy applied until 2016 it is compared to a liability with a 50% and 90% confidence level
- In the new policy, the adequacy is assessed at the level of individual business units; in the policy applied until 2016 aggregation at the segment and Group levels applies

The new policy aligns better with current market practice. The change represents a change in accounting policy under IFRS and was implemented retrospectively.

This change had no impact on the Consolidated profit and loss account. The impact on the Consolidated balance sheet as at 31 December 2016 was not significant and is as follows:

Impact of RAT change in accounting policy on the consolidated balance sheet

	31 December 2016 as reported earlier	Change in RAT accounting policy	31 December 2016 (restated)
Assets			
Deferred acquisition costs	1,636	-5	1,631
Total assets	168,505	**-5**	168,500
Equity			
Shareholders' equity (parent)	22,706	-11	22,695
Total equity	23,704	**-11**	23,693
Liabilities			
Insurance and investment contracts	115,699	9	115,708
Deferred tax liabilities	2,982	-3	2,979
Total liabilities	144,801	**6**	144,807
Total equity and liabilities	**168,505**	**-5**	**168,500**

Changes in classification

Interest income/expense on derivatives

NN Group changed its classification of interest income/expense on derivatives for which no hedge accounting is applied. This interest income/expense was classified in 'Investment income' and 'Interest expenses' respectively. This classification was changed and interest income/expense on derivatives for which no hedge accounting is applied is now classified in 'Valuation results on non-trading derivatives', together with the changes in the (clean) fair value of these derivatives. The new classification aligns better with current market practice. The relevant comparative figures for 2016 have been amended as shown in the table below. This change only impacts the classification in the Consolidated profit and loss account. There was no impact on shareholders' equity and net result.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

Impact of change in classification on the consolidated profit and loss account

	2016 as reported earlier	Change in classification	2016 (restated)
Income			
Investment income	4,123	-322	3,801
Valuation results on non-trading derivatives	-55	69	14
Total income	14,321	**-253**	14,068
Expenses			
Interest expenses	598	-253	345
Total expenses	12,858	**-253**	12,605
Result before tax and Net result		**0**	

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. This includes the separate presentation of Deferred tax assets and liabilities in the balance sheet (reference is made to Note 33 'Taxation') and the separate presentation of investment contracts with discretionary participation features in Note 17.

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.

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

The identification of 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 and VOBA (the net insurance liabilities), is evaluated at each reporting period by each business unit for the business originated in that business unit. The test involves comparing the established insurance liability 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 35 '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.

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 34 'Fair value of financial assets and liabilities' for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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 32 '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.

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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 34 '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.

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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 42 '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.

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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'.

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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 19)

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.

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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.

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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.

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.

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.

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'.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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'.

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'.

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'.

Value of business acquired (VOBA)

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

Other intangible assets

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

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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 and VOBA. The test for recoverability is described in the section 'Insurance and investment contracts, reinsurance contracts'.

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

Assets and liabilities held for sale (Note 11)

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

Subordinated debt, debt securities issued and other borrowed funds (Notes 14, 15 and 16)

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 17)

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

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.

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

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

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

Liabilities for unearned premiums and unexpired insurance risks

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

Claims liabilities

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

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.

Notes to the Consolidated annual accounts Continued

1 Accounting policies Continued

Adequacy test

The adequacy of the insurance liabilities, net of DAC and VOBA (the net insurance liabilities), is evaluated at each reporting period by each business unit for the business originated in that business unit. The test involves comparing the established 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.

Other liabilities (Note 20)

Provisions

Other liabilities include reorganisation 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 21)

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 23)

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 30)

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 31 and 32)

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

The increase in Cash and cash equivalents from EUR 8,634 million as at 31 December 2016 to EUR 9,383 million as at 31 December 2017 includes EUR 2,961 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

Cash and cash equivalents

	2017	2016
Cash and bank balances	4,891	4,045
Money market funds	2,395	3,346
Short-term deposits	2,097	1,243
Cash and cash equivalents	**9,383**	**8,634**
Cash and cash equivalents classified as Assets held for sale		1
Total cash and cash equivalents at the end of the year	**9,383**	**8,635**

As at 31 December 2017, NN Group held EUR 1,482 million (31 December 2016: EUR 1,555 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

The increase in Financial assets at fair value through profit or loss from EUR 36,005 million as at 31 December 2016 to EUR 39,558 million as at 31 December 2017 includes EUR 12,031 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

Financial assets at fair value through profit or loss

	2017	2016
Investments for risk of policyholders	33,508	30,711
Non-trading derivatives	5,116	4,421
Designated as at fair value through profit or loss	934	873
Financial assets at fair value through profit or loss	**39,558**	**36,005**

Investments for risk of policyholders

	2017	2016
Equity securities	31,027	28,231
Debt securities	1,291	1,352
Loans and receivables	1,190	1,128
Investments for risk of policyholders	**33,508**	**30,711**

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

Non-trading derivatives

	2017	2016
Derivatives used in:		
– fair value hedges	56	91
– cash flow hedges	3,351	2,398
– hedges of net investments in foreign operations		10
Other non-trading derivatives	1,709	1,922
Non-trading derivatives	**5,116**	**4,421**

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

Designated as at fair value through profit or loss

	2017	2016
Equity securities	189	125
Debt securities	284	241
Money market funds	461	507
Designated as at fair value through profit or loss	**934**	**873**

Notes to the Consolidated annual accounts Continued

4 Available-for-sale investments

The increase in Available-for-sale investments from EUR 79,767 million as at 31 December 2016 to EUR 104,982 million as at 31 December 2017 includes EUR 30,434 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

Available-for-sale investments

	2017	2016
Equity securities:		
– shares in NN Group managed investment funds	2,362	1,989
– shares in third-party managed investment funds	2,176	1,711
– other	3,442	3,288
Equity securities	**7,980**	**6,988**
Debt securities	97,002	72,779
Available-for-sale investments	**104,982**	**79,767**

Changes in available-for-sale investments

	Equity securities		Debt securities		Total	
	2017	2016	2017	2016	2017	2016
Available-for-sale investments – opening balance	6,988	6,840	72,779	67,553	79,767	74,393
Additions	1,397	944	10,054	9,210	11,451	10,154
Amortisation			-434	-156	-434	-156
Transfers and reclassifications	-166	-366	-16	3	-182	-363
Changes in unrealised revaluations	843	274	-1,331	2,823	-488	3,097
Impairments	-58	-92	-9	-4	-67	-96
Disposals and redemptions	-2,046	-598	-11,557	-6,582	-13,603	-7,180
Changes in the composition of the group and other changes	1,084		28,854	-725	29,938	-725
Exchange rate differences	-62	-14	-1,338	657	-1,400	643
Available-for-sale investments – closing balance	**7,980**	**6,988**	**97,002**	**72,779**	**104,982**	**79,767**

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. Changes in the composition of the group and other changes in 2016 relates to the portfolio transfer between NN Re (Ireland) Limited and Canada Life International Re Limited. Reference is made to Note 44 'Companies and businesses acquired and divested'.

Reference is made to Note 22 '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

	2017	2016
Available-for-sale investments	97,002	72,779
Loans	1,380	1,935
Available-for-sale investments and loans	**98,382**	**74,714**
Investments for risk of policyholders	1,291	1,352
Designated as at fair value through profit or loss	284	241
Financial assets at fair value through profit or loss	**1,575**	**1,593**
Total exposure to debt securities	**99,957**	**76,307**

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	
	2017	2016	2017	2016	2017	2016
Government bonds	70,117	56,042			70,117	56,042
Covered bonds	349	320			349	320
Corporate bonds	15,200	10,409			15,200	10,409
Financial institution bonds	9,643	4,863			9,643	4,863
Bond portfolio (excluding ABS)	**95,309**	**71,634**	**0**	**0**	**95,309**	**71,634**
US RMBS	484	233			484	233
Non-US RMBS	973	784	1,056	1,487	2,029	2,271
CDO/CLO	11	35		4	11	39
Other ABS	225	93	324	444	549	537
ABS portfolio	**1,693**	**1,145**	**1,380**	**1,935**	**3,073**	**3,080**
Debt securities – Available-for-sale investments and Loans	**97,002**	**72,779**	**1,380**	**1,935**	**98,382**	**74,714**

Available-for-sale equity securities

	2017	2016
Listed	4,863	4,833
Unlisted	3,117	2,155
Available-for-sale equity securities	**7,980**	**6,988**

Reclassifications to loans (2009)

As at reclassification date	Q2 2009
Fair value	6,135
Range of effective interest rates	1.4%-24.8%
Expected recoverable cash flows	7,118
Unrealised fair value losses in shareholders' equity (before tax)	-896
Recognised fair value gains/losses in shareholders' equity (before tax) between the beginning of the year in which the reclassification occurred and the reclassification date	173
Recognised fair value gains/losses in shareholders' equity (before tax) in the year before reclassification	-971
Impairments (before tax) between the beginning of the year in which the reclassification occurred and the reclassification date	nil
Impairment (before tax) in the year before reclassification	nil

Years after reclassification	2017	2016	2015	2014	2013	2012	2011	2010	2009
Carrying value	276	404	533	809	1,098	1,694	3,057	4,465	5,550
Fair value	402	526	676	984	1,108	1,667	2,883	4,594	5,871
Unrealised fair value gains/losses in shareholders' equity (before tax)	-133	-171	-203	-213	-111	-186	-307	-491	-734
Effect on shareholders' equity (before tax) if reclassification had not been made	126	122	143	175	10	-27	-174	129	321
Effect on result (before tax) if reclassification had not been made	nil	nil	nil	nil	nil	nil	nil	nil	nil
Effect on result (before tax) after the reclassification (mainly interest income)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	121
Effect on result (before tax) for the year (interest income and sales results)	1	nil	1	-2	-10	-47	90	89	n.a.
Impairments (before tax)	nil	nil	nil	nil	nil	nil	nil	nil	nil
Provisions for credit losses (before tax)	nil	nil	nil	nil	nil	nil	nil	nil	nil

Reclassifications out of 'Available-for-sale investments' to 'Loans' are allowed under IFRS-EU as of the third quarter of 2008. In the second quarter of 2009 NN Group reclassified certain financial assets from 'Available-for-sale investments' to 'Loans'. NN Group identified assets, eligible for reclassification, for which at the reclassification date it had the intention to hold for the foreseeable future. The table above provides information on this reclassification made in the second quarter of 2009. Information is provided for this reclassification as at the date of reclassification and as at the end of the subsequent reporting periods. This information is disclosed under IFRS-EU for as long as the reclassified assets continue to be recognised in the balance sheet.

Notes to the Consolidated annual accounts Continued

5 Loans

The increase in Loans from EUR 33,920 million as at 31 December 2016 to EUR 56,343 million as at 31 December 2017 includes EUR 19,924 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

Loans

	2017	2016
Loans secured by mortgages	43,844	25,699
Unsecured loans	9,679	4,936
Asset-backed securities	1,380	1,935
Deposits	1,002	1,097
Policy loans	563	259
Other	54	74
Loans – before loan loss provisions	**56,522**	**34,000**
Loan loss provisions	-179	-80
Loans	**56,343**	**33,920**

Changes in Loans secured by mortgages

	2017	2016
Loans secured by mortgages – opening balance	25,699	22,398
Additions/origination	7,009	5,438
Redemption	-3,735	-2,125
Amortisation	-180	-49
Impairments and write-offs	-11	-14
Changes in the composition of the group and other changes	15,140	
Fair value changes recognised on hedged items	-78	51
Loans secured by mortgages – closing balance	**43,844**	**25,699**

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 45 'Structured entities'.

Changes in Loan loss provisions

	2017	2016
Loan loss provisions – opening balance	80	87
Write-offs	-6	-18
Increase in loan loss provisions	100	14
Changes in the composition of the group and other changes	5	-3
Loan loss provisions – closing balance	**179**	**80**

Notes to the Consolidated annual accounts Continued

6 Associates and joint ventures

The increase in Associates and joint ventures from EUR 2,698 million as at 31 December 2016 to EUR 3,450 million as at 31 December 2017 includes EUR 10 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

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 L.P.	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
Mirtocan Spain SL	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**				

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

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 423 million of associates and joint ventures with an individual balance sheet value of less than EUR 50 million and EUR 195 million of receivables from associates and joint ventures.

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

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

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

Notes to the Consolidated annual accounts Continued

6 Associates and joint ventures Continued

Associates and joint ventures (2016)

	Interest held	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
CBRE Dutch Office Fund FGR	26%	320	1,511	268	196	47
CBRE Retail Property Fund Iberica L.P.	33%	218	1,401	741	225	40
Parcom Investment Fund II B.V.	100%	205	205		41	
Parcom Investment Fund III B.V.	100%	192	215	23	120	10
CBRE Dutch Retail Fund FGR	18%	178	1,509	505	69	51
CBRE UK Property Fund L.P.	10%	169	1,728		23	12
CBRE Property Fund Central Europe L.P.	25%	132	894	365	52	6
Parcom Buy Out Fund IV B.V.	100%	126	145	19	6	3
Allee center Kft	50%	111	238	16	33	8
CBRE European Industrial Fund FGR	18%	101	751	201	48	20
Fiumaranuova s.r.l.	50%	95	219	29	42	8
DPE Deutschland II B GmbH & Co KG	34%	91	295	11	40	12
Parquest Capital B FPCI	40%	84	226	2	42	6
CBRE Dutch Retail Fund II FGR	10%	80	808	10	41	17
Boccaccio – Closed-end Real Estate Mutual Investment Fund	50%	68	137			
Le Havre LaFayette SNC	50%	59	143	25	16	4
CBRE Property Fund Central and Eastern Europe FGR	21%	51	575	327	29	48
Delta Mainlog Holding GmbH & Co. KG	50%	51	103	1	14	1
Other		367				
Associates and joint ventures		**2,698**				

Changes in Associates and joint ventures

	2017	2016
Associates and joint ventures – opening balance	2,698	2,197
Additions	753	313
Transfers to/from available-for-sale investments	164	312
Share in changes in equity (Revaluations)	-1	3
Share of result	399	377
Dividends received	-234	-117
Disposals	-332	-355
Changes in the composition of the group and other changes	10	
Exchange rate differences	-7	-32
Associates and joint ventures – closing balance	**3,450**	**2,698**

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

The increase in Real estate investments from EUR 2,028 million as at 31 December 2016 to EUR 3,582 million as at 31 December 2017 includes EUR 1,138 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

Changes in Real estate investments

	2017	2016
Real estate investments – opening balance	2,028	1,564
Additions	245	400
Changes in the composition of the group and other changes	1,212	
Transfers to/from other assets	3	5
Fair value gains/losses	198	59
Disposals	-104	
Real estate investments – closing balance	**3,582**	**2,028**

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2017 is EUR 199 million (2016: EUR 133 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 2017 is EUR 61 million (2016: EUR 40 million).

Real estate investments by year of most recent appraisal

	2017	2016
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

	2017	2016
Real estate investments	3,582	2,028
Available-for-sale investments	1,009	1,020
Associates and joint ventures	2,629	1,861
Property and equipment – property in own use	82	41
Other assets – property obtained from foreclosures	1	1
Real estate exposure	**7,303**	**4,951**

Furthermore, the exposure is impacted by third-party interests, leverage in funds and off-balance commitments, resulting in an overall exposure at 31 December 2017 of EUR 8,693 million (2016: EUR 6,558 million). Reference is made to Note 50 'Risk management'.

Notes to the Consolidated annual accounts Continued

8 Property and equipment

The increase in Property and equipment from EUR 86 million as at 31 December 2016 to EUR 150 million as at 31 December 2017 includes EUR 69 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

Property and equipment

	2017	2016
Property in own use	82	41
Equipment	68	45
Property and equipment	**150**	**86**

Changes in Property in own use

	2017	2016
Property in own use – opening balance	41	42
Additions		5
Revaluations		-4
Impairments	-1	-1
Depreciation	-2	-1
Changes in the composition of the group and other changes	44	
Property in own use – closing balance	**82**	**41**
Gross carrying value	131	86
Accumulated depreciation, revaluations and impairments	-49	-45
Net carrying value	**82**	**41**
Revaluation surplus – opening balance	3	6
Revaluation in year		-3
Revaluation surplus – closing balance	**3**	**3**

Changes in Equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2017	2016	2017	2016	2017	2016
Equipment – opening balance	16	16	29	28	45	44
Additions	8	10	14	10	22	20
Changes in the composition of the group and other changes	6		17	-1	23	-1
Disposals	-1				-1	0
Depreciation	-9	-10	-12	-8	-21	-18
Equipment – closing balance	**20**	**16**	**48**	**29**	**68**	**45**
Gross carrying value	106	93	156	125	262	218
Accumulated depreciation	-86	-77	-108	-96	-194	-173
Net carrying value	**20**	**16**	**48**	**29**	**68**	**45**

Notes to the Consolidated annual accounts Continued

9 Intangible assets

Intangible assets (2017)

	Value of business acquired	Goodwill	Software	Other	Total
Intangible assets – opening balance	11	253	61	17	342
Additions		1,146	23	483	1,652
Amortisation	-1		-23	-109	-133
Impairments			-6	-2	-8
Disposals			-3		-3
Changes in the composition of the group and other changes	-8		2	5	-1
Exchange rate differences		-7	-1		-8
Intangible assets – closing balance	**2**	**1,392**	**53**	**394**	**1,841**
Gross carrying value	33	1,513	766	611	2,923
Accumulated amortisation	-31		-647	-169	-847
Accumulated impairments		-121	-66	-48	-235
Net carrying value	**2**	**1,392**	**53**	**394**	**1,841**

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

Goodwill includes the provisional goodwill of EUR 1,146 million recognised on the acquisition of Delta Lloyd.

Other intangible assets include the preliminary values of the intangibles recognised EUR 447 million 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

Reference is made to Note 44 ‘Companies and businesses acquired and divested’.

Intangible assets (2016)

	Value of business acquired	Goodwill	Software	Other	Total
Intangible assets – opening balance	14	260	59	18	351
Additions			29	1	30
Capitalised expenses			2		2
Amortisation	-3		-18	-7	-28
Impairments			-11		-11
Changes in the composition of the group and other changes				6	6
Exchange rate differences		-7		-1	-8
Intangible assets – closing balance	**11**	**253**	**61**	**17**	**342**
Gross carrying value	41	374	745	124	1,284
Accumulated amortisation	-30		-624	-61	-715
Accumulated impairments		-121	-60	-46	-227
Net carrying value	**11**	**253**	**61**	**17**	**342**

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. Amortisation of VOBA is included in ‘Underwriting expenditure’.

Notes to the Consolidated annual accounts Continued

9 Intangible assets Continued

Goodwill by cash generating unit (reporting unit)

	2017	2016
Delta Lloyd Netherlands Life	852	
Delta Lloyd Netherlands Non-life	86	
Insurance Europe	83	90
Asset Management	309	163
Bank	62	
Goodwill	**1,392**	**253**

Reference is made to Note 44 'Companies and businesses acquired and divested'.

Goodwill impairment testing

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.

In both 2017 and 2016, the goodwill impairment test for the goodwill other than recognised on the acquisition of Delta Lloyd indicated that there is a significant excess of recoverable amount over book value for both cash generating units (reporting units) to which goodwill is allocated. For this impairment test, the best estimate of the recoverable amount of cash generating units (reporting units) to which goodwill is allocated is determined separately for each relevant cash generating unit (reporting unit) based on Price-to-Earnings, Price-to-Book and Price-to-Assets under management ratios. In the tests performed, the main assumptions in this valuation are the multiples for Price-to-Earnings, Price-to-Book and Price-to-Assets under management; these are derived from or corroborated against market information that is related to observable transactions in the market for comparable businesses. In addition, for life insurance business, the market value surplus is used. Earnings and carrying values are equal to or derived from the relevant measure under IFRS-EU.

The goodwill recognised on the acquisition of Delta Lloyd is still in the provisional measurement period. Until now, no changes were made and no impairment triggers were identified. Reference is made to Note 44 'Companies and businesses acquired and divested'.

10 Deferred acquisition costs

Changes in Deferred acquisition costs

	Life insurance		Non-life insurance		Total	
	2017	2016	2017	2016	2017	2016
Deferred acquisition costs – opening balance	1,584	1,481	47	45	1,631	1,526
Capitalised	464	399	299	228	763	627
Amortisation and unlocking	-357	-349	-256	-226	-613	-575
Exchange rate differences	-90	53			-90	53
Deferred acquisition costs – closing balance	**1,601**	**1,584**	**90**	**47**	**1,691**	**1,631**

Amounts for 2016 have been restated for the change in NN Group's accounting policy for the Reserve Adequacy Test. Reference is made to Note 1 'Accounting policies' for more details.

Notes to the Consolidated annual accounts Continued

11 Assets and liabilities held for sale

As at 31 December 2016 assets and liabilities held for sale relate to Mandema & Partners, the sale of which was completed in January 2017. Mandema & Partners was presented in the segment 'Netherlands Non-life'. As Mandema & Partners did not qualify as discontinued operations, there was no impact on the presentation of the profit and loss account.

For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

12 Other assets

The increase in Other assets from EUR 3,117 million as at 31 December 2016 to EUR 5,077 million as at 31 December 2017 includes EUR 1,777 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

Other assets

	2017	2016
Insurance and reinsurance receivables	1,126	431
Property obtained from foreclosures	1	1
Income tax receivable	202	137
Accrued interest and rents	1,785	1,503
Other accrued assets	609	242
Other receivables	819	388
Net defined benefit assets	29	
Other	506	415
Other assets	**5,077**	**3,117**

Insurance and reinsurance receivables

	2017	2016
Receivables on account of direct insurance from:		
– policyholders	846	310
– intermediaries	219	34
Reinsurance receivables	61	87
Insurance and reinsurance receivables	**1,126**	**431**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 27 million as at 31 December 2017 (2016: EUR 28 million). The receivable is presented net of this allowance.

13 Equity

Total equity

	2017	2016
Share capital	41	40
Share premium	12,572	12,153
Revaluation reserve	8,597	10,227
Currency translation reserve	-139	10
Net defined benefit asset/liability remeasurement reserve	-106	-103
Other reserves	1,753	368
Shareholders' equity (parent)	**22,718**	**22,695**
Minority interests	317	12
Undated subordinated notes	1,764	986
Total equity	**24,799**	**23,693**

Amounts for 2016 have been restated for the change in NN Group's accounting policy for the Reserve Adequacy Test. Reference is made to Note 1 'Accounting policies' for more details.

Notes to the Consolidated annual accounts Continued

13 Equity Continued

Changes in equity (2017)

	Share capital	Share premium	Reserves	Total shareholders' equity (parent)
Equity – opening balance	40	12,153	10,502	22,695
Net result for the period			2,110	2,110
Total amount recognised directly in equity (Other comprehensive income)			-1,791	-1,791
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**

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.

Changes in equity (2016)

	Share capital	Share premium	Reserves	Total shareholders' equity (parent)
Equity – opening balance	40	12,153	8,265	20,458
Net result for the period			1,189	1,189
Total amount recognised directly in equity (Other comprehensive income)			1,893	1,893
Dividend			-298	-298
Purchase/sale of treasury shares			-503	-503
Employee stock option and share plans			-10	-10
Coupon on undated subordinated notes			-34	-34
Equity – closing balance	**40**	**12,153**	**10,502**	**22,695**

Notes to the Consolidated annual accounts Continued

13 Equity Continued

Purchase/sale of treasury shares (2016)

On 8 January 2016, NN Group repurchased 8,064,516 ordinary shares in NN Group (treasury shares) from ING Groep N.V. ('ING Group') at a price of EUR 31.00 per share for an aggregate amount of EUR 250 million.

On 26 May 2016, 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 June 2016. The share buyback is deducted from IFRS shareholders' equity when actual buyback transactions occur. Following NN Group's intended offer for Delta Lloyd as announced on 5 October 2016, this share buyback programme was suspended. Up until the date of the suspension, share buybacks under this programme were executed for an amount of EUR 167 million. In addition, to neutralise the dilutive effect of the final and interim stock dividend, NN Group repurchased ordinary shares for an amount of EUR 98 million. During 2016, 10,075,267 ordinary shares for a total amount of EUR 265 million were repurchased under the programme.

The above mentioned repurchases of EUR 250 million and EUR 265 million together with the sale of EUR 12 million treasury shares related to Employee share plans, resulted in EUR 503 million purchase of treasury shares.

The repurchased shares are held by NN Group and the amount has been deducted from Other reserves (Purchase/sale of treasury shares). In June 2016, NN Group cancelled 7,808,135 treasury shares.

As at 31 December 2016, 10,800,817 treasury shares were held by NN Group.

Coupon paid on undated subordinated notes (2016)

The undated subordinated notes have an optional annual coupon payment in July. The annual coupon resulted in a deduction of EUR 34 million (net of tax) from equity.

Shareholders' equity (parent)
Share capital

	Ordinary shares (in number)		Ordinary shares (Amounts in millions of euros)	
	2017	2016	2017	2016
Authorised share capital	700,000,000	700,000,000	84	84
Unissued share capital	359,249,658	365,148,629	43	44
Issued share capital	**340,750,342**	**334,851,371**	**41**	**40**

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 2017, issued and fully paid ordinary share capital consists of 340,750,342 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

13 Equity Continued

Distributable reserves based on the Dutch Civil Code

	2017	2017	2016	2016
Total shareholders' equity		22,718		22,695
– share capital	41		40	
– revaluation reserve	8,597		10,227	
– currency translation reserve			10	
– share of associates reserve	697		555	
– other non-distributable reserves	136		54	
Total non-distributable part of shareholders' equity:		**9,471**		**10,886**
Distributable reserves based on the Dutch Civil Code		**13,247**		**11,809**

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

	2017	2017	2016	2016
Solvency requirement under the Financial Supervision Act	7,731		5,459	
Reserves available for financial supervision purposes	15,412		13,149	
Total freely distributable reserves on the basis of solvency requirements		7,681		7,690
Total freely distributable reserves on the basis of the Dutch Civil Code		13,247		11,809
Total freely distributable reserves (lower of the values above)		**7,681**		**7,690**

Reference is made to Note 51 'Capital and liquidity management' for more information on solvency requirements and the 2016 change from Solvency I to Solvency II capital requirement.

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 2017, none of the preference shares had been issued. The authorised number of preference shares is 700,000,000 shares.

Warrants

In 2014, NN Group issued warrants to ING Group that will be exercisable for 34,965,000 ordinary shares of NN Group. The initial exercise price of the warrants is equal to 200% of the EUR 20.00 offer price at the time of the IPO. The warrants are exercisable from 7 July 2015 and expire on 7 July 2024. The warrants are not subject to transfer restrictions, however, the warrant holders have no voting rights or rights to receive dividends.

These warrants are potentially dilutive instruments for purpose of the earnings per share calculations from 7 July 2014 until they are converted into ordinary shares. The issue of these warrants had no impact on shareholders' equity.

Notes to the Consolidated annual accounts Continued

13 Equity Continued

Changes in Share premium

	2017	2016
Share premium – opening balance	12,153	12,153
Issue of ordinary shares	419	
Share premium – closing balance	**12,572**	**12,153**

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 Revaluation reserve (2016)

	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – opening balance	4	4,288	4,029	8,321
Unrealised revaluations	-2	2,421		2,419
Realised gains/losses transferred to the profit and loss account		-230		-230
Changes in cash flow hedge reserve			406	406
Deferred interest credited to policyholders		-689		-689
Revaluation reserve – closing balance	**2**	**5,790**	**4,435**	**10,227**

Deferred interest credited to policyholders reflects the change in the deferred profit sharing liabilities (net of deferred tax). Reference is made to Note 17 'Insurance and investment contracts, reinsurance contracts'.

Changes in Currency translation reserve

	2017	2016
Currency translation reserve – opening balance	10	-24
Unrealised revaluations after taxation	14	41
Exchange rate differences transferred to the profit and loss account		-78
Exchange rate differences for the period	-163	71
Currency translation reserve – closing balance	**-139**	**10**

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

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**

Notes to the Consolidated annual accounts Continued

13 Equity Continued
Changes in Other reserves (2016)

	Retained earnings	Share of associates reserve	Total
Other reserves – opening balance	-255	313	58
Net result for the period	1,189		1,189
Transfers to/from share of associates reserve	-242	242	0
Dividend	-298		-298
Purchase/sale of treasury shares	-503		-503
Employee stock option and share plans	-10		-10
Transfer to/from net defined benefit asset/liability remeasurement reserve	-34		-34
Changes in the composition of the group and other changes	-34		-34
Other reserves – closing balance	**-187**	**555**	**368**

Dividends

	2017	2016
Dividend distributed from Other reserves:		
Dividend paid in cash (interim current year)	130	113
Dividend paid in cash (final previous year)	187	185
Stock dividend (interim current year)	78	82
Stock dividend (final previous year)	129	156
Total dividend	**524**	**536**

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.

Proposed final dividend 2017
At the Annual General Meeting on 31 May 2018, a final dividend will be proposed of EUR 1.04 per ordinary share, or approximately EUR 348 million in total based on the current number of outstanding shares (net of treasury shares). Together with the 2017 interim dividend of EUR 0.62 per ordinary share paid in September 2017, NN Group's total dividend for 2017 will be EUR 556 million, or EUR 1.66 per ordinary share which is equivalent to a dividend pay-out ratio of around 45% of NN Group's full-year 2017 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 4 June 2018. The record date for the dividend will be 5 June 2018. The election period will run from 4 June up to and including 18 June 2018. 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 2018. The dividend will be payable on 25 June 2018. The cash dividend will be distributed out of Other reserves.

Dividend 2016
In September 2016 NN Group paid a 2016 interim dividend of EUR 0.60 per ordinary share, or approximately EUR 195 million in total. The 2016 interim dividend was paid on 9 September 2016 either in cash or in ordinary shares at the election of the shareholder. As a result, an amount of EUR 113 million was distributed out of Other reserves (cash dividend) and 3,086,014 ordinary shares, with a par value of EUR 0.12 per share were issued (EUR 82 million stock dividend).

On 1 June 2017, the General Meeting of Shareholders adopted the proposed 2016 final dividend of EUR 0.95 per ordinary share, or approximately EUR 317 million in total. This dividend was paid on 26 June 2017 either in cash or in ordinary shares at the election of the shareholder. As a result, an amount of EUR 187 million was distributed out of Other reserves (cash dividend) and 4,082,061 ordinary shares, with a par value of EUR 0.12 per share, were issued (EUR 129 million stock dividend). Together with the 2016 interim dividend of EUR 0.60 per ordinary share paid in September 2016, NN Group's total dividend for 2016 amounted to EUR 1.55 per ordinary share, or approximately EUR 511 million.

Notes to the Consolidated annual accounts Continued

13 Equity Continued

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 2017 net result of EUR 2,110 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 2017, the minority interest relating to ABN AMRO Verzekeringen recognised in equity was EUR 302 million.

Summarised information ABN AMRO Verzekeringen[1]

	2017
Total assets	5,449
Total liabilities	4,832
Total income[2]	422
Total expenses[2]	383
Net result recognised in period[2]	31
Dividends paid[2]	108

1 All on 100 % basis.

2 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.

The increase in undated subordinated notes of EUR 778 million relates to the undated subordinated notes originally issued by Delta Lloyd which are classified as equity under IFRS. In 2014, Delta Lloyd placed this EUR 750 million fixed-to-floating-rate subordinated notes transaction.

14 Subordinated debt

The increase in Subordinated debt from EUR 2,288 million as at 31 December 2016 to EUR 2,468 million as at 31 December 2017 includes EUR 1,651 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

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.

Notes to the Consolidated annual accounts Continued

14 Subordinated debt Continued

Subordinated debt

				Notional amount		Balance Sheet Value	
Interest rate	Year of issue	Due date	First call date	2017	2016	2017	2016
4.625%	2017	13 January 2048	13 January 2028	850		837	
9.000%	2017	29 August 2042	29 August 2022	500		630	
6.000%	2017	13 July 2019	13 July 2018	12		12	
4.625%	2014	8 April 2044	8 April 2024	1,000	1,000	989	988
6.375%	2002	7 May 2027	Redeemed May 2017		476		477
Variable		Perpetual	Redeemed January 2017		506		506
Variable		Perpetual	Redeemed January 2017		169		169
Variable		Perpetual	Redeemed January 2017		148		148
Subordinated debt						**2,468**	**2,288**

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.

15 Debt securities issued

The increase in Debt securities issued from EUR 598 million as at 31 December 2016 to EUR 1,988 million as at 31 December 2017 includes EUR 591 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

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.

Repayment of Debt securities issued

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

16 Other borrowed funds

The increase in Other borrowed funds from EUR 7,646 million as at 31 December 2016 to EUR 7,991 million as at 31 December 2017 includes EUR 1,706 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

Other borrowed funds

	2017	2016
Credit institutions	3,486	3,305
Other	4,505	4,341
Other borrowed funds	**7,991**	**7,646**

Other borrowed funds includes collateral received on derivatives and the funding of the consolidated securitisation programmes as disclosed in Note 45 'Structured entities'.

Notes to the Consolidated annual accounts Continued

17 Insurance and investment contracts, reinsurance contracts

The increase in Insurance and investment contracts, reinsurance contracts from EUR 115,477 million as at 31 December 2016 to EUR 162,759 million as at 31 December 2017 includes EUR 56,665 million Insurance and investment contracts and EUR 794 million Reinsurance contracts recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

Insurance and investment contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance and investment contracts	
	2017	2016	2017	2016	2017	2016
Non-participating life policy liabilities	55,013	21,085	48	20	55,061	21,105
Participating life policy liabilities	53,650	48,345	573	94	54,223	48,439
Investment contracts with discretionary participation features	7,327	3,440			7,327	3,440
Liabilities for (deferred) profit sharing and rebates	6,848	7,720			6,848	7,720
Life insurance liabilities excluding liabilities for risk of policyholders	**122,838**	**80,590**	**621**	**114**	**123,459**	**80,704**
Liabilities for life insurance for risk of policyholders	32,308	29,111	45	46	32,353	29,157
Investment contract with discretionary participation features for risk of policyholders	218				218	0
Life insurance liabilities	**155,364**	**109,701**	**666**	**160**	**156,030**	**109,861**
Liabilities for unearned premiums and unexpired risks	**473**	**248**	**10**	**3**	**483**	**251**
Reported claims liabilities	3,967	2,573	174	64	4,141	2,637
Claims incurred but not reported (IBNR)	1,118	644	30	4	1,148	648
Claims liabilities	**5,085**	**3,217**	**204**	**68**	**5,289**	**3,285**
Insurance liabilities and investment contracts with discretionary participation features	**160,922**	**113,166**	**880**	**231**	**161,802**	**113,397**
Investment contracts	1,088	696			1,088	696
Investment contracts for risk of policyholders	749	1,615			749	1,615
Investment contracts liabilities	**1,837**	**2,311**	**0**	**0**	**1,837**	**2,311**
Insurance and investment contracts, reinsurance contracts	**162,759**	**115,477**	**880**	**231**	**163,639**	**115,708**

Amounts for 2016 have been restated for the change in NN Group's accounting policy for the Reserve Adequacy Test. Reference is made to Note 1 'Accounting policies' for more details.

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 6,623 million as at 31 December 2017 (2016: EUR 7,468 million).

Notes to the Consolidated annual accounts Continued

17 Insurance and investment contracts, reinsurance contracts Continued

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.

Changes in Life insurance liabilities (2016)

	Net life insurance liabilities[1]	Net liabilities for risk of policyholders[2]	Reinsurance contracts	Life insurance liabilities
Life insurance liabilities – opening balance	75,722	33,580	161	109,463
Deferred interest credited to policyholders	907			907
Current year liabilities	4,703	1,142	6	5,851
Prior years liabilities:				
– benefit payments to policyholders	-6,633	-4,638	-9	-11,280
– interest accrual and changes in fair value of liabilities	3,044		1	3,045
– valuation changes for risk of policyholders		1,163		1,163
– effect of changes in other assumptions	-5	-6	-2	-13
Changes in the composition of the group and other changes	2,093	-2,756	2	-661
Exchange rate differences	759	626	1	1,386
Life insurance liabilities – closing balance	**80,590**	**29,111**	**160**	**109,861**

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 3% (2016: 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 2017, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in 'Other assets') amounts to EUR 941 million (2016: EUR 318 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

17 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	
	2017	2016	2017	2016	2017	2016
Liabilities for unearned premiums and unexpired risks – opening balance	248	263	3	2	251	265
Premiums written	2,485	1,633	129	35	2,614	1,668
Premiums earned during the year	-2,529	-1,646	-133	-35	-2,662	-1,681
Changes in the composition of the group and other changes	269	-2	11	1	280	-1
Liabilities for unearned premiums and unexpired risks – closing balance	**473**	**248**	**10**	**3**	**483**	**251**

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2017	2016	2017	2016	2017	2016
Claims liabilities – opening balance	3,217	3,171	68	73	3,285	3,244
Additions:						
– for the current year	1,882	1,158	42	3	1,924	1,161
– for prior years	-21	-48	-37	-6	-58	-54
– interest accrual of liabilities	57	60			57	60
Additions	**1,918**	**1,170**	**5**	**-3**	**1,923**	**1,167**
Claim settlements and claim settlement costs:						
– for the current year	-805	-470	8		-797	-470
– for prior years	-975	-655	-26	-2	-1,001	-657
Claim settlements and claim settlement cost	**-1,780**	**-1,125**	**-18**	**-2**	**-1,798**	**-1,127**
Changes in the composition of the group and other changes	1,734		149		1,883	0
Exchange rate differences	-4	1			-4	1
Claims liabilities – closing balance	**5,085**	**3,217**	**204**	**68**	**5,289**	**3,285**

Where discounting is used in the calculation of the claims liabilities the rate is within the range of 2% to 4% (2016: 2% to 4%).

Changes in Investment contracts

	2017	2016
Investment contracts – opening balance	2,311	3,021
Current year liabilities	203	183
Prior years liabilities:		
– payments to contract holders	-271	-298
– interest accrual	26	21
– valuation changes investments	76	42
Changes in the composition of the group and other changes	-508	-660
Exchange rate differences		2
Investment contracts – closing balance	**1,837**	**2,311**

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 44 'Companies and businesses acquired and divested'.

The changes in the composition of the group in 2016 mainly relate to the portfolio transfer agreement between NN Re (Ireland) Limited, and Canada Life International Re Limited. Reference is made to Note 44 'Companies and businesses acquired and divested'.

Notes to the Consolidated annual accounts Continued

17 Insurance and investment contracts, reinsurance contracts Continued

Gross claims development table

Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of cumulative claims											
At the end of accident year	1,971	2,136	2,165	2,220	2,400	2,250	2,094	2,092	2,250	2,161	
1 year later	1,979	2,126	2,209	2,358	2,331	2,313	2,158	2,131	2,274		
2 years later	1,933	2,054	2,179	2,301	2,285	2,279	2,131	2,165			
3 years later	1,930	2,053	2,178	2,260	2,241	2,257	2,154				
4 years later	1,937	2,044	2,166	2,231	2,229	2,228					
5 years later	1,969	2,043	2,144	2,215	2,228						
6 years later	1,974	2,022	2,144	2,204							
7 years later	1,959	2,013	2,130								
8 years later	1,923	2,024									
9 years later	1,984										
Estimate of cumulative claims	**1,984**	**2,024**	**2,130**	**2,204**	**2,228**	**2,228**	**2,154**	**2,165**	**2,274**	**2,161**	**21,552**
Cumulative payments	-1,807	-1,828	-1,913	-1,925	-1,874	-1,799	-1,637	-1,520	-1,486	-837	-16,626
	177	**196**	**217**	**279**	**354**	**429**	**517**	**645**	**788**	**1,324**	**4,926**
Effect of discounting	-15	-17	-22	-31	-38	-39	-42	-47	-50	-50	-351
Liabilities recognised	**162**	**179**	**195**	**248**	**316**	**390**	**475**	**598**	**738**	**1,274**	**4,575**
Liabilities relating to accident years prior to 2008											714
Gross claims											**5,289**

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

18 Customer deposits and other funds on deposit

The increase in Customer deposits and other funds on deposit from EUR 10,224 million as at 31 December 2016 to EUR 14,434 million as at 31 December 2017 includes EUR 3,802 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

Customer deposits and other funds on deposit

	2017	2016
Savings	13,786	10,224
Bank annuities	53	
Corporate deposits	595	
Customer deposits and other funds on deposit	**14,434**	**10,224**

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

	2017	2016
Customer deposits and other funds on deposit – opening balance	10,224	8,034
Deposits received	4,326	4,773
Withdrawals	-3,888	-2,583
Amortisation	-30	
Changes in the composition of the group and other changes	3,802	
Customer deposits and other funds on deposit – closing balance	**14,434**	**10,224**

Notes to the Consolidated annual accounts Continued

19 Financial liabilities at fair value through profit or loss

The increase in Financial liabilities at fair value through profit or loss from EUR 2,008 million as at 31 December 2016 to EUR 2,305 million as at 31 December 2017 includes EUR 694 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

Financial liabilities at fair value through profit or loss includes only non-trading derivatives.

Non-trading derivatives

	2017	2016
Derivatives used in:		
– fair value hedges	401	145
– cash flow hedges	427	371
– hedges of net investments in foreign operations		1
Other non-trading derivatives	1,477	1,491
Non-trading derivatives	**2,305**	**2,008**

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

20 Other liabilities

The increase in Other liabilities from EUR 3,354 million as at 31 December 2016 to EUR 7,608 million as at 31 December 2017 includes EUR 3,830 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

Other liabilities

	2017	2016
Income tax payable	30	7
Net defined benefit liability	165	116
Other post-employment benefits	23	23
Other staff-related liabilities	128	135
Other taxation and social security contributions	115	126
Deposits from reinsurers	385	87
Accrued interest	491	331
Costs payable	428	174
Amounts payable to policyholders	879	737
Provisions	319	189
Amounts to be settled	3,889	1,118
Other	756	311
Other liabilities	**7,608**	**3,354**

Net defined benefit asset/liability

	2017	2016
Fair value of plan assets	49	10
Defined benefit obligation	185	126
Net defined benefit asset/liability recognised in the balance sheet (funded status)	**136**	**116**
Presented as:		
– Other assets	29	
– Other liabilities	165	116
Net defined benefit asset/liability	**136**	**116**

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.

Notes to the Consolidated annual accounts Continued

20 Other liabilities Continued

Changes in Provisions

	2017	2016
Provisions – opening balance	189	123
Additions	303	140
Releases	-20	-5
Charges	-221	-68
Changes in the composition of the group and other changes	73	
Exchange rate differences	-5	-1
Provisions – closing balance	**319**	**189**

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 2017 and 2016 due to additional initiatives announced during the year. During 2017 EUR 95 million was charged to the reorganisation provision for the cost of workforce reductions (2016: EUR 57 million). Additions in 2017 include EUR 185 million relating to ING Australia Holdings. For litigation provisions reference is made to Note 43 'Legal proceedings'.

21 Gross premium income

Gross premium income includes EUR 2,300 million relating to Delta Lloyd for the period from acquisition until 31 December 2017.

Gross premium income

	2017	2016
Gross premium income from life insurance policies	9,446	7,756
Gross premium income from non-life insurance policies	2,614	1,668
Gross premium income	**12,060**	**9,424**

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	
	2017	2016	2017	2016	2017	2016
Direct gross premiums written	9,416	7,738	2,621	1,661	12,037	9,399
Reinsurance assumed gross premiums written	30	18	-7	7	23	25
Gross premiums written	**9,446**	**7,756**	**2,614**	**1,668**	**12,060**	**9,424**
Reinsurance ceded	-208	-143	-129	-35	-337	-178
Premiums written net of reinsurance	**9,238**	**7,613**	**2,485**	**1,633**	**11,723**	**9,246**

Non-life premiums earned – net of reinsurance

	2017	2016
Direct gross premiums earned	2,675	1,674
Reinsurance assumed gross premiums earned	-13	7
Gross premiums earned	**2,662**	**1,681**
Reinsurance ceded	-133	-35
Non-life premiums earned – net of reinsurance	**2,529**	**1,646**

Reinsurance ceded is included in Underwriting expenditure. Reference is made to Note 25 'Underwriting expenditure'.

Notes to the Consolidated annual accounts Continued

22 Investment income

Investment income includes EUR 674 million relating to Delta Lloyd for the period from acquisition until 31 December 2017.

Investment income

	2017	2016
Interest income from investments in debt securities	1,848	1,689
Interest income from loans:		
– unsecured loans	199	155
– mortgage loans	1,223	1,023
– policy loans	7	7
– other	61	51
Interest income from investments in debt securities and loans	**3,338**	**2,925**
Realised gains/losses on disposal of available-for-sale debt securities	580	277
Impairments of available-for-sale debt securities	-9	-4
Realised gains/losses and impairments of available-for-sale debt securities	**571**	**273**
Realised gains/losses on disposal of available-for-sale equity securities	648	101
Impairments of available-for-sale equity securities	-58	-92
Realised gains/losses and impairments of available-for-sale equity securities	**590**	**9**
Interest income on non-trading derivatives	272	202
Increase in loan loss provisions	-100	-14
Income from real estate investments	138	93
Dividend income	268	254
Change in fair value of real estate investments	198	59
Investment income	**5,275**	**3,801**

Amounts for 2016 have been restated for the changed classification of interest income/expense on derivatives for which no hedge accounting is applied. Reference is made to Note 1 'Accounting policies' for more details.

Impairments on investments by segment

	2017	2016
Netherlands Life	-63	-72
Netherlands Non-life	-2	-3
Insurance Europe		-13
Japan Life		-3
Asset Management		-1
Other	-2	-4
Impairments on investments	**-67**	**-96**

Notes to the Consolidated annual accounts Continued

23 Net fee and commission income
Net fee and commission income includes EUR 188 million relating to Delta Lloyd for the period from acquisition until 31 December 2017.

Net fee and commission income

	2017	2016
Asset management fees	928	717
Insurance brokerage and advisory fees	111	81
Other	148	138
Gross fee and commission income	**1,187**	**936**
Trailer fees	240	230
Asset management fees	45	36
Commission expenses and other	97	74
Fee and commission expenses	**382**	**340**
Net fee and commission income	**805**	**596**

24 Valuation results on non-trading derivatives
Valuation results on non-trading derivatives include EUR 73 million relating to Delta Lloyd for the period from acquisition until 31 December 2017.

Valuation results on non-trading derivatives

	2017	2016
Change in fair value of derivatives relating to:		
– fair value hedges	-212	69
– cash flow hedges (ineffective portion)	-19	39
– other non-trading derivatives	-487	-35
Net result on non-trading derivatives	**-718**	**73**
Change in fair value of assets and liabilities (hedged items)	213	-78
Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading)	-8	19
Valuation results on non-trading derivatives	**-513**	**14**

Amounts for 2016 have been restated for the changed classification of interest income/expense on derivatives for which no hedge accounting is applied. Reference is made to Note 1 'Accounting policies' for more details.

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 25 '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 37 'Derivatives and hedge accounting'.

Notes to the Consolidated annual accounts Continued

25 Underwriting expenditure

Underwriting expenditure includes EUR 2,414 million relating to Delta Lloyd for the period from acquisition until 31 December 2017.

Underwriting expenditure

	2017	2016
Gross underwriting expenditure:		
– before effect of investment result for risk of policyholder	12,518	10,434
– effect of investment result for risk of policyholder	1,622	1,156
Gross underwriting expenditure	**14,140**	**11,590**
Investment result for risk of policyholders	-1,622	-1,156
Reinsurance recoveries	-187	-116
Underwriting expenditure	**12,331**	**10,318**

The investment income and valuation results regarding investments for risk of policyholders is EUR 1,622 million (2016: EUR 1,156 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

	2017	2016
Expenditure from life underwriting:		
– reinsurance and retrocession premiums	208	143
– gross benefits	13,998	10,527
– reinsurance recoveries	-118	-92
– change in life insurance liabilities	-4,734	-2,351
– costs of acquiring insurance business	478	493
– other underwriting expenditure	117	86
– profit sharing and rebates	37	32
Expenditure from life underwriting	**9,986**	**8,838**
Expenditure from non-life underwriting:		
– reinsurance and retrocession premiums	129	35
– gross claims	1,774	1,154
– reinsurance recoveries	-69	-24
– changes in the liabilities for unearned premiums	-44	-13
– changes in claims liabilities	141	46
– costs of acquiring insurance business	404	259
– other underwriting expenditure	-16	2
Expenditure from non-life underwriting	**2,319**	**1,459**
Expenditure from investment contracts	**26**	**21**
Underwriting expenditure	**12,331**	**10,318**

Notes to the Consolidated annual accounts Continued

25 Underwriting expenditure Continued

Profit sharing and rebates

	2017	2016
Distributions on account of interest or underwriting results	-11	-26
Bonuses added to policies	48	58
Profit sharing and rebates	**37**	**32**

The total costs of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 882 million (2016: EUR 752 million). This includes amortisation and unlocking of DAC of EUR 613 million (2016: EUR 575 million) and the net amount of commissions paid of EUR 1,032 million (2016: EUR 804 million) and commissions capitalised in DAC of EUR 763 million (2016: EUR 627 million).

The total amount of commission paid and commission payable amounted to EUR 1,164 million (2016: EUR 881 million). This includes the commissions recognised in 'costs of acquiring insurance business' of EUR 1,032 million (2016: EUR 804 million) referred to above and commissions recognised in 'other underwriting expenditure' of EUR 132 million (2016: EUR 77 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 56 million (2016: EUR 15 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 24 '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 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'.

26 Intangible amortisation and other impairments

Intangible amortisation and other impairments include EUR 100 million relating to Delta Lloyd for the period from acquisition until 31 December 2017.

Intangible amortisation and other impairments

	2017	2016
Property and equipment	1	1
Other intangible assets	8	11
Other impairments and reversals of other impairments	**9**	**12**
Amortisation of other intangible assets	109	7
Intangible amortisation and other impairments	**118**	**19**

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

Notes to the Consolidated annual accounts Continued

27 Staff expenses

Staff expenses include EUR 320 million relating to Delta Lloyd for the period from acquisition until 31 December 2017.

Staff expenses

	2017	2016
Salaries	802	643
Variable salaries	104	72
Pension costs	141	102
Social security costs	124	98
Share-based compensation arrangements	17	15
External staff costs	261	205
Education	21	14
Other staff costs	47	25
Staff expenses	**1,517**	**1,174**

Pension costs

	2017	2016
Current service cost	9	5
Net interest cost	-1	1
Effect of curtailment or settlement		-1
Defined benefit plans	**8**	**5**
Defined contribution plans	133	97
Pension costs	**141**	**102**

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 32 '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 47 '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)	
	2017	2016	2017	2016
Share awards outstanding – opening balance	834,515	1,164,708	25.23	19.54
Granted	417,149	410,156	31.00	29.50
Performance effect	-33,652	144,168	17.91	14.48
Vested	-495,377	-822,252	24.80	18.09
Forfeited	-60,055	-62,265	26.32	20.06
Share awards outstanding – closing balance	**662,580**	**834,515**	**29.62**	**25.23**

Notes to the Consolidated annual accounts Continued

27 Staff expenses Continued

In 2017, 35,802 share awards on NN Group shares (2016: 63,311) were granted to the members of the Executive and Management Board. In 2017, 381,347 share awards on NN Group shares (2016: 346,845) were granted to senior management and other employees.

As at 31 December 2017 the share awards on NN Group shares consist of 639,199 (2016: 816,135) share awards relating to equity-settled share-based payment arrangements and 23,381 (2016: 18,380) 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 2017 total unrecognised compensation costs related to share awards amount to EUR 7 million (2016: EUR 8 million). These costs are expected to be recognised over a weighted average period of 1.4 years (2016: 1.4 years).

Sharesave Plan

In August 2014, NN Group introduced a 'Sharesave' plan which was open to all employees. Under the plan, from August 2014 eligible employees could save a fixed monthly amount of between EUR 25 and EUR 250 for a period of three years. The Sharesave plan ended in 2017. At the end of this three-year period, employees received their savings together with a gross gain, as at the end of the three-year period the NN Group share price exceeded the initial trading price of NN Group shares on the Euronext Amsterdam on 7 July 2014. The gross gain was limited to a 100% increase in the share price and was paid in cash.

28 Interest expenses

Interest expenses include EUR 70 million relating to Delta Lloyd for the period from acquisition until 31 December 2017.

Interest expenses

	2017	2016
Interest expenses on non-trading derivatives	33	11
Other interest expenses	302	334
Interest expenses	**335**	**345**

Amounts for 2016 have been restated for the changed classification of interest income/expense on derivatives for which no hedge accounting is applied. Reference is made to Note 1 'Accounting policies' for more details.

In 2017, total interest income and total interest expenses for items not valued at fair value through profit or loss were EUR 3,338 million (2016: EUR 2,925 million) and EUR 302 million (2016: EUR 334 million) respectively.

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

Total net interest income

	2017	2016
Investment income	3,610	3,127
Interest expenses on non-trading derivatives	-33	-11
Other interest expenses	-302	-334
Total net interest income	**3,275**	**2,782**

29 Other operating expenses

Other operating expenses include EUR 177 million relating to Delta Lloyd for the period from acquisition until 31 December 2017.

Other operating expenses

	2017	2016
Depreciation of property and equipment	23	19
Amortisation of software	24	18
Computer costs	221	208
Office expenses	116	101
Travel and accommodation expenses	20	15
Advertising and public relations	79	86
External advisory fees	265	94
Addition/(releases) of provisions for reorganisation and relocations	98	56
Other	145	152
Other operating expenses	**991**	**749**

Notes to the Consolidated annual accounts Continued

29 Other operating expenses Continued

Other operating expenses includes lease and sublease payments for office buildings of EUR 51 million (2016: EUR 40 million) and lease and sublease payments for cars and other equipment of EUR 16 million (2016: EUR 11 million). These expenses are in respect of operating leases in which NN Group is the lessee.

30 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)	
	2017	2016	2017	2016	2017	2016
Net result	2,110	1,189				
Coupon on undated subordinated notes	-52	-34				
Basic earnings per ordinary share	**2,058**	**1,155**	**331.1**	**325.3**	**6.21**	**3.55**
Dilutive instruments:						
- Warrants			0.0	0.0		
- Share plans			0.7	0.8		
			0.7	**0.8**		
Diluted earnings per ordinary share	**2,058**	**1,155**	**331.8**	**326.1**	**6.20**	**3.54**

Diluted earnings per share is calculated as if the share plans and 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.

31 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.

Operating result (before tax) is used by NN Group to evaluate the financial performance of its segments.

Notes to the Consolidated annual accounts Continued

31 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. 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.

Following the acquisition of Delta Lloyd, the segments remain unchanged. Delta Lloyd entities/businesses have been allocated to the relevant existing segment. The main Delta Lloyd entities have been allocated as follows:
- Delta Lloyd Levensverzekering N.V. is allocated to Netherlands Life
- Delta Lloyd Schadeverzekering N.V. is allocated to Netherlands Non-life
- Delta Lloyd Life N.V. (Belgium) is allocated to Insurance Europe
- Delta Lloyd Bank N.V. is allocated to Other

Acquisition related intangibles (including goodwill) and related amortisation are recognised in the head office, which is presented in 'Other'.

Segments (2017)

2017	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other	Japan Closed Block VA	Total
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 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.

Notes to the Consolidated annual accounts Continued

31 Segments Continued

Segments (2016)

2016	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other	Japan Closed Block VA	Total
Investment margin	745		72	-21			-2	793
Fees and premium-based revenues	336		548	589	463		57	1,993
Technical margin	93		201	-33				261
Operating income non-modelled life business			3					3
Operating income	**1,175**	**0**	**824**	**535**	**463**	**0**	**55**	**3,051**
Administrative expenses	426		320	120	330		15	1,211
DAC amortisation and trail commissions	39		310	260			7	615
Expenses	**465**	**0**	**629**	**381**	**330**	**0**	**22**	**1,826**
Non-life operating result		62	4					66
Operating result other						-30		-30
Operating result	**710**	**62**	**198**	**154**	**133**	**-30**	**33**	**1,260**
Non-operating items:								
– gains/losses and impairments	179	23	73		-1	5		279
– revaluations	282	27	6	-8		-12		296
– market & other impacts	-10		-9				-132	-151
Special items before tax	-14	-7	-44	-5	-6	-30		-107
Result on divestments						-114		-114
Result before tax	**1,147**	**104**	**224**	**141**	**126**	**-181**	**-99**	**1,463**
Taxation	178	17	66	31	32	-27	-24	273
Minority interests	1							1
Net result	**968**	**87**	**158**	**111**	**94**	**-153**	**-75**	**1,189**

Special items in 2016 reflect restructuring expenses related to the target to reduce the administrative expense base of Netherlands Life, Netherlands Non-life and corporate/holding entities, rebranding expenses and the disentanglement-related IT expenses in Belgium.

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

Gross premium income and investment income by segment (2016)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other and eliminations	Japan Closed Block VA	Total segments
Gross premium income	2,231	1,578	2,360	3,230		21	4	9,424
Investment income	2,550	140	476	165		102	368	3,801

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**

Notes to the Consolidated annual accounts Continued

31 Segments Continued

Interest income and interest expenses by segment (2016)

	Netherlands Life	Netherlands Non-life	Insurance Europe	Japan Life	Asset Management	Other and eliminations	Japan Closed Block VA	Total segments
Interest income	2,020	104	387	149		99	368	3,127
Interest expenses	-118	-1		-2		38	-262	-345
Interest income and interest expenses	**1,902**	**103**	**387**	**147**	**0**	**137**	**106**	**2,782**

Amounts for 2016 have been restated for the change in NN Group's classification of interest income/expense on derivatives for which no hedge accounting is applied. Reference is made to Note 1 'Accounting policies' for more details.

Total assets and Total liabilities by segment

	Total assets 2017	Total liabilities 2017	Total assets 2016	Total liabilities 2016
Netherlands Life	140,126	123,100	95,743	79,205
Netherlands Non-life	7,320	6,273	4,309	3,614
Insurance Europe	29,496	27,100	20,712	18,881
Japan Life	16,248	14,121	15,957	13,661
Asset management	715	268	618	220
Other	57,834	32,913	49,732	25,901
Japan Closed Block VA	6,271	5,920	11,189	10,606
Total segments	**258,010**	**209,695**	**198,260**	**152,088**
Eliminations	-30,948	-7,432	-29,760	-7,281
Total assets and Total liabilities	**227,062**	**202,263**	**168,500**	**144,807**

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, goodwill impairments, results related to early redemption of debt, and gains/losses from employee pension plan amendments or curtailments.
- Amortisation of acquisition intangibles: 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 in the line 'amortisation of acquisition intangibles'.

Notes to the Consolidated annual accounts Continued

31 Segments Continued

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. 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 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. 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 impact equity in total for NN Group. Adjusted allocated equity is an Alternative Performance Measure that is not a measure under IFRS-EU. Adjusted allocated equity as applied by NN Group may not be comparable to other similarly titled measures of other companies. Adjusted allocated equity is reconciled to IFRS Total equity as follows:

Adjusted allocated equity

	2017	2016
IFRS Total equity	24,799	23,693
Revaluation reserves, Goodwill and Intangible assets recognised upon the acquisition of Delta Lloyd	-10,023	-10,243
Undated subordinated notes	-1,764	-986
Equity of Japan Closed Block VA	-351	-582
Adjusted allocated equity ongoing business	**12,661**	**11,882**

Amounts for 2016 have been restated for the change in NN Group's accounting policy for the Reserve Adequacy Test. Reference is made to Note 1 'Accounting policies' for more details.

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

32 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 (2017)

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						
Delta Lloyd Bank N.V.	Banking						
NN Investment Partners Holdings N.V.	Asset management						
Delta Lloyd Asset Management 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		**9,316**	**10,272**	**172,577**	**1,793**	**283**	**-12**
NN Life Insurance Company, Ltd.	Life insurance						
NN Investment Partners (Japan) Co., Ltd.	Asset management						
Japan		**848**	**3,179**	**22,230**	**184**	**56**	**96**
NN Insurance Belgium nv	Life insurance						
Delta Lloyd Life N.V.	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**	**745**	**4,896**	**70**	**9**	**7**
NN Life Luxembourg S.A.[4]	Life insurance						
NN Investment Partners Luxembourg S.A.	Asset management						
Luxembourg		**72**	**384**	**117**	**65**	**9**	**7**
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**	**325**	**1,437**	**25**	**3**	**2**
NN Hellenic Life Insurance Co. S.A.	Life insurance						
Greece		**441**	**447**	**1,587**	**2**	**-10**	**-7**
NN Životní pojišťovna N.V. (pobočka pro Českou republiku)	Life insurance						

Notes to the Consolidated annual accounts Continued

32 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
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	
NN Hayat ve Emeklilik A.S.	Life insurance						
Turkey		479	60	106	-10	-1	
NN Pensionno-Osigoritelno Druzestvo EAD	Pensions						
Switzerland		4		1	2		
Bulgaria		124	23	77	2		
United Kingdom		9	14	353	14		2
Germany		11	67	647	74	2	2
France		8	26	495	11	1	
Italy			17	298	34		1
Hong Kong				3			
Singapore		35		12	4	1	1
Argentina		2		2			
Mexico		1	1	7	-1		
United States		17		3	3	1	
Denmark			11	114	10		
Total[5]		14,971	17,816	227,062	2,524	392	124

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.
4 Until disposal in 2017
5 As of 2017, 'Other' is presented by individual country

Notes to the Consolidated annual accounts Continued

32 Principal subsidiaries and geographical information Continued
Principal subsidiaries and geographical information (2016)

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						
Nationale-Nederlanden 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						
NN Re (Netherlands) N.V.	Reinsurance						
Movir N.V.	General insurance						
Private Equity Investments II B.V.	Private equity						
The Netherlands		**6,316**	**7,017**	**119,285**	**981**	**153**	**71**
NN Life Insurance Company, Ltd.	Life insurance						
NN Investment Partners (Japan) Co., Ltd.	Asset management						
Japan		**787**	**3,482**	**26,422**	**46**	**9**	**63**
NN Insurance Belgium nv	Life insurance						
NN Investment Partners Belgium S.A.	Asset management						
NN Insurance Services Belgium nv	General insurance						
Belgium		**361**	**817**	**6,267**	**115**	**38**	**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		**446**	**626**	**4,905**	**52**	**14**	**5**
NN Life Luxembourg S.A.	Life insurance						
NN Investment Partners Luxembourg S.A.	Asset management						
Luxembourg		**102**	**348**	**2,553**	**27**	**4**	**6**
Nationale-Nederlanden Towarzystwo Ubezpieczeń na Życie S.A.	Life insurance						
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	Pensions						
Poland		**801**	**427**	**2,118**	**86**	**19**	**12**
NN Biztosító Zártkörûen Mûködõ Részvénytársaság	Life insurance						
Hungary		**359**	**271**	**1,298**	**11**	**5**	**2**
NN Hellenic Life Insurance Co. S.A.	Life insurance						
Greece		**452**	**430**	**1,375**	**-17**	**5**	**-3**
NN Životní pojišťovna N.V. (pobočka pro Českou republiku)	Life insurance						
Czech Republic		**444**	**187**	**1,186**	**30**	**7**	**5**
NN Asigurari de Viata S.A.	Life insurance						
Romania		**491**	**188**	**841**	**30**	**4**	**3**
NN Životná poisťovna, a.s.	Life insurance						
Slovak Republic		**251**	**96**	**528**	**10**	**3**	**1**
NN Hayat ve Emeklilik A.S.	Life insurance						
Turkey		**439**	**50**	**121**	**-16**	**-2**	

Notes to the Consolidated annual accounts Continued

32 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
NN Pensionno-Osigoritelno Druzestvo EAD	Pensions						
Bulgaria		**126**	**21**	**63**	**1**		
Germany		**12**	**52**	**586**	**53**	**10**	**6**
France		**8**	**28**	**568**	**20**	**-1**	**5**
Italy			**20**	**238**	**20**	**2**	
Denmark			**3**	**106**	**2**		
Other		**68**	**5**	**40**	**12**	**3**	**4**
Total		**11,463**	**14,068**	**168,500**	**1,463**	**273**	**197**

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.

Amounts for 2016 have been restated for the change in NN Group's accounting policy for the Reserve Adequacy Test. Reference is made to Note 1 'Accounting policies' for more details.

33 Taxation

The decrease in Deferred tax from EUR 2,944 million as at 31 December 2016 to EUR 1,705 million as at 31 December 2017 includes EUR -1,002 million recognised on the acquisition of Delta Lloyd. For more information, reference is made to Note 44 'Companies and businesses acquired and divested'.

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 and VOBA	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 utilise of tax losses against taxable profits in The Netherlands.

Notes to the Consolidated annual accounts Continued

33 Taxation Continued

Deferred tax (2016)

	Net liability 2015	Changes through equity	Changes through net result	Changes in the composition of the group and other changes	Exchange rate differences	Net liability 2016
Investments	2,761	714		-65	26	3,436
Real estate investments	138		14	79		231
Financial assets and liabilities at fair value through profit or loss	14		8			22
Deferred acquisition costs and VOBA	357		4	-1	15	375
Depreciation	-5		2	1		-2
Insurance liabilities	-2,040	-219	-18	7	1	-2,269
Cash flow hedges	1,347	134				1,481
Pension and post-employment benefits	17	-4	3		-2	14
Other provisions	-21	1	-8			-28
Receivables	-26		-7		2	-31
Loans	-27		-2	30		1
Unused tax losses carried forward	-546		170	7	-2	-371
Other	85	15	21	-40	4	85
Deferred tax	**2,054**	**641**	**187**	**18**	**44**	**2,944**
Presented in the balance sheet as:						
Deferred tax liabilities	2,098					2,979
Deferred tax assets	-44					-35
Deferred tax	**2,054**					**2,944**

Deferred tax on unused tax losses carried forward

	2017	2016
Total unused tax losses carried forward	700	1,723
Unused tax losses carried forward not recognised as a deferred tax asset	-253	-249
Unused tax losses carried forward recognised as a deferred tax asset	447	1,474
Average tax rate	25.3%	25.2%
Deferred tax asset	**113**	**371**

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	
	2017	2016	2017	2016
Within 1 year	28	29	24	16
More than 1 year but less than 5 years	89	95	26	498
More than 5 years but less than 10 years	43	41		312
Unlimited	93	84	397	648
Total unused tax losses carried forward	**253**	**249**	**447**	**1,474**

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.

As at 31 December 2017 and 31 December 2016, 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 32 'Principal subsidiaries and geographical information' for more information on the taxation per country.

Notes to the Consolidated annual accounts Continued

33 Taxation Continued

Taxation on result

	2017	2016
Current tax	156	86
Deferred tax	236	187
Taxation on result	**392**	**273**

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

	2017	2016
Result before tax	2,524	1,463
Weighted average statutory tax rate	24.6%	25.4%
Weighted average statutory tax amount	**622**	**372**
Associates exemption	-16	-70
Other income not subject to tax	-196	-44
Expenses not deductible for tax purposes	3	4
Impact on deferred tax from change in tax rates	9	-9
Deferred tax benefit for previously not unrecognised amounts	-3	2
Tax for non-recognised losses	2	
Current tax benefit from previously unrecognised amounts		7
Write-off/reversal of deferred tax assets	-11	
Adjustments to prior periods	-18	11
Effective tax amount	**392**	**273**
Effective tax rate	**15.5%**	**18.7%**

The weighted average statutory tax rate for 2017 was broadly stable at 24.6% versus 25.4% for 2016.

In 2017, the effective tax rate of 15.5% was significantly lower than the weighted average statutory tax rate of 24.6%, mainly caused by tax exempt income and certain prior year adjustments following settlement with the tax authorities in the Netherlands. The effective tax rate of 15.5% was lower than the effective tax rate of 18.7% in 2016 as a result of higher tax exempt income and prior year adjustments with a positive tax impact in 2017.

Taxation on components of other comprehensive income

	2017	2016
Unrealised revaluations available-for-sale investments and other	338	-778
Realised gains/losses transferred to the profit and loss account	198	52
Changes in cash flow hedge reserve	240	-134
Deferred interest credited to policyholders	-248	219
Remeasurement of the net defined benefit asset/liability	1	4
Income tax	**529**	**-637**

Notes to the Consolidated annual accounts Continued

34 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	
	2017	2016	2017	2016
Financial assets				
Cash and cash equivalents	9,383	8,634	9,383	8,634
Financial assets at fair value through profit or loss:				
– investments for risk of policyholders	33,508	30,711	33,508	30,711
– non-trading derivatives	5,116	4,421	5,116	4,421
– designated as at fair value through profit or loss	934	873	934	873
Available-for-sale investments	104,982	79,767	104,982	79,767
Loans	59,280	36,470	56,343	33,920
Financial assets	**213,203**	**160,876**	**210,266**	**158,326**
Financial liabilities				
Subordinated debt	2,870	2,366	2,468	2,288
Debt securities issued	2,047	614	1,988	598
Other borrowed funds	8,096	7,757	7,991	7,646
Investment contracts for risk of company	1,136	741	1,088	696
Investment contracts for risk of policyholders	749	1,615	749	1,615
Customer deposits and other funds on deposit	14,910	10,671	14,434	10,224
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	2,305	2,008	2,305	2,008
Financial liabilities	**32,113**	**25,772**	**31,023**	**25,075**

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.

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.

Notes to the Consolidated annual accounts Continued

34 Fair value of financial assets and liabilities Continued

Financial assets and liabilities at fair value through profit or loss

Derivatives

Derivative contracts can either be exchange-traded or over the counter (OTC). The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and those derivatives are classified in Level 1 of the fair value hierarchy. For those instruments that are not actively traded, the fair value is estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques because quoted market prices in an active market are not available for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. The principal techniques used to value these instruments are based on discounted cash flows, Black-Scholes option models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows, based on 'no arbitrage' principles. These models are commonly used in the financial industry. Inputs to valuation models are determined from observable market data where possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via valuation model calibration procedures. The inputs used include prices available from exchanges, dealers, brokers or providers of pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

Available-for-sale investments

Equity securities

The fair value of publicly traded equity securities is determined using quoted market prices when available. Where no quoted market prices are available, fair value is determined based on quoted prices for similar securities or other valuation techniques. The fair value of private equity is based on quoted market prices, if available. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and revenue multiples and by reference to market valuations for similar entities quoted in an active market.

Debt securities

The fair value for debt securities is based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, industry group, pricing service or regulatory service. If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which may include values obtained from one or more pricing services or by a valuation technique that discounts expected future cash flows using market interest rate curves, referenced credit spreads, maturity of the investment and estimated prepayment rates where applicable.

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.

Notes to the Consolidated annual accounts Continued

34 Fair value of financial assets and liabilities Continued

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 (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 (for contracts at fair value)	749			749
Non-trading derivatives	72	2,083	150	2,305
Financial liabilities	**821**	**2,083**	**150**	**3,054**

Methods applied in determining the fair value of financial assets and liabilities at fair value (2016)

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments for risk of policyholders	28,947	941	823	30,711
Non-trading derivatives	17	4,185	219	4,421
Financial assets designated as at fair value through profit or loss	619	254		873
Available-for-sale investments	59,128	19,432	1,207	79,767
Financial assets	**88,711**	**24,812**	**2,249**	**115,772**
Financial liabilities				
Investment contracts (for contracts at fair value)	1,599	16		1,615
Non-trading derivatives	64	1,726	218	2,008
Financial liabilities	**1,663**	**1,742**	**218**	**3,623**

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.

Notes to the Consolidated annual accounts Continued

34 Fair value of financial assets and liabilities Continued

Level 2 – Valuation technique supported by observable inputs

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable the instrument is still classified in this category, provided that the impact of those unobservable inputs elements on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices but for which there was insufficient evidence of an active market.

Level 3 – Valuation technique supported by unobservable inputs

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model) for which more than an insignificant part of the inputs in terms of the overall valuation are not market observable. This category also includes financial assets and liabilities whose fair value is determined by reference to price quotes but for which the market is considered inactive. An instrument is classified in its entirety as Level 3 if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which the price at which an orderly transaction would likely occur can be derived.

Changes in Level 3 Financial assets (2017)

	Investments for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit or loss	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		7		270	277
Exchange rate differences				-10	-10
Level 3 Financial assets – closing balance	**803**	**148**	**0**	**1,348**	**2,299**

Changes in Level 3 Financial assets (2016)

	Investments for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit or loss	Available-for-sale investments	Total
Level 3 Financial assets – opening balance	813	208	2	1,587	2,610
Amounts recognised in the profit and loss account	-1			-6	-7
Revaluations recognised in other comprehensive income (equity)				15	15
Purchase	26	11		400	437
Sale	-15		-2	-10	-27
Maturity/settlement				-149	-149
Other transfers and reclassifications				-312	-312
Transfers out of Level 3				-286	-286
Exchange rate differences				-32	-32
Level 3 Financial assets – closing balance	**823**	**219**	**0**	**1,207**	**2,249**

Transfers out of Level 3 and reclassification

Reclassification mainly relate to the transfer of certain investments in real estate funds to associates and joint ventures due to an increase in level of influence. Reference is made to Note 6 'Associates and joint ventures' for more information.

In 2016, Transfers out of Level 3 reflect certain asset backed securities for which market liquidity has improved and as a result are classified as Level 2.

Notes to the Consolidated annual accounts Continued

34 Fair value of financial assets and liabilities Continued

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**

Changes in Level 3 Financial liabilities (2016)

	Non-trading derivatives
Level 3 Financial liabilities – opening balance	207
Amounts recognised in the profit and loss account	1
Purchase	16
Sale	-6
Level 3 Financial liabilities – closing balance	**218**

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 – Amounts recognised in the profit and loss account during the year (2016)

	Held at balance sheet date	Derecognised during the period	Total
Financial assets			
Investments for risk of policyholders	-1		-1
Available-for-sale investments	-6		-6
Financial assets	**-7**	**0**	**-7**
Financial liabilities			
Non-trading derivatives	1		1
Financial liabilities	**1**	**0**	**1**

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2017 of EUR 144,540 million (2016: EUR 115,772 million) include an amount of EUR 2,299 million (1.6%) that is classified as Level 3 (2016: EUR 2,249 million (1.9%). Changes in Level 3 are disclosed above in the table 'Level 3 Financial assets'.

Financial assets in Level 3 include both assets for which the fair value was determined using valuation techniques that incorporate unobservable inputs and assets for which the fair value was determined using quoted prices, but for which the market was not actively trading at or around the balance sheet date. Unobservable inputs are inputs which are based on NN Group's own assumptions about the factors that market participants would use in pricing an asset, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads. Fair values that are determined using valuation techniques using unobservable inputs are sensitive to the inputs used. Fair values that are determined using quoted prices are not sensitive to unobservable inputs, as the valuation is based on unadjusted external price quotes. These are classified in Level 3 as a result of the illiquidity in the relevant market, but are not significantly sensitive to NN Group's own unobservable inputs.

Notes to the Consolidated annual accounts Continued

34 Fair value of financial assets and liabilities Continued

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 803 million as at 31 December 2017 (2016: EUR 823 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 148 million as at 31 December 2017 (2016: EUR 219 million).

Available-for-sale

The available-for-sale investments classified as 'Level 3 Financial assets' amounted EUR 1,348 million as at 31 December 2017 (2016: EUR 1,207 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 135 million (2016: EUR 120 million), being approximately 0.6% (before tax) (2016: 0.5% (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 2017 of EUR 150 million (2016: EUR 218 million) relates to non-trading derivative positions. EUR 147 million relates to derivatives used to hedge the interest rate risk associated with the funding position of NN Bank. EUR 3 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 15 million.

Notes to the Consolidated annual accounts Continued

34 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 (2017)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	9,383			9,383
Loans	781	23,820	34,679	59,280
Financial assets	**10,164**	**23,820**	**34,679**	**68,663**
Financial liabilities				
Subordinated debt	2,858	12		2,870
Debt securities issued	2,047			2,047
Other borrowed funds	1,355	5,733	1,008	8,096
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**	**13,101**	**1,695**	**29,059**

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (2016)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	8,634			8,634
Loans	1,135	4,507	30,828	36,470
Financial assets	**9,769**	**4,507**	**30,828**	**45,104**
Financial liabilities				
Subordinated debt	1,538	828		2,366
Debt securities issued	614			614
Other borrowed funds	1,500	2,788	3,469	7,757
Investment contracts for risk of company	18		723	741
Customer deposits and other funds on deposit	5,828	4,843		10,671
Financial liabilities	**9,498**	**8,459**	**4,192**	**22,149**

Notes to the Consolidated annual accounts Continued

35 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	
	2017	2016	2017	2016
Real estate investments	3,582	2,028	3,582	2,028
Property in own use	82	41	82	41
Fair value of non-financial assets	**3,664**	**2,069**	**3,664**	**2,069**

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 (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**

Methods applied in determining the fair value of non-financial assets at fair value (2016)

	Level 1	Level 2	Level 3	Total
Real estate investments			2,028	2,028
Property in own use			41	41
Non-financial assets	**0**	**0**	**2,069**	**2,069**

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
Purchase	245	
Changes in the composition of the group and other changes	1,215	44
Sale	-104	
Amounts recognised in the profit and loss account during the year	198	-3
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 44 'Companies and businesses acquired and divested'.

Changes in Level 3 non-financial assets (2016)

	Real estate investments	Property in own use
Level 3 non-financial assets – opening balance	1,564	42
Purchase	400	5
Changes in the composition of the group and other changes	5	
Revaluation recognised in equity during the year		-4
Amounts recognised in the profit and loss account during the year	59	-2
Level 3 non-financial assets – closing balance	**2,028**	**41**

Notes to the Consolidated annual accounts Continued

35 Fair value of non-financial assets Continued

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**

Level 3 – Amounts recognised in the profit and loss account during the year on non-financial assets (2016)

	Held at balance sheet date	Derecognised during the year	Total
Real estate investments	59		59
Property in own use	-2		-2
Level 3 Amounts recognised in the profit and loss account during the year on non-financial assets	**57**	**0**	**57**

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, capitalisation of income methods and/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. 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:

Significant assumptions

	Fair value	Valuation technique	Current rent/m²	ERV/m²	Net initial yield %	Vacancy %	Average lease term in years
The Netherlands							
Residential (portfolio)	1,116	DCF	8.4	8.6	4.4	1.6	
Residential (after rent for sale)	17	DCF	n/a	n/a	2.2		
Residential (newly built properties)	101	DCF	n/a	n/a	4.5	n/a	
Industrial	52	DCF	47-49	46-49	5.3		8.1
Commercial	10	DCF	n/a	n/a	7.1		
Office	94	DCF	204	321	5.2	25	5.7
Other	36	DCF	n/a	n/a	n/a	n/a	
Germany							
Industrial	213	DCF	42-102	43-102	5.2-7.3	2	4.6
Retail	312	DCF	198-384	191-383	4.4-4.6	5	7.1
Office	87	Income Capitalisation	261	242	4.1		3.1
France							
Industrial	129	DCF	42-80	42-77	5.5-12.4	2	5.6
Industrial	97	Income Capitalisation	33-50	34-55	1.7-6.2	3	5.3
Office	143	DCF	509-597	487-638	4.1-5.6		2.7
Spain							
Industrial	126	Income Capitalisation	18-85	24-85	0.7-7.6	16	2.6
Retail	282	DCF	194-264	190-274	5.2-6.1	8	4.8

Notes to the Consolidated annual accounts Continued

35 Fair value of non-financial assets Continued

	Fair value	Valuation technique	Current rent/m²	ERV/m²	Net initial yield %	Vacancy %	Average lease term in years
Italy							
Retail	279	DCF	208-858	170-850	3.5-6.9	4	7.1
Belgium							
Residential	44	DCF	8.5	8.6	4.2	1.4	
Industrial	22	DCF	57	43	9.2		0.6
Industrial	3	Income Capitalisation	49	44	7.0		8.0
Retail	132	DCF	102-296	125-300	4.4-6.7	7	4.1
Office	13	DCF	179	191	5.0	17	7.0
Office	15	Income Capitalisation	166	83	6.0	11	3.0
Denmark							
Residential	94	DCF	244	252	4.4	1	n.a.
Industrial	17	DCF	151	128	6.4		12.2
Poland							
Retail	98	DCF	153	162	6.6	5.6	3.5
Real estate under construction and other	50						
Total real estate	**3,582**						

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.

36 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 hedged 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 during the hedge 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 2016, NN Group started a 'spread lock programme'. A spread lock is a generic term for a range of products that seek to 'lock' the portion of a bond's value that is driven by changes in credit spread only. The aim of the programme is to help stabilise (in an advantageous position) and improve own funds via hedging the credit spread volatility in core government bonds. As at 31 December 2017, the face value of outstanding spread lock trades totalled EUR 3,909 million (2016: EUR 800 million) in core government bonds.

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.

Notes to the Consolidated annual accounts Continued

36 Derivatives and hedge accounting Continued

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 2017, NN Group recognised EUR -714 million (2016: EUR 406 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 2017 is EUR 4,962 million (2016: EUR 5,916 million) gross and EUR 3,721 million (2016: EUR 4,435 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 44 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 -19 million income (2016: EUR 39 million income) which was recognised in the profit and loss account.

As at 31 December 2017, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 2,924 million (2016: EUR 2,027 million), presented in the balance sheet as EUR 3,351 million (2016: EUR 2,398 million) positive fair value under assets and EUR 427 million (2016: EUR 371 million) negative fair value under liabilities.

As at 31 December 2017 and 2016 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 178 million (2016: EUR 203 million) and EUR 8 million (2016: EUR 11 million), respectively, relating to derivatives used in cash flow hedges.

Fair value hedge accounting

NN Group's fair value hedges principally consist of interest rate swaps and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates.

Gains and losses on derivatives designated under fair value hedge accounting are recognised in the profit and loss account. The effective portion of the fair value change on the hedged item is also recognised in the profit and loss account. As a result, only the net accounting ineffectiveness has an impact on the net result.

For the year ended 31 December 2017, NN Group recognised EUR -212 million (2016: EUR 69 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 213 million (2016: EUR -78 million) fair value changes recognised on hedged items. This resulted in EUR 1 million (2016: EUR -9 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2017, the fair value of outstanding derivatives designated under fair value hedge accounting was EUR -345 million (2016: EUR -54 million), presented in the balance sheet as EUR 56 million (2016: EUR 91 million) positive fair value under assets and EUR 401 million (2016: EUR 145 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 its 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.

Notes to the Consolidated annual accounts Continued

37 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 (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	612	627	794	5,151	49,157	2	56,343
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	1,189	2,528	888	220	343	-91	5,077
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.

Assets by contractual maturity (2016)

	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	7,762	872					8,634
Financial assets at fair value through profit or loss:							
– investments for risk of policyholders[2]						30,711	30,711
– non-trading derivatives	19	68	292	1,027	3,015		4,421
– designated as at fair value through profit or loss	438	163	19	5	6	242	873
Available-for-sale investments	455	1,053	2,215	12,095	56,961	6,988	79,767
Loans	469	596	739	4,040	28,025	51	33,920
Reinsurance contracts	9	27	31	19	54	91	231
Intangible assets	1	3	11	62	6	259	342
Deferred acquisition costs	25	12	76	187	1,242	89	1,631
Assets held for sale	6						6
Deferred tax assets						35	35
Other assets	1,101	626	704	274	434	-22	3,117
Remaining assets (for which maturities are not applicable)[3]						4,812	4,812
Total assets	**10,285**	**3,420**	**4,087**	**17,709**	**89,743**	**43,256**	**168,500**

1 Includes assets on demand.

2 Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of NN Group.

3 Included in remaining assets for which maturities are not applicable are Property and equipment, Real estate investments and Associates and joint ventures. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Notes to the Consolidated annual accounts Continued

38 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 (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	2,104	279	2,964	485	2,310		-151	7,991
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	**10,231**	**436**	**3,615**	**4,205**	**10,894**	**0**	**-195**	**29,186**
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	3,913	539	2,067	334	585	170		7,608
Non-financial liabilities	**5,209**	**1,917**	**7,945**	**24,511**	**100,362**	**33,133**	**0**	**173,077**
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 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 14 'Subordinated debt'.

Liabilities by maturity (2016)

	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]	654	169	476		1,000		-11	2,288
Debt securities issued					600		-2	598
Other borrowed funds	4,043		241	2,470	900	-8		7,646
Customer deposits and other funds on deposit	7,226	58	238	986	1,716			10,224
Financial liabilities at fair value through profit or loss:								
– non-trading derivatives	87	48	172	544	1,202		-45	2,008
Financial liabilities	**12,010**	**275**	**1,127**	**4,000**	**5,418**	**-8**	**-58**	**22,764**
Insurance and investment contracts	670	1,158	3,846	16,175	63,079	30,780		115,708
Liabilities held for sale	2							2
Deferred tax liabilities	6	19	-17	114	2,587	269		2,979
Other liabilities	1,741	558	474	132	456	-6		3,354
Non-financial liabilities	**2,419**	**1,735**	**4,303**	**16,421**	**66,122**	**31,043**	**0**	**122,043**
Total liabilities	**14,429**	**2,010**	**5,430**	**20,421**	**71,540**	**31,035**	**-58**	**144,807**
Coupon interest due on financial liabilities	21	27	92	567	1,752			2,459

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 14 'Subordinated debt'.

Notes to the Consolidated annual accounts Continued

39 Assets not freely disposable

The assets not freely disposable relate primarily to investments of Nil (2016: EUR 125 million) provided as guarantees for certain contingent liabilities. There are no significant terms and conditions relating to the collateral represented by such guarantees.

Assets relating to securities lending are disclosed in Note 40 'Transferred, but not derecognised financial assets'. Assets in securitisation programmes originated by NN Bank are disclosed in Note 45 'Structured entities'.

40 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

	2017	2016
Transferred assets at carrying value:		
Available-for-sale investments	7,559	5,871
Associated liabilities at carrying value:		
Other borrowed funds	247	1,500

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 45 'Structured entities'.

41 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 (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

41 Offsetting of financial assets and liabilities Continued

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2016)

					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	4,192		4,192	-1,177	-2,971	44
Financial assets at fair value through profit or loss		**4,192**	**0**	**4,192**	**-1,177**	**-2,971**	**44**
Other items where offsetting is applied in the balance sheet		**70**		**70**	**-11**	**-57**	**2**
Total financial assets		**4,262**	**0**	**4,262**	**-1,188**	**-3,028**	**46**

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 assets	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 assets		**1,390**	**0**	**1,390**	**-989**	**-385**	**16**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2016)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial assets	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	1,677		1,677	-1,185	-472	20
Financial liabilities at fair value through profit or loss		**1,677**	**0**	**1,677**	**-1,185**	**-472**	**20**
Other items where offsetting is applied in the balance sheet		**11**		**11**	**-11**		**0**
Total financial assets		**1,688**	**0**	**1,688**	**-1,196**	**-472**	**20**

Notes to the Consolidated annual accounts Continued

42 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 (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**

Contingent liabilities and commitments (2016)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	411	631	1,879	508	79	226	3,734
Guarantees		1				1	2
Contingent liabilities and commitments	**411**	**632**	**1,879**	**508**	**79**	**227**	**3,736**

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:

Future rental commitments for operating lease contracts

	2017
2018	58
2019	51
2020	47
2021	44
2022	30
Years after 2022	62

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.

Notes to the Consolidated annual accounts Continued

42 Contingent liabilities and commitments Continued

Other agreements in connection with the initial public offering

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 transitional intellectual property license agreement, a joinder agreement, an equity administration agreement, a Risk Management Programme (RMP) indemnity agreement and a warrant agreement. In 2015, NN Group N.V. and ING Groep N.V. entered into an agreement providing amongst others for allocation between them of insurance payments under the public offering securities insurance taken out by ING Groep N.V. with respect to the IPO of NN Group N.V.

43 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.

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 have been rejected by Nationale-Nederlanden and Nationale-Nederlanden defends itself in these legal proceedings.

Notes to the Consolidated annual accounts Continued

43 Legal proceedings Continued

'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.

The claims from 'Vereniging Consumentenbond' and 'Wakkerpolis' are based on similar grounds as presented in the collective action initiated by 'Vereniging Woekerpolis.nl'. 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.

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.

Notes to the Consolidated annual accounts Continued

43 Legal proceedings Continued

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.

Insurance business in South Korea

Arbitration proceedings were initiated in 2014 by Life Investment Limited (LIL) – the purchaser of NN Group's former insurance subsidiary in South Korea, ING Life Insurance (Korea) Limited (INGLK) in December 2013 – alleging that the financial condition of this subsidiary was not accurately depicted. On 15 December 2016, the International Chamber of Commerce in Hong Kong issued a Tribunal's Partial Final Award in respect of these proceedings in which it found NN Group in breach of certain obligations under the Sale and Purchase Agreement entered into with LIL relating to the sale of INGLK. The Tribunal found NN Group liable to pay damages to LIL. NN Group recognised a provision for the estimated amount through the profit and loss account in the fourth quarter of 2016. In December 2017, following agreement between the parties on the amount of damages, NN Group paid LIL, thereby effectively settling the dispute. This led to the release of part of the provision in the fourth quarter of 2017.

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 disposal 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 135 million at 31 December 2017. 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.

44 Companies and businesses acquired and divested

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.

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.

Notes to the Consolidated annual accounts Continued

44 Companies and businesses acquired and divested Continued

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

44 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 initial accounting for Delta Lloyd as at 1 April 2017 is ongoing and as such all values are provisional. NN Group has accounted for the acquisition using the provisional values disclosed below and will recognise any adjustments to these provisional values within a twelve month period from the acquisition date as amendments to the initial accounting.

The provisional 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 provisional 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

44 Companies and businesses acquired and divested Continued

Provisional 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

44 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 43 '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.

Acquisitions (2016)

Notus Financial Advisors, Poland

In May 2016 NN Group announced that it had reached an agreement to acquire 100% of the shares of Dom Kredytowy Notus S.A. (Notus). Notus is a leading financial broker in Poland, offering mortgage loans, insurance, investment and savings products. The transaction was completed in the third quarter of 2016 and did not have a material impact on the capital position and operating result of NN Group.

Divestments (2016)

Mandema & Partners

In July 2016, NN Group announced the sale of its 100% subsidiary Mandema & Partners to Van Lanschot Chabot. The transaction, which was completed in January 2017, did not have a material impact on the capital position and operating result of NN Group.

NN Re (Ireland)

In October 2016, NN Group announced that its wholly-owned reinsurance entity in Ireland, NN Re (Ireland) Limited, had signed a portfolio transfer agreement with Canada Life International Re Limited. The agreement is a result of the continuous strategic assessment of NN Group's portfolio. As a result of this portfolio transfer, NN Re (Ireland) Limited handed back its reinsurance license and repatriated almost all its capital to NN Group in the fourth quarter of 2016. These transactions have not impacted NN Group's reinsurance business in the Netherlands.

45 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

Notes to the Consolidated annual accounts Continued

45 Structured entities Continued

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	
		2017	2016	2017	2016
Hypenn RMBS I	2019	1,485	1,807	397	396
Hypenn RMBS II	2019	425	472	270	290
Hypenn RMBS III	2020	573	635	500	561
Hypenn RMBS IV	2020	499	549	445	498
Hypenn RMBS V	2021	470	518	430	477
Hypenn RMBS VI	2022	842	923	535	599
Arena NHG 2014-I	2019	638		464	
Arena NHG 2014-II	2020	653		481	
Arena NHG 2016-I	2021	581		415	
NN Conditional Pass-Through Covered Bond Company	2024	500		497	
Total		**6,666**	**4,904**	**4,434**	**2,821**

NN Group companies hold the remaining notes.

The increase in the RMBS issued and held by third parties of the Consolidated NN Group originated liquidity management securitisation programmes from EUR 2,821 million as at 31 December 2016 to EUR 4,434 million as at 31 December 2017 includes EUR 1,360 million recognised on the acquisition of Delta Lloyd (Arena programmes). NN Bank announced on 4 October 2017 that it had priced its inaugural EUR 500 million Conditional Pass-Through Covered Bonds. The bonds, which were placed with a broad range of institutional investors, have a tenor of 7 years and a fixed coupon of 0.5%. The covered bonds are backed by Dutch prime residential mortgage loans, are rated AAA by Standard & Poor's Rating Services and listed on Euronext Amsterdam (ISIN:NL0012650477).

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.

Notes to the Consolidated annual accounts Continued

45 Structured entities Continued

Third-party managed structured entities

As part of its investment activities, NN Group invests both in debt and equity instruments of structured entities originated by third parties.

Most of the investments in debt instruments of 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.

46 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 47 '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 45 '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:

	2017	2016
Assets	195	10
Income	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), Stichting Pensioenfonds Delta Lloyd and the NN CDC pension fund in the Netherlands. For more information on the post-employment benefit plans, reference is made to Note 27 'Staff expenses'.

Transactions with other related parties

Investment funds

Other related parties include NN Group managed investment funds. Reference is made to Note 45 'Structured entities' for more information.

Pension entities

NN Group operates several pension entities in The Netherlands, including the Nationale-Nederlanden Premium Pension Institution B.V., 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.

Notes to the Consolidated annual accounts Continued

47 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.

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			718
			10,572

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.

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 10.6 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 11.3 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.

No options on NN Group N.V. shares were held by members of the Executive Board and Management Board in 2017.

In 2017, 35,802 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

47 Key management personnel compensation Continued

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.

As at 31 December 2017, members of the Supervisory Board held no options on 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.

2016

Executive Board and Management Board (2016)

Amounts in thousands of euros	Executive Board	Management Board[3]	Total
Fixed compensation:			
– base salary (cash)	1,858	3,166	5,024
– base salary (fixed shares)	465		465
– pension costs[1]	52	133	185
– individual saving allowance[1]	587	734	1,321
Variable compensation:			
– upfront cash	93	388	481
– upfront shares	93	388	481
– deferred cash	139	413	552
– deferred shares	139	582	721
Other[2]		169	169
Fixed and variable compensation	**3,427**	**5,973**	**9,400**
Other benefits			646
			10,046

1 The pension costs consist of an amount of employer contribution (EUR 185 thousand) and an individual savings allowance (EUR 1,321 thousand which is in 2016 27.7% of the amount of base salary above EUR 101,519).

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 October 2016, Mr Caldwell stepped down from his position in the Management Board. He was succeeded by Mr Erasmus, who was appointed as member of the Management Board as per 1 September 2016. In the table above, fixed and variable compensation of Mr Caldwell up to 1 October 2016 is included, and fixed and variable compensation of Mr Erasmus as per 1 September 2016. Besides the compensation in the capacity as a Board member, one new Management Board member received a 'sign-on/buy-out award' which is awarded fully in shares with a total value of EUR 809,000 with a three-year tiered vesting schedule and a retention period of five years from the date of award.

Notes to the Consolidated annual accounts Continued

47 Key management personnel compensation Continued

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 2016: EUR 10.0 million) includes all variable remuneration related to the performance year 2016. 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 2016 and therefore included in 'Total expenses' in 2016, relating to the fixed expenses of 2016 and the vesting of variable remuneration of 2016 and earlier performance years, is EUR 10.4 million.

As at 31 December 2016, members of the Executive and Management Board held a total of 104,426 NN Group N.V. shares.

No options on NN Group N.V. shares were held by members of the Executive and Management Board in 2016.

In 2016, 63,311 share awards on NN Group N.V. (both deferred and upfront) were granted to the Executive Board and Management Board.

Supervisory Board (2016)

Amounts in thousands of euros	Supervisory Board
Fixed fees	725
Expense allowances	59
International attendance fees	78
Compensation Supervisory Board	**862**

The above mentioned amounts include VAT of EUR 150 thousand for 2016. 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 2016, members of the Supervisory Board held a total of 13,560 NN Group N.V. shares.

As at 31 December 2016, members of the Supervisory Board held no options on NN Group N.V. shares.

Loans and advances to members of the Management Board and Supervisory Board (2016)

Amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments
Management Board members	660	5.23%	83
Supervisory Board members	427	5.69%	
Loans and advances	**1,087**		**83**

As at 31 December 2016, no loans and advances were provided to members of the Executive Board.

48 Fees of auditors

Fees of auditors NN Group

	2017	2016
Audit fees	13	12
Audit related fees	2	2
Fees of auditors NN Group	**15**	**14**

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.

Notes to the Consolidated annual accounts Continued

48 Fees of auditors Continued
Fees of auditors Delta Lloyd

	2017
Audit fees	6
Audit related fees	1
Fees of auditors of the Delta Lloyd entities	7

For 2017, the entities that were acquired as part of the acquisition of the Delta Lloyd Group were audited by another auditor than the auditor of NN Group N.V. The fees of auditor of the Delta Lloyd entities as disclosed above relate to the network of the Delta Lloyd auditor, are the amounts related to the respective years, i.e. on an accrual basis (excluding VAT) and are for the full year. Only the amounts that are incurred after the acquisition date are included in the Consolidated profit and loss account of NN Group.

Auditor fees are included in 'External advisory fees' as part of the Other operating expense.

49 Other events
On 18 January 2018, the Netherlands was affected by severe storms. The impact on the results in the first quarter of 2018 is currently estimated at approximately EUR 75 million.

50 Risk management
Introduction
Accepting risk is integral to NN Group's business model across insurance, asset management and banking. NN Group has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. By working within this structure, NN Group aims to meet its obligations to policyholders and other customers and stakeholders, manage its capital efficiently and comply with applicable laws and regulations.

NN Group's approach to risk management is based on the following main components:
- Risk management structure and governance systems: NN Group's risk management structure and governance systems follow the 'three lines of defence' concept, which outlines the decision-making, execution and oversight responsibilities for the implementation of 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.
- Risk management system: NN Group's risk management system takes into account the relevant elements of risk management, including its integration into NN Group's strategic planning cycle, the management information generated and a granular risk assessment. This includes a comprehensive set of risk management policies, standards and processes. These are updated regularly to align with market leading practices, applicable laws and regulations and to changes in NN Group's business and risk appetite. These risk management policies, standards and processes apply throughout NN Group and are used by NN Group to establish, define and evaluate NN Group's risk tolerance levels and risk control processes and to ensure that the tolerance levels and policies are communicated throughout the organisation.

Risk management structure and governance system
Executive Board
The Executive Board is responsible for the role and functioning of risk management system, supervised by the Supervisory Board, supported by the Audit Committee and the Risk Committee. 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 structure and operation of NN Group's risk management and control systems, to the Management Board.

The Executive Board, or its (sub) committees, approves all risk management policies as well as the quantitative and qualitative elements of NN Group's risk appetite. The Executive Board reports and discusses these topics with the Risk Committee, a committee of the Supervisory Board, on a quarterly basis.

Chief executive officer and chief risk officer
The chief executive officer (the CEO), the chairman of the Executive Board, bears responsibility for NN Group's risk management, including the following tasks:
- Setting risk policies and defining the company's risk appetite
- Formulating NN Group's risk management strategy and ensuring that it is implemented throughout NN Group
- Monitoring compliance with NN Group's overall risk policies
- Supervising the operation of NN Group's risk management and business control systems
- Reporting of NN Group's risks and the processes and internal business controls
- Making risk management decisions with regards 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

50 Risk management Continued

The CEO is also primarily responsible for the communication of risk-related topics to the Supervisory Board.

The Executive Board designates a chief risk officer (the CRO) from among the members of the Management Board, who is entrusted with the day-to-day execution of these tasks. Each business unit also has its own chief risk officer, who reports (directly or indirectly) to the Group CRO.

Supervisory Board and its committees

The Supervisory Board is responsible for supervising the Executive Board and the general affairs of the Company and its business and providing advice to the Executive Board. For risk management purposes the Supervisory Board is assisted by two committees:

- Risk Committee: The Risk Committee assists the Supervisory Board in supervising and advising the Executive Board with respect to NN Group's risk management strategy and policies.
- Audit Committee: The Audit Committee reviews and assesses the applicable accounting standards and NN Group's compliance therewith, the going concern assumption, significant financial risk exposures, significant adjustments resulting from audit, compliance with statutory and legal requirements and regulations, tax and tax planning matters with a material impact on the annual accounts, and detection of fraud and other illegal acts.

Three lines of defence concept

The three lines of defence concept, on which NN Group's risk management structure and governance is based, defines three risk management levels, each with distinct roles, decision authorities, execution responsibilities and oversight responsibilities. This structure ensures 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: The CEOs of the business units of NN Group and the other Management Board members of the business units that have primary accountability for the performance of the business, operations, compliance and effective control of 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 customers' and NN Group's best interests
- Second line of defence: Oversight functions at the Head Office and at the business units with a major role for the risk management, legal and the compliance 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 include:
  - Developing the policies and guidance 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). CAS provides an independent assessment of the standard of internal control with respect to NN Group's business and support processes, including governance, risk management and internal controls

Operating Model

NN Group consists of a Head Office and its business units. 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

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk Management Function

The business unit CROs have a functional reporting line to the NN Group CRO. To ensure solid understanding, oversight, and support to the business units, the span of control of the NN Group CRO is strengthened by having a Risk Oversight department at Group level. Business unit CROs all ultimately have a functional reporting line to the NN Group CRO. 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 were formed in 2017 to provide extra emphasis to the management of those risk types.

Other Key Functions in risk management structure

Model Governance and Model Validation Function

NN Group's model governance and validation function aims to ensure that NN Group's models are fit for their intended purpose. Models and their disclosed metrics are approved by either the local or the Group Model Committee, depending on materiality. This committee is responsible for modelling policies, processes, methodologies, and parameters which are applied within NN Group. Furthermore, 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 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 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 encompasses a mix of developmental evidence assessment, process verification and outcome analysis.

The validation cycle is based on a five-year period. This means that at least once every five years a model in scope will independently be validated. In general, the (re)validation frequency relates to the relative materiality of the models in scope.

The Compliance Function

To effectively manage Business conduct risk, NN Group has a Compliance Function headed by the Chief Compliance officer (CCO) with delegated responsibility for day-to-day management of 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 CCO with the CEO and the Chairman of the Risk Committee of the Supervisory Board. Within NN Group's broader risk framework, the purpose of the Compliance Function is to:

- Understand and advocate 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 to the CRO.

The LCO's have a functional reporting line to the CCO. 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 CCO.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

The Actuarial Function

The primary objective of the Actuarial Function 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 alike 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 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

The 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 is an essential part of the corporate governance structure of NN Group.

CAS keeps in close contact with home and local supervisors and regulators as well as with the external auditor via regular meetings in which current (audit) issues are discussed as well as internal and external developments and their impact on NN Group and CAS. CAS also exchanges information like risk assessments and relevant (audit) reports.

The General Manager and staff of CAS are authorised to:

- Obtain without delay, from General Managers within NN Group, 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.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk Management System

The risk management system is not a sequential process but 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 on which to calibrate all 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 possibilities.

When assessing and managing risks, we work systematically, aim for completeness and document what we do. Each risk analysis performed shall be focused and relevant. It thus becomes clear and transparent throughout the organisation for the benefit of management and stakeholders alike.

Risk control cycle

NN Group's risk control cycle consists of four steps. The cycle starts with business processes that support business and risk objectives setting (the latter resulting in a risk strategy: risk appetite, policies and standards), followed by business processes aimed at realisation of those objectives, leading to risks which need to be managed by identifying/assessing them, 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 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 classes. For the use in day-to-day risk management, the main risk types are further split in approximately 150 sub risk types.

Risk Class	Description	Main mitigation technique
Emerging Risks	Risks related to future external uncertainties that could pose a threat to the businesses of NN Group	Scenario analyses and contingency planning
Strategic Risks	Risks related to unexpected changes to the business profile and the general business cycle as envisaged during strategic decision making	Scenario analyses and business planning
Market Risk	Risks related to (the volatility of) financial and real estate markets. This includes liquidity risk	New Investment Class Approval and Review Process, Asset Liability Management studies, Strategic Asset Allocations, Limit structure, Derivatives
Counterparty Default Risk	Risk related to the failure to meet contractual debt obligations	Limit structure
Non-Market Risk	Risks related to the products NN Group markets	Product Approval & Review Process, Limit structure, reinsurance
Non-Financial Risk	Risks related to people, inadequate or failed internal processes, including information technology and communication systems and/or external events.	Business and Key Controls, Control Testing, Incident Management

Risk appetite framework

Risk appetite is the key link between strategy, NN Group's 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) around , 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.

The three key risk appetite statements are:

Strategic Challenges (Shaping the business)	We manage our portfolio of businesses on a risk-return basis to meet our strategic objectives whilst considering the interests of all stakeholders.
Strong Balance Sheet (Running the business – financially)	We would like to avoid having to raise equity capital after a 1-in-20 year event and do not want to be a forced seller of assets when markets are distressed.
Sound Business Performance (Running the business – operationally)	We conduct our business with the NN 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.

Risk limits

NN Group operates an internal quantitative risk limit framework that aims to ensure the holding company can meet its annual overhead expenses and obligations to its creditors and keep its businesses adequately capitalised even after a 1-in-20 annual risk sensitivity. NN Group quantifies the cash capital needed to do so using capital sensitivities to Basic Own Funds across its Solvency II regulated businesses (and available Regulatory Capital for its other businesses), through a calculation that is consistent with the SCR calculation. NN Group holds cash capital in a target range of between EUR 0.5 billion and EUR 1.5 billion to cover this need.

The above equity capital risk appetite statement is translated into quantitative risk limits for the business units pertaining to Basic Own Funds (Solvency II capital), and – where necessary – additional interest rate risk limits. The business units report regularly internally on their risk profile compared to applicable risk appetite and risk limits. At the end of 2017, the cash capital held by NN Group is within the target range of between EUR 0.5 billion and EUR 1.5 billion.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

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 its risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. To ensure that policies are efficient and effective they are governed by the risk committee structure. Potential waivers to the policies have to be approved through the Management Board of NN Group or its delegated member.

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 more 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. 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 and Internal Capital Adequacy Assessment Process
NN Group (and each of its regulated (re)insurance subsidiaries) prepares an 'own risk and solvency assessment' (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.

At least once a year, NN Group's banking and asset management operations run a process for internal capital adequacy assessment (ICAAP) and internal liquidity adequacy assessment (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
The product approval and review process (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 as 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 investment class and investment mandate process
NN Group maintains a new investment class approval and review process (NICARP) for approving new investment classes of assets. 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 the relative proportions in which the relevant business unit may invest in different asset classes, as well as asset, industry, regional, and credit concentration limits.

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.

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 management boards. Action shall be taken by management when monitoring indicates that risks are not adequately controlled.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk Reporting

On a quarterly basis, the Management Board and Supervisory Board of NN Group are presented with an Own Funds – 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. 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, provides action points from a Risk function perspective, and aims to encourage forward looking risk management. It builds on the following quarterly reports:

- Quarterly Business Unit risk reports
- Quarterly Liquidity Report
- Quarterly Investment Risk Dashboard
- Quarterly Own Funds/SCR report
- In the Own Funds/SCR report NN Group calculates 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

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.

Integration Delta Lloyd

After the completion of the merger, NN Group started to combine Delta Lloyd with the Dutch and Belgian activities of NN Group. A dedicated Integration Management Office manages the integration process as well as the risks arising from the integration of the Delta Lloyd businesses and organisation. As a result of the legal merger, all NN Group governance and policies became applicable to the Delta Lloyd entities, unless immediate implementation was not possible in which case waivers were granted. Risk appetite has been aligned and Delta Lloyd business units have been included into the NN Group risk limit framework. Delta Lloyd business units have been reflected in NN Group Risk Management reporting during 2017. With legal mergers being completed at the start of 2018 at holding level and for the banking and asset management businesses, the focus for integration risk management activities shifts to the planned integration and eventual legal mergers of the Life and Non-life businesses.

Please refer to Note 44 'Companies and businesses acquired and divested' of the Annual Report 2017 for more details on the integration of Delta Lloyd.

Risk profile

The Solvency II Ratio is a key indicator of the risk profile of NN Group. The ratio is defined as Eligible Own Funds divided by the Solvency Capital Requirement (SCR). As at 31 December 2017, the ratio was 199%.

Solvency II ratio of NN Group

	2017	2016
Eligible Own Funds	15,412	13,149
Solvency Capital Requirement	7,731	5,459
NN Group Solvency II ratio (Eligible Own Funds/SCR)	199%	241%

For the calculation of NN Group's Solvency II Own Funds, NN Life Japan is treated as 'equivalent' under 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.

As NN Group is designated as a Financial Conglomerate, Solvency II Own Funds and SCR do not include NN Bank and Delta Lloyd Bank.

SCR is based on Partial Internal Model for the Dutch NN insurance entities (namely NN Life, NN Non-life, NN Re and MOVIR), and Standard Formula for the Delta Lloyd entities (Delta Lloyd Life, Delta Lloyd Non-life, Delta Lloyd Life Belgium, ABN AMRO Life and ABN AMRO Non-life) and international insurance entities of NN Group. NN Group will also seek DNB approval to extend the current Partial Internal Model to include Delta Lloyd Life and Delta Lloyd Non-life.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Solvency Capital Requirement and Solvency II Ratio Sensitivities based on the Partial Internal Model

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 Solvency II Capital Requirement for NN Group is based on the approved Partial Internal Model. The group capital model is named as such due to the fact that, depending on the type of each business unit, either an Internal Model or the Standard Formula is used to calculate the Basic Solvency Capital Requirements (BSCR), while the Standard Formula is used to calculate capital requirements for operational risk (across the group), with NN Life Japan incorporated based on local capital rules under equivalence.

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 NN Life e.g. sovereign and other credit spread risks. In addition, the approach to the most significant non-market risks within NN Life 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. The Internal Model captures the integrated market risks and hedging programmes more accurately.

The following table shows the NN Group Solvency Capital Requirement as at 31 December 2016 and 31 December 2017 respectively:

Solvency Capital Requirements

	2017	2016
Market risk	5,215	3,678
Counterparty default risk	667	400
Non-market risk	5,649	4,000
Total BSCR (before diversification)	**11,531**	**8,078**
Diversification	-3,208	-2,326
Total BSCR (after diversification)	**8,323**	**5,752**
Operational risk	677	442
LACDT	-1,788	-1,298
Other	18	103
Solvency II entities SCR	**7,230**	**4,999**
Non Solvency II entities SCR	501	460
Total SCR	**7,731**	**5,459**

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 2017 are presented in detail below.

The loss-absorbing capacity of deferred taxes (LACDT) benefit increased mainly due to the inclusion of Delta Lloyd entities and improved deferred tax recoverability for Delta Lloyd entities over the year. The extent of tax offset included in the Solvency II ratio is dependent on the effective tax rate, as well as the extent to which tax offset can be used for this purpose from a regulatory viewpoint.

In the above table, 'Other' includes loss-absorbing capacity of technical provisions (LACTP) which is the main contributor of the change of this item year to year. 'Other' also includes capital for non-modelled Solvency II entities and some minor non-modelled risks including those required by the regulator. The LACTP benefit increased because of change in future return assumption for participating business.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

The increase in Non Solvency II entities SCR is mainly due to the inclusion of asset management business of Delta Lloyd, and higher net asset value in the Poland Pension Fund, partially offset by the decrease in regulatory capital requirement of Japan Life as a result of depreciation of Japanese Yen against Euro during 2017.

Along with the Solvency II Capital Requirement, every quarter, NN Group also 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 Management Board.

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 materialize 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 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: 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: Counterparty Default risk is the risk of potential losses due to due to unexpected default or deterioration in the credit rating of NN Group's counterparties and debtors.
- 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. This risk is not part of the SCR (Partial) Internal Model.

Non-market risk

Within the SCR (Partial) Internal Model a differentiation is made for the classification of non-market risks for: (i) business units applying Internal Model and (ii) business units applying Standard Formula.

For the business units applying Internal Model, non-market risks are split between:

- Insurance risk: 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 risk: Business risk is the risk related to the management and development of the insurance portfolio. These risks occur because of internal, industry, regulatory/political, or wider market factors. Also included is policyholder behaviour risks, expense risk, persistency risk and premium re-rating risk.

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 former Delta Lloyd entities as well as the international entities of NN Group (mainly Delta Lloyd Life, Delta Lloyd Life Belgium, Spain Life and Poland).
- 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 Delta Lloyd Life, Poland, Romania and Slovakia, but also from the yearly renewable health insurance portfolio of Greece.
- Non-life risk: this covers non-life portfolio mainly contributed by Delta Lloyd Schade and ABN AMRO Schade

Non-financial risk

- Business conduct risk: Business conduct risk is the risks related to unethical or irresponsible corporate behaviour, inappropriate employee behaviour and customer suitability of products.
- 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.

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 benefitting the group and its 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 and with the possibility of reducing downside risk through various hedging programmes.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Market risk capital requirements

	2017	2016
Interest rate risk	1,713	1,237
Equity risk	2,093	1,912
Spread risk	3,514	2,241
Real estate risk	1,434	936
FX risk	493	283
Inflation risk	65	73
Basis risk[1]	58	138
Concentration risk	68	0
Diversification market risk	-4,223	-3,142
Market risk	**5,215**	**3,678**[2]

1 Basis risk is taken in the diversification between market risks in 2017. In 2016 basis risk was taken in the diversification between market, counterparty default risk and basis risk.

2 The Market risk SCR of 2016 has been restated to reflect the inclusion of basis risk.

The total increase of the Market Risk SCR was EUR 1,537 million, mainly driven by the inclusion of Delta Lloyd.

The table below sets out NN Group's market value of assets for each asset class as at 31 December 2017 and 2016. 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.

Investment assets

	Market value 2017	% of total 2017	Market value 2016	% of total 2016
Fixed income	**149,568**	**84.4%**	**106,153**	**81.8%**
Government bonds and loans	71,415	40.3%	57,122	44.0%
Financial bonds and loans	9,399	5.3%	5,164	4.0%
Corporate bonds and loans	20,333	11.5%	14,471	11.1%
Asset-backed securities	3,851	2.2%	3,424	2.6%
Mortgages[1]	43,806	24.7%	25,645	19.8%
Other retail loans	764	0.4%	327	0.3%
Non-fixed income	**16,871**	**9.5%**	**13,742**	**10.6%**
Common & preferred stock	3,702	2.1%	3,535	2.7%
Private equity	887	0.5%	842	0.6%
Real estate	8,693	4.9%	6,558	5.1%
Mutual funds (money market funds excluded)	3,589	2.0%	2,807	2.2%
Money market instruments (money market funds included)[2]	**10,916**	**6.1%**	**9,908**	**7.6%**
Total investments	**177,355**	**100.0%**	**129,803**	**100.0%**

1 Mortgages are on book value

2 Money market mutual funds are included in the Money market instrument

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Total investment assets increased to EUR 177,355 million as at 31 December 2017 from EUR 129,803 million as at 31 December 2016 mainly due to the inclusion of Delta Lloyd. The inclusion of Delta Lloyd had no significant impact on the asset allocation.

Several key developments in the asset allocation have occurred over the course of 2017. NN Group continued to shift investments from low yielding asset classes to asset classes with an attractive risk return profile in particular a shift from government bonds to illiquids such as mortgages, commercial real estate loans and emerging market debt.

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. From a Solvency II Balance Sheet perspective, equity investments provide up-side return potential.

Risk profile

The table below sets out the market value of NN Group's equity assets as at 31 December 2017 and 2016, respectively.

Equity assets

	2017	2016
Common & preferred stock	3,702	3,535
Private equity	887	842
Mutual funds (money market funds excluded)	3,589	2,807
Total	**8,178**	**7,184**

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 and other European countries, but also United States and Asia. Note that mutual funds are classified as equity in the table above, but include predominantly fixed income funds. Equity assets increased mainly driven by favourable market developments. The change in equity assets due to the inclusion of Delta Lloyd was limited.

As shown in the 'Market risk capital requirements' table above, the Equity Risk SCR of NN Group increased from EUR 1,912 million in 2016 to EUR 2,093 million in 2017. This increase is primarily due to favourable developments of European equity markets over the year. This is partially offset by equity sales executed during 2017, as well as a change in NN Group's Equity Risk model.

Risk mitigation

Exposure to equities provides for 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, but from time to time NN Group protects the downside risk of the equity portfolio by buying put options and other hedge instruments.

The sensitivity of the Solvency II Ratio to changes in equity prices is monitored on a quarterly basis. The table below presents the Eligible Own Funds, SCR and Solvency II Ratio sensitivity to a downward shock of -25% in equity prices.

Solvency II ratio sensitivities: equity risk of NN Group at 31 December 2017

	Own Funds impact	SCR impact	Solvency II ratio impact
Equity Downward shock -25%	-1,271	-334	-8%

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.

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 level of real estate returns related to rental prices, required investor yield and/or other factors. Exposure to real estate risk arises from direct or indirect asset positions that are sensitive to real estate returns. With the long-term nature of the liabilities of NN Group, illiquid assets such as real estate can play an important role in the strategic allocation.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk profile

NN Group's real estate exposure increased from EUR 6,558 million as at 31 December 2016 to EUR 8,693 million as at 31 December 2017. The real estate exposure is mainly present in Netherlands Life, Netherlands Non-life and Belgium Life. NN Group has two different categories of real estate: (i) investments in real estate funds or real estate directly owned and (ii) investments in buildings occupied by NN Group. Several of the real estate funds owned by NN Group 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 2017 and 2016, respectively. Real estate is valued at fair value in the Netherlands. Fair value revaluations for 84% of the real estate portfolio directly affect the IFRS result before tax.

Real estate assets by sector

	Revalued through P&L 2017	Not revalued through P&L 2017	Revalued through P&L 2016	Not revalued through P&L 2016
Residential	31%	5%	5%	7%
Office	10%	1%	13%	1%
Retail	28%	3%	42%	4%
Industrial	12%	6%	14%	5%
Other	3%	1%	3%	6%
Total	**84%**	**16%**	**77%**	**23%**

As shown in the 'Market risk capital requirements' table above, the real estate risk SCR of NN Group increased from EUR 936 million in 2016 to EUR 1,434 million in 2017. This increase is primarily due to the inclusion of Delta Lloyd and positive real estate returns over 2017.

Risk mitigation

Exposure to real estate provides for additional diversification for the asset portfolio. The concentration risk on individual issuers is mitigated under 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. The table below presents the Eligible Own Funds, SCR and Solvency II Ratio sensitivity to a downward shock of -10% in the value of real estate.

Solvency II ratio sensitivities: real estate risk of NN Group at 31 December 2017

	Own Funds impact	SCR impact	Solvency II ratio impact
Real estate Downward shock -10%	-788	-52	-9%

This scenario estimates the impact of an instantaneous shock of -10% to the value of direct real estate exposures and real estate mutual funds.

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's 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 1,237 million in 2016 to EUR 1,713 million in 2017. This increase is primarily due to the inclusion of Delta Lloyd, additional fixed income investments (mainly mortgages) and a restructuring of the interest rate swaps portfolio which resulted in an increase of the duration at NN Life and Delta Lloyd Life. This was partially offset by the effect of higher EUR interest rates which lowers the SCR.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk mitigation

The interest rate position indicates to what extent assets match liabilities. The valuation of assets and liabilities is described in more detail in the paragraph below. 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 deep and liquid. For the Delta Lloyd entities, the interest rate risk management has been primarily focused on stabilising the Solvency II Ratio on a Standard Formula basis. The interest rate risk management for the Delta Lloyd entities is being aligned with the interest rate risk management at other NN Group entities.

Risk measurement

For the purpose of discounting EUR-denominated asset cash flows, NN Group uses market curves and prices 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). 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 the interest rate reduces or UFR decreases. At the end of 2017, the EUR interest rate curve was higher compared with the end of 2016 while the EUR UFR level remained unchanged at 4.20%. This change had a positive effect on the Solvency II ratio of NN Group, in line with the interest parallel shock +50bps sensitivity shown in the table below.

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 rate curves.

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 2017

	Own Funds impact	SCR impact	Solvency II ratio impact
Interest rate: Parallel shock +50bps	-555	-412	4%
Interest rate: Parallel shock -50bps	663	502	-4%
Interest rate: 10bps steepening between 20y-30y	-529	20	-7%
UFR: Downward adjustment to 4.05%	-290	34	-5%

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 affected in this scenario.

At the end of 2017, the UFR for EUR under Solvency II was set at 4.2%. 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 3.65%, but annual changes to the UFR will not be higher than 15 basis points. Therefore, the UFR for EUR is expected to decrease from 4.2% to 4.05% from 1 January 2018. The UFR downward adjustment scenario aims to provide the impact in Own Funds and SCR using the applicable UFR for 2018 for each currency. The other components of the basic risk-free interest rate curve – namely credit risk adjustment, Volatility Adjustment and extrapolation technique towards UFR remained unchanged.

Credit spread risk

The credit spread risk reflects the impact of credit spreads widening (or narrowing) due to changes in expectation of default, illiquidity and any other risk premiums priced into the market value of assets in scope, as listed below.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

In the calculation of the SCR for the Internal Model entities, NN Group assumes no change to the VOLA 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 'Dynamic VOLA' approach is approved by DNB, in particular to ensure appropriate risk incentives on asset allocation decisions. NN Group also shocks all government bonds and its mortgage portfolio in the calculation of spread risk capital requirements for the Internal Model entities. Under the standard formula no capital is required to be held against credit spread risk arising from these assets.

The main asset classes in scope of the credit spread risk module for Internal Model entities are government and corporate bonds, mortgages and loans.

For the calculation of the SCR for credit spread risk of the Delta Lloyd entities and other European international insurance entities, NN Group is using the Standard Formula approach to determine the specific capital requirements. The main asset classes in scope of the credit spread risk module for these entities are corporate bonds and loans.

Risk profile

As shown in the 'Market risk capital requirements' table above, the credit spread risk SCR of NN Group increased from EUR 2,241 million in 2016 to EUR 3,514 million in 2017. This increase is primarily due to the inclusion of Delta Lloyd entities and additional investments in mortgages by NN Life. Also, a model change has been made during 2017 where the loans instruments were reallocated from the scope of counterparty default risk module to credit spread risk module under Internal Model to follow the valuation methodology for loans. This was partially offset by decreasing fixed income asset valuation driven by higher interest rates, partly compensated by tightening government and corporate credit spreads.

The table below sets out the market value of NN Group's fixed-income bonds which are subject to credit spread risk SCR by type of issuer at 31 December 2017 and 2016, respectively. The European government bonds are not subject to credit spread risk SCR for Standard Formula entities.

Fixed-income bonds by type of issuer

	Market value		Percentage	
	2017	2016	2017	2016
Government bonds	70,576	56,389	72%	76%
Finance and insurance	8,667	4,068	9%	5%
Manufacturing	5,863	4,368	6%	6%
Asset-backed securities	3,851	3,424	4%	5%
Utilities	2,399	1,387	2%	2%
Information	1,951	1,384	2%	2%
Transportation and warehousing	1,813	1,137	2%	2%
Mining, quarrying and oil and gas extraction	462	373	0%	0%
Other	2,496	1,566	3%	2%
Total	**98,078**	**74,096**	**100%**	**100%**

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

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 exposures (2017)

			Market value of government bond 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[5]	AAA	0%	238	90	55	330	1,796	4,870	4,495		11,874
France[5]	AA	0%	68	113	111	296	823	2,279	2,429	3,922	10,041
Netherlands[5]	AAA	98%	71	152	40	433	1,134	4,159	3,301		9,290
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	2,784	2,688	6	7,665
Austria	AA	0%	71	167	205	405	1,793	1,644	953	1,026	6,264
Spain	BBB	27%	28	5	15	50	392	1,458	1,135		3,083
Italy	BBB	0%	31	33	83	72	449	1,031	202	5	1,906
Finland	AA	0%		97	170	54	352	161	960		1,794
Poland	A	52%	49	59	56	242	199	391			996
Supranational[3]	AA	0%	68	125	51	384	838	1,284	1,117	12	3,879
Others			382	199	338	536	1,360	1,321	418		4,554
Total			**1,422**	**1,726**	**1,730**	**4,427**	**12,291**	**24,321**	**19,085**	**5,574**	**70,576**

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, EFSF, EU, ESM and IBRD.
4 Based on legal maturity date.
5 The market value of the bonds reflects before spread lock forward sales value

Market value government bond exposures (2016)

			Market value of government bond in 2016 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 2016
Japan	A	98%	356	231	357	750	2,865	3,095	1,559	612	9,825
Germany[5]	AAA	0%	157	202	44	96	1,169	3,863	3,850		9,381
France[5]	AA	0%	90	87	81	108	143	1,548	2,276	3,914	8,247
Netherlands[5]	AAA	99%	68	63	135	329	913	1,567	4,500	281	7,856
Belgium	AA	29%	561	230	432	438	1,053	1,757	1,745		6,216
Austria	AA	0%	82	83	193	420	977	878	1,408	651	4,692
Spain	BBB	46%	45	11		11	324	640	946		1,977
Italy	BBB	0%	37	28	30	90	149	1,157	37	6	1,534
Finland	AA	0%	47	8	103	235	356	65	630		1,444
Poland	A	60%	43	9	59	54	190	332	26		713
European Union[3]	AAA	100%		13	1	19	72	176	369		650
Others			280	238	269	387	1,100	1,109	471		3,854
Total			**1,766**	**1,203**	**1,704**	**2,937**	**9,311**	**16,187**	**17,817**	**5,464**	**56,389**

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 The market value of the bonds reflects before spread lock forward sales value

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Exposures to Dutch, German and French government bonds are primarily held by Netherlands Life. Of the EUR 31 billion French, German and Dutch government bonds held by NN Group, almost half will mature after year 20. These long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates. A combination of Dutch, German and French government bonds, were included in the spread lock programme during 2017, which implies NN Group has forward sold the underlying bonds using derivatives. With regard to Central and Eastern Europe, government bond exposures in Poland, Czech Republic, Hungary, The Slovak Republic, Romania and Turkey are mainly domestically held. The EUR 121 million of Greek government bonds (bucketed under 'Others') are all held by the Greek business unit. All relative exposures to the top 10 government exposures remained stable. In the 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. The AAA securities are primarily asset-backed securities.

Market value non-government bond securities (2017)

	Market value of non-government bond securities in 2017 by number of years to maturity								
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2017
AAA	548	121	274	522	180	71	421	1,574	3,711
AA	476	237	330	989	1,072	505	192	128	3,929
A	941	534	638	1,917	2,993	388	619	169	8,199
BBB	563	879	636	2,077	3,942	486	833	430	9,846
BB	34	116	120	261	425	8	349	295	1,608
B			11	28	14			8	61
No rating available[1]	113		2		3	30			148
Total	**2,675**	**1,887**	**2,011**	**5,794**	**8,629**	**1,488**	**2,414**	**2,604**	**27,502**

1. This category also include limited exposure in CCC or below rated instruments of around EUR 3 million.

Market value non-government bond securities (2016)

	Market value of non-government bond securities in 2016 by number of years to maturity								
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2016
AAA	63	27	70	159	189	694	624	1,246	3,072
AA	239	308	164	547	739	519	437	131	3,084
A	795	558	434	1,189	2,200	299	142	125	5,742
BBB	309	230	606	809	2,333	236		75	4,598
BB	35	46	101	203	338	8		79	810
B		4	80	106	126			7	323
CCC	78								78
Total	**1,519**	**1,173**	**1,455**	**3,013**	**5,925**	**1,756**	**1,203**	**1,663**	**17,707**

The table below sets out NN Group's holdings of asset-backed securities by market value of asset type and the percentage of NN Group's total asset-backed securities portfolio as at 31 December 2017 and 2016, respectively.

Asset-backed securities

	Market value 2017	% of total 2017	Market value 2016	% of total 2016
RMBS	3,469	90%	2,946	86%
Other	382	10%	478	14%
Total	**3,851**	**100%**	**3,424**	**100%**

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

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 2017

	Own Funds impact	SCR impact	Solvency II ratio impact
Credit spread: Parallel shock for AAA-rated government bonds +50bps	-1,049	4	-14%
Credit spread: Parallel shock for AA and lower-rated government bonds +50bps	-1,109	-63	-13%
Credit spread: Parallel shock corporates +50bps	453	-164	10%

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 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.

Counterparty default risk

Counterparty default risk is the risk of loss of investments 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 associated issuer's probability of default (PD) and the loss-given-default (LGD) on each individual asset combined with diversification across assets.

The counterparty default risk module covers any credit risk exposures which are not covered in the spread risk sub-module. For each counterparty, the counterparty default risk module takes account of the overall counterparty risk exposure pertaining to that counterparty.

During 2017, NN Group implemented a model change in the SCR Partial Internal Model where the loans asset class was moved from counterparty default risk Type II to credit spread risk. For entities of NN Group reporting SCR using the Standard Formula approach at the end of 2017 (Delta Lloyd entities and the NN European international insurance entities) the mortgage portfolio is in scope of the counterparty default risk Type II module.

Risk profile

As shown in the 'Solvency Capital Requirements' table above, the counterparty default risk SCR of NN Group increased from EUR 400 million in 2016 to EUR 667 million in 2017. This increase is primarily due to the inclusion of Delta Lloyd, partially offset by the model change described in the previous paragraph. At the end of 2017, type II assets are the main contributor to the total counterparty default risk SCR, particularly due to mortgage exposure of Delta Lloyd Life. Cash is the largest Type I exposure, particularly in NN Life and at the NN Group Holding. Other sources of counterparty default risk include reinsurance contracts and deposits resulting from received collateral following positive valuation of the financial derivatives portfolio.

Risk mitigation

NN Group uses different credit risk mitigation techniques. For OTC derivatives, the use of 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. For cash and money market funds, limits per counterparty are put in place.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

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.

Mortgages

The required capital for mortgages within entities under Internal Model is calculated in the credit spread risk module while the required capital for mortgages within entities under Standard Formula are calculated in the counterparty default risk module. The credit spread risk module within the Internal Model captures the behaviour of Own Funds when the valuation of mortgage assets 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 mortgage assets.

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 (including NN Bank and Delta Lloyd Bank) and Netherlands Non-life (including NN Schade and Delta Lloyd Schade) stands at 79%, 78% and 78% respectively at 31 December 2017. 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. The inherent credit risk is compensated 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 28%, 35% and 14% at Netherlands Life, the Banking business and Netherlands Non-life respectively at 31 December 2017.

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 arrear still exists after 90 days. A loan is re-categorised as a performing loan again when the amount past due has been paid in full. The decrease in delinquencies and non-performing loans is due to the improving housing market and economic environment and a more efficient process for handling problem loans. The decrease in remaining exposure at risk is caused by the increasing house prices and the cap at maximum LTV for new production.

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

	NN Life and Delta Lloyd Life[2]		Banking business[3]		Other[4]	
	2017	2016	2017	2016	2017	2016
Performing mortgage loans	20,247	11,457	17,524	12,573	3,083	669
Non-performing mortgage loans[5]	143	110	123	129	25	1
Total	**20,390**	**11,567**	**17,647**	**12,702**	**3,108**	**670**

1 Risk figures and parameters do not include third party originated mortgages and collateralised mortgages although they are on the balance sheet of NN Group.
2 Delta Lloyd Life has EUR 8,078 million performing mortgage loans and EUR 75 million non-performing mortgage loans at 31 December 2017.
3 Delta Lloyd Bank has EUR 4,057 million performing mortgage loans and EUR 37 million non-performing mortgage loans at 31 December 2017.
4 'Other' column includes numbers for the Non-life entities, Belgium business and other small entities.
5 The non-performing loans include 'unlikely to pay' mortgage loans, which may not be past due (in which case they are not included in the 'Aging analysis (past due)' table below).

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Aging analysis (past due): NN Group mortgage portfolio, outstanding

	NN Life and Delta Lloyd Life[1]		Banking business[2]		Other[3]	
	2017	2016	2017	2016	2017	2016
Past due for 1–30 days	83	86	110	123	9	1
Past due for 31–60 days	76	46	65	44	13	2
Past due for 61–90 days	28	39	36	46	3	1
Past due for > 90 days	57	77	59	93	8	1
Total	**244**	**248**	**270**	**306**	**33**	**5**

1 Delta Lloyd Life has EUR 73 million past due mortgage loans at 31 December 2017.
2 Delta Lloyd Bank has EUR 37 million past due mortgage loans at 31 December 2017.
3 'Other' column includes numbers for the Non-life entities, Belgium business and other small entities.

Collateral on mortgage loans

	NN Life and Delta Lloyd Life[1]		Banking business[2]		Other[3]	
	2017	2016	2017	2016	2017	2016
Carrying value	20,390	11,567	17,647	12,702	3,108	670
Indexed collateral value of real estate	28,790	14,916	24,917	16,998	4,443	800
Savings held[4]	1,142	612	1,262	932	106	
NHG guarantee value[5]	4,948	1,901	5,373	3,075	703	81
Total cover value + including NHG guarantee, capped at carrying value[6]	20,235	11,338	17,523	12,515	3,102	670
Net exposure	**155**	**229**	**124**	**187**	**6**	**0**

1 Delta Lloyd Life's net exposure is EUR 33 million at 31 December 2017.
2 Delta Lloyd Bank's net exposure is EUR 10 million at 31 December 2017.
3 'Other' column includes numbers for the Non-life entities, Belgium business and other 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.

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.

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. The FX translation risk at the holding level is managed using FX forward contracts.

Risk measurement

The SCR for foreign exchange risk increased from EUR 283 million, to EUR 493 million at 31 December 2017. The increase is primarily due to the inclusion of Delta Lloyd, as well as revaluation of Korean Dassan investment of NN Life.

Market and credit risk: separate account

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.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

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 9.6 billion in 2016 to EUR 6.1 billion in 2017, 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.

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 NN Group. Regardless of actual returns on these investments, NN Group guarantees pension benefits for the beneficiaries under the contract. The value of the guarantee that NN Group provides is sensitive to interest rates, movements in the underlying funds and the volatility of those funds.

The account value for NN Life's portfolio decreased from EUR 5.5 billion in 2016 to EUR 3.3 billion in 2017, mainly driven by transfers to the general account. Furthermore, lower interest rates increased the value of the fixed income assets. Delta Lloyd Life also has a runoff portfolio with account value of EUR 1.8 billion. As such, the materiality of the separate account business within the NN Group has reduced in the past few years due to the runoff of the portfolio.

Risk mitigation

NN Group currently hedges the value of the guarantees it provided under group pension contracts in the Netherlands. For the purpose of hedging, the exposure under such guarantees is discounted at the swap curve without the extrapolation to the UFR. The hedge programme includes equity basket options, swaps and equity futures. Upon contract renewal, NN Group offers policyholders defined contribution products with investments in portfolios that NN Group can more easily hedge, thus reducing the risk to NN Group.

Other separate account

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.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

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.

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.

Liquidity limits are in place at various levels of the NN Group and its entities.

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: (i) business units applying Internal Model (Dutch NN insurance entities) and (ii) business units applying Standard Formula (former Delta Lloyd entities and international insurance entities).

For the business units applying Internal Model, non-market risks are split between:

- Insurance risks: these are the risks related to the events insured by NN Group and comprise actuarial and underwriting risks in Life, Health and Non-life, such as mortality, longevity, morbidity, and non-life insurance risks, 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 and expense risks. Business risks can occur because of internal, industry, 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.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

For the business units applying Standard Formula, the non-market risks are split in the sub-categories below in line with the Solvency II regime:

- Life risk: the life portfolio is mainly attributed to the individual and group business in the former Delta Lloyd entities as well as the international entities of NN Group (mainly Delta Lloyd Life, Delta Lloyd Life Belgium, Spain Life and Poland) and comprises the mortality, longevity, disability-morbidity, expense, lapse and life catastrophe risks.
- Health risk: this 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. Within NN Group, the health risk stems from morbidity riders in Delta Lloyd Life, Poland, Romania and Slovakia, but also from the yearly renewable health insurance portfolio of Greece.
- Non-life risk: this covers the premiums and reserve risk, non-life catastrophe risk and lapse risk (mainly in Delta Lloyd Schade and ABN AMRO Schade)

Risk profile

The table below presents the non-market risk SCR composition at the end of 2016 and at the end of 2017 respectively. The main changes in the risk profile are explained in the subsequent section of this document.

Non-market risk capital requirements

	2017	2016
Insurance risk (IM entities)	2,775	2,895
Business risk (IM entities)	1,210	1,275
Life risk (SF entities)	1,826	473
Health risk (SF entities)	198	103
Non-life risk (SF entities)	391	47
Diversification non-market risk	-751	-793
Non-market risk	**5,649**	**4,000**

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 Internal Model insurance risk SCR for the Dutch entities of NN Group (excluding Delta Lloyd entities) as at 31 December 2016 and 31 December 2017 respectively.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk profile

Insurance risk capital requirements

	2017	2016
Mortality (including longevity)	2,720	2,841
Morbidity	339	322
Property & Casualty	352	375
Diversification insurance risk	-636	-643
Insurance risk (IM entities)	**2,775**	**2,895**

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, 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 in the Netherlands. Longevity risk exposes NN Group primarily to mortality improvements and the present value impact is larger when interest rates are low.

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, the health and accidental death covers within the Corporate Owned Life Insurance (COLI) business in Japan Life, and the healthcare insurance business in Greece.

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 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 exposure from approximately EUR 3 billion of pension liabilities. NN Group remains exposed to 'basis risk' between its own portfolio and the Dutch population.

Besides the previously described main risk mitigating actions: risk that is not sufficiently mitigated by diversification is 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

Given the long-term nature of the liability portfolio of NN Group, the capital requirements underlying insurance risk are sensitive to interest rates due to the discounting impact. The EUR interest rate curve is higher at the end of 2017 as compared to the end of 2016 resulting in a decrease in the total insurance risk SCR from EUR 2,895 million at 31 December 2016 to EUR 2,775 million at 31 December 2017. Also, the Volatility Adjustment decreased from 13 bps to 4 bps in 2017, partially offsetting the impact of the increase in interest rates. Minor updates of models and assumptions also contribute to this change.

Business risk

Business risks 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.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk profile

Business risk capital requirements

	2017	2016
Persistency	268	310
Premium	9	18
Expense	1,127	1,187
Political		
Diversification Business Risk	-194	-240
Business risk (IM entities)	**1,210**	**1,275**

The main contributors to persistency risk are Netherlands Life, the unit-linked business in Central and Eastern Europe, and the Japan Closed Block VA. Persistency risk decreased slightly particularly due to model and assumption changes in the NN Life business unit and also the changes in the interest rate curve, which partially offset by the decrease in Volatility Adjustment.

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 2017 amounted to EUR 2,176 million. 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. The expense risk mainly comprises the expense level and expense inflation risks in Netherlands 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 the same rate as the number of policies in the in-force book gradually decreases, leading to a per policy expense increase. Furthermore, the valuation of the Group pension business in the Netherlands includes long-term best estimate expense assumptions, discounted over a long period of time. Changes in these assumptions are drivers of NN Group's expense risk.

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.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk profile

Life risk capital requirements

	2017	2016
Mortality	204	30
Longevity	1,113	50
Morbidity	36	11
Expense	636	161
Lapse	652	335
Catastrophe	126	40
Diversification life risk	-941	-154
Life risk (SF entities)	**1,826**	**473**

As shown in the table above, the life risk SCR of the business units applying Standard Formula increased from EUR 473 million in 2016 to EUR 1,826 million in 2017. This increase is primarily due to the inclusion of Delta Lloyd. During 2017, the life risk SCR is mainly impacted by:
- Longevity risk SCR for Delta Lloyd Life increased due to update of assumptions
- Expense risk SCR in Delta Lloyd entities increased due to an increase in investment expense assumptions after the merger. At NN Group level this was partly offset by lower investment expense assumptions in NN Life (as reflected in the expense risk SCR in the Internal Model).
- The increase in life risk SCR driven by the Delta Lloyd integration was partly offset from a new mass lapse reinsurance contract between Delta Lloyd Life Belgium and NN Re

In addition, Delta Lloyd Life has two longevity hedges. DNB extended approval for using these Delta Lloyd hedges in regulatory SCR reporting from 1 January 2018 to 1 January 2019.

Risk mitigation

The majority of life risk is comprised of longevity risk (in Standard Formula entities) and they are mainly contributed by the Delta Lloyd entities.

Delta Lloyd Life has entered into longevity swap agreements to reduce a portion of its exposure to longevity risk. These contracts provide Delta Lloyd Life with partial protection against mortality improvements exceeding current expectations during the term of the contract. Under the Standard Formula, these longevity derivatives reduce the NN Group SCR by approximately EUR 350 million as at 31 December 2017. These longevity derivatives will be largely ineffective under NN Group's Partial Internal Model.

Delta Lloyd entities manage the expense risk through detailed budgeting and monitoring the costs using activity-based costing.

Delta Lloyd entities are exposed to considerable potential financial impact from changes in the value of its liabilities caused by lapse risk. Lapse risk management serves an important objective for Delta Lloyd entities. When spikes in lapse rates for products are observed over a prolonged period, a product review and further management actions will be taken to address the underlying reasons.

Health Risk

Health risk contains risks arising from issuing health insurance contracts, which is divided in SLT risk, 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

	2017	2016
SLT	154	94
NSLT	53	14
Catastrophe	33	5
Diversification health risk	-42	-10
Health risk (SF entities)	**198**	**103**

As shown in the table above, the health risk SCR of the business units applying Standard Formula increased from EUR 103 million in 2016 to EUR 198 million in 2017. This increase is primarily due to the inclusion of Delta Lloyd.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Risk mitigation

A large proportion of Health Risk is from Delta Lloyd entities, and they mitigated the risks by strict acceptance policies and stringent claims-handling procedures. An acceptance policy is developed for each product line maintained by Delta Lloyd entities and is reviewed annually. 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

	2017	2016
Premium and reserve	358	37
Lapse	29	2
Catastrophe	88	20
Diversification non-life risk	-84	-12
Non-life risk (SF entities)	**391**	**47**

As shown in the table above, the non-life risk SCR of the business units applying Standard Formula increased from EUR 47 million in 2016 to EUR 391 million in 2017. This increase is primarily due to the inclusion of Delta Lloyd.

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 is from Delta Lloyd entities, and they manage the risk using various reinsurance contracts.

Non-Financial risk

Non-financial risk includes business operations and continuity & security risk and business conduct risk as described below.

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
- 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'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.

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 677 million and EUR 442 million as at 31 December 2017 and 31 December 2016, respectively. The SCR is calculated based on the Standard Formula for Solvency II. 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 whistle blower 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, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, 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 or facilitation) involving those countries.

NN Group performs a product 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

50 Risk management Continued

IFRS Net result sensitivity analysis

Following the risk appetite described above, NN Group also calculates sensitivities of IFRS net result. These risk sensitivities are designed to estimate the impacts on IFRS net result for the various risk factors. The following table sets out the shocks to parameters used to assess the sensitivities. The extent of tax offset included in the IFRS net result is dependent on the effective tax rate, as well as the extent to which tax offset can be used for this purpose from a regulatory viewpoint.

Sensitivity	Descriptions
Interest rate risk	Measured by parallel upward and downward shift of 50 basis points in interest rates (note this sensitivity is based on a +50 basis points shock which is aligned with the Solvency II ratio sensitivity disclosure).
Equity risk	Measured by the loss arising from a 31% downward change in equity prices, which corresponds to an approximately 95th percentile equity risk event. Equity shocks can impact IFRS net results due to (amongst others): impairment losses, fair value accounting and fee income in unit-linked accounts.
Real estate price risk	This is measured by the impact of an 8% drop in real estate prices, approximately corresponding to a 95th percentile Value at Risk shock applied for minority holdings and for all real estate re-valued through P&L. Other holdings will be included in case of possible impairments caused by a drop in prices.
FX risk	Measured by the impact of the worst of a 20% upward or downward movement in all currencies compared to the euro, approximately corresponding to the 95th percentile Value at Risk shock. IFRS net result can be impacted by FX movements in coupons, positions classified as Trading, or the amortised cost part of Assets classified as Available For Sale.
Variable Annuity risk	Where fair value accounting is used, sensitivities to IFRS net result is based on changes in market value corresponding to the 95th percentile Value at Risk shocks with loss-absorption of taxes based on IFRS.
Counterparty default risk	Determined using the 95th percentile Value at Risk shocks for (i) fixed income assets at book value (that do not fall under spread risk) and (ii) for derivatives, reinsurance, money market (Type 1) and Loans, including residential mortgages (Type 2).
Credit spread risk	Determined using the 95th percentile Value at Risk shocks for marked-to-market individual assets. AAA government bonds are shocked for this sensitivity calculation. IFRS net result can be impacted by changes in spreads in impaired assets, positions classified as Trading, guarantees and/or fees on unit linked/variable annuity.
Mortality (Including Longevity) Morbidity P&C	IFRS net result sensitivity determined by shocks corresponding to the 95th percentile Value at Risk to the extent they are within a one-year horizon. Multi-year risks related to volatility and uncertainty are therefore not shocked.

Notes to the Consolidated annual accounts Continued

50 Risk management Continued

Sensitivities of IFRS net result

The table below sets out various market and insurance risk impacts of sensitivities for IFRS net result.

Estimated IFRS net result sensitivities

		2017	2016
Market risk and credit risk	Interest rate	-212	0
	Equity	-436	-387
	Real estate	-431	-319
	FX	-97	-72
	Variable annuity (Europe and Japan)	-55	-105
	Counterparty default	-221	-143
Insurance risk	Mortality (including longevity)	-46	-26
	Morbidity	-125	-114
	P&C	-220	-121

As at 31 December 2017, the equity risk primarily relates to the Own account equity holdings in the Netherlands and Belgium, the hedging of the separate account pension business in the Netherlands and fee income from NN Group's investment management business. Real estate IFRS net sensitivity results reflect investments in real estate funds and direct real estate assets. Market movements in real estate are reflected in the IFRS net results.

The 2017 numbers show an increase in interest rate sensitivity following the acquisition of Delta Lloyd. This is due to hedges to manage interest rate risk from a cash flow and solvency perspective, for which no hedge accounting under IFRS is applied and where corresponding insurance liabilities are generally at a locked-in interest rate for IFRS. This leads to a situation where IFRS results are particularly sensitive to a change in interest rates as the changes on the hedge assets are reflected in the IFRS P&L but not offsetting changes in the insurance liabilities.

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 department consists of Capital Planning and Corporate Treasury. Activities of both departments are executed on the basis of established policies, guidelines and procedures.

Capital Planning 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 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 units 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 their commercial capital levels in accordance with the risk associated with the business activities. 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 the time horizon of 3-5 years. NN Group's risk appetite statements, as further described in the risk management paragraph, 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 units are closely monitored and, if necessary, measures are taken to ensure capital adequacy. At the end of 2017, all business units were capitalised above their local regulatory requirements. As from March 2016 NN Group is designated by the Dutch Central Bank (DNB) as a mixed financial holding company, also known as a Financial Conglomerate (FICO). NN Group is the holding company of licensed insurers, asset management and banking businesses. As NN Group is designated as FICO by DNB, it requires NN Group to exclude the banking business – NN Bank and Delta Lloyd Bank – from its Group Solvency.
- In addition, cash capital is held at the holding company. The cash capital position is available to cover capital needs of the subsidiaries 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 tests that might change from time to time. The free cash flow at the holding is an important metric, which 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 of 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 that it can expect, which includes lapses and market volatility in a severe stress scenario. Liquidity ratios of entities must be sufficient on a stand-alone entity basis. At 31 December 2017, all entities report ratios higher than 100%.

For the Banking business, De Nederlandsche Bank (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. DNB based its Decision of No Objection (DNO) to the merger of NN Bank and Delta Lloyd Bank amongst others on the submitted ICLAAP for the merged bank with start date 1 January 2018. The ICLAAP and Supervisory Review & Evaluation Process (SREP) show that NN Bank and Delta Lloyd Bank have a robust capital and liquidity position.

Main events 2017
Significant events of 2017 are listed below in chronological order.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

On 10 January 2017, NN Group issued EUR 850 million of subordinated notes, which have a maturity of 31 years and are first callable after 11 years. The coupon is fixed at 4.625 % per annum until the first call date and will be floating thereafter. These subordinated notes qualify as Tier 2 capital under Solvency II. The proceeds have been used to repay EUR 823 million of hybrid loans to its former parent ING Group in January 2017. These hybrid loans were classified as Restricted Tier 1 capital and grandfathered until 1 January 2017.

On 13 January 2017, NN Group issued EUR 500 million of senior unsecured notes, which have a fixed coupon of 0.875 % per annum and a maturity of 6 years. The proceeds were used to redeem the EUR 476 million 6.375% publicly issued subordinated notes of NN Group on its first call date in May 2017. The senior notes as well as the redeemed subordinated notes do not qualify as Own Funds under Solvency II.

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 to acquire their shares at a price of EUR 5.40 (cum dividend) in cash for each share, representing a total consideration of EUR 2.5 billion. These acquisitions of shares in Delta Lloyd have been funded from the cash capital position at the holding company, externally funded debt and via issuance of ordinary shares in the capital of NN Group. On 26 April 2017, NN Group announced that it held 93.3% of the issued and outstanding ordinary shares in the capital of Delta Lloyd. On 31 May 2017, NN Group and Delta Lloyd executed the legal merger, whereby remaining holders of Delta Lloyd ordinary shares received NN Group's ordinary shares. As a result, 5,069,969 NN Group shares were allotted.

On 6 April 2017, NN Group announced 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 was completed in October 2017.

On 24 April 2017, NN Group issued 8,749,237 ordinary shares to Stichting Fonds NutsOhra representing an aggregate value of EUR 255 million, in exchange for the preference shares A in the capital of Delta Lloyd held by Stichting Fonds NutsOhra (100% of the issued and outstanding preference shares A in the capital of Delta Lloyd), and the perpetual subordinated loan provided to Delta Lloyd with a nominal value of EUR 405 million.

On 11 May 2017, Standard & Poor's lowered the insurer financial strength rating with one notch to 'A' and long-term counterparty credit rating of NN Group N.V. with one notch to 'BBB+'. The outlook on these long-term ratings is stable. The NN Group ratings were removed from CreditWatch with negative implications where Standard and Poor's initially placed them on 7 October 2016.

On 24 May 2017, NN Group issued EUR 300 million senior unsecured notes with a fixed coupon of 0.25% per annum and a maturity of 3 years and EUR 600 million senior notes with a fixed coupon of 1.625% per annum and a maturity of 10 years. The net proceeds of the notes were applied by NN Group to repay the EUR 900 million bridge loan used to finance the acquisition of Delta Lloyd.

On 26 June 2017, NN Group paid a 2016 final dividend of EUR 0.95 per ordinary share, equivalent to EUR 317 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 129 million. This share buyback was executed by financial intermediaries under an open market share buyback programme which was completed on 22 December 2017.

On 11 September 2017, NN Group paid an interim dividend of EUR 0.62 per ordinary share, equivalent to EUR 209 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 78 million. This share buyback was executed by financial intermediaries under an open market share buyback programme which was completed on 22 December 2017.

On 20 September 2017, NN Bank announced that it has established a EUR 5 billion Conditional Pass-Through Covered Bond Programme. On 10 October 2017, NN Bank issued its inaugural EUR 500 million Conditional Pass-Through Covered Bonds. The bonds, which were placed with a broad range of institutional investors, have a tenor of 7 years and a fixed coupon of 0.5%. The covered bonds are backed by Dutch prime residential mortgage loans and rated AAA by Standard & Poor's Rating Services.

On 17 November 2017, senior notes for an amount of EUR 575 million originally issued by Delta Lloyd matured and were repaid subsequently.

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.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

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, NN Investment Partners, Delta Lloyd Asset Management, BeFrank and BeFrank PPI) are included in Own Funds based on their local available capital and in SCR based on required capital defined by sectoral supervisory rules. As from March 2016 NN Group is designated by the Dutch Central Bank (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 and Delta Lloyd Bank are 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 for NN Group and NN Life, NN Non-life, Movir and NN Re in the Netherlands. The regulatory approval of the model from the Dutch regulator (DNB) was received in December 2015. NN Group applies the Standard Formula for the International entities and Delta Lloyd insurance subsidiaries. NN Group will also seek DNB approval to extend the Partial Internal Model to include Delta Lloyd Life and Delta Lloyd Non-life.

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 Dutch Delta Lloyd insurance subsidiaries in the past, as this potential liability cannot be reliably estimated or quantified at this point. Reference is made to Note 43 'Legal proceedings' for more information.

NN Group was adequately capitalised at year-end 2017 with a Solvency II ratio of 199% based on the Partial Internal Model.

Eligible Own Funds and Solvency Capital Requirement

	2017	2016
Shareholders' equity	22,718	22,695
Minority interest	317	12
Elimination of deferred acquisition costs and other intangible assets	-2,356	-811
Valuation differences on assets	1,948	1,594
Valuation differences on liabilities, including insurance and investment contracts	-9,558	-12,458
Deferred tax effect on valuation differences	2,179	2,884
Difference in treatment of non-Solvency II regulated entities	-1,163	-1,182
Excess assets/liabilities	**14,085**	**12,734**
Deduction of participation in Bank[1]	-884	-605
Qualifying subordinated debt	4,394	3,037
Foreseeable dividends and distributions	-474	-505
Basic Own Funds	**17,121**	**14,660**
Non-available Own Funds	1,339	1,427
Non-eligible Own Funds	370	84
Eligible Own Funds to cover Solvency Capital Requirements (a)	**15,412**	**13,149**
of which Tier 1 unrestricted	8,935	8,414
of which Tier 1 Restricted	1,885	1,919
of which Tier 2[2]	2,420	1,043
of which Tier 3	1,085	750
of which non-Solvency II regulated entities	1,087	1,022
Solvency Capital Requirements (b)	**7,731**	**5,459**
of which Solvency Capital Requirements calculated on the basis of consolidated data	7,231	4,999
of which the capital requirements for investment firms , pension funds and credit institutions	249	198
of which the capital requirements for undertakings included under the D&A method	251	262
NN Group Solvency II ratio (a/b)[3]	**199%**	**241%**

1 As from March 2016, 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 EUR 89 million at 31 December 2017 (at 31 December 2016 EUR 74 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.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

The final amount of the Solvency Capital Requirement is still subject to supervisory assessment.

The Solvency II ratio of NN Group decreased to 199% from 241% at the end of 2016, mainly due to the acquisition of Delta Lloyd. The decrease was partially offset by the operating capital generation of the business. Eligible Own Funds increased by EUR 2.3 billion from EUR 13.1 billion at 31 December 2016 to EUR 15.4 billion at 31 December 2017. The increase reflects the inclusion of Delta Lloyd, operating capital generation and positive market impacts, offset by capital flows to shareholders. Solvency Capital Requirement increased by EUR 2.3 billion, from EUR 5.5 billion at 31 December 2016 to EUR 7.7 billion at 31 December 2017. The increase is mainly driven by the inclusion of Delta Lloyd.

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	2017	2016
4.500%	NN Group N.V.	2014	1,000	Perpetual	15 January 2026	Tier 1	1,076	1,093
4.375%	NN Group N.V.[1]	2014	750	Perpetual	13 June 2024	Tier 1	809	[2]
4.625%	NN Group N.V.	2014	1,000	8 April 2044	8 April 2024	Tier 2	1,099	1,117
4.625%	NN Group N.V.	2017	850	13 January 2048	13 January 2028	Tier 2	872	n.a.
9.000%	Delta Lloyd Levens-verzekering N.V.	2012	500	29 August 2042	29 August 2022	Tier 2	538	[2]

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 The securities issued by Delta Lloyd entities are not included in the own funds of NN Group at 31 December 2016.

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.

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, Delta Lloyd Asset Management, 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 2017 NN Group had no ancillary own funds (31 December 2016: 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 application of the regulatory restrictions as at 31 December 2017 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	**10,820**		**0**	**10,820**
Of which:				
- Unrestricted Tier 1	8,935	Not applicable		8,935
- Restricted Tier 1	1,885	Less than 20% Tier 1		1,885
Tier 2 + Tier 3	**3,875**	**Less than 50% SCR**	**-370**	**3,505**
Tier 2	2,420			2,420
Tier 3	1,455	Less than 15% SCR	-370	1,085
Non-Solvency II regulated entities	1,087			1,087
Total Own Funds	**15,782**		**-370**	**15,412**

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 respective related undertaking. On 31 December 2017 Excess non-available own funds amount to EUR 1,339 million. On 31 December 2016 this amount was EUR 1,427 million.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

Solvency Capital Requirements based on the Partial Internal Model

Solvency II capital requirements for NN Group are based on the approved Partial Internal Model. 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 businesses (excluding former Delta Lloyd entities) while the Standard Formula is used to calculate capital requirements for operational risk (across the group) and capital requirements for the former Delta Lloyd entities and international businesses that fall under Solvency II. NN Life Japan is incorporated based on local capital rules 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.

Further details on the NN Group capital requirements at 31 December 2017 are provided in Note 50 'Risk Management'.

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 important 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

	2017	2016
Beginning of period	2,489	1,953
Cash divestment proceeds	58	
Dividends from subsidiaries[1]	1,818	1,611
Capital injections into subsidiaries[2]	-597	-93
Other[3]	-397	-169
Free cash flow to the holding[4]	**881**	**1,349**
Inclusion Delta Lloyd cash capital position	413	
Acquisitions	-2,234	
Capital flow to shareholders	-665	-812
Increase in debt and loans	549	
End of period	**1,434**	**2,489**

1 Includes interest on intragroup subordinated loans provided to subsidiaries by the holding company.
2 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.

The cash capital position at the holding company decreased to EUR 1,434 million from EUR 2,489 million at 31 December 2016. The decrease reflects the cash payment of EUR 2,234 million for the acquisition of Delta Lloyd, capital flows to shareholders of EUR 665 million representing the cash part of the 2016 final dividend and the 2017 interim dividend for a total amount of EUR 318 million and shares repurchased in 2017 for an amount of EUR 347 million. These items were partially offset by the EUR 549 million proceeds from net increase of debt and loans reflecting the issue of new subordinated notes of EUR 850 million and senior notes of EUR 1,400 million, the EUR 200 million repayment of operational leverage by NN Bank to the holding company, partly offset by the repayment of EUR 823 million qualifying subordinated notes to ING Group, EUR 476 million non-qualifying subordinated notes and EUR 575 million senior notes. The cash capital position at the holding also reflects the inclusion of the cash capital of the holding company at Delta Lloyd of EUR 413 million, as well as free cash flow to the holding of EUR 881 million mainly reflecting EUR 1.8 billion of dividends from all segments, a EUR 500 million capital injection into Delta Lloyd Levensverzekering N.V. and a EUR 185 million provision related to ING Australia Holdings. Other movements include holding company expenses, interest on loans and debt and other holding company cash flows. The cash divestment proceeds relate to the sale of Mandema & Partners completed in January 2017 and the sale of NN Life Luxembourg, which was completed in October 2017.

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

	2017	2016
Shareholders' equity	22,718	22,695
Adjustment for revaluation reserves	-6,976	-8,763
Minority interests	317	12
Capital base for financial leverage (a)	**16,060**	**13,945**
– Undated subordinated notes[1]	1,764	986
– Subordinated debt	2,468	2,288
Total subordinated debt	4,231	3,273
Debt securities issued (financial leverage)	1,988	398
Financial leverage (b)	**6,219**	**3,672**
Debt securities issued (operational leverage)		199
Total debt	**6,219**	**3,871**
Financial leverage ratio (b/(a+b))	27.9%	20.8%
Fixed-cost coverage ratio[1,2]	13.5x	12.8x

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 and Insurance Other to cover funding costs on financial leverage

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

The calculation methodology for the financial leverage ratio was updated in 2017 to better align with market practice. Goodwill is no longer deducted from the capital base for financial leverage and historical figures have been updated to reflect this change. At 31 December 2016 the financial leverage ratio decreased from 21.1% to 20.8% reflecting the inclusion of goodwill in the capital base. The financial leverage ratio of NN Group increased to 27.9% at 31 December 2017 compared with 20.8% at 31 December 2016. The increase of financial leverage reflects the following:

- The financial leverage increased due to the addition of EUR 750 million subordinated notes originally issued by Delta Lloyd and EUR 500 million subordinated notes issued by Delta Lloyd Levensverzekering N.V.
- NN Group issued subordinated notes for an amount of EUR 850 million with a maturity of 31 years and first callable after 11 years with a fixed rate coupon of 4.625% per annum. The proceeds were used to repay EUR 823 million of hybrid loans outstanding with ING Group
- NN Group issued EUR 500 million of senior unsecured notes. The proceeds were used to repay EUR 476 million of subordinated notes of NN Group on its first call date in May 2017
- In addition, NN Group issued two senior unsecured notes for a total amount of EUR 900 million, to finance the Delta Lloyd acquisition

The capital base for financial leverage increased by EUR 2,114 million driven by the 2017 net result of EUR 2,110 million, the issue of new NN Group shares for a total amount of EUR 420 million related to the acquisition of Delta Lloyd and an increase in minority interests of EUR 305 million, partly offset by capital flows to shareholders of EUR 665 million.

The fixed-cost coverage ratio increased to 13.5x at the end of 2017 versus 12.8x at the end of 2016.

Proposed 2017 final dividend

At the Annual General Meeting on 31 May 2018, a final dividend will be proposed of EUR 1.04 per ordinary share, or approximately EUR 348 million in total based on the current number of outstanding shares (net of treasury shares). Together with the 2017 interim dividend of EUR 0.62 per ordinary share paid in September 2017, NN Group's total dividend over 2017 will be EUR 556 million, or EUR 1.66 per ordinary share which is equivalent to a dividend pay-out ratio of around 45% of NN Group's full-year 2017 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 4 June 2018. The record date for the dividend will be 5 June 2018. The election period will run from 4 June up to and including 18 June 2018. 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 2018. The dividend will be payable on 25 June 2018.

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 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.

Share capital

Following payment of the 2016 final dividend and the 2017 interim dividend, NN Group announced that it would repurchase ordinary shares for a total amount of EUR 207 million, equivalent to the value of the stock dividends. These share buybacks were executed by financial intermediaries under an open market share buyback programme, which was completed on 22 December 2017.

The share buyback programme was executed within the limitations of the existing authority granted by the General Meeting on 1 June 2017 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).

In 2017, a total number of 10,450,584 ordinary shares for a total amount of EUR 347 million were repurchased.

The Executive Board of NN Group has decided to cancel 6,176,884 treasury shares representing shares NN Group repurchased as part of the share buyback programme which was completed in December 2017. This cancellation is subject to a two-month creditor opposition period which will end on 10 April 2018.

On 12 March 2018, the total number of NN Group shares outstanding (net 6.608.457 of treasury shares) was 334.141.885.

Notes to the Consolidated annual accounts Continued

51 Capital and liquidity management Continued

Credit ratings

On 23 October 2017, Fitch affirmed NN Group's 'A+' financial strength rating and 'A' credit rating with a stable outlook.

On 11 May 2017, Standard & Poor's lowered the insurer financial strength rating with one notch to 'A' and long-term counterparty credit rating of NN Group N.V. with one notch to 'BBB+'. The outlook on these long-term ratings is stable. The NN Group ratings were removed from CreditWatch with negative implications where Standard & Poor's initially placed them on 7 October 2016. The downgrade reflects Standard & Poor's view on the capital implications of the acquisition of Delta Lloyd and their assessment of NN Group's enterprise risk management.

On 26 October 2017, Standard & Poor's affirmed NN Group's 'A' financial strength rating and 'BBB+' credit rating with a stable outlook.

On 2 January 2018, following the legal merger of NN Group Bidco B.V. into NN Group N.V., Standard & Poor's upgraded the financial strength rating of the Delta Lloyd operating entities to 'A' with a stable outlook and raised the rating of the subordinated notes of EUR 500 million of Delta Lloyd Levensverzekering N.V. and EUR 750 million of NN Group (originally issued by Delta Lloyd) to 'BBB-'.

Credit ratings on NN Group N.V. on 14 March 2018

	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 2017 were authorised for issue in accordance with a resolution of the Executive Board on 14 March 2018. 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, 14 March 2018

The Supervisory Board
J.H. (Jan) Holsboer, chair
D.H. (Dick) Harryvan, vice-chair
H.J.G. (Heijo) Hauser
R.W. (Robert) Jenkins
Y.C.M.T. (Yvonne) van Rooij
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

Parent company balance sheet

Amounts in millions of euros, unless stated otherwise
As at 31 December before appropriation of result

	notes	2017	2016
Assets			
Investments in group companies	2	23,633	22,580
Intangible assets	3	1,494	
Other assets	4	5,498	5,540
Total assets		**30,625**	**28,120**
Equity	5		
Share capital		41	40
Share premium		12,572	12,153
Share of associates reserve		9,185	10,743
Retained earnings		-1,190	-1,430
Unappropriated result		2,110	1,189
Shareholders' equity		**22,718**	**22,695**
Undated subordinated notes	5	1,764	986
Total equity		**24,482**	**23,681**
Liabilities			
Subordinated debt	6	1,826	2,288
Other liabilities	7	4,317	2,151
Total liabilities		**6,143**	**4,439**
Total equity and liabilities		**30,625**	**28,120**

Amounts for 2016 have been restated for the change in NN Group's accounting policy for the Reserve Adequacy Test. Reference is made to Note 1 'Accounting policies' of the Consolidated annual accounts for more details.

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	2017	2016
Result group companies	2,433	1,344
Result on disposals of group companies		-4
Valuation results on non-trading derivatives	2	3
Other income	2	
Total income	**2,437**	**1,343**
Intangible amortisation and other impairments	99	
Interest expenses	113	104
Operating expenses	185	59
Total expenses	**397**	**163**
Result before tax	**2,040**	**1,180**
Taxation	-70	-9
Net result	**2,110**	**1,189**

Parent company statement of changes in equity (2017)

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.

Parent company statement of changes in equity Continued

Parent company statement of changes in equity (2016)

	Share capital	Share premium	Share of associates reserve	Other reserves[1]	Shareholders' equity	Undated subordinated notes	Total equity
Balance at 1 January 2016	**40**	**12,153**	**8,546**	**-281**	**20,458**	**986**	**21,444**
Unrealised revaluations available-for-sale investments and other			2,487	-62	2,425		2,425
Realised gains/losses transferred to the profit and loss account			-230		-230		-230
Changes in cash flow hedge reserve			406		406		406
Deferred interest credited to policyholders			-689		-689		-689
Share of other comprehensive income of associates and joint ventures			3		3		3
Exchange rate differences			-7		-7		-7
Remeasurement of the net defined benefit asset/liability			-13		-13		-13
Unrealised revaluations property in own use			-2		-2		-2
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**1,955**	**-62**	**1,893**	**0**	**1,893**
Net result for the period				1,189	1,189		1,189
Total comprehensive income	**0**	**0**	**1,955**	**1,127**	**3,082**	**0**	**3,082**
Transfers to/from associates			242	-242	0		0
Dividend				-298	-298		-298
Purchase/sale of treasury shares				-503	-503		-503
Employee stock option and share plans				-10	-10		-10
Coupon on undated subordinated notes				-34	-34		-34
Balance at 31 December 2016	**40**	**12,153**	**10,743**	**-241**	**22,695**	**986**	**23,681**

1 Other reserves include Retained earnings and Unappropriated result.

Amounts for 2016 have been restated for the change in NN Group's accounting policy for the Reserve Adequacy Test. Reference is made to Note 1 'Accounting policies' of the Consolidated annual accounts for more details.

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'.

Amounts for 2016 have been restated for the change in NN Group's accounting policy for the Reserve Adequacy Test. Reference is made to Note 1 'Accounting policies' of the Consolidated annual accounts for more details.

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 2017	Balance sheet value 2017	Interest held 2016	Balance sheet value 2016
NN Insurance Eurasia N.V.	Amsterdam, The Netherlands	100%	20,976	100%	21,977
Delta Lloyd Houdstermaatschappij Verzekeringen N.V.	Amsterdam, The Netherlands	100%	962		
Nationale-Nederlanden Bank N.V.	The Hague, The Netherlands	100%	585	100%	514
Delta Lloyd Houdstermaatschappij België B.V.	Arnhem, The Netherlands	100%	582		
Delta Lloyd ABN AMRO Verzekeringen Holding B.V.	Zwolle, The Netherlands	51%	315		
Delta Lloyd Bank N.V.	Amsterdam, The Netherlands	100%	118		
NN Insurance International B.V.	The Hague, The Netherlands	100%	78	100%	81
NN Internationale Schadeverzekeringen Ltd.	London, United Kingdom	100%	7	100%	8
Other		100%	10		
Investments in group companies			**23,633**		**22,580**

Changes in investments in group companies

	2017	2016
Investments in group companies – opening balance	22,580	20,871
Revaluations	-1,747	1,880
Result of group companies	2,338	1,294
Capital contributions	2,937	38
Dividend and repayments	-1,455	-2,101
Changes in the composition of the group and other changes	-1,020	598
Investments in group companies – closing balance	**23,633**	**22,580**

'Capital contributions' include EUR 2,463 million in relation to the acquisition of Delta Lloyd. Reference is made to Note 44 'Companies and businesses acquired and divested.

'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

	2017	2016
Goodwill	1,146	
Other intangible assets	348	
Intangible assets	**1,494**	**0**

4 Other assets

Other assets

	2017	2016
Receivables from group companies	2,041	1,319
Cash	1,684	2,352
Other receivables	1,773	1,869
Other assets	**5,498**	**5,540**

As at 31 December 2017, an amount of EUR 3,169 million (2016: EUR 1,598 million) is expected to be settled after more than one year from the balance sheet date.

5 Equity

Equity

	2017	2016
Share capital	41	40
Share premium	12,572	12,153
Share of associates reserve	9,185	10,743
Retained earnings and unappropriated result	920	-241
Shareholders' equity	**22,718**	**22,695**
Undated subordinated notes	1,764	986
Total equity	**24,482**	**23,681**

As at 31 December 2017, share premium includes an amount of EUR 6,393 million (2016: EUR 6,140 million) exempt from Dutch withholding tax.

Share capital

	Ordinary shares (in number)		Ordinary shares (Amounts in millions of euros)	
	2017	2016	2017	2016
Authorised share capital	700,000,000	700,000,000	84	84
Unissued share capital	359,249,658	365,148,629	43	44
Issued share capital	**340,750,342**	**334,851,371**	**41**	**40**

For details on the changes in share capital, share premium and warrants, reference is made to Note 13: 'Equity' in the Consolidated annual accounts.

Notes to the Parent company annual accounts Continued

5 Equity continued

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**

Changes in Retained earnings and unappropriated result (2016)

	Retained earnings	Unappropriated result	Total
Retained earnings and unappropriated result – opening balance	-1,846	1,565	-281
Net result for the period		1,189	1,189
Unrealised revaluations	-62		-62
Transfer to/from share of associates reserve	-242		-242
Transfer to/from retained earnings	1,565	-1,565	0
Dividend	-298		-298
Purchase/sale of treasury shares	-503		-503
Employee stock option and share plans	-10		-10
Coupon on undated subordinated notes	-34		-34
Retained earnings and unappropriated result – closing balance	**-1,430**	**1,189**	**-241**

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

	2017	2016
Unrealised revaluations within consolidated group companies	8,597	10,227
Currency translation reserve	-139	10
Net defined benefit asset/liability remeasurement reserve	-106	-103
Reserve for non-distributable retained earnings of associates	697	555
Revaluations on investment property and certain participations recognised in income	136	54
Share of associates reserve	**9,185**	**10,743**

Positive components of the Share of associate reserve of EUR 9,430 million (2016: EUR 10,846 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

	2017	2017	2016	2016
Total shareholders' equity		22,718		22,695
Share capital	41		40	
Positive components of Share of associates reserve	9,430		10,846	
Total non-distributable part of shareholders' equity		**9,471**		**10,886**
Distributable reserves based on the Dutch Civil Code		**13,247**		**11,809**

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

	2017	2017	2016	2016
Solvency requirement under the Financial Supervision Act	7,731		5,459	
Reserves available for financial supervision purposes	15,412		13,149	
Total freely distributable reserves on the basis of solvency requirements		7,681		7,690
Total freely distributable reserves on the basis of the Dutch Civil Code		13,247		11,809
Total freely distributable reserves (lower of the values above)		**7,681**		**7,690**

Reference is made to Note 51 'Capital and liquidity management' for more information on solvency requirements and the 2016 change from Solvency I to Solvency II capital requirement.

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 billion. 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.

The increase in undated subordinated notes of EUR 778 million relates to the undated subordinated notes originally issued by Delta Lloyd which are classified as equity under IFRS. In 2014, Delta Lloyd placed this EUR 750 million fixed-to-floating-rate subordinated notes transaction. The notes qualify as Tier 1 restricted capital under Solvency II.

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**	**2017**	**2016**	**2017**	**2016**
4.625%	2017	13 January 2048	13 January 2028	850		837	
4.625%	2014	8 April 2044	8 April 2024	1,000	1,000	989	988
6.375%	2002	7 May 2027	Redeemed May 2017		476		477
Variable		Perpetual	Redeemed January 2017		506		506
Variable		Perpetual	Redeemed January 2017		169		169
Variable		Perpetual	Redeemed January 2017		148		148
Subordinated debt						**1,826**	**2,288**

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 except for the Subordinated debt with a Notional amount of EUR 476 million. All subordinated debt is euro denominated.

Notes to the Parent company annual accounts Continued

7 Other liabilities
Other liabilities

	2017	2016
Debt securities issued	1,987	598
Amounts owed to group and parent companies	1,962	1,480
Other amounts owed and accrued liabilities	368	73
Other liabilities	**4,317**	**2,151**

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 and parent companies by remaining term

	2017	2016
Within 1 year	1,825	1,195
More than 1 year but less than 5 years	137	285
Amounts owed to group and parent companies	**1,962**	**1,480**

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 2017 were authorised for issue in accordance with a resolution of the Executive Board on 14 March 2018. 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, 14 March 2018

The Supervisory Board
J.H. (Jan) Holsboer, chair
D.H. (Dick) Harryvan, vice-chair
H.J.G. (Heijo) Hauser
R.W. (Robert) Jenkins
Y.C.M.T. (Yvonne) van Rooij
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

Independent auditor's report

Independent auditor's report

To: the General Meeting of Shareholders and Supervisory Board of NN Group N.V.

Report on the audit of the 2017 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 2017, 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 2017, 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 2017 annual accounts of NN Group N.V. based in Amsterdam and headquartered in The Hague, as set out on pages 36 to 179 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 2017;
2. the following consolidated statements for 2017: 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 2017;
2. the parent company profit and loss account for 2017;

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 that 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
- Based on core equity: shareholders' equity minus revaluation reserves (1%)

AUDIT SCOPE
- 95% of core equity, 97% of total assets, 84% of profit before tax covered by audit procedures performed by group audit team and by component auditors

KEY AUDIT MATTERS
- Acquisition of Delta Lloyd
- Valuation of insurance contract liabilities and Reserve Adequacy Test (RAT)
- Unit-linked exposure
- Solvency II capital and risk management disclosures
- Delta Lloyd integration

UNQUALIFIED AUDIT OPINION

Independent auditor's report Continued

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 140 million (2016: EUR 120 million). The materiality is determined with reference to core equity (shareholders' equity minus revaluation reserves) and amounts to 1% (2016: 1%) of core equity. 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 qualitative reasons for the users of the annual accounts.

We agreed with the Audit Committee of the Supervisory Board that misstatements in excess of EUR 7 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

NN Group N.V. is at the head of a group of entities ("components"). The financial information of this group is included in the consolidated annual accounts of NN Group N.V. 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 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.

Applying these scoping criteria resulted in a full or specific scope audit for 27 components, in total covering 9 countries. This resulted in a coverage of 95% of core equity, 97% of total assets and 84% of profit before tax. For the remaining 5% of core equity, 3% of total assets and 16% 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.

We sent audit instructions to all (both KPMG and EY) 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.

Independent auditor's report Continued

All components in scope for group reporting are audited by KPMG member firms with the exception of Delta Lloyd components. Following the acquisition of Delta Lloyd N.V. (Delta Lloyd) in the second quarter of 2017 we included various Delta Lloyd components in scope of our group audit. As the Group auditor we have satisfied ourselves that the audits performed by EY are meeting the requirements set out in the audit instructions that we have sent out. Our procedures included regular communication about the assessment of risk and audit response thereto, the discussion of audit observations and reporting by EY and the review of the audit files to ensure these are consistent with these instructions and support the audit opinions on the components' group reporting packages that we relied upon in the completion of the Group audit.

We visited component locations in The Netherlands, Japan, Spain, Romania, Belgium, Czech Republic and Greece, where we discussed the audit work performed with the local audit teams and performed detailed file reviews. For all components in 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 5 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 performed 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, 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 consolidated annual accounts.

Our procedures as described above can be summarised as follows:

Core equity

67%	28%	5%
Audit of the complete reporting package	Audit of specific items	Covered by additional procedures at group level

Independent auditor’s report Continued

Profit before tax

70%	14%	16%
Audit of the complete reporting package	Audit of specific items	Covered by additional procedures at group level

Total assets

87%	10%	3%
Audit of the complete reporting package	Audit of specific items	Covered by additional procedures at group level

Audit procedures in response to fraud risk

We performed audit procedures for the purpose of identifying, assessing and acting on risks of a material misstatements due to fraud. Our normal audit procedures are based on Dutch Standards on Auditing and therefore differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

In our process of identifying fraud risks we evaluated fraud risk factors. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. This year we paid specific attention to those internal controls that mitigated the inherently increased fraud risk factors following the Delta Lloyd acquisition. We also refer to our key audit matter on the integration of Delta Lloyd. In this evaluation we made use of our forensic specialists.

In line with the Dutch Standards on Auditing we evaluated the two presumed fraud risks: fraud risk in relation to the revenue recognition and fraud risk in relation to management override of controls. Based on our analysis of fraud risk factors we have not identified and evaluated any additional fraud risks.

Our audit procedures included an evaluation of the internal controls relevant to mitigate fraud risks. We discussed with the anti-fraud risk specialists of the Group the work performed in relation to a number of reported incidents and we inspected the underlying work when deemed relevant for our audit of the annual accounts.

Supplementary we performed substantive audit procedures, including detailed testing of (administrative) journal entries and documentation in relation to payments in The Netherlands and in relation to other operating expenses. We also evaluated fraud risk in performing our audit procedures over the claims management processes with an emphasis thereon in the non-life segment.

Independent auditor's report Continued

If relevant, we have executed supplementary audit procedures, in an appropriate manner, to evaluate actual and/or indications of fraud which were identified during our audit. In this evaluation we made use of a forensic specialist. We have communicated this audit approach and the results from our work to Management and the Audit Committee of the Supervisory Board. The results of our procedures were satisfactory.

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.

In comparison to our 2016 audit opinion, we no longer recognise a key audit matter for General IT controls: user access management, due to management's actions in 2017 to reduce the risk.

The 2017 reporting year is highly impacted by the acquisition of Delta Lloyd. Consequently this was a key area of attention in the 2017 audit. We identified two key audit matters in that respect: 'Estimation uncertainty and disclosure requirements with respect to the Delta Lloyd acquisition' and 'Pervasive risk and impact on internal controls from the Delta Lloyd integration'.

Acquisition of Delta Lloyd

Description

In the second quarter of 2017 NN Group acquired Delta Lloyd. This acquisition significantly impacts the size and composition of the Group. The accounting for the acquisition involves significant judgement over the fair value of assets and liabilities (including insurance contract liabilities), identification of acquisition related intangibles and contingent liabilities and allocation of goodwill to cash generating units. Furthermore the acquisition requires specific and complex disclosures. Given the financial significance, complexity and judgement we determined the estimation uncertainty and disclosure requirements with respect to the Delta Lloyd acquisition as a key audit matter.

Our response

With the assistance of our valuation and actuarial specialists we performed the following procedures:

- In the period prior to the acquisition and thereafter, we performed specific inquiries with the Management Board, Supervisory Board and with the Dutch Central Bank to obtain an understanding of the transaction rationale, the business case driving the transaction, the regulatory perspective on the transaction, including the approval thereof, and the preparation for the acquisition accounting;
- An assessment of the acquisition date based on the approvals by the regulators and shareholders;
- An assessment of the appropriateness of the methodology and assumptions used in the fair valuation of the assets and (insurance contract) liabilities by reference to industry data;

KPMG

Independent auditor's report Continued

- An assessment of the appropriateness of the data, assumptions and methodologies applied in the recognition and valuation of the identified intangibles and contingent liabilities;
- An assessment of the amortisation scheme for recognised intangibles based on the expected useful life of the intangibles in the transaction documentation;
- Test of detail on the consideration paid and resulting goodwill based on underlying transaction documentation and payment details;
- Evaluation of possible impairment triggers and assessment of possible adjustments to the provisional goodwill within the one-year adjustment period based on the underlying business case, initial acquisition accounting and subsequent monitoring of information that may require consideration for the valuation of the goodwill recognised at acquisition date;
- Assessment of the disclosure of the acquisition in line with IFRS 3 requirements and intangibles resulting from the acquisition. This included the disclosure related to the legal merger between NN Group N.V. and Delta Lloyd N.V. We generally performed substantive audit procedures to determine that the accounting is supported by underlying source documentation.

Our observation

Overall we found management's estimate of the fair value of the assets (including identified intangibles) and liabilities (including insurance contract liabilities) as part of acquisition accounting acceptable. We also found the related disclosures to be adequate. We refer to note 9 and note 44 of the annual accounts.

Valuation of insurance contract liabilities and the Reserve Adequacy Test (RAT)

Description

NN Group has insurance and investment contract liabilities of EUR 164 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 Reserve Adequacy Test (RAT).

The RAT is performed in order to confirm that the insurance contract liabilities, net of deferred acquisition cost, 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.

Independent auditor's report Continued

With the assistance of our actuarial specialists we performed the following substantive audit procedures:

- Assessing 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;
- Assessing the appropriateness of the non-economic assumptions used in the valuation of the Japan CBVA guarantees in relation to lapse or extension assumptions by reference to company specific and industry data;
- Assessing management's substantiation for the change in accounting policy for the RAT as from 1 January 2017 onwards and the disclosure thereof in the annual accounts (Note 1);
- Assessing 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 2017.

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 17 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 reserves in order to remain adequate.

We evaluated the disclosure of the change in accounting policy relating to the RAT applicable as from 1 January 2017 and found the disclosure to be adequate. We refer to Note 1.

Independent auditor's report Continued

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 43 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:

- An assessment of NN Group's governance, processes and internal controls with respect to the unit-linked exposures within its business units, in particular the NN Life Segment in The Netherlands;
- An assessment of management's procedures to get comfort over the unit-linked exposure related to Delta Lloyd Leven and ABN AMRO Levensverzekeringen (51% shareholding), both part of the Delta Lloyd acquisition. We reviewed the work performed by management and their external legal advisors and discussed the outcome thereof with the Group's general counsel, Management Board and Audit Committee of the Supervisory Board;
- An 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, such as the meaning of the verdict of the District Court Rotterdam in July which we also discussed with the external legal advisors. Our procedures also took into account broader market developments in 2017;
- A detailed consideration 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;
- An evaluation of the unit-linked disclosure in Note 43 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 2017 balance sheet (for both EU-IFRS and Solvency II), is sufficiently substantiated.

We evaluated the disclosure of the exposure in Note 43, which describes the related risks and management judgements in compliance with the relevant accounting requirements, to be adequate.

Independent auditor's report Continued

Solvency II capital and risk management disclosures

Description

Solvency II information is considered to be an important addition to the information provided on an 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. 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 several insurance subsidiaries in The Netherlands. 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 and designed our audit procedures taking into account the NBA practice guidance in Audit Alert 40. Taking into account this technical guidance, we have set a separate materiality for the audit of the Solvency II capital position. The materiality level applied is EUR 160 million (2016: EUR 160 million). Due to diversification effects we consider this level of materiality appropriate also in relation to the materiality level (EUR 140 million) we use in the audit of the IFRS financial information.

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 by the Dutch regulator, DNB) and management review 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 approved by DNB;
- the appropriateness of assumptions used for the calculations of market value balance sheet, Own Funds and SCR, based on market observable data, company and industry data, comparison of judgements made to current and emerging market practice;
- the adequacy of the quantitative and qualitative disclosures of the Solvency II capital requirements including disclosure on interpretation of legislation and related uncertainty. In this context we also tested the design and 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:

Independent auditor's report Continued

- 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;
- Verifying that the PIM as approved by DNB was applied in the Solvency Capital calculations;
- 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 auditors confirmed that local management had 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 2017 and discussing the outcome with the company's actuaries and Group Chief Actuary;
- Verifying the reconciliation between the disclosures in the annual accounts to the output of the internal reporting on Solvency II. This also includes reconciliation of input for the market value balance sheet used for Own Funds with other fair value disclosures in the annual accounts;
- Verifying that the Solvency II disclosure refers to the fact that the Solvency II ratio is not final until filed with the Regulator, DNB. We refer to page 161.

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.

Delta Lloyd integration

Description

In addition to the direct accounting impact, as disclosed in Note 44 of the annual accounts, the integration of Delta Lloyd also had a significant impact on the internal control environment and processes of NN Group. We refer to Note 50.

The risk profile of existing financial reporting processes and underlying financial data is potentially impacted by:

- Organisational risk (changes in key positions, people leaving, uncertainty on job security);
- Changes in the business processes and systems in 2017 (in particular for those businesses on an accelerated integration path such as Asset Management and Bank);
- Integration of the support processes and systems of the former Delta Lloyd Group functions into NN Group functions;
- Changes in the financial reporting processes and systems, both IFRS and Solvency II related.

Independent auditor's report Continued

The factors mentioned above inherently increase the risk of error and the risk of fraud. Also refer to the paragraph Audit procedures in response to fraud risk. We identified a financial statement level risk resulting from the pervasive risks relating to the Delta Lloyd acquisition and subsequent integration and determined this to be a key audit matter.

Our response

Our audit procedures primarily consisted of the following:

— With the assistance of our behavioural (soft controls) specialists we obtained 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 the additional Employee surveys that have been conducted by management;

— Our audit approach included testing both the effectiveness of internal controls around the changes in financial reporting processes as a result of the acquisition and the integration as well as performing additional substantive audit procedures to mitigate increased risks not sufficiently covered by internal controls;

— A specific area of attention was the compliance with the NN Group accounting policies as from the acquisition date onwards. We tested management's controls to bridge the statutory reporting of Delta Lloyd entities to the fair values identified at acquisition date and then the ongoing accounting in accordance with the NN Group accounting policies. The Delta Lloyd auditors (EY) performed significant additional substantive audit procedures on the accounting adjustments to NN accounting policies to get comfort over the reporting to NN Group.

Our observation

For 2017 management decided to continue with Delta Lloyd's existing methodology of control testing over financial reporting. Controls were added to the Delta Lloyd and Group consolidation and monitoring control frameworks to safeguard the reliability of reporting on NN Group accounting policies (IFRS and Solvency II).

We found that the reporting processes will benefit from the planned integration activities, which will allow for more time to perform (aligned) internal control activities.

The results of the combination of the tests of the controls and the additional substantive tests as described above were satisfactory.

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

— 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;

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Independent auditor's report Continued

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 financial years 2016 through 2019. We 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.

As part of the preparation of the annual accounts, the Executive Board is responsible for assessing the 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.

Independent auditor's report Continued

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 Beroepsorganisatie 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, 14 March 2018

KPMG Accountants N.V.

P.A.M. de Wit RA

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 13 ‘Equity’ for the proposed appropriation of result.

Contact and legal information

Prepared by
NN Group Corporate Relations

Design and production
Radley Yeldar | ry.com

Contact us
NN Group N.V.
Schenkkade 65
2595 AS Den Haag
The Netherlands
P.O. Box 90504, 2509 LM Den Haag
The Netherlands
www.nn-group.com

Commercial register of Amsterdam, no. 52387534

We welcome input from our stakeholders. If you would like to provide us with feedback, please feel free to contact us via external.communications@nn-group.com

Disclaimer
NN Group's 2017 Annual Report consists of two documents: the 2017 Annual Review and the 2017 Financial Report. More information – for example the GRI Index Table and SFCR – are available on the corporate website in the Investors/Annual report section.

Certain of the statements in this 2017 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 euro or European Union countries leaving the European Union, (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 and the interpretation and application thereof, (13) changes in the policies and actions 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 us 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 the other risks and uncertainties detailed in the Risk Factors section 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.

NN Group N.V.
Schenkkade 65
2595 AS Den Haag
P.O. Box 90504, 2509 LM Den Haag
The Netherlands
www.nn-group.com