NN Group
Solvency II

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Capital Markets Day

19 November 2015

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Solvency II - where are we now

19 November 2015

2005

ING/NN adopted a market value balance sheet and EC methodology as leading for risk management activities

Successful IPO on 2 July

2014

Delegated acts published providing technical details

NN Group S2 ratio (SF) estimated to be in a range around 200%

2015

NN Group applied for the usage of a Partial Internal Model in 2Q15

Approval process on final S2 PIM model for supervision to be finalised in 2015/2016

2016

S2 becomes effective as of 1 January 2016

2017

First full year report to regulator and published

- Discussions with Dutch regulator on Partial Internal Model approval are progressing
- Uncertainties remain on some interpretations of Solvency II regulations

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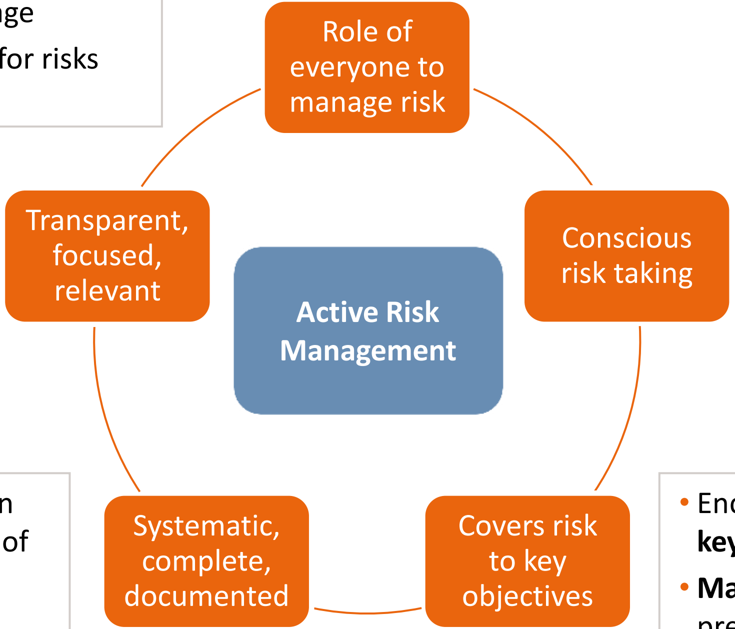
Active Risk Management important for NN Group

- **Role of everyone to identify risk** and role of management to decide how to manage
- **Everyone in business is responsible** for risks in their domain



- Write it down, make it **clear and transparent**
- **Focused and relevant** risk analysis

- **Know** which risks we choose to take and **why**
- Have our **eyes wide open** to both the biggest risks and everyday risks
- Ensure **Adequate Return for Risk**

- Be **Systematic** and **Complete** in assessment and management of risks
- Ensure **evidence** of controls

- Encompass all our risks to **all key business objectives**
- **Manage possibilities**, not predict the future

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Solvency II requirements cover three pillars

Pillar 1

How we measure risks and **how much capital** we need to cope with these risks

- SII defines the amount of available capital as Own Funds…
- … where the required capital (SCR) is risk based

Pillar 2

How we manage risks and **include risk and solvency considerations in business decisions**

SII requires:

- a risk assessment, analyzing the impacts of long-term scenarios on our solvency (ORSA)
- a specific system of governance

Pillar 3

Significantly enhanced **reporting to supervisors** and a more **robust control environment**

- detailed reporting of Financial and Risk information
- evidence that we control all of the above

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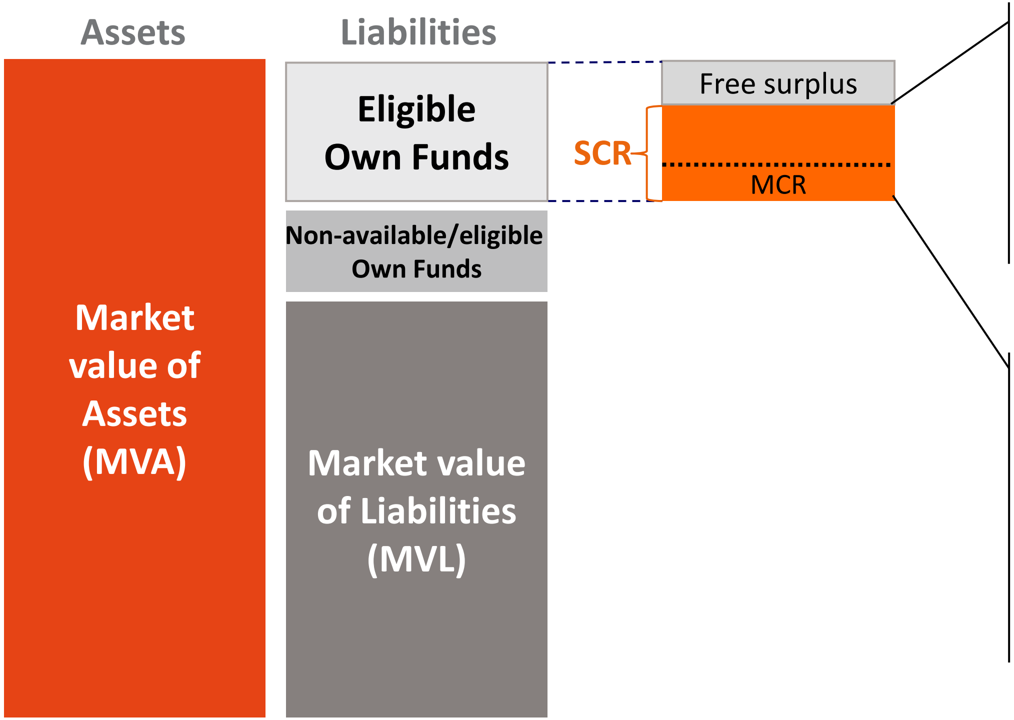
The Solvency II balance sheet



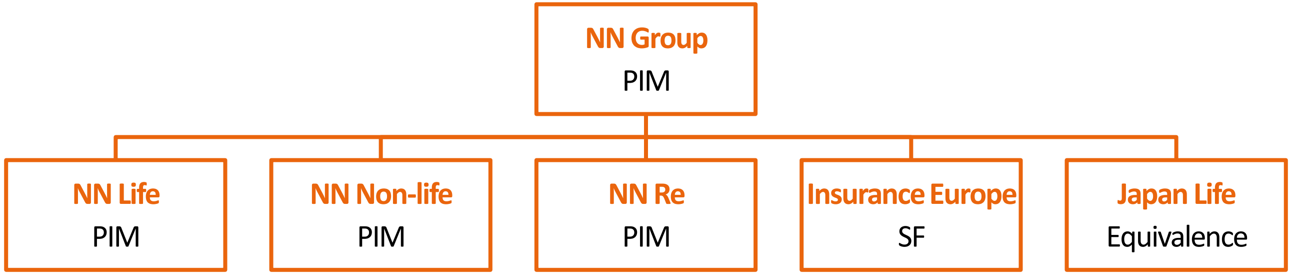
The **Solvency Capital Requirement** (SCR) is the capital needed to absorb up to a 1-in-200 year loss over one year (99.5% VaR)

If Eligible Own Funds falls or may soon fall below the SCR, supervisors have the right to intervene and demand improvements

The minimum level is the **Minimum Capital Requirement** (MCR), which is 25-45% of SCR (85% VaR)

If Eligible Own Funds falls below the MCR, supervisors require a recovery plan to restore compliance with MCR and SCR requirements

NN Group has applied for a Partial Internal Model



- NN Group has managed with an economic capital model for more than a decade
- The key strength of the Partial Internal Model (PIM) is that it reflects more appropriately the risk profile and the complexities of the Dutch insurance businesses
- The Standard Formula (SF) is considered appropriate for the Insurance Europe units
- Japan Life is included on equivalence basis including minimum Japan capital requirements and respective eligible Own Funds

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Previously flagged Solvency II uncertainties

Key uncertainties	NN approach	Status
IMAP approval	PIM for Dutch insurance units	Pending approval
Volatility Adjustment (VOLA)	Application of the VOLA in the internal model	Ongoing discussions on final interpretations
Tax	Application of tax impacts in SCR, reflecting latest regulatory guidance on Dutch fiscal unity	Ongoing discussions on final interpretations
Treatment of Japan Life	Equivalence assumed	Waiting for EIOPA advice and EC decision
Sovereign credit risk	Inclusion of AAA government bond shocks in the internal model	No longer uncertain
Debt treatment	Grandfathering assumed for the undated and ING hybrids	No longer uncertain
Fungibility of capital	Non-availability assumed for embedded future profits Unit Linked in specific European portfolios	No longer uncertain

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Market risk largest risk for NN Group

NN Group *(in EUR bln)*	SCR (SF) 3Q15
Market risk	3.8
Counterparty default risk	1.1
Life risk	3.6
Health risk	0.5
Non-life risk	0.5
BSCR[1]	**6.6**
Other[2]	-0.3
SCR	**6.3**
Solvency II ratio	**214%**

Interest rate risk	0.4
Equity risk	1.1
Credit spread risk	1.8
Real estate risk	1.1
FX risk	0.3

Transitionals

- Solvency II ratio includes 13%-points impact of application of equity transitionals for Standard Formula
- Application for transitionals for technical provisions in certain European countries, if approved, may modestly improve Solvency II ratio

1. Numbers do not add up due to diversification
2. Mainly includes operational risk, the impact of non-Solvency II entities and the loss absorbing capacity of tax

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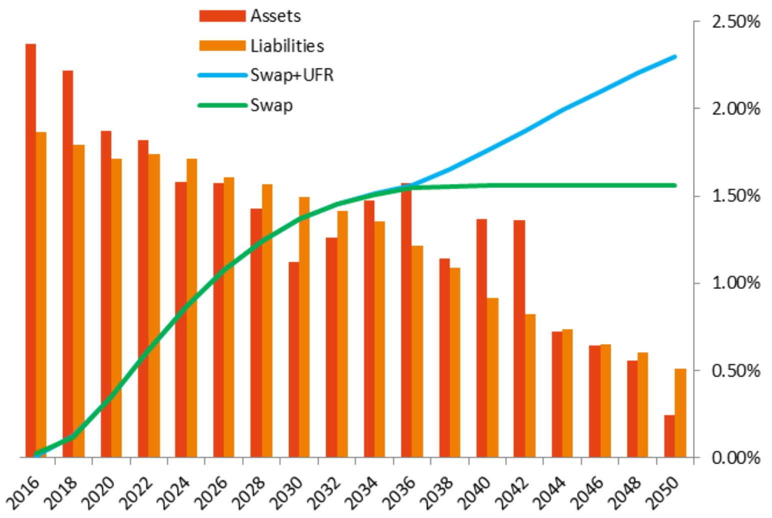
Interest rate risk management focuses on closely matching liability cash flows

NN Life asset and liability cash flows[1]



Each bar represents a 2-year period

Managing versus expected liability cash flows

- NN Group manages interest rate risk by matching assets and best estimate liability cash flows
- We do not specifically hedge the UFR nor the risk margin
- Therefore if interest rates rise, our Solvency II Own Funds will decrease but our economic position will be largely unchanged
- However, the impact of interest rate changes on our Solvency ratio from the UFR is more than offset by the change in the SCR and risk margin
- A +50 basis point parallel move of the swap curve would increase the NN Group Solvency II ratio by 7%-points

1. Source: NN Group, DNB and Bloomberg

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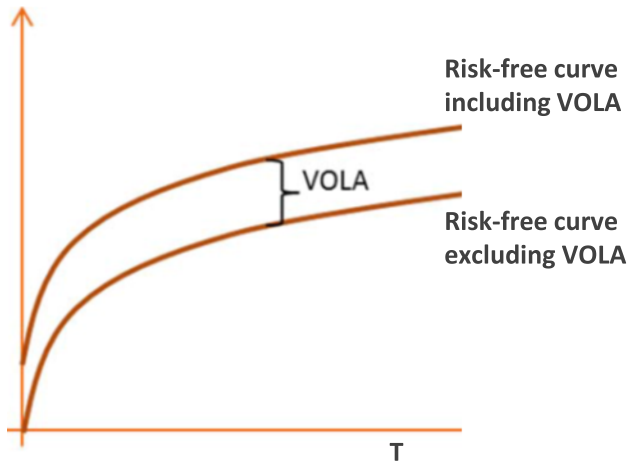
Volatility Adjustment dampens credit spread sensitivity

VOLA added to risk free interest rate



*VOLA = (spread reference portfolio – fundamental spread[1]) * 65%*

Impact of the Volatility Adjustment (VOLA)

- NN Group cash flow matches illiquid liabilities, in principle not economically exposed to spread risk
- Solvency II defines the VOLA to account for illiquidity of insurance liabilities in the Own Funds
- The VOLA is based on 65% of the spreads of the average European insurer asset portfolio
- The spread risk of Solvency II Own Funds is from the difference of actual asset portfolio and VOLA in terms of composition and duration
- NN Group's sensitivity to credit spreads is lower for Solvency II compared with Solvency I

1. Expected default costs

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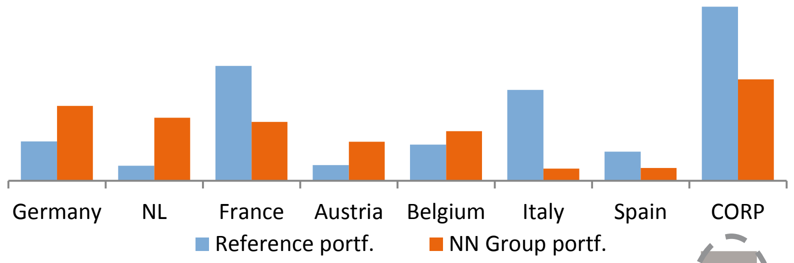
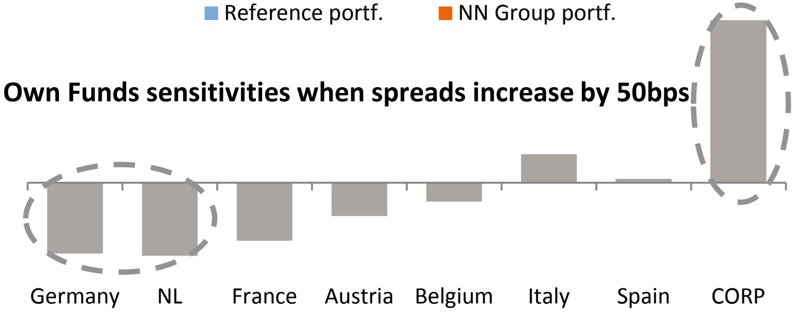
Understanding spread risk and the volatility adjustment, an NN Life deep-dive

NN Life credit spread/volatility adjustment sensitivities[1]

NN Life asset portfolio percentages vs VOLA Reference Portfolio



Own Funds sensitivities when spreads increase by 50bps



Own Funds volatility from asset portfolio mismatch with EIOPA reference portfolio

- Solvency I regulatory capital in Netherlands reflected only spread changes on assets leading to significant volatility in available capital
- NN Group/Life Own Funds will decrease if AAA/AA sovereign spreads increase versus swap
- French spreads are a special case due to the very long duration of French government bonds owned by NN Life
- NN Group/Life Own Funds will increase if corporate debt spreads widen, this implies a strong diversification with equity risk

1. Government bonds of selected countries and corporate bonds (CORP)

Own Funds sensitivities for 1-in-20 year volatilities

NN Group Own Funds at risk in 1-in-20 scenario 30 September 2015[1]

Largest risks for Solvency II Own Funds

- Credit spread risk is the largest risk, due to the long-dated assets in our Dutch portfolio and mismatch with VOLA reference portfolio
- Insurance risk largely reflects changes to longevity for Dutch pension business and non-life risks
- Equity risk impacts mostly equities on the balance sheet plus loss of future fee income for unit linked contracts
- Interest rate risk relatively low due to effective ALM
- Business risk is primarily reflecting expense and inflation risk in NN Life as well as persistency risk in Insurance Europe

1. Impacts shown exclude diversification

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Sensitivities of the NN Group Solvency II ratio to specified shocks

Sensitivities to shocks[1] at 3Q15	Δ OF[2]	Δ SCR[2] (SF)	Δ Solvency II ratio[3]
Interest rate: Parallel shock +50bps	-0.1	-0.2	+7%
Interest rate: 50 bps steepening between 20y-30y	-0.8	0.0	-12%
Credit spread: Parallel shock for all bonds +50bps	-0.9	-0.2	-9%
Credit spread: Parallel shock for government bonds +50bps	-1.6	0.0	-25%
Credit spread: Parallel shock corporate bonds +50bps	0.6	-0.1	+12%
Equity: Downward shock -25%	-1.0	-0.1	-11%
Real estate: Downward shock -15%	-0.5	-0.1	-5%
UFR: Downward adjustment to 3.2%	-1.0	0.1	-20%

1. Sensitivities are performed for Solvency II entities
   Shocks are assumed to take place over a quarter period
2. In EUR bln
3. Impact on Solvency II ratio based on Standard Formula in percentage points

Key takeaways

1. We have managed the company using an economic capital model for more than a decade
2. NN Group and its operating units are strongly capitalised under Solvency II
3. Limited exposure to interest rate risk thanks to asset liability cash flow matching
4. Volatility of the Solvency II ratio lower compared with Solvency I, but with particular spread risk sensitivities

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Important legal information

NN Group’s Consolidated annual accounts are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS-EU”) and with Part 9 of Book 2 on the Dutch Civil Code. In preparing the financial information in this document, the same accounting principles are applied as in the NN Group N.V. condensed consolidated interim financial information for the period ended 30 June 2015.

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