# NN Insurance Belgium

# 2021

# Solvency and Financial Condition Report

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# Business and performance

## Summary

### NN Insurance Belgium's approach to the Solvency and Financial Condition Report

This Solvency and Financial Condition Report (SFCR) provides public quantitative and qualitative disclosures on Solvency II as required by the Solvency II legislation. In order to ensure the most transparent and user-friendly approach, the information that is already included in the Annual accounts (including the annexes, the report of the board of directors and the social balance reporting) is in general not duplicated in this SFCR. Therefore, this SFCR is prepared as a supplement to NN Insurance Belgium's Annual Report. It includes all information required to be disclosed in the SFCR, either through a specific reference to the Annual Report or as supplemental information.

As required by the Solvency II legislation, this SFCR follows the required standard chapter layout:

- Chapter A 'Business and performance' describes the overall business profile and structure of NN Insurance Belgium. It also provides insight into the underwriting and investment performance of NN Insurance Belgium.
- Chapter B 'Governance system' explains the organizational governance structure and looks into the role and execution of key Solvency II functions.
- Chapter C 'Risk profile' analyses NN Insurance Belgium's exposure to financial and non-financial risks and explains the risk mitigation techniques in place.
- Chapter D 'Valuation for solvency purposes' elaborates on the differences in presentation and measurement of balance sheet elements between Solvency II and statutory Belgian GAAP standards (Belgian Generally Accepted Accounting Principles).
- Chapter E 'Capital management' discusses the composition of available and eligible own funds and the calculation of the Solvency Capital Requirement ('SCR').

The amounts disclosed in this SFCR are in millions of euros unless stated otherwise.

NN Insurance Belgium is required to submit so-called Quantitative Reporting Templates ('QRTs') to its supervisor, namely, National Bank of Belgium (NBB). A subset of these QRTs, which are required to be publicly disclosed and which provide quantitative information in accordance with Solvency II as at 31 December 2021, are included in the appendix to this SFCR. To comply with the Solvency II legislation, the amounts in these QRTs are in thousands of euros.

The Solvency ratios, as well as the amount of own funds and Solvency Capital Requirement disclosed in the SFCR are not final until filed with the regulators.

Reference is made to [https://www.nn.be/en/about-nn/publications](https://www.nn.be/en/about-nn/publications)

# Business and performance

## Material changes in 2021

In 2021, NN Insurance Belgium sold a closed book life portfolio to Athora Belgium. The closed book portfolio, comprising life insurance policies that are no longer being sold, reflect approximately EUR 3.3 billion of assets and liabilities. The agreement has no impact on the services and guarantees that NN Insurance Belgium provides to its policyholders. The transaction is subject to customary conditions, including obtaining the necessary regulatory and competition clearances and consultation of the NN Belgium works council. Closing of the transaction is expected by mid-2022.

## NN Insurance Belgium's Solvency II Capital ratio

As of 1 January 2016, NN Insurance Belgium (NNIB) complies with Solvency II, the solvency framework and prudential supervisory regime. The Eligible Own Funds of NN Insurance Belgium increased over the reporting period from EUR 1,392 million to EUR 1,507 million at 31 December 2021, primarily related to positive market variance: decrease in spreads (EUR +147 million), market return on real estate (EUR +45 million) partly offset by movement of the volatility adjustment (EUR -38 million) and the inflation (EUR -52 million). The Solvency II required capital (SCR) increased to EUR 688 million, up EUR 9 million compared with 31 December 2020 driven by higher Market Risk, mainly due to higher exposure real estate as a result of new investments and revaluations and higher equity markets which is partially offset by lower Counter Party Default risk due to housing price indexation.

As a result of the evolution of the own funds and the SCR, the Solvency II ratio increased to 219% from 205% at 31 December 2020. The ratio remained within the risk appetite as defined by the Board of Directors.

We refer to the dedicated sections in this report for an analysis on the movements.

NN Insurance Belgium's risk and balance sheet management as well as strategy realization are performed within the quantitative and qualitative boundaries of the Risk appetite as set by the Board of Directors.  Efficient and disciplined capital management is the foundation of the strong solvency position of NN Insurance Belgium.

| | **2021** | **2020** |
|---|---|---|
| Solvency II Eligible OF | 1,507 | 1,392 |
| SCR | 688 | 679 |
| **Solvency Ratio** | **219%** | **205%** |

# Business and performance

## Information on the Covid-19 impact for NN Insurance Belgium

Since early 2020, the spread of the Covid-19 pandemic is causing significant disruption to society and the world-wide economy, impacting NN Group (incl. NNIB) its employees, its customers and its suppliers. Financial markets have been severely impacted by significant volatility in interest rates, equity prices and spreads and the world-wide economy has been significantly impacted as well. Governments and central banks worldwide are responding to this crisis with aid packages and further supporting measures.

In 2021, the Covid-19 pandemic continued, but the impact on NN Group's financial reporting in 2021 was limited. For NNIB, some volatility was observed in our SII ratio in 2021, primarily related to market movements (rates, spreads, volatility adjuster). Nevertheless, and in part thanks to market hedges and increasing rates, we finished the year with a comfortable SII ratio. In addition, a limited increase in mortality claims could be observed.

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

## Geopolitical developments

As we move into 2022, we have been deeply concerned by the developing situation in Ukraine, and the threat that it poses to our democracy and safety. Our thoughts are with everyone affected by the war. Together with our colleagues, we are supporting charitable organisations helping Ukrainian refugees.

Rising instability caused by Russia's invasion of Ukraine in February 2022 is expected to have a significant impact on our operating environment. At the time of writing, Russian troops continued to invade Ukraine and hundreds of thousands of Ukrainians had fled their homes. The war has fuelled international tensions, resulting in market volatility, an increase in energy prices, and impacting capital flows and global supply chains. NN does not have business activities in Ukraine or Russia, and the direct financial exposure to these countries is limited. We will continue to closely monitor the developments, as a growing number of people seek refuge to Belgium.

# A. Business and Performance

## Introduction

This chapter of the SFCR contains general information and the Financial performance over 2021 on NN Insurance Belgium. NN Insurance Belgium is an insurance company under Belgian law. NN Insurance Belgium has the legal form of a public limited company and is listed in the Register of Company under the number 0890.270.057.

NN Insurance Belgium’s history dates back to 1906. In 2001, ING merged the insurance companies De Vaderlandsche, RVS and BBL Insurance (which were each acquired by ING in the past) to form ING Insurance Belgium. This was followed by the separation from ING a few years later and the birth of NN Insurance Belgium, part of the NN insurance group. On 30 March 2018, NN Insurance Belgium completed the merger with Delta Lloyd Life NV, becoming a top 6 player in the Belgian life insurance market.

The corporate purpose of NN Insurance Belgium is the practice, conclusion and handling of all types of insurance and policies to cover all types of risks which, in accordance with the relevant insurance legislation, belong to the branches of activity that form part of the "Life" group of activities, as well as capitalization operations.

NN Insurance Belgium may manage, purchase or divest insurance portfolios or reinsurance portfolios which, in accordance with the relevant insurance legislation, belong to the branches that form part of the group of “Life” activities.

NN Insurance Belgium may, for its own account or on behalf of third parties, act as an intermediary in insurance, co-insurance and reinsurance.

NN Insurance Belgium may carry out any actions in respect of movable and immovable property, as well as industrial, commercial and financial transactions that could contribute to the accomplishment, promotion or expansion of the corporate purpose.

NN Insurance Belgium is accredited by the NBB under code number 2550 to operate on the Belgian market in the following branches: 1a, 2, 21, 22, 23, 25 and 26.
NN Insurance Belgium is also a mortgage lender, licensed by the FSMA.

# Business and performance

## A.1. Business

### A.1.1. General

NN Insurance Belgium's registered office and operational headquarters are located at:
Fonsnylaan 38
1060 Brussels
BE0890270057
Insurance number 2550

The supervisory authority responsible for financial supervision of NN Insurance Belgium:
National Bank of Belgium (NBB)
de Berlaimontlaan 14
1000 Brussels
Belgium

The contact details of NN Insurance Belgium's external auditor are:
KPMG Bedrijfsrevisoren
Mr. Karel Tanghe
Luchthaven Brussel Nationaal 1K
1930 Zaventem
Belgium

The supervisory authority responsible for financial supervision of NN Group:
Dutch Central Bank (DNB)
Westeinde 1
1017 ZN Amsterdam
The Netherlands

The contact details of NN Group's external auditor are:
Dick Korf RA
KPMG Accountants N.V.
Laan van Langerhuize 1
1186 DS Amstelveen
The Netherlands

# Business and performance

## A.1.2. Qualifying holdings

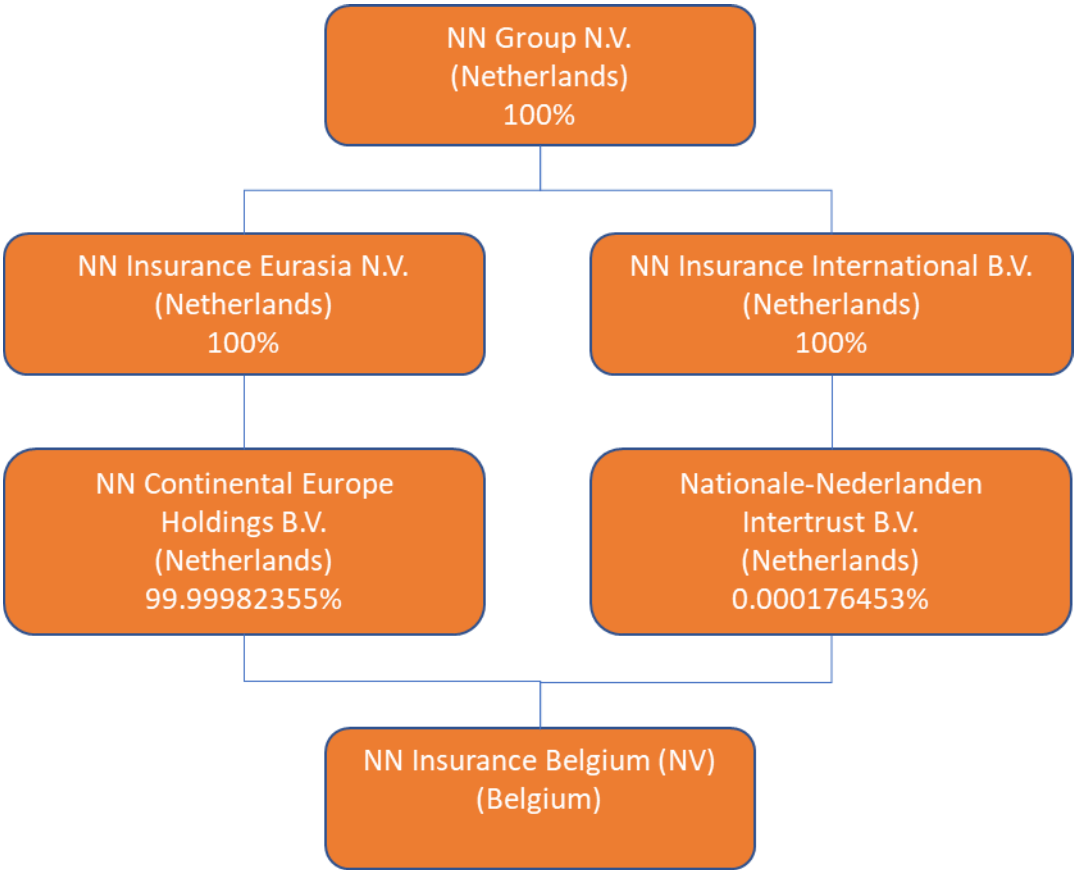
At the end of 2021 NN Insurance Belgium owned the following participations above the threshold of 10% or more of the capital or of the voting rights or where NNIB exercises a significant influence over the management as indicated in article 13 (21) Directive 2009/138:

- REI Diaphane Holding B.V. (85.91%)
- Huis der Verzekering (2.54%; NNIB is represented in the board)
- Kebek II Private Equity (NNIB has 20% of the shares and is represented in the advisory board).

NN Insurance Belgium is part of the NN Group N.V.

## A.1.3. Simplified shareholders structure of NN Insurance Belgium

NN Insurance Belgium is an indirect subsidiary of NN Group N.V. NN Insurance Belgium's majority shareholder is NN Continental Europe Holdings B.V., which in its turn is a wholly-owned subsidiary of NN Insurance Eurasia N.V. The simplified NN Group structure as at 31 December 2021 is as follows:




The shareholding structure of NN Insurance Belgium is as follows:

- NN Continental Europe Holdings B.V., Schenkkade 65, 2595 AS Den Haag, The Netherlands: 88.408.796 shares.
- Nationale-Nederlanden Intertrust B.V., Schenkkade 65, 2595 AS Den Haag, The Netherlands: 156 shares.

# Business and performance

*NN Group N.V. is a mixed financial holding company and subject to Solvency II group supervision by the Dutch Central Bank. NN Insurance Eurasia N.V., NN Continental Europe Holdings B.V. are holding companies falling within the scope of consolidated group supervision by the Dutch Central Bank. Nationale-Nederlanden Intertrust B.V. is part of NN Group and as such also in scope of group supervision by the Dutch Central Bank. None of the aforementioned entities carry a license.*

NN Continental Europe Holdings B.V. has the following corporate purpose: the acquisition, ownership, financing, management and divestment of companies, property/real estate, securities and other assets, which by their nature may be a source of income, as well as the conclusion of loan agreements both in the capacity of borrower and in the capacity of lender, and the operation of one or more commercial enterprises, all this in the broadest sense.

Nationale-Nederlanden Intertrust B.V. has the following corporate purpose: both for its own account and on behalf of others, the acquisition, ownership, financing, management, operation and divestment of property/real estate, securities and other assets, which by their nature may be a source of income, as well as the conclusion of loan agreements both in the capacity of borrower and in the capacity of lender, all this in the broadest sense. In acting on behalf of others, the company may act both in its own name and in the capacity of an authorised administrator or trustee.

NN Group N.V. is a public limited liability company (naamloze vennootschap) incorporated under the laws of, and domiciled in, the Netherlands. The Company has its statutory seat (statutaire zetel) in Amsterdam, the Netherlands.

NN Group N.V. is listed on the Amsterdam stock exchange.

### A.1.4. Material lines of business

NN Insurance Belgium offers a range of life insurance products for the retail, self-employed and corporate clients, with a focus on the following insurance products:

- Traditional policies: single and recurring premium saving plans and saving plans for pensions and pension products for self-employed/corporate clients and single premium investment products and mortality riders linked to saving plans.
- Unit-linked policies: single premium annuity products with a minimum guarantee, offering a guaranteed minimum lifelong benefit and traditional unit branch 23 products.
- Protection policies: single and recurring premium term life insurances, mostly linked to mortgages and personal loans, and recurring premium personal accident and disability policies and disability riders.

NN Insurance Belgium's insurance products are sold mainly through brokers and bancassurance. The bancassurance channel is predominantly allocated to ING Bank Belgium (with just under 500 branches, serving approximately 3 million retail customers) under the ING Bank brand.

## A.2. Underwriting Performance

NN Insurance Belgium's operating result is analyzed through a margin analysis, which includes investment margin (investment performance), fees & premium-based revenues and the technical margin (underwriting performance). For information on underwriting and investment performance, reference is made to the Financial developments section in the 2021 Financial Report, Note 10 "informations regarding the technical accounts" in the 2021 annual accounts of NN Insurance Belgium, and the underwriting performance in the QRT S.05.01.01.02 'Premiums, claims and expenses by line of business'.

NN Insurance Belgium's **BE GAAP result before tax for 2021** was EUR -103.3 million of which -110.8 from a one-off loss provision related to the planned closed book sale (see material changes). This transaction is expected to take place during the 2nd half of 2022 and is conditional on regulatory approval (a.o. from the Belgian National Bank). We note that from an economic perspective (solvency-2 valuation), the transaction is financially sound and generates an Own Funds uplift and an Solvency Capital Requirements reduction, leading to a higher Solvency-2 ratio for both NN Belgium and NN Group. Also the IFRS result is expected to be positive. The negative BE GAAP impact stems from differences between the existing accounting-value (book-value) of assets and liabilities on the BE GAAP balance sheet of NNIB and their market value and does therefore not represent an economic loss.

**The 2021 BE GAAP result is composed as follows:**

- The technical result Life amounts to EUR 20.4 million with positive contributions mainly from Branch 21.
  - Branch 21 results are primarily supported by term life whereas universal life business is adversely affected by the continuing low interest rate environment. Branch 21 is also responsible for the majority of the premium inflow, even though the inflow is lower than previous year, a.o. as a result of NNIB's desire to shift reserves from branch 21 savings products into higher yielding Branch 23 products.
  - Compared to 2020, the result from Branch 23 is negative and decreasing due to higher production volume leading to higher upfront commissions. The increase of the Branch 23 production is partially explained by the EB conversion from Branch 21 to Branch 23. Note that Branch 23 products are structurally profitable with BE GAAP accounting reflecting many of the costs upfront and revenues only over the lifetime of the contract.
  - The technical result Non-Life amounts to EUR -2.7 million. A further drilldown is provided in Table 2**Error! Reference source not found.**, highlighting the contribution of the Personal Accidents portfolio. As can also be seen in Table 2, the disability result in 2021 remained below expectations from a higher number of claims and upward revision in reserving. The result "Other NL" is related to branches 14, 15 and 17, part of the business from former Delta Lloyd Life.

- The Non-technical Result (EUR -120.9 million) of 2021 includes a non-recurring negative impact reflecting a loss provision for the planned close book sale (EUR -110.8 million). This transaction is expected to take place during the 2nd half of 2022 and is conditional on regulatory approval (a.o. from the Belgian National Bank). We note that from an economic perspective (solvency-2 valuation), the transaction is financially sound and generates an Own Funds uplift and an Solvency Capital Requirements reduction, leading to a higher Solvency-2 ratio for both NN Belgium and NN Group. Also the IFRS result is expected to be positive. The negative BE GAAP impact stems from differences between the existing accounting-value (book-value) of assets and liabilities on the BE GAAP balance sheet of NNIB and their market value and does therefore not represent an economic loss. The Non-technical Result also supports exceptional expenses such as IFRS17. In 2021, these costs amounted to EUR 3.7 million.

# Business and performance

| BE-GAAP FY 2021 | Total | Life | Technical Result Life Branch 21 | Branch 23 | Re Accept | Non-Life | Non-technical Result |
|---|---|---|---|---|---|---|---|
| Earned/Written premiums | 1,027.0 | 1,006.8 | 606.7 | 390.2 | 9.9 | 20.2 | 0.0 |
| Allocated investment income | 534.4 | 533.4 | 260.7 | 272.2 | 0.5 | 0.1 | 0.9 |
| Total income | 1,561.4 | 1,540.2 | 867.4 | 662.4 | 10.4 | 20.2 | 0.9 |
| Claims | 1,152.8 | 1,144.5 | 812.0 | 320.7 | 11.7 | 8.4 | 0.0 |
| Change in technical provisions | 161.3 | 156.7 | -136.9 | 298.4 | -4.8 | 4.6 | 0.0 |
| Other technical result | 17.0 | 16.9 | 11.7 | 5.2 | 0.0 | 0.1 | 0.0 |
| Acquisition costs | 128.4 | 123.0 | 88.3 | 34.7 | 0.0 | 5.4 | 0.0 |
| Administration & other costs | 205.1 | 78.7 | 64.7 | 11.3 | 2.7 | 4.5 | 121.9 |
| **Total expenses** | **1,664.6** | **1,519.8** | **839.8** | **670.4** | **9.6** | **23.0** | **121.9** |
| **Total NN Insurance Belgium** | **-103.3** | **20.4** | **27.6** | **-8.0** | **0.8** | **-2.7** | **-120.9** |

**Table 1: BEGAAP result by Branch, driven by term-life, accepted re-insurance and personal accidents.**

| | Accounting year 2021 Personal Accident | Health | Other NL | TRIP | Non-Life |
|---|---|---|---|---|---|
| Earned/Written premiums | 12.1 | 7.8 | 0.3 | 0.0 | 20.2 |
| Allocated investment income | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 |
| **Total income** | **12.1** | **7.8** | **0.3** | **0.0** | **20.2** |
| Claims | 1.0 | 6.9 | 0.3 | 0.3 | 8.4 |
| Change in technical provisions | 0.0 | 5.1 | -0.3 | -0.2 | 4.6 |
| Other technical result | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 |
| Acquisition costs | 3.7 | 1.6 | 0.0 | 0.0 | 5.4 |
| Administration & other costs | 3.3 | 1.2 | 0.0 | 0.0 | 4.5 |
| **Total expenses** | **8.0** | **14.9** | **-0.1** | **0.1** | **23.0** |
| **Result Non-Life** | **4.1** | **-7.1** | **0.3** | **-0.1** | **-2.7** |

**Table 2 : Breakdown of Non-life BE GAAP result.**

## A.3. Investment performance

NN Insurance Belgium's BE GAAP investment income over 2021 is mainly driven by the unit linked portfolio, the bonds portfolio, the equity portfolio (including real estate and ordinary shares income) and the loans & mortgages.

Compared to 2020, we see the following evolutions:

- Decrease of the recurring revenue of the bonds linked to a spread volatility hedging program.
- Increase of derivatives income from the spread volatility hedging program.
- Decrease of equity result due to a lower real estate dividend than in 2020.
- Higher mortgage results, primarily from an increase in mortgage exposure.
- Higher income on Unit-Linked from favorable market movements.

| Investment income BE GAAP | 2021 | 2020 | Δ |
|---|---|---|---|
| Bonds | 177.8 | 221.5 | -43.7 |
| Equity | 18.0 | 22.8 | -4.7 |
| Loans & Mortgages | 82.9 | 82.2 | 0.8 |
| Derivatives | 11.3 | 0.0 | 11.3 |
| Other (incl. Unit linked) | 257.7 | -7.3 | 265.1 |
| Investment expenses | -13.4 | -14.8 | 1.4 |
| Total NN Insurance Belgium | 534.4 | 304.3 | 230.1 |

## A.4. Performance of other activities

No material other income and expenses to report during the period.

## A.5. Any other information

### Material changes in 2021

Reference is made to the Risks and uncertainties in the 2021 Financial Report of NN Insurance Belgium for any other material information regarding the business and performance of NN Insurance Belgium.

# B. System of governance

## Introduction

This chapter of the SFCR contains information on the system of Governance of NN Insurance Belgium.
The main responsibilities within NN Insurance Belgium are held at the following levels:

- The General Meeting of Shareholders.
- The Board of Directors.
- The Executive Committee.
- The Managers of the business units and the corporate and support functions, who report to a member of the Executive Committee.
- The Team Leaders of the business units who report to a Manager.
- The employees.

NN Insurance Belgium ensures that duties and responsibilities are assigned, divided and coordinated in accordance with company policy, and that they are set out in the descriptions of duties and responsibilities. NN Insurance Belgium ensures that all important duties are fulfilled, and that unnecessary overlaps are avoided. NN Insurance Belgium encourages effective cooperation between its employees.

## B.1. Structure of Governance

### B.1.1. Board of Directors

The Board of Directors is the highest decision-making body in the company. The Board of Directors acts as a collegial body, and is authorised to carry out any actions that are necessary or conducive to the accomplishment of the company purpose, with the exception of any actions that only the General Meeting of Shareholders is legally authorised to carry out (Article 18 of the company's Articles of Association).

The Board of Directors bears the ultimate responsibility for the company.

The Board of Directors determines the company's general strategy and objectives and its risk policy, including the general risk tolerance limits and the company's integrity policy. The Board of Directors supervises the company's activities and regularly evaluates the effectiveness of the governance system.

The Board of Directors appoints the CEO and the members of the Executive Committee and monitors their performance.

### B.1.2. Executive Committee (or effective management)

The board of directors is authorized to establish an Executive Committee in accordance with Article 45 of the law of 13 March 2016 concerning the supervision of insurance (or reinsurance) companies and the company's Articles of Association.
The Executive Committee manages the company in accordance with the general policy guidelines laid down by the company's Board of Directors, and indirectly by the Board of Directors of NN Group.

➢ The CEO

The CEO holds the following special responsibilities:

- The CEO is tasked with the day-to-day management of the company, together with the other members of the Executive Committee.
- The CEO is the company's most important spokesperson and articulates its mission, objectives and values.
- The CEO is the chair of the Executive Committee.
- The CEO initiates the assignment of responsibilities among the members of the Executive Committee.
- The CEO leads and supports the members of the Executive Committee, and advises them on the fulfilment of their individual operational responsibilities.
- The CEO proposes the main strategic options to the Board of Directors and ensures that all decisions made by the Board of Directors are implemented in practice. The CEO also regularly reports to the Board of Directors on the actions undertaken by the Executive Committee, and is held accountable for its performance.
- The CEO enables the Board of Directors to fulfil its responsibilities and provides it with all relevant information.
- The CEO maintains a constant close relationship with the chair of the Board of Directors.
- The CEO works with the chair of the Board of Directors to prepare the agenda for meetings of the Board of Directors.

➢ The Executive Committee

The effective management and the day-to-day running of the company have been entrusted to an Executive Committee since 27 June 2013.

The membership of the Executive Committee must consist of at least three executive directors, including the CEO, the CFO and the CRO. Given the size and the complexity of the company, four executive directors are appointed (CEO, CFO, CRO and CIO).
The Executive Committee is responsible for the actual management of the company's activities, the implementation of the risk management system, and the establishment of an organisational and operational structure.

The Executive Committee is a collegial body.

These duties may be divided among the members of the Executive Committee and each member of the Executive Committee has been assigned responsibility for a particular domain, but this division of duties does not detract from the Committee members' collegial responsibility. The NBB shall be informed of any division of duties among the members of the Executive Committee.

### B.1.3. Specialised committees established by the Board of Directors

The Board of Directors may establish the necessary specialised committees in order to discharge its duties and responsibilities more efficiently. These committees are charged with preparing the decisions made by the Board of Directors, and play an advisory role only. The Board of Directors remains responsible for the actual decision-making.

The Board of Directors formulates the rules that apply to each committee and determines their composition, powers and functioning, taking into account both the company's Articles of Association and the relevant legal provisions that apply to committees of this kind.

# System of governance

The Board of Directors appoints the members of the committees. The Board of Directors must pay particular attention to the composition of each committee, and must ensure that it takes into account the needs and qualifications required for the optimal functioning of the committee in question when appointing its members.

The Board of Directors establishes a set of internal rules (known as a Charter) for each committee, setting out its duties, composition and functioning - including minute-taking.

The Board of Directors receives a report on the findings and recommendations of every committee meeting.

At present there is a combined Audit & Risk Committee, which is responsible for the specific duties of the Audit Committee as well as the specific duties of the Risk Committee.

➢ The Audit & Risk Committee

The Board of Directors of NN Insurance Belgium established an Audit Committee on 17 October 2007 in order to ensure the appropriate exercise of its supervisory function.

The Board of Directors of NN Insurance Belgium has decided not to establish a separate Risk Committee. The Audit & Risk Committee will be responsible for both the specific duties of the Audit Committee and the duties of the Risk Committee. On 30 November 2016, the NBB permitted NN Insurance Belgium to combine the Audit Committee and the Risk Committee into a single committee.
The most important duties of the Audit & Risk Committee are:

- To inform the board of directors of the results of the statutory audit of their annual or consolidated accounts and to explain how the statutory audit on their annual or consolidated accounts contributed to the integrity of the financial reporting and which was its role in this process
- To monitor and supervise the financial reporting process and the integrity of financial reporting;
- To supervise the effectiveness of company's internal control and risk management systems;
- To monitor the activities of the internal audit function;
- To supervise the statutory audit of the annual accounts and the consolidated financial statements including following up on questions and recommendations raised by the statutory auditor pursuant to their statutory audit duties;
- To discuss audit-related matters with the recognised statutory auditor and to take note of any important questions that come to light during the discharge of their statutory audit duties;
- To evaluate and monitor the impartiality of the recognised statutory auditor, paying particular attention to the provision of additional services to the entity being monitored;
- To make recommendations to the Board of Directors regarding the selection, the appointment and reappointment of the statutory auditor, as well as their impartiality and remuneration;
- The duties of the Audit Committee in its function as a Risk Committee are also to advise the Board of Directors on all matters relating to the company's current and future risk tolerance and risk strategy. In this regard, the Audit & Risk Committee supports the Board of Directors in its supervision of the implementation of this strategy by the Executive Committee.

➢ Remuneration committee

There is currently no formal Remuneration and Appointment Committee within NN Insurance Belgium. On 30 November 2016, the NBB granted NN Insurance Belgium a derogation from the obligation to establish a remuneration committee. The general policy on the remuneration of directors, persons charged by the Board of Directors with the effective management and day-to-day running of the company, and the independent control functions is outlined in the NN Belgium Remuneration framework.

### B.1.4. Other committees

In order to discharge its duties and responsibilities more efficiently, the Executive Committee may, on the initiative of the CEO, establish the necessary specialised committees whose remit is to examine specific questions and provide advice on them. Committees of this kind play an advisory role only. Decision-making on such matters remains the collegial competency of the Executive Committee.

This description does not refer to the specialised committees that can be established by the Board of Directors.

The Executive Committee draws up the rules that apply to each committee and determines their composition, powers and functioning, taking into account both the company's Articles of Association and the relevant statutory provisions that apply to committees of this kind.

- Assets & Liabilities Committee (ALCO)

An Assets & Liabilities Committee (ALCO) has been organised within NN Insurance Belgium.

The purpose of the ALCO is to support and advise the CRO in the fulfilment of their responsibilities relating to the management of risks (Insurance Risk, Market Risk, Investment Risk and Sustainability Risk). The ALCO is a forum in which business managers and asset managers come together.

All financial and investment risks associated with insurance activities are discussed and evaluated, together with the specific responsibilities, with the aim of managing these risks effectively. The ALCO specifies the Strategic Asset Allocation within the limits of the company's risk appetite. This is translated into the NNIB investment mandate. The ALCO defines the limits and approves any deviations from this.

The ALCO monitors investment performance and decides on investment strategy, investment mandates as well as investment proposals within risk limits as set by ALCO on Head Office level.  The local Portfolio manager informs the ALCO on the investment transactions done on the portfolio of NN Insurance Belgium.

- Non Financial Risk Committee  (NFRC)

The NFRC oversees non financial risks in the management of product/process groups.  Focus of this committee is on risks on an operational level, meaning risks that can endanger the effectiveness and efficiency of operations, compliancy with in/external regulation as well as customer interest on a day-to-day basis.

Non Financial Risks are defined in accordance with NN’s  Risk Management and Internal Controls General Principles as: The risk of direct or indirect loss resulting from: - People (business conduct) - Inadequate or failed internal processes, including technology and communication systems (business operations), and/or - External events (business continuity & security)

- Pricing Committee (PC)

A Pricing Committee has been organised within NN Insurance Belgium.

The main scope of the PC is to decide upon and monitor the proposals made by the sales department to deviate from the standard tariffs as established by NN Insurance Belgium in its contracts with clients and brokers. These requests for deviations are treated on a case by case basis where the final decision is taken based on the overall profitability of the case. The decisions are also checked on the operational feasibility (operations and IT systems).

The Pricing Committee also monitors the pricing trends in the market and can trigger revisions for standard tariffs to ensure that NN Insurance Belgium remains competitive within its different market segments.

The Pricing Committee also looks at possible exceptions to the standard conventions with brokers in the case of different interpretations on the wording or calculations approach embedded within the broker convention.

➢ Product Risk Committee (PRC)

A Product Risk Committee (PRC) has been organised within NN Insurance Belgium.

The main purpose of the PRC is product risk management, including product approval and planning. The primary responsibility of the PRC is to supervise the product approval governance of NN Insurance Belgium, which includes product planning and product approval. The PRC also ensures proper implementation of the PARP process, both in its practical governance aspects and in the monitoring of compliance with customer suitability rules, whenever a new product is developed or an existing product is updated. The PRC also assesses trends and product risks for the entirety of NN Insurance Belgium, and keeps the Executive Committee and the ALCO informed of these.

The PRC was called into being in order to advise the Executive Committee, the ALCO and the NFRC on risks that NN Insurance Belgium is exposed to in the context of insurance. This includes (but is not limited to) risks relating to pricing, reserves, profit participation, reinsurance, profitability, solvency, sustainability and economic capital. Operational Risk, Business Risk and Legal/Compliance Risk also fall under the scope of this committee.

The PRC is additionally responsible for approving changes to models and assumptions. These functions have been delegated to the PRC by the ALCO.

➢ Model Committee (MoC)

The Model Committee (MoC) advises the Product Risk Committee (PRC) on the approval of methodologies, models and parameters used to measure risk, determine economic capital and make market-based valuations that are used within NN Insurance. The MoC is a committee of insurance risk managers.

The committee holds discussions, makes decisions and – where necessary – provides the PRC with recommendations on everything relating to the following items:

- The approval of risk, economic capital and market valuation methodologies, models, parameters, and amendments to models or parameters
- Monitoring the implementation of the approved models and amendments, strategies, policy and parameters
- Monitoring the suitability of parameters and economic and actuarial assumptions
- The identification of problems and shortcomings in models, parameters etc. and deliberation on how far it is desirable to correct these

- The setting of priorities and the monitoring of the model validation processes (in conjunction with model validation)

➢ Credit Committee (CC)

A Credit Committee has been organised within NN Insurance Belgium.

The main scope of the CC is to decide upon requested “Bullet Loans” for the client based on the detailed analyses (“beslissingsfiche”) from the Credit Analyst. All decision are documented and stored on secured drive.

➢ High Capital Committee (HCC)

A High Capital Committee Committee has been organised within NN Insurance Belgium.

The main scope of the High Capital Committee is to decide upon and monitor the underwriting and pricing decisions made by the sales/operational departments for individuals that underwrite high capitals.

The "***Charter HCC NN Insurance Belgium***" contains a detailed description of its roles and responsibilities.

➢ High Disability Committee

A High Disability Committee has been organised within NN Insurance Belgium.

The main scope of the High Disability Committee is to decide upon and monitor the underwriting decisions made by the sales/operational departments for individuals that underwrite high disability annuities (or disability capitals) and to decide upon the acceptation of claims in high disability annuities (or disability capitals).

The "***Charter HDC NN Insurance Belgium***" contains a detailed description of its roles and responsibilities.

### B.1.5. Remuneration

NN Insurance Belgium has a framework in place that provides the policy regarding to the remuneration and performance management of Employees and members of the executive committee having an independent status, including Identified Staff, staff in Control Functions (including the independent Control Functions), Key Functions and Employees who are identified as “Risk Takers”.

The Remuneration Policies and the NN Belgium Remuneration Framework:

- are aligned with NN Belgium’s business strategy, objectives, values and risk appetite;
- support a focus on the long term value for NN Belgium and its shareholders and the interests of NN Belgium's customers and other stakeholders in order to ensure a strong risk alignment by all NN Belgium staff;
- promote robust and effective risk management including risk management of sustainability risks (such as environmental, society governance and staff related matters ) in the integration thereof in the risk management system and procedures. ( It supports balanced risk taking, long term value creation and protection of a sound capital base;
- supports equal pay for equal work of equal value for all staff irrespective of their gender.

- ensure all staff is remunerated in line with their responsibilities based on job grading, seniority and relevant benchmarks in line with local market practices and for different groups NN Belgium aims to set competitive total compensation levels in line with the local markets.
- wants to strike the balance between competitive pay to ensure attracting and retaining qualified staff and doing business with the future in mind, resulting in a prudent pay practice in line with relevant laws.
- aim to sustainably attract, motivate and retain staff;
- aim to avoid improper treatment of customers and employees and
- comply with and support the spirit of the (inter)national regulations on remuneration policies.

NN Belgium will when appropriate, engage in dialogue with its stakeholders to understand their perspectives when determining pay practices.
NN Belgium applies a proper balance between fixed and variable remuneration, aligned with relevant responsibilities, risk impact and level of the specific function. Variable remuneration does not exceed 100% of fixed remuneration. This limiting ratio includes actual levels of awards covering “above target” or exceptional performance and do not only reflect “on target” or expected performance.

The variable remuneration:

- is adequately linked to NN Belgium’s financial performance as well as to team and individual performance;
- shall only be awarded or paid (including payment of variable remuneration that was deferred) if this reconciles with the financial situation of NN Group and NN Belgium and is justified on the basis of the performance of NN Group, NN Belgium and the individual performance of the staff member and
- the variable remuneration is neither paid through vehicles nor are methods employed which aim to artificially evade the regulations.

For control functions, in addition to these principles, the following general principles of remuneration are applicable:

- the level of fixed remuneration of the control functions is sufficiently high to ensure that qualified and experienced staff can be employed;
- the ratio of fixed remuneration to variable remuneration is weighted in favor of fixed remuneration and
- the variable remuneration is predominantly (i.e. at least 50%) based on function-specific objectives that include qualitative criteria, but is not determined by the financial performance of the business unit directly monitored by the control functions.

For identified staff, more specifically for the members of the board of directors, members of the executive committee the variable remuneration is always delivered subject to a deferral scheme to ensure that a material portion of variable remuneration remains subject to ex post risk adjustments.
The Remuneration framework is published to all employees on the intranet of NN Belgium. The NN Belgium Remuneration Framework is reviewed annually by the Board of Directors to keep it aligned and compliant with new legislative and regulatory developments and any codes and best practices and/or directions of any financial supervising authorities.

### B.1.6. Material transactions with shareholders

Please note that in the normal course of business, NN Insurance Belgium enters into various transactions with related parties, which are mainly NN entities that are delivering services towards NN Insurance Belgium. These transactions take place on an arm's length basis and are mainly related to Investment Management, Reinsurance and Group Head Office and IT services. NN Bank originates and services Dutch Mortgage Loans on behalf of NN Insurance Belgium. Furthermore, NN Insurance Belgium is shareholder of REI Investment I B.V. (Real Estate) and REI Diaphane Holding B.V. (Real Estate).

There are two material transaction between NN Insurance Belgium and its shareholders for which the characteristics are described below.

The first transaction is a subordinated loan between NN Group N.V. (previously Delta Lloyd N.V.) as the lender and NN Insurance Belgium (previously Delta Lloyd Life) as the borrower. An amount of EUR 80,000,000 (eighty million euros) has been made available to Delta Lloyd Life on 28 June 2013. The Lending agreement has a duration of 30 years, meaning the subordinated loan will have as maturity date 28 June 2043.
The Second transaction is a subordinated loan between NN Group N.V. (previously Delta Lloyd N.V.) as the lender and NN Insurance Belgium (previously Delta Lloyd Life) as the borrower. An amount of EUR 75,000,000 (seventy-five million Euro) has been made available to Delta Lloyd Life on 9 January 2015. The lending agreement is one with a perpetual character, and therefore the loan can only be redeemed at the option of the borrower. However, every year, starting in 2016, the 9th of January will be the "interest payment date" where NN Insurance Belgium (previously Delta Lloyd Life) will pay all due interest to NN Group N.V. (previously Delta Lloyd N.V.) on the outstanding amount.

As in connection with the merger by takeover between NN Insurance Belgium and Delta Lloyd Life, whereby NN Insurance Belgium is the acquiring or absorbing company and Delta Lloyd Life is the acquired or absorbed company, DLL is automatically dissolved and has ceased to exist and all the assets and liabilities of Delta Lloyd Life have been automatically by operation of law transferred to NN Insurance Belgium.

There are no material transactions between NN Insurance Belgium and the persons exercising significant influence on the company and/or the members of the Board of Directors and to related persons as described in circular NBB_ 2017_21 of 7 July 2017.

## B.2. Fit and proper requirements

### B.2.1. General

NN Group overall, and NN Insurance Belgium specifically, consider it of great importance that their employees and contractors have the necessary skills, knowledge and experience to adequately fulfill their duties and responsibilities in addition to demonstrating the highest professional behavior and integrity.

This is even more critical for senior management, and holders of one of the independent control-functions (Risk Management Function, Actuarial Function, Audit Function and Compliance Function) whether executive or not. Requirements regarding the senior leadership appointment (both internal and external) are laid down in a specific

Group policy *”NN Human Capital Standard 2017 01 01”.* The rules issued by NN Group in this standard are followed at all times.

Furthermore, the “*Pre- and In-Employment Screening Policy*” specifically addresses the “Propriety” dimension of the Solvency II Fit and Proper requirements.

Next to these policies, NN Group and NN Insurance Belgium have established a *“Remuneration Framework”* that explicitly conditions compensation to not only the achievements of specific objectives (including regarding developmental objectives - skills acquisition) but also to the way these are met, among others the professional behavior. Furthermore, the Remuneration Framework facilitates the embedment of effective Risk Management principles across the organization.

### B.2.2. Board of Directors

- *Competency requirements - Selection criteria*

With respect to the exercise of a director's mandate, NN Insurance Belgium has no formal exclusion criteria other than those provided by law or by circulars issued by the supervisory authorities.

The composition of the Board of Directors must guarantee that decisions are made in the interests of the company. The composition is determined on the basis of the required diversity and complementarity with regard to knowledge, competencies and experience.

The proposed candidate members of the company's Board of Directors are thoroughly screened for their "Fit & Proper" character in accordance with Circular NBB 2018 25 "Suitability of directors, members of the management committee, responsible persons of independent control functions and senior managers of financial institutions" of 18 September 2018.

Directors are chosen based on their impeccable integrity; their competencies, expertise and knowledge of the insurance industry; and their knowledge, experience and expertise in the areas of life and non-life insurance, of Belgian law and regulations concerning insurance, of the marketing and sale of insurance products, of planning and control, of audits in the field of insurance, of investment management, of financial management, of risk management, of financial and accounting regulations of insurance companies, of ICT, of human resource management, etc. The relevant professional experience must cover a minimum period of five years.

The composition of the Board of Directors must guarantee that decisions are made in the interests of the company. The composition is determined on the basis of the required diversity and complementarity with regard to knowledge, competencies and experience.

When appointing a new director (whether executive or not) or when renewing their mandates, account is also be taken of the composition and operation of the body as a whole. This means that NN Insurance Belgium checks whether the fitness within the body is sufficiently guaranteed with this person, in view of his or her knowledge and specific experience, skills and professional behavior.

There is no official nomination procedure for the members of the Board of Directors. The process is always subject to the rules specified by the NN Group in the “NN Human Capital Standard” 2017 01 01 and its appendices.

Candidates must also undertake to devote the necessary time to exercising their mandate as a director of the company. In view of that purpose, the Board of Directors will take into account the number of mandates that candidates exercise in other companies and the other important obligations they have entered into.

➢ *Required knowledge*

The newly appointed directors are informed about the general policy and the strategic objectives of NN Insurance Belgium. They are also informed about the evolution of the company's activities, the organisational structure and the risk management procedures.

Directors are expected to update and improve their competencies and their knowledge of the company on a permanent basis. They may seek clarification whenever they deem this necessary.

➢ *Rules of conduct*

The rules of conduct that apply to the members of the Board of Directors, and in particular the rules concerning integrity, conflicts of interest and the exercise of external appointments or mandates, are described in further detail in a *"Charter of the Board of Directors"*.

### B.2.3. Executive Committee

➢ *Competency requirements*

The proposed candidate members of the Executive Committee are thoroughly screened for their "Fit & Proper" character in accordance with the guidelines set out in Circular NBB 2018 25 "Suitability of directors, members of the management committee, responsible persons of independent control functions and senior managers of financial institutions" of 18 September 2018.

The proposed candidate members of the Executive Committee must have the right profile to manage the company. They must demonstrate the required integrity, commitment, reliability, experience and expertise regarding the duties assigned to them.

The members of the Executive Committee have an impeccable track record and the necessary integrity. They have experience in the management of companies and in supervisory duties, and they have suitable knowledge of and experience in all important operating domains of the company, particularly in those domains for which they are directly responsible. The relevant professional experience must cover a minimum period of five years.

➢ *Rules of conduct*

The rules of conduct that apply to the members of the Executive Committee, and in particular the rules concerning integrity, conflicts of interest and the exercise of external appointments or mandates, are described in further detail in a *"Charter of the Executive Committee"*.

➢ *Integrity*

Members of the Executive Committee demonstrate the highest personal integrity and, in terms of integrity and ethics, must subscribe to the policies of the NN Group as set out in the " ***NN Statement of Living our Values, NN's Code of Conduct, Managers Annex, and Belgian Supplement regarding Conflicts of Interests "***. This contains NN's core values and rules of conduct, which apply to all NN employees worldwide.

Each member of the Executive Committee formulates an objective and independent opinion in the interest of the company, based on knowledge of the facts and independently of any external influences.

- *Conflict of interest*

In the event of a potential conflict of interest, the members of the Executive Committee must immediately inform the CEO and the other members of the Executive Committee. To the extent legally required under the Belgian Code of Companies and Associations, the decision will then be referred to the Board of Directors.

The composition of the Executive Committee must guarantee that decisions are made in the interests of the company. The composition is determined on the basis of the required diversity and complementarity with regard to knowledge, competencies and experience.

When appointing a new member of the Executive Committee (whether executive or not) or when renewing their mandates, account is also be taken of the composition and operation of the body as a whole. This means that NN Insurance Belgium checks whether the fitness within the body is sufficiently guaranteed with this person, in view of his or her knowledge and specific experience, skills and professional behaviour.

### B.2.4. Independent control functions

Persons who exercise an independent control function must have the required professional integrity and appropriate expertise in order to exercise their function at all times.

Proposals to appoint persons tasked with an independent control function require prior approval by the NBB, and the guidelines and procedure set out in Circular NBB 2018 25 "Suitability of directors, members of the management committee, responsible persons of independent control functions and senior managers of financial institutions" of 18 September 2018 must be followed.

### B.2.5. Other key functions

Requirements concerning skills, knowledge and expertise applicable to people who have other key functions, are included in the respective job profiles.

## B.3. Risk management system including the own risk and solvency assessment

### B.3.1. Description of NN Insurance Belgium's Risk Management System

Risk management is a fundamental part of insurance business that must be addressed appropriately to enable NN Insurance Belgium (NNIB) to successfully meet obligations towards clients, regulators and other stakeholders. Accepting and managing risk is an integral part of NN Insurance Belgium: having the right functions and systems in place to manage risks is therefore important.

NN Insurance Belgium's risk management system takes into account the relevant elements of risk management, including its integration into the 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 Insurance Belgium's business and risk profile. These risk management policies, standards and processes apply throughout the whole organization and are used by NNIB to establish, define and evaluate NN Insurance Belgium's risk tolerance levels and risk control processes and to ensure that the tolerance levels and policies are communicated within the company.

The Risk Management System is not a serial process but a dynamic and integrated system. The system is structured around three elements (in reverse order), which need to be in place:

- A risk control cycle, embedded in
- An appropriate organization, following
- The business strategy and (risk) objectives, set in alignment with the environment.

NNIB's business environment exposes NNIB 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 shall be carried out within an internal environment reflected by NNIB's governance and operating model, as well as NNIB's risk philosophy (or: risk culture), called Active Risk Management.


In this philosophy, every employee has a role in identifying risk in their domain and the role of management is to decide how to manage them. It is paramount to know which risks we take and why, have our eyes wide open for both the biggest risks and everyday risks and ensure an adequate return for risk.

With risk management, we do not try to predict the future but manage possibilities. It encompasses all our risks to all key business objectives.

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 organization for the benefit of management and stakeholders alike.

**<u>Risk control cycle</u>**

NNIB's risk control cycle consists of four steps executed in a sound risk culture. The risk control 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 realization of those objectives, leading

# System of governance

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 realization of business objectives through ensuring NN Insurance Belgium operates within the risk appetite.


<u>Integration in the organizational structure</u>

The responsibility for the Risk Management organisation is organised across several levels:

- The **Board of Directors** is responsible for defining, installing and monitoring the risk management organization in order to ensure its control systems are effective. They are responsible for determining the risk appetite of NN Insurance Belgium in accordance with the approved strategy and mission and the available capital. The Board of Directors, or its (sub) committees, approves all risk management policies as well as the quantitative and qualitative elements of NN Insurance Belgium's risk appetite. The Board of Directors reports and discusses these topics with the Audit Committee in its function as Risk Committee on a regular basis. The Board of Directors regularly evaluates whether the company has an adequate risk management function that ensures that risk management within NN Insurance Belgium is tailored to the risk appetite approved by the Board of Directors
- While the Board of Directors retains responsibility for NN Insurance Belgium'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 Insurance Belgium's risk management and control systems , to the **Executive Committee**.
- The **Chief Executive Officer** (the CEO), the chairman of the Executive Committee, bears responsibility or NN Insurance Belgium's risk management but has entrusted the day-to-day risk management to the Chief Risk Officer.
- The **Chief Risk Officer**, being the head of the Risk Management function, is a member of the Executive Committee and is appointed by the Board of Directors.

Furthermore, in order to ensure that the risk management function is involved in making decisions that impact the risk profile of NN Insurance Belgium, a number of committees have been established.

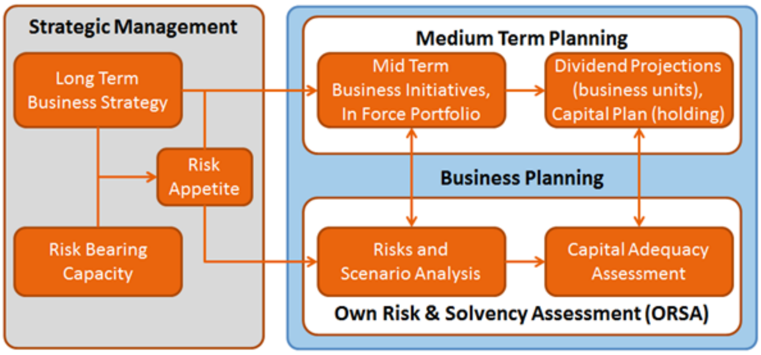
Through the participation to the various governance committees Risk Management in their 2nd Line of Defence role challenge the Executive and Senior Management whenever decisions could be made that go beyond the Company agreed risk appetite.

### B.3.2. ORSA policy

Business strategy and objectives, key risk appetite statements, risk and capital management are aligned in the ORSA in synchronization with the yearly business plan. The ORSA report supports the Board of Directors and the Management Team in assessing the overall risk and capital profile of the business under a wide range of scenarios. The ORSA is a specific instrument within NN's risk management system and it is documented in the NN Group's ***"ORSA Standard".***

The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks a (re)insurance legal entity faces or may face and to determine the Own Funds necessary to ensure that the entity's overall solvency needs are met at all times. In particular, ORSA:

- Is a specific instrument within NN's risk management system: it is a high level forward looking analysis on capital adequacy under a wide range of scenarios based on the current and emerging risk profile of an entity, given its strategy and risk appetite.
- Does not serve to calculate the capital requirement, although capital add-ons can be considered as a result of ORSA.
- Shall be an integral part of business planning. As such, ORSA is linked to the strategic management process and related decision-making framework as pictured below.




➢ **<u>Regular frequency</u>**

NN Group and subsequently NN Insurance Belgium prepares an ORSA at least once a year. In the ORSA, NN Insurance Belgium:

- articulates its strategy and risk appetite;
- describes its key risks and how they are managed;
- analyses whether or not its risks and capital are appropriately modelled;
- and evaluates how susceptible the capital position is to shocks through stress testing and scenario testing.

Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN Insurance Belgium. Stress testing can also be initiated outside ORSA, either internally or by external parties such as NBB and European Insurance and Occupational Pensions Authority ('EIOPA'). The ORSA includes a forward looking overall assessment of NN Insurance Belgium's solvency position in light of the risks it holds.

➢ **Triggers**

To the extent necessary, the outcomes of ORSA are translated in ad-hoc ORSA triggers (i.e. events that lead to a significant shock in the risk profile and/or capital position), relevant metrics and/or indicators and management actions for identified material risks. Monitoring of the same is part of the regular (Finance & Risk) control cycle. Developments are documented in internal Finance & Risk reports and discussed during board and/or delegated committee meetings. The CRO is responsible for identifying the need of a (partial) ad-hoc ORSA. NN Group will be informed as soon as possible when the decision for a (partial) ad-hoc ORSA is made in a business unit ('BU'). In such cases, the local supervisory authority (NBB) is also informed.

➢ **The ORSA Process**

The ORSA of NN Insurance Belgium is conducted based on the expected regulatory (reporting) frameworks of his businesses for the related year onwards. Own Funds are calculated and projected on a Solvency II basis and the solvency capital requirements (SCR) are calculated based on the Standard Formula.

The regular ORSA process as undertaken within NN Insurance Belgium (and within NN Group) contains the following steps:

- **Strategy and risk appetite**
  A thorough re-assessment of strategy is usually done once every 3-5 years or when material developments in the (external or internal) environment give rise to an earlier re-assessment. Yearly assessments are made in the first half of the year whether to adjust the strategy for developments in the past year and/or revised assumptions on the future. Setting (and adjusting) the risk appetite is inextricably part of strategy setting (and adjusting).
- **Risk Assessment**
  Key to ORSA is the identification of potentially solvency threatening risks for legal entities by management boards, given their strategy and risk appetite. Basis for this risk assessment is NN Group's risk taxonomy. Modelled risks are subject to an appropriateness test (see below) and additional statistical stress testing (see below), both contributing to adequate capitalisation of these risks. Focus is therefore on non-modelled risks.
- **Appropriateness test of regulatory capital calculation**
  The assumptions and models for calculating regulatory solvency requirements are assessed against the actual risk profile. Differences are analysed in terms of future model improvements and/or non-modelled risks. The outcome of the analysis may lead to mitigating actions to overcome model shortcomings. If the deviations or uncertainties are considered material, quantification of the deviation is necessary in order to consider a (temporary) self-imposed capital add-on.
- **Capital and capital projections**
  The recognition and valuation bases for internal capital projections are the same as those used for regulatory solvency reporting and consistent with the best-estimate assumptions and parameters used for the Business Plan best estimate financial forecasts, among others the yearly updated Macro Economic Scenario.
  The Actuarial Function is to confirm that the base-case and projected technical provisions represent a true and fair view of future liabilities. The Actuarial Function also provides input concerning the risks arising from the calculation of technical provisions.

Regulatory solvency is at the heart of ORSA: NN Insurance Belgium must ensure that it is able to meet regulatory required solvency ratios at all times. In addition, NN Insurance Belgium assesses:

- The quantity and quality of Own Funds over the Business Plan period
- The composition of Own Funds across tiers and how this composition may change as a result of redemption, repayment and maturity dates during the Business Plan period

Note that the process steps as described above are not meant to be followed consecutively, but iteratively, as this will foster the proper discussions on the trade-off between risk, return and capital

➢ **Stress testing and overall assessment of capital adequacy**

Based on the Business Plan and the outcomes of the ORSA risk assessment, (reverse) stress scenario's and their parameters are developed and documented. The Executive Committee is responsible for identifying the key uncertainties and the related scenarios.

Scenario testing, as well as (reverse) stress testing is required within the ORSA. When the outcomes of performed stress tests show solvency ratios dropping below 100%, realistic strategies for recovering solvency ratios will be considered and documented in the ORSA report. For NNIB business units, a capital downstream can only be considered if there is no other feasible management option left.

Ultimately, after all assessments and considerations (including formulated management actions) the ORSA is to conclude whether, going forward, NN Insurance Belgium is adequately capitalised under a wide range of scenarios over the planning horizon.

➢ **Management Actions**

Based on the results of the former steps management has to consider its response, both risk and capital response, and reach a conclusion. The process step results in an advice from support functions to management which are to be discussed during an Executive Committee. Responses that lead to management actions shall be documented, including the person accountable for that action, in the ORSA Internal Report. Those actions are limited to:

- accept risks, when they are within the BU´s risk appetite;
- mitigate risks: e.g. de-risking, improve key internal controls, develop a plan of action in case certain events emerge (contingency and/or recovery plans) or adjust the business plan;
- share or transfer risks through e.g. reinsurance, co-insurance and/or hedging;
- terminate the risk generating activity (divesting).

### B.3.3. Risk Management Function

Tasks and responsibilities

While the Board of Directors retains responsibility for NN Insurance Belgium’s risk management, it has entrusted the day-to-day- risk management to the Executive Committee. The Board of Directors appoints a chief risk officer (the CRO) from among the members of the Executive Committee, who is entrusted with the day-to-day responsibility for NN Insurance Belgium’s risk management function.

The CRO steers an independent risk organisation which supports the first line in their decision-making, but which also has sufficient countervailing power to prevent excessive risks. The CRO must ensure that both the Executive Committee and the Board of Directors are at all times informed of, and understand the material risks to which NN Insurance is exposed.

Within the executive committee, the CRO is responsible for the following tasks:

- Setting risk policies
- Formulating NN Insurance Belgium's risk management strategy and ensuring that it is implemented throughout the company. Ensuring that the risk limits applied internally are in line with the risk appetite of the company
- Monitoring compliance with NN Insurance Belgium's overall risk policies.
- Supervising the operation of NN Insurance Belgium's risk management and business control systems
- Reporting of NN Insurance Belgium's risks and the processes and internal business controls. Ensuring that the risk criteria and value creation of the portfolio of NN Insurance Belgium and their sensitivities are monitored and communicated to management.
- Making risk management decisions with regards to matters which may have an impact on the financial results of NN Insurance Belgium or its reputation, without limiting the responsibility of each individual member of the Executive Committee in relation to risk management.
- Ensuring that management understands the risk measures applied within the company, and that they have the insight required to use these in management decisions
- Ensuring that the products and portfolios of NN Insurance Belgium are priced, endorsed and managed in accordance with internal and external rules and guidelines.

Furthermore, if the Executive Committee makes decisions that are not in line with the risk profile of the company, the CRO has a right of veto within NN Insurance Belgium and the issue is escalated to the next hierarchical level within NN Group. The CRO has the option to inform the chairman of the Board of Directors and/or the Audit Committee directly, on his own initiative, of all issues relating to the risk management function.

The Board of Directors regularly evaluates whether the company has an adequate risk management function that ensures that risk management within NN Insurance Belgium is tailored to the risk appetite approved by the Board of Directors.

<u>Authority and organisation</u>

**Organisation:**

<u>At Group Level</u>

The Risk Management activities are fully embedded in the organisational structure of NN Group. NN has a matrix organisational structure that consists of a decentralised business organisation and a functional risk line. The governance of this functional network is described in and governed by the "Risk Management & Internal Control General Principles" of NN Group which has the objective to:

- clarify the scope of Risk Management,
- clarify what an Internal Control Framework to manage risks entails,
- provide requirements for one common architecture, and
- define one common language across NN Group on "control".

Within NN Group, the functional line is organised across 2 levels: Corporate and Business Unit with a Chief Insurance Risk Officer (CRO) at each level. As a member of the Executive Committee, the CRO reports to the Executive

Committee and reports functionally to the CRO of NN Insurance International. This organisational structure with functional lines guarantees the independence of the risk management function within NN.

Within NN Insurance Belgium
Risk Management within NN Insurance Belgium is organised according to the principle of the 'three levels of defence'. The Risk Management Function forms part of the Solvency II system of governance, together with the other 3 independent control functions: Actuarial Function & Compliance Function (2nd line of defence) and the Audit Function (3rd line of defence). The control functions are all independent of the company's business units and operational functions and are all exclusively natural persons.

As a member of the Executive Committee, the CRO reports to the Executive Committee and reports functionally to the CRO of NN Insurance International.
The following domains are distinguished: Risk Management Product, Financial & Insurance Risk Management and Operational & IRM risk management.

- The duties of Risk Management Product fall under the scope of the first level of defence, and are established within the 'Product Development' department; they have a functional line to the CRO and a hierarchical line to the CMO.
- The duties of Financial and Insurance Risk Management form part of the scope of the second level of defense ; they are established within the 'Risk Management' department and report hierarchically to the CRO.
- Supervision of the management of "operational risks" and "information risks" has been entrusted to the ORM & Compliance department. This is also within the responsibility of the CRO.

Furthermore, NN Insurance Belgium received a waiver from the local regulator (NBB) to organize the Actuarial Function and the Compliance Function within the Risk department with a direct hierarchical line to the CRO. The 2nd line control functions are organized independently from each other. This is in conformity with the requirement set by the local regulator in the circular “nbb_2016_31_governancesysteem”.

**Embedding of the Risk management Function**

In order to ensure that the risk management function is involved in making decisions that impact the risk profile of NN Insurance Belgium, a number of committees have been established.

The ***table below*** provides an overview of these committees, their purpose and a summary of their powers.

If the Executive Committee makes decisions that are not in line with the risk profile of the company, the CRO has a right of veto within NN Insurance Belgium and the issue is escalated to the next hierarchical level within the NN Group. This is also reported to the Board of Directors through the Annual Risk Management Report.

System of governance

| Body | Chair | Purpose | Powers |
|---|---|---|---|
| Board of Directors | Chair of Board of Directors | | - Risk appetite (approval of Risk Appetite Framework).<br>- Approving ORSA report. |
| EC (Executive Committee) | CEO | Decision-making body tasked with the day-to-day policy of NN Insurance Belgium. | • Approving strategic asset allocation (SAA).<br>• Approving new product launches (PARP).<br>• Approving changes to product design (PARP or addendum).<br>• Approving reinsurance policy. |
| ALCO (Asset and Liability Management Committee) | CRO | Supporting and advising the CEO in the fulfilment of their responsibilities relating to the management of financial risks. | • SAA proposals. Approval of NNIB Investment Mandate.<br>• Specifying the tactical asset allocation.<br>• Monitoring the key risk indicators.<br>• Making decisions or formulating proposals to the Executive Committee in order to remain within the limits of the Risk Framework.<br>• All proposals approved by the ALCO that do not fall under the authority of the CRO must be submitted to the Executive Committee for approval. |
| PRC (Product and Risk Committee) | CRO | Product risk management | • Product risk management, i.e. product approval and planning.<br>• Ensuring proper implementation of the PARP process (both governance and compliance with customer suitability rules) when developing new products or updating existing products.<br>• Assessing trends and product risks for NN Insurance Belgium.<br>• Formulating advice on risks to which NN Insurance Belgium is exposed in the context of insurance. (This includes – but is not limited to – risks relating to pricing, reserves, profit participation, reinsurance, profitability, solvency and economic capital).<br>• Approving model and assumption changes. |
| MOC (Model Committee) | CRO | Advising the PRC on model and assumption changes. | • Preparing the planning for model changes.<br>• Validating model and assumption changes and submitting them to the PRC for approval. |
| CC (Credit Committee) | CFO | To decide upon requested “Bullet Loans” for the client | • Validation of the proposal done by the Credit Analyst based on his detailed analysis (“beslissingsfiche”). |

| Body | Chair | Purpose | Powers |
|---|---|---|---|
| HCC (High Capital Committee) | CRO | Approval of underwriting and claims of high capital policies | • Underwriting decisions of individual cases beyond a certain threshold.<br>• Approve and review the pay-out of individual death claims beyond a certain threshold. |
| High Disability Committee | CRO | Approval of underwriting and claims of high disability annuities (or disability capitals) | • Underwriting decisions of individual cases beyond a certain threshold.<br>• Approve and review the pay-out of individual disability claims beyond a certain threshold. |
| NFRC (Non-Financial Risk Committee) | Effective manager (director or Senior manager | Monitoring non-financial risks. Periodic consultation between management (non-financial) & independent control functions | • Focus on threats to the effectiveness & efficiency of regular operations & projects, reporting and compliance with internal & external regulations |
| PC (Pricing Committee) | CRO | To decide upon and monitor the proposals made by the sales department to deviate from the standard tariffs as established by NN Insurance Belgium in its contracts with clients and brokers. | • a decision role on individual case level to deviate from standard tariffs<br>• an advisory role for the PRC on any changes in pricing trends that require a change in standard tariffs |

## B.4. Internal control system

### B.4.1. Description internal control system

The three lines of defence model, on which NN Insurance Belgium's (and 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 framework ensures that risk is managed in line with the risk appetite as defined by the Executive Committee, ratified by the Board of Directors and cascaded throughout NN Insurance Belgium.

- **First line of defence**

Overall, the First Line of Defence includes the CEO of NN Insurance Belgium as well as the Executive Committee. They 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 Insurance Belgium's best interests.

- **Second line of defence**

The Second Line of Defence includes independent oversight functions with a major role for the Risk management -, Actuarial – and Compliance function. The CEO and CRO steer 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**

The Third Line of Defence concerns Corporate audit services (CAS). CAS provides an independent assessment of the standard of internal control with respect to NN Insurance Belgium's business and support processes, including governance, risk management and internal controls.

### B.4.2. Compliance Function

As an independent control function, the Compliance function is part of the second line within NN Insurance Belgium. The purpose of this function is to supervise compliance with applicable laws and regulations in order to safeguard NN Insurance Belgium against any negative impacts resulting from a failure to abide by these provisions or codes of conduct. The protection of the integrity of the company and its personnel plays a central role in this regard.

The Compliance function and its activities are governed by a Charter approved by the Board of Directors of NN Insurance Belgium.

The Compliance Officer's responsibilities specifically consist in proactively

- identifying, evaluating, monitoring and reporting on the compliance risks facing NN Insurance Belgium;
- assisting, supporting and advising the Executive Committee and management in the fulfilment of their responsibilities relating to integrity and compliance;
- providing advice to all employees with regard to their (personal) integrity and compliance obligations.

The activities of the Compliance function are described annually in an action plan. This action plan is approved by the Executive Committee and confirmed by the Audit and Risk Committee (acting on behalf of the Board of Directors).

Annually the effectiveness of the Compliance function is assessed by the Board of Directors.

## B.5. Internal Audit Function

Corporate Audit Services (CAS), the internal audit department within NNIB, is an independent assurance function and its responsibilities are established by the Executive Committee and approved by the Board of Directors/ Audit & Risk Committee. CAS provides an independent assessment of the standard of internal control with respect to NN entities and support processes, including governance, risk management and internal controls. CAS is an essential part of the corporate governance structure of NN Insurance Belgium. CAS NN Insurance Belgium operates in a so called co-operation model with CAS NN Group with shared specialist audit services and central oversight from CAS NN Group. This model is chosen to safeguard specialist expertise and efficiency for NN Insurance Belgium and is formalised in an SLA.

In compliance with local corporate governance and Solvency II, the Audit Manager of CAS NN Insurance Belgium is accountable to the CEO of NN Insurance Belgium as well as the General Manager of CAS NN Group and furthermore has a reporting line to the chair of the Audit Committee of NN Insurance Belgium. This reporting set-up is an important element in maintaining independence for CAS NN Insurance Belgium.

CAS is responsible for executing the internal Audit function in a NN entity provided NN has 100% ownership, has a majority stake and management control or has no majority stake but effectively has management control. The area of work (Audit Universe) is defined as every activity, department and office of a NN entity, including branches, subsidiaries as well as outsourced activities (with a “right-to-audit” clause). CAS performs its assignment on its own initiative. CAS is maintaining its objectivity by not participating in any activity or relationship that may impair or be presumed to impair its unbiased assessment.

CAS performs its work in accordance with the International Standards for the Professional Practice of Internal Auditing Standards and Code of Ethics set by the Institute of Internal Auditors (IIA), and with other relevant authorities or professional associations. These professional standards and internal CAS methodology/procedures are incorporated in the CAS Audit Manual. Compliance to the audit manual is embedded at various levels in the audit process and includes review by the independent positioned Professional Practices Management team within CAS NN Group. On a periodic basis CAS globally is also subject to an independent external assessment.

## B.6. Actuarial Function

In accordance with statutory and regulatory provisions, NN Insurance Belgium has established an actuarial position and has designated a person who has the required actuarial knowledge to fulfil this position.

The proposal to appoint this person requires prior approval by the NBB, and the guidelines and the procedure contained in the NBB 2013-02 "Fit & Proper" Circular of 17 June 2013 must be followed. The Actuarial Function (AF), as an independent control function, should devote the necessary time to exercise this function in the company and, if she/he performs external functions, avoid conflicts of interest and take into account a number of incompatibilities.

If the appointment of this person changes or if this person's appointment is discontinued, the NBB must be notified accordingly and the guidelines and the procedure contained in the NBB 2013-02 "Fit & Proper" Circular of 17 June 2013 must be followed.

To guarantee the independence of the actuary, an appointment as actuary is incompatible with an appointment as:

- member of the executive management;
- approved auditor of the same company;
- director in the same company in which he exercises his mandate;
- Internal Auditor.

The Actuarial Function (AF) is responsible for the duties and activities set out in the NBB Circular 2016-31 of 5 July 2016 (reviewed September 2018) regarding the governance system requirements for the insurance sector. It regards the following activities, as also stated in the S II law:

- controlling/supervision of the calculations of the technical provisions;
- ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions;
- assessment of the sufficiency and quality of data;
- comparing best estimates against experience;
- assessing sufficiency of technical provisions (TP) and consistency of calculation with legal requirements;
- informing the Executive Committee of NN Insurance Belgium and the Board of Directors (or Audit & Risk Committee) on the key components of the Solvency II technical provisions such as data quality, assumption setting, models and methods.
- provide an opinion on the underwriting policy and the appropriateness of reinsurance arrangements considering the risk appetite of the insurance entity.
- contribution to the risk management system in the following domains: the modelling of the risks and the assessment made in the context of the ORSA.

Furthermore, the Actuarial Function has the following tasks related to the Annual Accounts (BE GAAP):

- assess whether calculation and level of TP as mentioned in the statutory accounts are compliant with Accounting Royal Decree (RD 17,11,1994);
- validate the calculation of the “Flashing Light provision” in case no exemption is granted by NBB. The AFH must check if the “Flashing Light provision” is calculated according to the RD of 17/11/1994.
- perform an annual analysis of the profitability of the products based on the statutory accounts.

The AF produces a written report with an opinion on the above matters and submits it to the Executive Committee of NN Insurance Belgium, the Board of Directors (or Audit & Risk Committee) and, where appropriate, to the local regulator (NBB) at least annually.

At least once a year, the Actuarial Function Holder presents a written activity report to the Board of Directors (or Audit & Risk Committee) and for information to the Executive Committee. The report describes all the material tasks performed by the actuary and the corresponding results, and clearly identifies any shortcomings and makes recommendations on how these shortcomings can be remedied. Furthermore, a technical documentation on the analysis and the checks done by the AF (to form an opinion) is added as appendix to the activity report.

Furthermore, the AF reports periodical to the Board (or Audit & Risk Committee), e.g. in case of the following events:

- Launch or modification of a product with significant impact on the profitability of the undertaking:
- introduction of new reinsurance arrangements
- actuarial opinion on underwriting, reinsurance or profit sharing policies
- all other events where intervention or validation of the AF is required

The AF should in any case inform the Executive Committee and the Board of Directors (or Audit & Risk Committee) when specific risk developments have or could have a negative impact or could be harmful to the reputation of the undertaking.

## B.7. Outsourcing

In the event of outsourcing, the principles of the NBB Circular 2016-31 – updated version of 13 September 2018 and 5 May 2020 and the rules issued by NN Group must be followed at all times. The guidelines that must be followed in this regard are listed in a specific policy of NN Insurance Belgium which is approved by the Board of Directors.

When outsourcing specific functions, activities or operational duties, NN Insurance Belgium (“NNIB”) considers the following points (among others):

- prior approval by the Executive Committee for the function, activity or operational duty being outsourced, based on in-depth analysis of the exact description of the outsourced function, activity or operational duty, as well as a cost/benefit analysis and an analysis of the financial and operational risks.
- maintaining full control in respect of monitoring of services and results of the outsourced function, activity or operational duty, in order to allow any future adjustments to be made that may be required.
- verifying the reputation and the capacities of the service provider(s), as well as the risks relating to continuity and to the level of dependence on the service provider(s), before and during the term of the contractual relationship.
- that the functions, activities or operational duties are outsourced to service providers located in the European Economic Area (EEA) and who, in the case of sub outsourcing, only rely on subcontractors in the EEA (unless otherwise agreed in writing between NNIB and the service provider) for delivering the services described in the agreement.

When outsourcing operational duties, the Executive Committee guards against:

- the quality of the company's governance system being materially compromised during outsourcing;
- unnecessary increases in operational risk;
- any impediment to the ability of the NBB and the FSMA to assess whether NNIB is meeting its statutory obligations;
- the continuity and adequacy of the service provided to policyholders, insured individuals and beneficiaries of insurance agreements being undermined.

Whenever an intermediary who is not an employee of NNIB is authorised to conclude insurance agreements and/or claims payments, the Executive Committee must ensure that the activities carried out by that intermediary meet the outsourcing requirements.

Outsourcing of critical or important operational functions or activities are subject to more demanding and regulated rules than outsourcing activities considered as non-critical or non-important. This distinction is clearly made in NNIB’s Outsourcing Policy and Intra-Group Outsourcing Policy. Consequently, prior to the outsourcing an analysis is performed to determine of the concerned functions or activities are considered as critical or important or not. The Executive Committee notifies the NBB in advance and in a timely manner of the outsourcing of any functions, activities or operational duties that are important or critical, and of any later significant developments relating to these outsourced duties. NNIB uses the templates as requested by the NBB.

The outsourced function, activity or operational duty is the subject of a contract that is signed between NN Insurance Belgium and the service providers. NNIB particularly pays particular attention to the use of subcontractors, audit rights, security of data and systems, termination rights (for cause, convenience, or if imposed by a regulator) and the exit strategies. NNIB ensures that the service providers particularly abide by the rules concerning the confidentiality of the information they have access to while carrying out the outsourced activity. This is covered by means of a non-disclosure agreement signed by the concerned parties before the contractual negotiations and the contractual clauses related to confidentiality, data protection and security. Further guidelines are included in NNIB’s Outsourcing Policy for data transfer outside the EEA.
NNIB also performs annual checks on the business continuity of the service provider. Joint action plans between NNIB and the service provider are set up, executed and evaluated in case the execution of the business continuity test reveals shortcomings or needs to be updated (for instance due to technical requirements). Business continuity also implies that there is/will be no impact on NNIB’s operational activities in case of a contract termination. Exit strategies are defined by both parties and are also evaluated on an annual basis.

Outsourcing agreements of critical or important services are monitored on a regular basis. Depending on the type of agreement, the governance system varies and is clearly defined in the agreements. The service delivery is measured against a set of key performance indicators and remediation plans are set up and executed if this is required.

The outsourced activities and services fall under the purview of both the Internal Audit and the Compliance function. The recognised statutory auditor may access the outsourced activity or service at any time in order to carry out their audit.

The following important or critical services are currently outsourced externally:

- Investment Management - Asset management
- IT infrastructure
- Use of Sales Force (Cloud)
- Use of O365 (Cloud)
- Archives

The independent control functions have not been outsourced by NNIB.

## B.8. Any other information

The previous sections contain all the material information regarding to the system of governance of NN Insurance Belgium.

# C. Risk profile

## Introduction

This chapter of the SFCR contains information on the risk profile of NN Insurance Belgium and information on the 'prudent person principle' used when investing.
General information on the risk governance used within NN Insurance Belgium is available in section B.3 and B.4.
NN Group and subsequently, NN Insurance Belgium has defined and categorized its generic risk landscape in a mutually exclusive and collectively exhaustive risk taxonomy that consists of approximately 50 main risk types clustered in six risk classes.

| Risk Class | Description | Main mitigation technique |
|---|---|---|
| Emerging Risks | Risk related to future external uncertainties that could pose a threath to the business of NN Group / NNIB | Scenario analysis 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 analysis 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 / NNIB 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 |

➢ **Non-Market risk**

- **Insurance risk**: Insurance risks are the risks related to the events insured by NN Insurance Belgium and comprise actuarial and underwriting risks such as mortality, longevity, morbidity and non-life insurance risks, which result from the pricing and acceptance of insurance contracts.
- **Business risk**: 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 behavior risks and expense risks. Business risks occur because of internal, industry, regulatory/political, or wider market factors.

➢ **Market and Counterparty Default Risk**

- <u>Market and credit risk:</u> Market risk is the risk of potential losses due to adverse movements in financial market variables. Counterparty default risk (credit risk) is the risk of potential losses due to default by counterparties. Market and credit risks include (i) equity risk; (ii) real estate risk; (iii) interest rate risk; (iv) credit spread risk; (v) counterparty default risk and (vi) foreign exchange risk. In relation to market and credit risk, a distinction is made between own account business and separate account business.

- **Own account business**: in the case of own account business, NN Insurance Belgium directly bears the market and credit risk of its invested assets and liabilities. Own account business includes NN Insurance Belgium's life insurance and non-life insurance business, as well as other invested assets and direct liabilities.
- **Separate account business**: in the case of separate account business, the policyholder bears the market and credit risk. NN Insurance Belgium's earnings from the separate account businesses are primarily driven by fee income. However, in the case of variable annuities and in some Unit-Linked products, NN Insurance Belgium retains risk associated with the guarantees provided to its policyholders. Businesses in this category are (i) the variable annuities (VA) portfolio, and (ii) other separate account business, primarily the unit-linked business.

- Liquidity risk: Liquidity risk is the risk that NN Insurance Belgium 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.

➢ **Non-Financial Risk**

- Operational risk: Operational risk is a non-financial risk that includes 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.
- Compliance risk: Compliance risk is the risk of impairment of NN Insurance Belgium's integrity. It is a failure (or perceived failure) to comply with NN Group Statement of Living our Values and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage NN Insurance Belgium's and hence NN Group's reputation and lead to legal or regulatory sanctions and financial loss.

NN Insurance Belgium manages the level of risk exposures by measuring and limiting the impact of a 1-in-200 year adverse scenario on the Solvency II Own Funds. The loss of Own Funds in a 1-in-200 year scenario is referred to as the Solvency Capital Requirement ('SCR'), the metric used to describe the risk profile throughout the remaining section.

Within this section, the SCR is used to elaborate on the risk profile of NN Insurance Belgium. The table below provides an overview of the SCR per major risk category. The SCR increased from EUR 679 million (2020) to EUR 688 million (2021), mainly driven by the increase of real estate exposure partially offset by lower Counter Party Default risk due to housing price indexation.

# Risk Profile

| Capital Requirement per risk type | 2021 | 2020 |
|---|---|---|
| Life underwriting risk | 328 | 339 |
| Market risk | 416 | 348 |
| Counterparty default risk | 90 | 156 |
| Health underwriting risk | 51 | 56 |
| Non-Life underwriting risk | 2 | 2 |
| Diversification | -243 | -268 |
| **Basic Solvency Capital Requirement** | **644** | **633** |
| Operational Risk | 58 | 62 |
| LAC TP | -14 | -15 |
| **Solvency Capital Requirement (SCR)** | **688** | **679** |
| LAC DT | 0 | 0 |
| **SCR Post Tax** | **688** | **679** |

## C.1. Non-market risk - Underwriting risk

Underwriting risks are the risks related to the events insured by NN Insurance Belgium ('Insurance Risk') and the risks related to the management and development of the insurance portfolio ('Business Risk').

**Insurance Risks** comprise actuarial and underwriting risks such as mortality, longevity, morbidity, and non-life insurance risks, which result from the pricing and acceptance of insurance contracts.

**Business Risks** includes policyholder behavior risks and expense risks. Business risks occur because of internal, industry, regulatory/political, or wider market factors.

For the non-life underwriting risk, NNIB uses a simplified method based on premium and reserve volumes. This risk is not material.

### C.1.1. Insurance risk

- Risk profile
  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. 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. Longevity risk exposes NN Insurance Belgium primarily to mortality improvements and the present value impact is larger when interest rates are low.
  The risk of morbidity of NN Insurance Belgium is captured in health insurance that pays a fixed amount or annuity. Disability risk is also taken into account in health underwriting risk.

- Risk mitigation
  Proper pricing, underwriting, claims management, and diversification are the main risk mitigating actions for insurance risks.

  Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that NN Insurance Belgium underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through NN Insurance Belgium's underwriting standards, product design requirements, and product approval and review processes.

Additionally, Insurance Risk is managed through concentration and exposure limits and through reinsurance:

- Tolerance limits for life insurance risks are set per insured life and significant mortality events affecting multiple lives such as pandemics.
- Reinsurance is used to manage risk levels (such as the mortality risk on the risk protection business of NN Insurance Belgium).
- Reinsurance creates credit risk which is managed in line with the reinsurance credit risk policy of NN Group.

### C.1.2. Business risk – Policyholder behaviour risk

- Risk profile

  Policyholder behavior risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by NN Insurance Belgium. 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, extend their contracts and take out policy loans, or even change contract details. Policyholder behavior therefore affects the profitability of the insurance contracts. The risk that policyholders maintain their contracts longer than NN Insurance Belgium has assumed is specific to the variable annuity business when guarantees are higher than the value of the underlying policyholder funds and the higher interest rate guaranteed savings business. The risk that policyholders hold their contracts for a shorter period than NN Insurance Belgium has assumed relates to the risk protection business.

  Changes in tax laws and regulations can affect policyholder behavior, particularly when the tax treatment of their products affects the attractiveness of these products for customers. For instance, changes in tax treatment may affect the tax efficiency of the savings products.

  The SCR calculations for policyholder behavior risk take into account the present value impact of changes in policyholder behavior assumptions.

- Risk mitigation

  Policyholder behavior 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 behavior experience of in-force policies is assessed at least annually.

  As part of its strategy, NN Insurance Belgium has put several programs in place to own and improve the customer experience. These programs improve the match between customer needs and the benefits and options provided by NN Insurance Belgium's products. Over time, NN Insurance Belgium'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 behavior.

  Lapse risks are mitigated by means of the surrender penalties (covering extra expenses due to surrenders) and the tax treatments.

The SCR for Life Lapse risk recognizes the impact of the mass lapse reinsurance agreement with NN Re. The agreement allows NN Insurance Belgium to effectively mitigate most of its mass lapse risk.

### C.1.3. Business risk – Expense risk

- Risk profile
  Part of the total administrative 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. Otherwise, the collective premiums are subject to the inflation. Expense risk relates primarily to the fixed part of NN Insurance Belgium's expenses, and is the risk that future actual expenses per policy exceed the expenses assumed per policy. NN Insurance Belgium is exposed to the risk that the overhead expenses relating to IT administration systems will remain constant, or even increase, while the number of policies in the in-force book gradually decreases, leading to a per policy expense increase.

- Risk mitigation
  Ongoing initiatives are in place to manage expense risk (more efficient processes, simplification of IT landscape). Company targets are in place to reduce expenses in the future, thus, lowering expense risk going forward.

- Risk measurement
  The total life underwriting capital requirement for NN Insurance Belgium amounts to EUR 328 million and is mainly driven by expense risk and policyholder behavior risk (early cancellation rights).

## C.2. Market Risk

Market risk is the risk of potential losses due to adverse movements in financial market variables. Through counter party default risk it also recognizes potential losses due to default by NN Insurance Belgium's debtors (including bond issuers), trading counterparties or mortgage holders. Market risk is disclosed in Note 52 'Risk management' in the 2021 Consolidated annual accounts of NN Group. Reference is made to section C.3 for an explanation on counterparty default risk.

Market risks include (i) equity risk; (ii) real estate risk; (iii) interest rate risk; (iv) credit spread risk; and (v) foreign exchange risk. In relation to market risk, NN Insurance Belgium distinguishes between own account business and separate account business. In the case of own account business, NN Insurance Belgium directly bears the market risk of its invested assets and liabilities. In the case of separate account business, the policyholder bears the market risk.

**– own account business**

Own account business includes NN Insurance Belgium's life insurance, as well as other invested assets and direct liabilities. NN Insurance Belgium takes on market and credit risk for its Own account business in pursuit of returns. These returns are used to fulfil policyholder obligations with any surplus return benefitting the Group and its shareholders. Accordingly, optimization within the risk appetite is paramount to generating returns for both policyholder and shareholder.

Within NN Insurance Belgium's Own account, market risks are driven by the fixed income portfolio that generates spread risk and limited interest rate risk for duration mismatches. While it constitutes a smaller asset allocation, equity investments also generate risks as these risks cannot be directly offset by the liabilities.

The SCR for most fixed income bonds is calculated within spread risk and SCR for the fixed income loans including mortgages within counterparty default risk. SCR for non-fixed income assets such as equity and real estate are addressed in the respective risk categories.

NN Insurance Belgium holds a diversified asset portfolio for its own account business. Reference is made to section D.1. Assets containing a description of the asset class values of NN Insurance Belgium as at 31 December 2021.

### C.2.1. Equity risk

- Risk profile
  Equity plays a role in the Own account business by providing diversification and up-side return potential. This does present a risk which is measured as the impact of changes in prices of directly held equities and equity derivatives such as futures and options.

- 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. As mentioned, there is no natural hedge for equity risk on the liability side of the balance sheet. Since last year NN Insurance Belgium categorized its investments in REITS (Real Estate Investment Trusts) as Long Term Equity.

### C.2.2. Real estate risk

With the long-term nature of the liabilities of NN Insurance Belgium's Own account, illiquid assets such as real estate can play an important role in the strategic allocation. Real estate risk is the risk of loss of market value of real estate assets. Market values are driven by a change in rental prices, required investor yield, and/or other factors.

NN Insurance Belgium applies a look through approach, which consist in calculating the Solvency Capital Requirement on the basis of each underlying asset of collective investment undertakings.

- Risk profile
  NN Insurance Belgium's real estate exposure originates from the investment in associates which concerns our investment in the shareholders capital of the real estate entity within the group. The real estate position held by NN Insurance Belgium can include leverage, and therefore the actual real estate exposure is larger than NN Insurance Belgium'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.

- 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.

### C.2.3. Interest rate risk

Interest rate risk is the impact of interest rate changes on Own Funds as a result of the associated change in the value of the assets and liabilities.

- Risk profile
  NN Insurance Belgium's liabilities have a material amount of long-term liability cash flows, which related primarily to the pension and long term savings business.

- Risk mitigation
  NN Insurance Belgium hedges its economic interest rate exposure by investing in long-term bonds and mortgages. The remaining interest rate gap may be, further reduced through purchases of financial derivatives such as interest rates swaps or swaptions. Interest rate risk management focuses on matching asset and liability cash flows as much as possible. Especially for maturities beyond 20 years where the UFR, only applied to liabilities, impacts the interest rate sensitivity of liabilities.

- Risk measurement
  For purposes of discounting liabilities under Solvency II, NN Group uses a swap curve less Credit Risk Adjustment plus Volatility Adjustment. In line with Solvency II, NN Group extrapolates the EUR swap curve from the 20 year point onwards to the Ultimate Forward Rate (UFR) – as defined under Solvency II. The 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.

### C.2.4. Credit Spread Risk

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 bonds.

- Risk profile
  NN Insurance Belgium invests mainly in Belgium government bonds. These long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates. Under the Solvency Standard Formula, government bonds do not contribute to credit spread risk.

- Risk mitigation
  NN Insurance Belgium aims to maintain a low-risk, well diversified fixed income portfolio. NN Insurance Belgium has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. 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.

  Additionally, the acquisition of a spread lock in 2018 aims to hedge the spread risk of "non-AAA" government bonds positions, limiting this way the volatility of the solvency II ratio.

- Risk measurement
  The SCR for credit spread risk reflects, with 99.5% level of confidence, the risk of Own Funds to spread movements – impacting fixed income assets held in the Own account. Fixed income assets are shocked with severity linked to a 1-in-200 year event (or 99.5% level of confidence) and depending on the investment type, rating and duration.

**– Separate account business**

In the case of separate account business, the policyholder bears the market and credit risk. NN Insurance Belgium's earnings from the separate account businesses are primarily driven by fee income.

***Variable annuity portfolio***

- Risk profile
  NN Insurance Belgium has been selling variable annuity ('VA') products since 2009. The products have minimum guaranteed living benefits such as survival benefits or withdrawal benefits.

- Risk mitigation
  NN Insurance Belgium has a reinsurance agreement with NN RE in place for its VA business. This agreement targets both market and underwriting risk.

***Other separate account business***

- Risk profile
  The other separate account business 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 Insurance Belgium has provided guarantees on the performance of specific underlying funds. Unit-linked products without guarantees do not expose NN Insurance Belgium 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 at the design of the product. Currently NN Insurance Belgium does not hedge the market risks related to the present value of future fee income derived from this business.

- Risk measurement

  NN Insurance Belgium determines SCR for the market and credit risks of the separate account business through modelling the risks of the fee income and the guarantees.

### C.2.5. Currency Risk- Foreign exchange risk

Foreign exchange (FX) risk measures the impact of losses related to changes in currency exchange rates.

- Risk profile
  NN Insurance Belgium has limited exposure to foreign currencies as a result of investments in foreign currencies, mainly in the US dollar and due to its exposure towards the real estate entity of Group where part is invested in non-EUR currencies.

- Risk mitigation
  NN Insurance Belgium limits the investment in foreign currencies and has no appetite for increasing exposure in foreign currency related to debt instruments.

## C.3. Counterparty Default risk (Credit Risk)

Counterparty default risk is the risk of loss of investments due to unexpected default of the counterparties and debtors (including reinsurers) of NN Insurance Belgium. The SCR for counterparty default risk is primarily based on the associated issuer's probability of default (PD) and the estimated loss-given-default (LGD) on each individual asset combined with diversification across assets.

The Counterparty Default Risk module covers any credit 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.

The Counterparty Default Risk Exposure is split in Type I and Type II exposures. The class of Type I exposures covers the exposures which may not be diversified and where the counterparty is likely to be (externally) rated, e.g. reinsurance contracts, derivatives and money market exposures. The class of Type II exposures attempts to cover the exposures which are usually diversified and where the counterparty is likely to be unrated, predominantly residential mortgages, but also other forms of term lending not covered in Type I. These two classes form the basis for the respective capital treatment in the Counterparty Default Risk module.

- <u>Risk profile</u>
  NN Insurance Belgium's Counterparty Default Risk exposure is the highest in Type II assets. Other sources of Counterparty Default Risk include other loans (like policy loans), reinsurance and the claims on counterparties from over-the-counter derivatives.

- <u>Risk mitigation</u>
  NN Insurance Belgium uses different credit risk mitigation techniques. For retail lending portfolios, pledges of insurance policies, or retaining the investment accounts of clients are all important elements of credit risk mitigation. For OTC derivatives, the use of International Swaps and Derivatives Associations master agreements 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.

  For its mortgage portfolio, NN Insurance Belgium insures to invest in high quality portfolios and closely monitors the performance of the book. Both the Loan-to-Value (LTV) for residential mortgages, which is based on the net average loan to indexed value, as the credit performance are followed up regularly. This way, troubled assets are identified early and managed properly. The loan is categorized as a non-performing loan (NPL) if the arrear still exists after 90 days. A loan is re-categorized as a performing loan again when the amount past due has been paid. All loans not classified at initial recognition as being either (1) assets at market value through profit-and-loss, (2) assets held for trading, or (3) assets available-for-sale are measured against amortized cost and are subject to impairment review.

- <u>Risk measurement</u>
  The Counterparty Default 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. 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. 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 aggregated using a diversification effect.

Note that fixed income bonds are also subject to counterparty default risk, but this risk is included in credit spread risk.

## C.4. Liquidity risk

Liquidity risk is the risk that NN Insurance Belgium 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 honor all commitments when due. NN Insurance Belgium manages liquidity risk via a liquidity risk framework: ensuring that – even after shock – NN Insurance Belgium can meet immediate obligations.

- Risk profile
  NN Insurance Belgium identifies three related liquidity risks: funding liquidity risks, market liquidity risks and funding risk. Funding liquidity risk is risk that a company will not have the funds to meet its financial obligations when due. Market liquidity risk is the risk that an asset cannot be sold without significant losses. Funding risk is the risk that higher funding cost will lead to a lack of funds to finance investments. The connection between these risk stems from the fact that when payments are due, and not enough cash is available, investment positions need to be converted into cash or funding with higher cost is engaged. When market liquidity is low, this would lead to a loss.

- Risk mitigation
  Liquidity Risk Management Policy of NN Insurance Belgium include the following principles
  - 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 collateralized 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 Insurance Belgium defines three levels of Liquidity Management:
  - Short-term liquidity or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk.
  - Long-term liquidity management considers business conditions, in which market liquidity risk materializes.
  - 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 Insurance Belgium specific event. The market event can be caused by an increase in collateral requirements for financial derivatives. On the other hand, the idiosyncratic event is produced by an accelerated payments of the liabilities. The Chief Financial Officer at NN Insurance Belgium is responsible for Liquidity Management.

Liquidity limits are in place at NN Insurance Belgium.

- Risk measurement

  Liquidity risk is measured through several metrics including the required sales ratio, liquidity coverage ratio 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 Insurance Belgium manages liquidity risk via a liquidity risk framework ensuring that – even after shock – NN Insurance Belgium can meet immediate obligations. Accordingly, NN Insurance Belgium does not calculate a specific SCR for liquidity risk as liquidity is sufficiently available in the insurance business units.

## C.5. Operational risk

Operational risk is a non-financial risk that includes 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 operational risk management areas can be defined as given below:

- Control and processing risk: the risk of financial or reputational loss due to non-adherence with business policies or guidelines as well as the risk of loss due to unintentional human error during (transaction) processing.
- Fraud risk: the risk of financial or reputational loss due to abuse of procedures, systems, assets, products or services of NN Insurance Belgium by those who intend to unlawfully benefit themselves or others.
- Information (technology) risk: the risk of financial or reputational loss due to inadequate information security, resulting in a loss of data confidentiality, integrity and availability.
- Continuity and security risk: the risk of threats that might endanger the continuity of business operations and the security of our employees.
- Unauthorized activity risk: the risk of misuse of procedures, systems, assets, products and services.
- Employment practice risk: the risk of financial or reputational loss due to acts inconsistent with employment, health or safety laws, agreements and from payment of personal injury claims or diversity/discrimination events.

- Risk mitigation

  For operational risk NN Insurance Belgium has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks.

  Operational 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 operational 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 Insurance Belgium conducts regular operational 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. Operational risks are monitored in the Risk Control Framework report at all levels in the organization. With this report, NN Insurance Belgium manages all risks against the risk appetite of the company. The exposure of NN Insurance Belgium to non-financial risks is regularly assessed through risk assessments, incident analysis and monitoring. After identification of the risks, each 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 and is within tolerance. The business process owners are responsible for the effective execution of the controls and for assessing the adequacy of their internal controls. Operational risk management, as part of the second line of defense, is responsible for providing management with an objective assessment of the effectiveness and efficiency of the Control framework and underlying components.

- Risk measurement
  NN Insurance Belgium follows a factor-based approached, where, the amount of technical provisions, premiums earned and expenses incurred during the previous 12 months, are considered an appropriate measure to capture this risk. Operational risk is considered an adjustment to the BSCR, therefore, it should be considered as net of diversification between other NN Insurance Belgium risks.

## C.6. Other material risks

Any other information relevant to the risk profile of NN Insurance Belgium.

### C.6.1. Compliance risk

Compliance risk is the risk of impairment of NN Insurance Belgium’s integrity. It is a failure (or perceived failure) to comply with NN Group Statement of Living our Values and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage NN Insurance Belgium reputation and lead to legal or regulatory sanctions and financial loss.

- Risk profile
  Through NN Insurance Belgium’s insurance and investments products, NN Insurance Belgium is committed to helping 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 Insurance Belgium 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 (‘Compliance Risk’).

  All employees are expected to adhere to these laws, regulations and ethical standards, and management is responsible for embedding the compliance related rules. Compliance is therefore an essential ingredient of good corporate governance. NN Insurance Belgium continuously enhances its compliance risk management program to ensure that NN Insurance Belgium complies with international standards and laws.

- Risk mitigation
  Compliance related risks are mainly mitigated through the set-up of controls and measures based on NN Insurance Belgium's policies, standards and guidelines and the inclusion of the compliance domain within the Effective Control Framework. In addition to this framework, NN Insurance Belgium has installed 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 Insurance Belgium also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, prevention of fiscal abuse, gifts and entertainment, customer suitability, conflicts of interest, and confidential and inside information, as well as a code of conduct for its personnel. Furthermore, NN Insurance Belgium designates specific countries as 'ultra-high risk' and prohibits client engagements and transactions (including payments or facilitation) involving those countries. Conform it's Product policy, NN Insurance Belgium performs a product approval and review process when developing and reviewing products in which customer interest is a main area of attention.

- Risk measurement
  There is no specific compliance risk capital calculated for SCR, however, it is considered to be part of the Operational Risk SCR.

Reference is made to Note 52 'Risk management' in the 2021 Consolidated annual accounts of NN Group for information on compliance risk.

### C.6.2. Concentration risk

NN Insurance Belgium does not have an appetite for risk concentration and manages concentration risk with a limit structure. During the year no active limit breaches occurred. More information on the mitigation of several types of concentration risk is included in the relevant risk types.

### C.6.3. Investing assets in accordance with the 'Prudent person principle'

- Acceptable investments

NN Group maintains a Global Asset List, which contains all asset classes in which the subsidiaries, like NN Insurance Belgium are allowed to invest. Before an asset class is approved for this list, a New Asset Class Assessment Procedure ('NACA') must be followed.

The NACA should describe all relevant considerations on return, risk and operational consequences that are relevant to the decision whether NN Insurance Belgium should invest in the proposed investment class.

The NACA request does not describe a specific transaction, but is a proposal for the potential investment in an investment class. The NACA should nevertheless address the quantitative impact of potential future investments and include proposed portfolio limits for the product. This should always be in line with NN Group internal policies as well as external constraints (such as regulatory limits).

- Governance of investments

Within the Three Lines-of-Defense model, investments are managed in the first line through a dedicated Local Portfolio manager, reporting directly to the CFO. The second line function Financial Risk Management reports to CRO. Both lines of defense meet regularly in several risk and finance committees, notably the Asset and Liability Committee ('ALCO') for the most material issues. Operational activities regarding investments are performed by

NN Group's business unit NN Investment Partners, who also provides (unsolicited) advice on proposed or current investments.

All investments related activities are performed within the boundaries as set by NN Insurance Belgium. These include among others the following:

- Asset Class Standard (NACA)
- Investment Management Policy
- Concentration Risk Standard
- Asset-Liability Management (ALM) Policy
- Financial Regulations Standard
- Interest Rate Risk Management Standard
- Investment Mandate Standard
- Liquidity Risk Management Standard
- Responsible Investment framework Policy

- Local Portfolio Manager

Based on market views, local Business Unit requirements, input from its assets managers, the Local Portfolio Managers:

- Propose Investment Strategies
- Prepare proposals for mandates and for delegated approval levels for the Asset Managers
- Propose Investment ideas to the ALCO
- Prepare Performance Measurement Guidelines of all investment decisions taken under the delegated approval authorities

They are supported by NN Investment Partners (NN IP) and NN Group's Investment Office (NN IO).
NN Investment Partners prepares a market view, proposes investment ideas based on market developments and BU requirements and makes investment decisions within allocated limits/thresholds.

NN Group's Investment Office is responsible for defining the long-term investment strategy within NN Group, and to introduce new asset classes and enhancing existing ones.

### C.6.4. Own Funds sensitivity analysis

NN Insurance Belgium prepares an 'own risk and solvency assessment' ('ORSA') at least once a year. In the ORSA, NN Insurance Belgium articulates its strategy and risk appetite; describes its key risks and how they are managed; analyses whether or not 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 Insurance Belgium. Stress testing can also be initiated outside ORSA, either internally or by external parties such as the local regulator (National Bank of Belgium (NBB)) and the European Insurance and Occupational Pensions Authority (EIOPA). The ORSA includes a forward looking overall assessment of NN Insurance Belgium's solvency position in light of the risks it holds.

Reference is made to the EIOPA Stress Test report delivered towards the NBB as in accordance with the EIOPA regulation.

### C.6.5. Risk exposure from off-balance sheet positions and transfer of risk to special purpose vehicles

NN Insurance Belgium has off-balance sheet positions regarding the security lending positions, the notional amounts of the Interest rate Swaps, the forward interest swap and forward bond. No other off-balance sheet positions or transferred risk to special purpose vehicles are identified.

## C.7. Any other information relevant to the risk profile of NN Insurance Belgium

Risk mitigation techniques used at NN Insurance Belgium are described in above sections. No other material information is relevant to the risk profile of NN Insurance Belgium.

# D. Valuation for Solvency Purposes

## Introduction

This chapter of the SFCR contains information on the valuation for solvency purposes of assets, insurance liabilities and other liabilities of NN Insurance Belgium and explains the differences with their valuations in the NN Insurance Belgium 2021 BE GAAP annual accounts.

### Accounting principles, methods and main assumptions used

In general, Solvency II valuation requires a market consistent approach to the valuation of assets and liabilities. Within NN Group the default reference framework for valuing assets and liabilities, other than technical provisions, is IFRS as endorsed by the European Union ('IFRS-EU'). As such NN Insurance Belgium produces a full set of accounting figures under IFRS. Nevertheless, for prudential and local reporting purposes the reference framework is Belgian GAAP. The exception is that the BE GAAP valuation principle does not reflect a market consistent valuation (e.g. amortized cost). For main assumptions used in fair valuing assets, reference is made to Note 3 'Fair value of the investments' in the 2021 annual accounts of NN Insurance Belgium.

### Reconciliation BE GAAP Balance sheet to Solvency II Balance sheet

Reference is made to the 2021 annual accounts of NN Insurance Belgium for more detailed information on the BE GAAP Balance sheet and to QRT SE.02.01 'Balance sheet'.

The valuation and presentation differences between BE GAAP and Solvency II are resulting from differences in accounting principles and differences in the presentation of these. Main differences are the clean versus dirty market valuation. These differences are explained in the sections below. For items where no valuation difference occurred, reference is made to Note 20 'Accounting policies' in the NN Insurance Belgium annual accounts.

# Valuation for Solvency Purposes

| As at 31 December 2021 | BE GAAP | Valuation differences | Presentation differences | Solvency II |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 268 | 0 | 0 | 268 |
| Financial assets at fair value through profit or loss and Available-for-sale investments | 10,445 | 1,362 | 141 | 11,949 |
| Loans | 4,169 | 233 | 9 | 4,411 |
| Reinsurance contracts | 86 | -54 | 0 | 32 |
| Associates and joint ventures | 0 | 0 | 0 | 0 |
| Real estate investments | 0 | 0 | 0 | 0 |
| Property and equipment | 4 | 3 | 0 | 7 |
| Intangible assets | 9 | -9 | 0 | 0 |
| Deferred acquisition costs | 0 | 0 | 0 | 0 |
| Other assets | 315 | 0 | -133 | 182 |
| **Total assets** | **15,296** | **1,536** | **18** | **16,850** |
| | | | | |
| **Equity** | | | | |
| Shareholders' equity (parent) | 620 | 336 | 392 | 1,349 |
| Minority interests | 0 | 0 | 0 | 0 |
| Undated subordinated notes | 0 | 0 | 0 | 0 |
| **Total equity** | **620** | **336** | **392** | **1,349** |
| | | | | |
| **Liabilities** | | | | |
| Subordinated debt | 155 | 4 | 8 | 167 |
| Debt securities issued | 0 | 0 | 0 | 0 |
| Other borrowed funds | 0 | 0 | 0 | 0 |
| Insurance and investment contracts | 13,640 | 1,218 | -94 | 14,764 |
| Customer deposits and other funds on deposit | 44 | 0 | 0 | 44 |
| – non-trading derivatives | 0 | 28 | 0 | 28 |
| Other liabilities | 837 | -50 | -289 | 497 |
| **Total liabilities** | **14,676** | **1,199** | **-374** | **15,501** |
| | | | | |
| **Total equity and liabilities** | **15,296** | **1,536** | **18** | **16,850** |

## D.1. Assets

### D.1.1. Cash and cash equivalents

In the BE GAAP balance sheet, cash and cash equivalents are reported at the notional amount. In the Solvency II balance sheet, cash and cash equivalents are reported at market value. There are no valuation differences between BE GAAP and Solvency II for cash and cash equivalents as the market value is not different from the notional value.

### D.1.2. Financial assets at FV through P&L and Available-for-sale investments

In the Solvency II balance sheet, investments are reported at market value which represents a valuation difference of EUR 1,362 million with BE GAAP, the main differences are explained as follows:

- Under BE GAAP bonds are valued at amortized cost (reimbursement value at maturity date). Indications for a more permanent decrease in value of the investments will lead to an impairment, under Solvency II the valuation is at market value.
- Shares are valued at cost, indications for a more permanent decrease of value will be evaluated and can lead to an impairment whilst the valuation under Solvency II is market value based.
- Perpetual loans are valued at Locom[2] under BE GAAP against market value under Solvency II.
- Loans and mortgages are generally valued on their nominal value minus the reimbursements, taken into account corrections for the doubtful and uncertain debtors.
- Investment in the shareholders capital of the real estate entity within the group. This investment is booked in the BE GAAP balance sheet at acquisition value, under Solvency II this is recognized as investment in associates according to the equity valuation method.

Reference is made to the detailed valuation rules in Note 20 ‘Accounting policies’ of the NN Insurance Belgium annual accounts.

Presentation differences of EUR 141 million as at 31 December 2021 are caused by:

- Presentation of accrued interest as part of the investments, instead of a separate presentation as accrual under GE GAAP. Solvency II requires accrued interest to be presented as part of the investments (‘dirty market value’) and not separately as other assets as in the annual accounts of NN Insurance Belgium (‘clean market value’).

### D.1.3. Loans and mortgages

In the BE GAAP balance sheet, loans and mortgages are reported at amortized cost. In the Solvency II balance sheet, loans are reported at market value. For loans that are repriced frequently and have had no significant changes in credit risk, the carrying values in the annual accounts represent a reasonable estimate of the market value for Solvency II. For other loans the market value is estimated by discounting expected future cash flows using a discount rate that reflects credit risk, liquidity and other current market conditions. The market value of mortgage loans is estimated by taking into account prepayment behavior. Loans with similar characteristics are aggregated for calculation purposes.

Valuation differences between BE GAAP and Solvency II for loans represents the difference between amortized cost and market value of EUR 233 million as at 31 December 2021.

Presentation differences of EUR 9 million as at 31 December 2021 are caused by the different presentation of accrued interest. Solvency II requires accrued interest to be presented as part of the loans (‘dirty market value’) and not separately as other assets as in the annual accounts of NN Insurance Belgium (‘clean market value’).

### D.1.4. Reinsurance contracts

Reference is made to section D2 ‘Technical provisions’.

[2] Locom: Lower Of Cost Or Market (the lowest of the cost of the asset or the market value of the asset).

### D.1.5. Property and equipment

In the BE GAAP balance sheet, equipment is reported at cost less depreciation. In the Solvency II balance sheet, equipment is reported at market value. There are no significant valuation differences between BE GAAP and Solvency II for equipment, as market value is generally not significantly different from depreciated cost.

### D.1.6. Intangible assets

Other intangibles including software can be recognized and measured at a value other than nil if they can be sold separately and if there is a quoted market price in an active market for the same or similar intangible assets. As there is no quoted market price for NN Insurance Belgium's other intangible assets, it is valued at nil for Solvency purposes.

### D.1.7. Other assets

In the BE GAAP balance sheet, other assets are reported at their notional amounts. In the Solvency II balance sheet, other assets (with the exclusion of deferred taxes) are reported at market value. There are no significant valuation differences between BE GAAP and Solvency II for other assets as the market value is not significantly different from the notional value.

Presentation differences of EUR -133 million as at 31 December 2021 consist of the different presentation of accrued interest. Solvency II requires accrued interest to be presented as part of the interest bearing investments ('dirty market value') and not separately as other assets as in the BE GAAP annual accounts of NN Insurance Belgium ('clean market value').

No deferred tax assets are recognized under Belgian GAAP. Reference is made to Note 15 'Taxation' of the 2021 annual accounts of NN Insurance Belgium for more information on the origin of the recognition of deferred tax assets and the amount of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized in the BE GAAP balance sheet.

In the Solvency II balance sheet, deferred tax assets (in case of net DTA) and liabilities (in case of net DTL) are part of the respectively other assets or other liabilities. In the Solvency II balance sheet, deferred taxes, other than deferred tax assets arising from the carry forward of unused tax credits and the carry forward of unused tax losses, are valued on the basis of the difference between the tax bases of assets and liabilities and their carrying values. A positive value to deferred taxes is only attributed where it is probable that future taxable profit will be available against which the deferred tax asset can be used, taking into account any legal or regulatory requirements on the time limits relating to the carry forward of unused tax losses or credits.

### D.1.8. Changes in valuation bases

During 2021, no material changes were made to the recognition and valuation bases or estimations used in the measurement of assets on the Solvency II balance sheet.

## D.2. Technical provisions

### D.2.1. Value of the technical provisions

The value of technical provisions, including the amount of the Best Estimate of Liabilities and the Risk Margin is disclosed below separately for each material line of business as at 31 December 2021.

**As at 31 December 2021**

| Technical provisions per line of Business | BEL | Risk margin | Technical provisions |
|---|---|---|---|
| 1. Non-Life | 4 | 0 | 4 |
| 2. Health similar to Non-Life | 8 | 0 | 8 |
| 3. Life | 11,658 | 198 | 11,856 |
| 4. Health similar to Life | 128 | 15 | 143 |
| 5. Index-linked and Unit-linked | 2,728 | 25 | 2,753 |
| **Total** | **14,526** | **238** | **14,764** |

### D.2.2. Bases, methods and main assumptions used for solvency valuation

Technical Provisions are measured for Solvency II purposes as the sum of the Best Estimate of Liabilities and Risk Margin. The Best Estimate of Liabilities is equal to the probability-weighted average of the present value of the future liability cash flows. The Risk Margin is defined as the amount that an empty (re)insurance entity is expected to require in excess of the Best Estimate of Liabilities in order to take over and meet the (re)insurance obligations.

Best estimate of liabilities

NN Insurance Belgium uses cash flow models and best estimate assumptions to determine the Best Estimate of Liabilities under Solvency II. Premiums, benefits, expenses and other relevant cash flows are projected for the policy term – subject to contract boundaries – and discounted at the currency specific risk-free interest rate term structure to allow for financial risk with currency specific Credit Risk Adjustments (CRA) and country specific Volatility Adjustment (VOLA). This is the full-cash flow approach and is typical for traditional business. For unit-linked business, only margins are projected (expenses and charges) as investment risks are borne by the policyholder. Cash flows are either projected on a per policy basis or individual policies are grouped into representative model points.

Solvency II contract boundaries specify to which extent cash flows should be recognized in the Solvency II technical basis. Overall, cash flows where NN Insurance Belgium has the unilateral right to adapt the conditions of the agreement (by repricing for example) are not to be considered under Solvency II. This means that NN Insurance Belgium does not recognize the profits of its yearly renewal risk protection business, or the obligations arising from future premiums on its savings business, for as far as these are subject to dynamic pricing in future time periods.

Cash flows are projected along a sufficiently large number of future risk-free interest rate scenarios to allow for one-sided financial options and guarantees. This is typical for traditional business with a fixed interest rate guarantee. The best estimate risk-free interest rate term structure (with CRA and VOLA, if applicable) is used in those instances where there are no embedded options or guarantees.

The cash flow projections consider future management actions that can be taken to mitigate the loss to NN Insurance Belgium, management policy covering the distribution of future discretionary benefits and the predictability and profit sharing of liability cash flows. The cash flow projections used in the in the calculation of the Best Estimate of Liabilities are based on the best estimate assumptions. The cash flow projection reflects the expected realistic future demographic, legal, medical, technological, social, environmental and economic developments that will have a material impact on the Best Estimate of Liabilities.

Assumptions underlying the Best Estimate of Liabilities are portfolio-specific rather than entity-specific. Entity-specific assumptions are used only insofar as those assumptions enable the entity to better reflect the characteristics of the portfolio or where the calculation of the Best Estimate of Liabilities in a realistic, reliable and objective manner without those assumptions is not possible.

The Actuarial Function Report (‘AFR’) contains an analysis on the methods and main assumptions used for the calculations of the Best Estimate of Liabilities for each material line of business.

The cash flow projections used in the Best Estimate of Liabilities calculations for life insurance obligations are done by grouping policies into homogeneous risk groups. The impact of the grouping of contracts on the calculation of the Best Estimate of Liabilities is followed up on regular basis.

NN Insurance Belgium reports a relatively small portion of unmodelled Technical Provisions. For unmodelled business, Technical Provisions are estimated either by scaling of modelled business or by setting Solvency II Technical Provisions equal to BE GAAP provisions. Where these approaches are taken, the Actuarial Function Holder has provided an opinion that the approaches are acceptable given the materiality of the Technical Provisions.

<u>Reinsurance and other recoverables</u>

The Best Estimate of Liabilities are estimated gross, without deduction of the amounts recoverable from reinsurance contracts. The amounts recoverable from reinsurance contracts and expected losses due to counterparty default are calculated separately. The principles used to calculate the amounts recoverable are consistent with those underlying the calculation of the gross Best Estimate of Liabilities.

<u>Risk margin</u>

In addition to the Best Estimate of Liabilities a Risk Margin is held to allow for non-hedgeable market and non-market risks. The calculation of the Risk Margin is performed by either explicitly calculating the SCR for each future year or by using a driver approach. Long term guarantee (‘LTG’) measures are excluded from the calculation of the SCRs and in the discounting, when calculating the Risk Margin.

With the driver approach, the relevant sub-risk SCRs are projected using appropriate risk drivers, multiplied by the cost of capital of 6%, then discounted at the relevant risk free rate term structure. The sub-risk market value margins are aggregated at each future point in time.

The simplification level 3 of the EIOPA technical specification is applied. The SCRs for each future year are approximated using a proportional approach.

<u>Non-financial assumptions</u>

Best estimate assumptions are set for expenses, mortality, morbidity and other relevant insurance risks using historical experience of the insurance portfolio. Assumptions are challenged by a backtesting process and the results of this exercise can lead to potential review of assumptions. In this case the assumptions are submitted to the Chief Actuary Office of NN Group ('CAO') for review and submitted to the Group Model Committee ('MoC') for approval or for information, depending on materiality, following NN Insurance Belgium's model governance.

Policyholder behavior regarding lapses, partial and full surrenders and paid-ups are taken into account for individual life business for traditional and unit-linked portfolios subject to the boundaries of the contracts.

Management actions are reflected in the cash flow projections. These are mostly current management actions related to dynamic decision rules in the asset liability models. Future management actions are assumed for portfolios including discretionary benefits.

Boundaries of insurance contracts are set by the business units based on a detailed investigation of terms and conditions of their portfolios. These assessments were reviewed and acknowledged at Head Office without comparing the different practices.

Financial assumptions

NN Insurance Belgium follows EIOPA requirements in determining the basic risk-free rates and the volatility adjustment ('VOLA') to determine the relevant currency specific risk free rate term structure for valuation of Technical Provisions. Because EIOPA curves are not available in time for NN Insurance Belgium to start its valuation, NN Group follows the EIOPA methodology to independently produce the curves. These are then compared to the published EIOPA curves when these are made available to ensure consistency between the EIOPA and the NN Group manufactured curves. At year-end 2021, the EIOPA and NN Group curves were consistent.

Changes in assumptions

In the fourth quarter of 2021 the expense assumptions in the capital projections were updated, reflecting latest experience and outlook.

Options and guarantees

When establishing technical provisions, all material financial guarantees and contractual options included within the boundary of insurance and reinsurance policies are taken into account. In doing so, factors which may affect likelihood that policyholders will exercise contractual options or realize the value of financial guarantees are analyzed.

The intrinsic value of financials options and guarantees is reflected in the single (deterministic) cash flow projection of technical provisions. These include the interest rate guarantees implicit in traditional products as well as policyholder options such as paid-up, cancellation, etc. where material.

A stochastic model is required to determine the time value of options and guarantees ('TVoG') where cash flows vary asymmetrically with market returns. The stochastic model uses a number of Monte Carlo simulations (typically, 1,000 to 3,500) to project future cash flows under various economic scenarios. The number of scenarios is set in order to reduce the simulation error to within the tolerance level. Currently, such error should be less than 1% of the best estimate liabilities, as determined by taking 80% confidence interval of the mean standard error of the simulations. NN Insurance Belgium performs a test to ensure the simulation error is within the established limits and increase number of scenarios used if the test does not satisfy the requirements.

# Valuation for Solvency Purposes

Dynamic policyholder behavior has been reflected where it is deemed material to the valuation under the different economic environments reflected in the stochastic scenarios. Where future profit sharing is dependent on economic conditions, the variability is taken into account in the TVoG. Where management actions have been taken into account, these are consistent with policies signed-off by the respective boards.

The actuarial function holder has assessed the allowances made in respect of options and guarantees in the technical provisions and the underlying assumptions, and came to the conclusion that such allowances are appropriate.

### D.2.3. Level of Uncertainty

For the level of uncertainty associated with the value of the technical provision, reference is made to section D.5.1.

### D.2.4. Main differences between BE GAAP and Solvency II valuation of technical provisions

| Technical provisions per line of Business | BE GAAP | Valuation differences | Solvency II |
|---|---|---|---|
| 1. Non-Life | 3 | 1 | 4 |
| 2. Health similar to Non-Life | 6 | 2 | 8 |
| 3. Life | 10,306 | 1,550 | 11,856 |
| 4. Health similar to Life | 35 | 108 | 143 |
| 5. Index-linked and Unit-linked | 2,834 | -81 | 2,753 |
| 6. Other Technical Provisions | 455 | -455 | 0 |
| **Total** | **13,640** | **1,125** | **14,764** |

At 31 December 2021, the valuation differences between the insurance and investment contracts recognized in the BE GAAP balance sheet and the technical provisions recognized in the Solvency II balance sheet of NN Insurance Belgium amounted to EUR 1,125 million. Methods and models used in calculating Solvency II technical provisions and BE GAAP reserves differ substantially. Main valuation differences between BE GAAP and Solvency II are outlined below:

- NN Insurance Belgium applies accounting standards generally accepted in Belgium (Belgium GAAP, Accounting Royal Decree (RD 17,11,1994)) for their provisions for liabilities under insurance contracts.
- The Best Estimate of Liabilities in Solvency II are calculated for all entities as the expected present value of future liability cash flows using best estimate assumptions
- A Risk Margin for non-hedgeable risks is added to the Best Estimate of Liabilities to establish the Solvency II technical provisions
- For Solvency II a risk-free interest rate curve with credit risk and volatility adjustment where applicable is used. NN Insurance Belgium does not apply a matching adjustment.
- The present value of future profits is recognized in Solvency technical provisions but not in BE GAAP reserves
- The difference between BE GAAP and Solvency II provisions is primarily reflected in the Life lines of Business: BE GAAP provisions largely reflect accrued benefits for the customer, where for Solvency II the discounted expected future cash flows are taken into account.

- For index-linked and unit-linked insurance the BE GAAP provisions are equal to the fund value of these contracts. For Solvency II Technical Provisions, the present value of the margins is deducted from the fund value.
- The valuation differences between BE GAAP reserves and Solvency II technical provisions described in the above paragraph also apply to reinsurance contracts.
- The other technical provisions concerns the Flashing Light reserve, the aging reserve and the reserve for TRIP ("Terrorism Reinsurance and Insurance Pool"[3] to which NNIB participates). The Flashing Light reserve is valued at nil for Solvency II purposes and the others are reclassified by line of business under Solvency II.

#### D.2.5. Matching and volatility adjustment, transitional measures, and transitional risk-free interest rate-term structure

Since inception of Solvency II, NN Insurance Belgium applies Transitional Measures on Technical Provisions (TMoTP) when it calculates the Solvency II Own Funds and SCR. The Solvency II regulation requires a full recalculation every two years. The TMoTP results in a contribution of EUR 350 million to the Basic Own Funds as at 31 December 2021 and decreased by EUR 32 million compared to 2020.

NN Insurance Belgium applied the volatility adjustment (VOLA) and did not apply a matching adjustment or transitional deduction in its insurance portfolio.

The quantification of the impact of a change to zero of the volatility is included in QRT S.22.01.01 'Impact of long term guarantees and transitional measures'.

## D.3. Other liabilities

| As at 31 December 2021 | BE GAAP | Valuation differences | Presentation differences | Solvency II |
|---|---|---|---|---|
| Provisions other than technical provisions | 119 | -87 | 0 | 32 |
| Deferred tax liabilities | 0 | 16 | 0 | 16 |
| Insurance, reinsurance & intermediaries payables | 107 | 0 | 94 | 201 |
| Payables (trade, not insurance) | 93 | 0 | 0 | 93 |
| Any other liabilities | 518 | 21 | -383 | 156 |
| **Total other liabilities** | **837** | **-50** | **-289** | **497** |

#### D.3.1. Pension benefit obligations

The employees of NN Insurance Belgium have been granted pension plans under the form of Defined Benefit and Defined Contribution. For these Pension plans the future liability in accordance with the interest assumptions are

[3] Terrorism Reinsurance and Insurance Pool is intended to cover the consequences of a terrorist act in accordance with the guarantees supplied by its members (insurance companies). The insurance companies share the claims costs between each other and a solidarity mechanism guarantees extra protection by grouping together the resources of the insurance sector and the Belgian State. In the event of a terrorist act, the members (insurance companies) will first support each other so as to be able to compensate insured parties who are victims of the act. If the cost of the claims is very high, the Belgian State also provides assistance.

taken up in the BE GAAP figures. On top of this, for Solvency II purposes additional liabilities are calculated based on a broader set of assumptions such as increase of future wages.

Pension benefit obligations are part of the line "Provisions other than technical provisions" in the above table.

### D.3.2. Any other liabilities

Differences in the presentation of the other liabilities are linked to the unpaid claims which are presented as insurance liabilities under BE GAAP.

### D.3.3. Leasing

NN Insurance Belgium makes limited use of operational lease agreements, more precisely for the leasing of cars and the office building. There are no financial lease arrangements within NN Insurance Belgium.

### D.3.4. Expected profits in future premiums

For existing business, expected profits included in future premiums are reflected in the technical provisions and therefore contribute to the Own Funds. For more information on the expected profits in future premiums, reference is made to QRT S.23.01.01 'Own Funds' available on the website.

### D.3.5. Changes during 2021

No significant changes were made to the recognition and valuation bases nor on estimations of the other liabilities during the reporting period.

## D.4. Alternative methods for valuation

Alternative valuation methods (models) are used by NN Insurance Belgium to determine the fair value of assets and liabilities if quoted market prices in active markets are unavailable. Reference is made to Note 3 "Fair value of financial assets" of the annual accounts of NN Insurance Belgium.

## D.5. Any other information

### D.5.1. Estimation uncertainties

Reference is made to 'risks and uncertainties'' in the 2021 Annual Report of NN Insurance Belgium for assumptions and judgments used including those about the future.

### D.5.2. Other information

Reference is made to the Annual Report 2021 for detailed information on the non-trading derivatives. No other material information regarding the valuation of assets and liabilities for Solvency II purposes is relevant.

# E. Capital Management

## Introduction

This chapter of the SFCR contains information on the capital management of NN Insurance Belgium, including the reconciliation of BE GAAP equity to Solvency II Own Funds and NN Insurance Belgium's Minimum Capital Requirement (MCR)

Objective

The goal is to adequately capitalize NN Insurance Belgium at all times to meet the interests of our stakeholders, including our customers and shareholders. The balance sheet is managed in line with the capital management framework which is based on regulatory and economic requirements. NN Insurance Belgium closely monitors and manages the following metrics: Own Funds/SCR, capital generation and liquidity.

Governance

Reference is made to section B of this SFCR report.

Capital management and framework

As a first principle, NN Insurance Belgium aims to be capitalized adequately at all times. To ensure adequate capitalization, NN Insurance Belgium is managed to a commercial capital level, which is set in accordance with the risk associated with the business activities, commercial requirements and other relevant factors. Capital adequacy is ensured through the capital planning process which starts with the annual budgeting process in which a capital plan is prepared for NN Insurance Belgium. NN Insurance Belgium's risk appetite statements, capital positions are closely monitored and, if necessary, measures are taken to ensure capital adequacy.

# Capital management

## E.1. Own funds

Solvency II Basic Own Funds comprises the following items:

- Paid-in ordinary share capital and the related share premium account
- Surplus fund
- Subordinated liabilities
- Net deferred tax assets
- A reconciliation reserve. The purpose of the reconciliation reserve is to reconcile the value of the above items to the total amount of the excess of assets over liabilities

### E.1.1. Impact of long term guarantees and transitional measures

The quantification of the impact of a change to zero of the volatility adjustment and transitional measures on technical provisions on NN Insurance Belgium's financial position, represented by an adjustment on the amount of technical provisions, the SCR, the Basic Own Funds and the amounts of Own Funds eligible to cover the SCR is included in QRT S.22.01.01 'Impact of long term guarantees and transitional measures' available on the website.

### E.1.2. Items deducted from Own Funds

As can be observed in the table below (section E.1.7), the excess of assets over liabilities is reduced by foreseeable dividends, distributions and charges. The foreseeable charge relates to the accrued coupons on the eligible subordinated debt.

### E.1.3. Additional ratios

No additional ratios are disclosed in the Solvency and Financial Condition Report other than the ratios included in QRT S.23.01.01 'Own funds' as included available on the website.

### E.1.4. Analysis of significant changes in Own Funds

The Own Funds increased by EUR 115 million to EUR 1,507 million at the end of 2021, mainly driven by:

- Market and economic variance observed during the year of EUR 115 million.
- Operating capital generation of EUR 79 million.
- Partly offset by dividend paid to the Holding company in December 2021: EUR -40 million.
- Recalculation of transitional measures on technical provisions at the beginning of 2021: EUR -32 million.

### E.1.5. The principal loss-absorbency mechanism

During 2021, NN Insurance Belgium used the loss-absorbing capacity of technical provisions ('LAC TP'). The adjustment for LAC TP shall reflect potential compensation of unexpected losses through a simultaneous decrease in technical provisions, taking into account of the risk mitigating effect provided by future discretionary benefits of insurance contracts, to the extent insurance and reinsurance undertakings can establish that a reduction in such benefits may be used to cover unexpected losses when they arise. The risk mitigating effect provided by future discretionary benefits shall be no higher than the sum of technical provisions and deferred taxes relating to those future discretionary benefits. The value of future discretionary benefits under adverse circumstances shall be compared to the value of such benefits under the underlying assumptions of the best-estimate calculation.

### E.1.6. Reconciliation reserve

The reconciliation reserve equals the total excess of assets over liabilities reduced by the following key elements:

- Paid-in ordinary share capital and related share premium account
- Surplus Fund
- The amount equal to the value of net deferred tax assets
- Foreseeable dividends, distributions and charges

The reconciliation reserve is included in QRT S.23.01.01 'Own Funds' available on the website.

### E.1.7. Reconciliation BE GAAP equity to Solvency II Basic Own Funds

| **Basic own funds** | **2021** | **2020** | **Δ** |
|---|---|---|---|
| Ordinary share capital | 397 | 397 | 0 |
| Reconciliation reserve: Legal Reserves | 40 | 40 | 0 |
| Reconciliation reserve: Other Surplus Reserves | 118 | 261 | -143 |
| Other | 66 | 66 | 0 |
| **BE-GAAP** | **620** | **764** | **-143** |
| | | | |
| Reconciliation reserve: Other Surplus Reserves | 575 | 349 | 226 |
| **IFRS** | **1,195** | **1,112** | **83** |
| | | | |
| Reconciliation reserve: Other Surplus Reserves | 378 | 85 | 293 |
| Transitional Measures | 350 | 382 | -32 |
| **Solvency II Excess of Assets over Liabilities** | **1,349** | **1,231** | **118** |
| Subordinated Liabilities | 167 | 170 | -3 |
| Forseeable dividends | -8 | -8 | 0 |
| **Solvency II Total Available Own Funds** | **1,507** | **1,392** | **115** |
| | | | |
| *Own funds eligible for distribution* | *184* | *327* | *-143* |
| *Own funds non eligible for distribution* | *436* | *436* | *0* |

The differences between BE GAAP Shareholders' Equity in NN Insurance Belgium's 2021 annual accounts and Solvency II Basic Own Funds at 31 December 2021 are mainly caused by the following valuation differences:

- Intangible assets such as software are not recognized under Solvency II
- Deferred acquisition costs are not recognized under Solvency II as separate balance sheet item
- Loans and advances are measured differently on the BE GAAP and Solvency II balance sheets
- Reinsurance contracts are measured differently
- Insurance and investment contract liabilities are measured differently
- The other adjustments mainly consist of the recognition of net Deferred Tax Assets or Deferred Tax Liabilities caused by using different valuations for some Solvency II balance sheet items whilst the tax base of these items remained the same. Furthermore, the recognition of Transitional Measures also leads to a difference between BE GAAP and Solvency II.

Eligibility, transferability and fungibility of Own Funds

Next to the Tier 1 Own Funds, NNIB has also Tier 2 Own Funds which meet the requirements under Solvency II and are therefore available to cover the SCR. For the eligible amounts of Own Funds we refer to the Quantitative Reporting template S.23.01.01 in annex.

## E.2. Solvency Capital Requirement and Minimum Capital Requirement

### E.2.1. SCR

Reference is made to QRT S.25.01.01 and section C. Risk Profile for the amount of the SCR split by risk categories.

| | 2021 | 2020 |
|---|---|---|
| **Eligible Own Funds to cover SCR** | **1,507** | **1,392** |
| of which Tier 1 unrestricted | 1,340 | 1,207 |
| of which Tier 1 Restricted | 81 | 82 |
| of which Tier 2 | 86 | 88 |
| of which Tier 3 | 0 | 15 |
| **Solvency Capital Requirements** | **688** | **679** |
| **NN Insurance Belgium SCR ratio** | **219%** | **205%** |

NN Insurance Belgium determined the SCR including:

- Loss-absorbing capacity of technical provisions (‘LAC TP’). LAC TP is the part of the technical provisions that can be used to absorb some of the SCR shock losses, as the expected future profit sharing to policyholders will be reduced if actual losses would arise. LAC TP is applicable to insurance policies with discretionary profit sharing. NN Insurance Belgium estimated the LAC TP to be EUR 14 million at 31 December 2021.
- Loss-absorbing capacity of deferred taxes (‘LAC DT’): this is an adjustment that can be applied to the Basic Solvency Capital Requirement (reference is made to the table in chapter C). It is a tax recovery that can partly offset the total loss in a 1-in-200 event (SCR). It reduces the SCR by the value of tax relief on a loss equal to the pre-tax SCR.
  The LACDT methodology depends on whether there is a net DTA or a net DTL position on the Solvency II balance sheet.
  - ✓ In case of a net DLT position, the LACDT is determined by the economic recoverability test
  - ✓ In case of a net DTA position, there is a cap on the DTA position:
    - Corporate tax rate applied on maximum 5 years taxable profit (based on the internal strategic business plan)

# Capital management

### E.2.2. Deferred tax under Solvency II

The total deferred tax amount in Solvency II arises from:

- Taxable or deductible temporary differences because the carrying amount of assets or liabilities in the Solvency II balance sheet differs from the tax base of those assets or liabilities. These differences multiplied by the tax rate are recognized as a net deferred tax liability or a net deferred tax asset (per legal entity) in the balance sheet. Reference is made to section D.2 'Technical Provisions' for the deferred tax liability recognized in the Solvency II balance sheet.
- The LAC DT on the SCR.
- Unused tax losses that are available for carry forward for tax purposes.

Not all valuation differences between the tax basis and Solvency II and SCR shocks will lead to deferred tax as certain elements are exempt for tax. For example: valuation differences on equity securities and the equity shock in the SCR would normally not result in a deferred tax effect when equity returns are exempt from tax. Therefore, these are excluded from the valuation differences and SCR amounts in order to arrive at the deferred tax balances for Solvency II.

The total deferred tax amount for Solvency II is therefore built up in a number of steps:

- deferred tax assets on unused tax losses
- +/-deferred tax assets/liabilities from valuation differences between IFRS and tax basis (except for non-taxable items)
- = deferred tax asset/liability in the IFRS balance sheet (deferred tax for IFRS)
- +/-deferred tax assets/liabilities from valuation differences between Solvency II and IFRS (except for non-taxable items)
- = deferred tax asset/liability in the Solvency II balance sheet (deferred tax for Own Funds)
- + deferred tax on SCR (LAC DT on the SCR) (except for non-taxable items)
- = total deferred tax amount for Solvency II

The 'total deferred tax amount for Solvency II' represents the deferred tax position that would be reflected in a Solvency II balance sheet that is fully shocked in line with the SCR shock. Any net deferred tax asset/benefit - whether for IFRS, Own Funds or SCR - must be tested for recoverability. The general guidance on assessing recoverability is summarized as follows:

Tax assets can only be recognized when it is concluded that their recoverability is probable. This applies to both deferred tax assets from timing differences, deferred tax assets from unused tax losses carried forward and the LAC DT on the SCR.

Deferred tax assets are recoverable when:

- There are sufficient deferred tax liabilities relating to the same taxation authority and the same taxable entity. These deferred tax liabilities must be expected to reverse either in the same period as the tax asset or in periods into which a tax loss can be carried back or forward.
- It is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward).
- Tax planning opportunities are available.

Deferred taxes in Solvency II balance sheet are nominal, undiscounted, amounts. Therefore, recoverability testing also only considers nominal, undiscounted, amounts.

Specific guidance applies under Solvency II in respect of item ‘Sufficient taxable profit’ as, different from BE GAAP, this refers to Solvency II based profits (before and after a shock event) and not to regular (BE GAAP-based) profits.

In order to assess the recoverability of deferred tax, the total deferred tax amount for Solvency II (i.e. deferred tax in the Solvency II balance sheet plus the LAC DT on the SCR) must be equal to or lower than the total recoverable deferred tax amount in a Solvency II environment.

The deferred tax asset in the IFRS balance sheet at 31 December 2021 amounts to EUR 4 million.

Deferred taxes are recognized in the Solvency II balance sheet as a net amount for deferred tax asset or deferred tax liability to the extent that the amounts relate to the same tax and the same tax authority. At 31 December 2021, NN Insurance Belgium hold a deferred tax liability of EUR 16 million in the Solvency II balance sheet. As the total deferred tax amount for Solvency II (i.e. the deferred tax asset that exists in a fully shocked SCR balance sheet) is the highest amount, it acts as starting point for the recoverability test. This total amount reflects the differences between the tax values and the Solvency II values for all assets and liabilities and the tax benefit on the SCR. Only if the total deferred tax is non-recoverable, the recoverability of the deferred tax in Own Funds becomes separately relevant.

Due to the strong balance sheet of NN Insurance Belgium, it is reasonable to assume that NN Insurance Belgium can continue as a going concern after the shock, without a need to generate external additional capital and without a need to de-risk. The tax recoverability test of NN Insurance Belgium is performed on this basis.

The total recoverable deferred tax amount in a Solvency II environment may come from various sources and includes both recoverability from items that never impact taxable profits and reverse over time as well as sources of profits and losses that would emerge in a Solvency II environment or a Solvency II environment after a SCR-type shock would have occurred. The recoverability is therefore based on an estimation of the total taxable results (including both income and expenses) that is expected to arise in a Solvency II environment after the shock. The sources of recoverability include all components of the estimated future taxable results, irrespective whether these are income (‘profit’) or expense (‘loss’).

# Capital management

The following items are included in determining the total recoverable deferred tax amount:

- Reversal of the amount of the risk margin in the technical provision
- Reversal of other valuation differences
- Taxable return on capital directly after the shock for one year
- Taxable return on capital after recovery to 100% SCR within one year for a certain period
- Investment return on assets backing insurance liabilities in excess of interest on technical provisions
- Investment return on assets backing interest bearing liabilities in excess of funding cost

NN Insurance Belgium has sufficient recoverable amounts to support the total deferred tax position recognized.

The most important assumption in determining estimated future taxable profits to support the DTA and LAC DT is the investment spread that is used both to determine taxable return on capital after the shock and the taxable part of investment spread in excess of interest accretion on liabilities and funding costs.

In determining the total recoverable deferred tax amount, the uncertainty around future taxable profits and the increasing degree of uncertainty in future taxable profits as the projection horizon becomes longer is taken into account. This is done by excluding certain profit sources and setting conservative assumptions.

### E.2.3. MCR

The following table reports on the MCR for NN Insurance Belgium.

| | 2021 | 2020 |
|---|---|---|
| **Eligible Own Funds to cover MCR** | **1,483** | **1,351** |
| of which Tier 1 unrestricted | 1,340 | 1,207 |
| of which Tier 1 Restricted | 81 | 82 |
| of which Tier 2 | 62 | 61 |
| **Minimum Capital Requirements** | **310** | **306** |
| **NN Insurance Belgium MCR ratio** | **479%** | **442%** |

The MCR is calculated as 45% of the SCR. NN Insurance Belgium's MCR arises to EUR 310 million at 31 December 2021.

## E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

NN Insurance Belgium does not use the duration-based equity risk sub-module, but classifies part of its equity portfolio as Long Term Equity.

## E.4. Differences between the standard formula and any internal model used

NN Insurance Belgium does not use an internal model.

# Capital management

## E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

NN Insurance Belgium complied with the MCR and the SCR during the reporting period.

## E.6. Any other information

Reference is made to the Note 53 ‘Capital and liquidity management’ in 2021 annual accounts of NN Group Belgium for any other material information regarding the capital management of NN Insurance Belgium. Reference is made to the annual report of the board of directors in the 2021 annual accounts of NN Insurance Belgium for the nature and the effect of material events arising after the balance-sheet date which are not reflected in the balance-sheet, if any.