Q1 2015 Earnings Call

Company Participants

- Delfin Rueda, CFO
- Doug Caldwell, Chief Risk Officer
- Lard Friese, CEO

Other Participants

- Benoit Petrarque, Analyst
- Cor Kluis, Analyst
- David Andrich, Analyst
- Farooq Hanif, Analyst
- Farquhar Murray, Analyst
- Frank Kopfinger, Analyst
- Guilhem Horvath, Analyst
- Matthias De Wit, Analyst
- Richard Burden, Analyst
- Steven Haywood, Analyst
- William Hawkins, Analyst

Presentation

Operator

(Operator Instructions) Before handing this conference call over to Mr. Lard Friese, Chief Executive Officer of NN Group, let me first give the following statement on behalf of the Company.

Today's comments may include forward-looking statements, such as statements regarding future developments in NN Group's business, expectations for its future financial performance and any statement not involving a historical fact. Actual results may differ materially from those predicted in any forward-looking statement.

Any forward -- I'm sorry. Any forward-looking statements speak only as of the date they are made and NN Group assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. Furthermore, nothing in today's comments constitutes an offer to sell or solicitation of an offer to buy any securities.

Good morning, Mr. Friese. Over to you.

Lard Friese {BIO 17008174 <GO>}

Yes. Good morning. Good morning, everybody. Welcome to this conference call to discuss NN Group's First Quarter 2015 results. Before we get going on this I'd like to tell you that we experienced a bit of complications with getting the webcast up and running.

So my advice to you of the analyst panel is to download from the investor section of our NN Group website the presentation that I will give to you and that Delfin Rueda, our CFO, will give to you so that you can follow the slides that we're going to take you through.

So just go to the website and download it in the investors' section. Obviously, we're trying to get the webcast up and running as we go. But we decided that it's better to start the call now, not to take more of your time unnecessarily.

With that, I suggest that I start. I'm joined here by Delfin Rueda, our Chief Financial Officer. And by Doug Caldwell, our Chief Risk Officer. So let me now turn to the first page, that's page number 3, about the Q1 highlights of our numbers today.

NN Group is reporting another strong set of results for the First Quarter of 2015. The operating result of the ongoing business was EUR304m, up 3% on the First Quarter of 2014, which, by the way, was also a strong quarter.

The higher result was supported by further cost reductions in the Netherlands. In the First Quarter of this year we achieved further cost savings of EUR22m, bringing the cumulative cost savings to EUR164 million compared with 2013.

The net result for the First Quarter of this year improved to EUR485m, which included a capital gain on an equity investment. This compares with a net loss of EUR215 million in the First Quarter of 2014, which included a large one-off charge for the employee pension agreement in the Netherlands.

The net operating return on equity of the ongoing business of NN Group was 8.7% for the First Quarter of 2015, reflecting a higher equity base compared with the same period in 2014.

Our strong capital position has improved further, with the IGD ratio at the end of the First Quarter up, at 335%.

All in all a good start of the year. However, we are fully aware that there are areas of the business that we need to further improve.

For example, the combined ratio of our non-life business in the Netherlands is currently above 100%. So we need to continue with our initiatives to improve the profitability of this segment.

Our envisaged growth in insurance Europe is being held back by headwinds in the region and we are therefore changing our business mix in this segment so that our products are better geared to the current environment.

We have set ourselves clear targets for all our operating segments and as a management team we remain focused on achieving these. So let's progress to slide number 4. Let me recap on the financial targets for NN Group as a whole which we set at the time of the IPO last year.

Firstly, we aim to reduce administrative expenses in Netherlands' units by a total of EUR200 million by the end of 2016. In additional to the EUR142 million reduction (in 2014), an additional EUR22 million of expense reductions were achieved in the First Quarter of this year, bringing the total cost savings to date to EUR164m. So we're well on track.

Secondly, we aim to realize an annual growth rate of the operating result before tax of the ongoing business of 5% to 7% on average in the medium term. The operating result before tax of the ongoing business for the First Quarter of 2015, of EUR304m, represents a 3% increase compared with the same quarter last year.

This number can be quite volatile on a quarterly basis. But once we have more quarters behind us we will be able to show average annual growth rates that can be measured against our medium-term target.

Lastly, we aim to increase the net operating return on equity of the ongoing business in the medium term, measured against the pro-forma 7.1% for 2013. The net operating return on equity of the ongoing business in the First Quarter of 2015 was 8.7%.

Overall we're making good progress towards delivering on these targets. But please bear in mind that these targets will be measured over the medium term.

Aligned with these three targets we expect over time to generate free cash available to shareholders in a range around the net operating result of the ongoing businesses. Delfin Rueda will discuss the free cash flow generation later on in this presentation.

On the next slide, slide number 5, I want to highlight a couple of important developments so far in 2015.

We have embarked on a large project to rebrand our businesses from ING to be NN or Nationale-Nederlanden brand. A large part of the operational and legal entity rebranding has already been completed.

This is being supported by various local marketing campaigns as well as NN's global running sponsorship. These activities are aimed at enhancing brand awareness.

As already announced, we expect to incur total rebranding expenses of EUR135 million over the next two years, of which EUR20 million has been incurred in the First Quarter of 2015 and reported as a special item.

ING sold down an additional 52 million NN Group shares in February this year, reducing its stake to just under 55%. NN Group participated in this transaction by repurchasing 8.3 million shares for a total amount of EUR200m, thereby, effectively returning this capital to our shareholders in line with our equity story.

In our Fourth Quarter earnings release we disclosed our estimated Solvency II capital ratio. As the next step in our preparations for Solvency II we now intend to apply for the usage of a partial internal model for NN Group and the insurance entities in the Netherlands.

The European Court of Justice issued its ruling last week on a principal legal question with respect to information provision requirements related to unit-linked products. The European Court affirmed the position of Nationale-Nederlanden that the information requirements prescribed by the European directive may be extended by additional information requirements included in national law, provided that these requirements are necessary for the policy to -- holder to understand the essential characteristics of the commitment and provided that they are clear, accurate and foreseeable.

Nationale-Nederlanden is of the opinion that general principles of Dutch law such as reasonableness and fairness that are used as a legal basis in Dutch proceedings, do not meet these criteria and that additional information requirements cannot be imposed retroactively.

While we believe that this ruling is an important step in providing clarity on an important legal aspects in this matter, it is ultimately up to the Dutch courts to take the European Court's ruling into account in individual Dutch legal proceedings.

We maintain our view that the financial consequences may be substantial for NN Group. However, these consequences cannot be reliably estimated or quantified at this time.

So let's move to slide number 6 of the presentation. Slide six shows the key metrics that demonstrate our strong capital position.

The Solvency I capital ratio of our biggest unit, NN life, has increased to 296% at the end of the First Quarter of this year, mainly driven by the tightening of credit spreads, buoyant equity markets and changes in the level and the shape of the interest rate curve.

Our holding company, cash capital, remained essentially stable at EUR1.4b. And in terms of financial leverage our fixed-cost cover ratio -- coverage ratio went up to 11.8 times and the leverage ratio reduced to 22.1%. Delfin will take you through the development of these metrics later on in the presentation.

As I already mentioned, the IGD ratio increased to 335% at the end of the First Quarter of this year. This was mainly driven by positive revaluations and the net result for the quarter. But also reflects the EUR200 million share buyback in February of this year.

With that I would like to pass the microphone to our Chief Financial Officer, Delfin Rueda, who will take you through the financial details of the First Quarter 2015 results. Delfin?

Delfin Rueda {BIO 7032761 <GO>}

Thank you, Lard. Good morning to everyone. Let me start with the consolidated results.

NN Group posted an operating result of the ongoing business, which, as you know, excludes the Japan closed block variable annuity business in Japan of EUR304 million in the First Quarter of 2015, up just over 3% on the same quarter in 2014.

This was supported by further spend reductions in the Netherlands as well as lower debt funding cost. I will address these two points on later slides.

In the right-hand graph you can see that the net result for the First Quarter improved to EUR485 million versus a loss of EUR215 million in the First Quarter last year. There are two main items driving this increase, both affecting non-operating result.

Firstly, the current quarter includes a gain on the sale of a large public entity investment in the Netherlands following a public offering. And in the other hand in the First Quarter of 2014 we had EUR541 million negative impact caused by the agreement to make our closed defined benefit pension plan in the Netherlands financially independent.

Before going through the individual operating segments let's first take a look, next slide, at the progress we are making on reducing expenses in the Netherlands.

One of our financial targets is to achieve an absolute reduction of the administrative expenses in Netherlands life, Netherlands non-life and at the corporate and holding entities of EUR200 million by 2016. And we are measuring this against the 2013 cost base.

By targeting an absolute reduction this means that we also have to compensate for cost increases, such as inflation and regulatory cost. So far we have realized total cost savings, as Lard has explained, of EUR164m, of which EUR142 million already in 2014. And an additional EUR22 million in the First Quarter of 2015.

In 2014 the majority of the cost savings were realized in non-life and in the corporate holding segments. As you can see in the chart, the majority of the expenses reductions in the First Quarter this year were achieved in Netherlands life.

I would like to highlight that this was driven by a relatively low level of project cost. We have flagged before that, given the nature of the initiatives at Netherlands life, the related cost savings will be back-end loaded more towards 2016.

Let me turn now to the individual segments, starting, as usual, with Netherlands life, on Slide 10. The operating results of Netherlands life amounted to EUR152 million in the First Quarter of 2015. While this result is broadly stable compared with the same quarter last year, there are a number of positive and negative developments that I want to highlight.

Fees and premium-based revenues remain under pressure mainly because of the runoff of individual life closed book. This is a structural trend that I have already flagged in previous quarters. The technical margin was negatively impacted primarily by a EUR20 million increase to the unit-link guarantee provision this quarter following a decrease in interest rates.

On the other hand the investment margin increased, supported by a large private equity dividend. The strategy of increase in our allocation to higher-yielding assets, as well as the higher invested volumes, also helped to offset the lower investment yields. As you can see in the far-right chart, the investment spread increased to 112 basis points in the First Quarter of this year.

I will now turn to Slide 11 for the results of Netherlands non-life. The operating result for Netherlands non-life was EUR24 million for the First Quarter of 2015, up slightly on the same quarter last year. The results of disability & accident and the results of property & casualty, being the two businesses within non-life, move in opposite directions. So let me deal with them separately.

The operating result in disability & accident increased to EUR28 million as the current quarter benefited from an IBNR update amounting to EUR9m. The combined ratio, as a result, improved accordingly to 92.6%.

The operating result in property & casualty, on the other hand, decreased to a loss of EUR5m, mainly due to large claims in fire for an amount of EUR12m. However, the result on the motor portfolio is improving thanks to the management actions we are taking.

The combined ratio of property & casualty in the First Quarter deteriorated to 106.5%. For non-life as a whole the combined ratio remained flat, at 100.2%.

Moving into insurance Europe, in Page 12, the operating result was lower due to the impact of the pension reforms in Poland and also because investment income in the First Quarter of last year benefited from an early redemption of an RMBS.

These negative pressures were partly offset by higher traditional life insurance premiums and higher performance fees. The lower operating income, combined with higher project expenses, is reflected in a higher cost/income ratio.

New sales were broadly stable in the First Quarter if you exclude currency impacts. However, we are seeing encouraging growth in the sales of life protection products, which is an area in which we are focusing across the region.

Moving now to Japan life, on Slide 13, Japan life reported an operating result of EUR72 million for the First Quarter of 2015, up more than 4% on the First Quarter of 2014 excluding currency effects.

The First Quarter always reflects seasonally-high sales and this, in turn, is visible in premium income and the operating result. The higher operating result compared with the First Quarter last year was largely driven by an increase in fees and premium-based revenues as a result of larger in-force volumes.

Administrative expenses were also down, mainly due to a one-off pension liability release. New sales were broadly at the same level compared with the same quarter in 2014.

I will turn now to Slide 14 and the investment management segment. Total assets under management increased to EUR203 billion at the end of the First Quarter this year, driven by a strong market performance.

Our strategy at investment management is geared to attracting third-party mandates and in the First Quarter this year we saw net inflows in this business of EUR1.3b. There was a net outflow in the property and other affiliates business combined to give a net -- a total net outflow of assets under management of EUR0.5 billion this quarter.

The operating result for the investment management segment decreased to EUR36 million in the First Quarter of 2015 compared with the same period last year. However, please bear in mind that last year's result benefited from a total of EUR10 million in non-recurring items.

While the higher assets under management led to an increase in fee income, administrative expenses also went up as we continue to invest in the business.

The segment other, which comprises the holding company, the reinsurance business and NN Bank, is set out in Slide 15. The total operating result of the segment other improved from a loss of EUR31 million in the First Quarter of 2014 to a loss of EUR20 million in the First Quarter of 2015. Let me go through the various elements impacting these results.

There are two main items impacting the holding company result. Firstly, funding costs were down on last year as we used the proceeds of the undated subordinated debt issued in July 2014 to redeem hybrid debt.

As I have highlighted before, these undated subordinated notes are classified as equity under IFRS and so the interest is not recognized in the profit and loss account. But is taken through equity.

Secondly, investment income was up compared with last year, reflecting the interest income received on the two subordinated loans provided by NN Group to NN life in the first half of 2014.

At the reinsurance business the operating result was down because the First Quarter of 2014 included a strong result related to a specific reinsurance contract which we do not expect to recur.

Finally, the result of NN Bank went down slightly. The bank continues to grow strongly in both mortgages and customer savings, which was reflected in a higher interest result. To support this growth the bank is incurring higher administrative expenses.

I will now move to cover our last segment, Japan closed block VA. Japan closed block VA reported a result before tax of EUR16 million in the First Quarter of 2015, compared with a loss of EUR36 million in the First Quarter of 2014, which included a EUR51 million negative impact of various modeling refinements.

The portfolio continues to run off and the lower number of policies is reflected in lower fees and premium-based revenues. The increase in surrenders means that the processing costs are up.

At the same time we are incurring higher project cost to prepare for the expected large volumes of maturities. The net amount at risk decreased to EUR98 million at the end of the First Quarter, primarily driven by equity markets' appreciation.

With this I complete the results of our operating segments. On the following slides I would like to take you through our cash generation and financial leverage position.

On Slide 17 let me start by repeating our definition of free cash flow at the holding company, which is the change in the cash capital position at the holding company over the relevant period, excluding any capital transaction with shareholders and debt holders.

In the First Quarter of 2015 free cash flow at the holding was EUR229m, which is the sum of the three elements within the box in the chart. As you can see, these were mainly driven by a dividend of EUR350 million from NN life.

As Lard already mentioned, we participated in ING's sell-down of NN Group's shares in February 2015 for an amount of EUR200m, showing in the chart as capital flow to shareholders. On balance, the cash capital position at the holding company remained more or less stable during the First Quarter of 2015, at over EUR1.4b.

Turning to Slide 18, I want to talk you through our financial leverage position. NN Group successfully issued its first senior debt in March this year. The EUR600 million of senior unsecured notes which we placed with investors carry a fixed annual coupon of 1% and have a maturity of seven years.

We used the proceeds to repay EUR400 million of senior debt to ING. The remaining EUR200 million was passed onto NN Bank in the form of operational leverage. Our financial leverage position has, therefore, remained stable at EUR3.7b.

As you can see, both our financial leverage ratio and fixed-cost coverage ratio have improved again this quarter. This was largely driven by the First Quarter results.

And with that I will pass you back to Lard for his final remarks.

Lard Friese {BIO 17008174 <GO>}

I would like to round off on page number 20 -- slide number 20, by saying that we are pleased to report another strong set of results for the First Quarter of 2015. The better operating result was largely driven by the continued progress that we are making to reduce expenses in the Netherlands. And our capital position remains strong.

I'm pleased with our achievements so far. But let's not forget that the environment in which we operate continues to be challenging both in terms of low rates and regulatory pressure. We are therefore fully aware that we have to remain focused on cost discipline and capital management.

We are committed to delivering on our strategic targets. But we will never lose sight of our main objective, which is to provide excellent service and products to our customers.

And with that I would like to complete the presentation and open the call for your questions. We are ready for you. So operator, back to you.

Questions And Answers

Operator

(Operator Instructions) Cor Kluis, Rabobank.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning. Cor Kluis, Rabobank. I've got a few questions, first of all, on solvency. The NN life solvency increased quite strongly, I think, 36percentage points. You mentioned this due credit spreads, equity and interest rates. Can you explain the composition of the 36% rise of solvency ratio spread out, percentage wise, over these three items?

And linked to that, Solvency II ratio, you've not given an update at this moment. That was 200% standard model before the share buyback and before the Q1 earnings. Can you give an idea what the Solvency II ratio standard model is today approximately?

And another question is about capital. You injected EUR65 million cash from the holding into subsidiaries. In which subsidiary have you injected capital, why was that required and is there more to come?

And my last question is about free cash flow generation in general. Last year your free cash flow was EUR450m. Q1 is already much -- on a recurring basis much better.

Can you give an idea what kind of free cash flow you're going for this year, because it's clearly still below par? Can we think about EUR700m, those kind of levels, for 2015? That were my questions.

A - Lard Friese {BIO 17008174 <GO>}

Cor, thank you very much for your questions -- your four questions. I'm handing over to Delfin to answer them for you.

A - Delfin Rueda {BIO 7032761 <GO>}

Cor, a lot of forward-looking questions or expectations going forward. Let me start on the first on solvency.

I will not provide a specific percentage for each of the different elements. But I can confirm that the credit spreads is by far the largest contributor to the improvement in the Solvency I ratio of NN life, followed by the improvement in the revaluation of our equity positions. And, to a lower extent, due to the interest rates -- the decrease in interest rates.

In terms of Solvency II we, indeed, gave the guidance at the end of last year that the standard formula Solvency II ratio was in the range around 200%. We have not provided any specific calculations this time, because we felt that there was not the requirement to provide any different guidance. But you can take some comfort on the fact that the main drivers improving the Solvency I ratio also have a positive impact on Solvency II.

In terms of the capital injections, the EUR65 million is split into -- EUR35 million was invested in Turkey, the unit where we are -- who is a startup. And EUR30 million was in terms of subordinated loans to NN Bank. And in terms of would that continue to be for the future, yes, in limited amounts. As you have seen, that might be the case in the quarters to come.

In terms of the free cash flow generation I concur that the First Quarter has been a strong quarter. Keep in mind also that the Second Quarter tends to have larger dividends particularly coming from insurance Europe. So so far, we expect 2015 to be a good year in terms of free cash flow generation.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Great, thank you.

Operator

David Andrich, Morgan Stanley.

Q - David Andrich {BIO 15414075 <GO>}

Hi. Good morning. It's David Andrich from Morgan Stanley. Thank you for taking my questions. I had two questions on capital.

First of all, in terms of the -- in light of the recent financial stability overview published by the DNB, I guess I was wondering if you could give a bit of indication about how much benefit your Solvency II ratio at Q4 received from the UFRs of the 200% -- how many percentage points were you getting from the UFR impact coming through?

Then, secondly, I was just wondering if you could give a bit more color in terms of any recent developments in the Solvency II discussions particularly around you guys finalizing your submission of your internal model -- or partial internal model. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

So the first question is Delfin and then the second one on the -- I'm going to hand over to Doug. You can also do both, Doug, if you want to. Yes.

A - Doug Caldwell {BIO 17900909 <GO>}

Yes, I think -- on the first question I think we don't -- there's a lot of moving parts to the Solvency II ratio. So we're not prepared to start picking out various pieces of it and putting it together. So I would not expect specific guidance on that.

In terms of the Solvency II discussions and the partial internal model, as we said, we will plan to apply for that. I'd say the -- what are some of the uncertainties? I think the internal model approval process is clearly an uncertainty.

It's the first time insurance companies are going through this process with the regulators. And while we've had good discussions this will continue throughout the year.

There's still discussions on tax treatment. There's still discussions on how certain debts -- debt treatment and just ongoing interpretations. There continue to be need for regulators and companies to interpret the rules. And that continues to take place.

So certainly the uncertainties are lower than they were a year ago. But there's still plenty that remain as we try to move this thing through to the end of the year and be ready for solvency II on January 1, 2016.

Q - David Andrich {BIO 15414075 <GO>}

Okay. Thank you very much.

Operator

William Hawkins, KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hi. Thanks very much. Sorry, my first question sounds a bit like David's. But just back on Solvency II, Doug. Presumably it's a statement that's blindingly obvious that the reason you're going for partial approval is that your ultimate ratio should end up higher than the standard formula number you've published. I just want to confirm that is the case, or if there's just more of a process issue behind what you're doing.

Then secondly, whilst you can't give us the detail, can you just confirm again the areas where you're planning to go for the internal model versus the standard? I'm assuming Dutch life is a big part of it. But if you could just let us know where you're happy with standard and where you want to use internal.

Then on the non-life combined ratio are you generally still happy that you're trending towards the targets you set at the time of the IPO and, therefore, being north of 100% is just more bad luck in the First Quarter? Or are you getting a bit more hesitant on your ability to deliver headline underwriting improvement? Thanks.

A - Lard Friese {BIO 17008174 <GO>}

So William, let me take the non-life question first. This is Lard. Then I'll hand over to Doug on your earlier two questions.

So on the non-life one what we're seeing is that our -- let's say, our disability & accident business line, actually, if you look at the combined ratio there it now stands at roughly 93%. So you can see that over the last years we have performed an improvement program which is a combination of product changes, re-pricing of the book and, let's say, expense reductions to get the expense ratio down.

And you can see that that program -- the implementation of that program has delivered a marked improvement of that business line, although I do need to mention that for this quarter there is a EUR9 million IBNR reserve release in the Group income protection business line that helps to get the 93%. But you can see over the quarters that has really fundamentally improved.

If you look at the motor business line, which I flagged earlier -- in earlier quarters as the -- an area that we want to improve as well, you can see that we were able to see some results of our efforts there which is moving the combined ratio from 11% to 105%, which is also an improvement. So that's another business line where we're really driving the improvement program through.

Then finally you have the fire business line, where indeed we were confronted with a couple of big claims in fire -- in the fire area. And we had some storms in the beginning of the year that has affected the fire business line as well. So that combination of everything is now ending up at a flat 100%, roughly, combined ratio versus last year.

But what I'm trying to say here is that we are committed to driving our combined ratio to our target level of 97% by the end of 2018. And a lot is happening to do that. But indeed we were confronted with some, as you call it, bad-luck situations.

On the other hand, it is our job as a non-life company to do these kinds of things and that's why we're around. So -- and with that I would like to hand over to Doug on your first two questions, William.

A - Doug Caldwell {BIO 17900909 <GO>}

Yes, on the PIM I think there's -- the real magic of the PIM is ultimately the internal model part is just to align your risk management and your capital management in that sense and in that sense simplify the management of the business.

As I noted before, we can't really give any final confirmation or indication of the -- of a ratio under the PIM until we've finished the process, which will be toward the end of this year.

In terms of the where we're applying -- or where we're considering to apply for an internal model as part of the partial, we can say more on that. In general we are looking to have a fairly complete internal model for the Dutch businesses, including ING Re. And to use the standard model for the international businesses. We think that's the best way to go forward at this time.

Q - William Hawkins {BIO 1822411 <GO>}

And sorry, the international business, that includes Japan as well, yes?

A - Doug Caldwell {BIO 17900909 <GO>}

Yes, Japan would not be on an internal model.

Q - William Hawkins {BIO 1822411 <GO>}

Yes, okay. Thank you very much.

Operator

Matthias De Wit, KBC Securities.

Q - Matthias De Wit {BIO 15856815 <GO>}

Yes. Good morning. Two questions, one on cash flow and one on capital, please. The first one is on the -- yes, the Dutch business. You're close to 300% solvency. Just wondering whether this will -- this should allow for further up streams of capital to the holding company in 2015?

And also on the Japanese VA business I notice that the IFRS reserves are down 50% and I think that these reserves are a sort of proxy for the capital requirement. So just wondering whether you could release some additional capital from ING Re tied up to these reserves. And if you could quantify this would be also be helpful.

Then on the capital just wondering whether you could provide your view on whether or not there is any distributable excess capital at the holding company level at this point in time?

Last quarter you mentioned that Solvency II remains uncertain. But that these uncertainties are not that important that they would prevent additional distributions to shareholders. So just if you could update your view in that respect that would be helpful. Thanks.

A - Lard Friese {BIO 17008174 <GO>}

So Matthias, thank you. Yes, Delfin, would you be so kind?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. So three questions here. The first one on the solvency of NN Life, which is strong. And as a consequence should maintain or allow some capital distribution from NN Life as we move forward. Obviously, every decision will be taken at any particular point of time.

In terms of the IFRS, yes, indeed the number of policies and the amount at risk (and the) reserves are down. In terms of the capital that we hold against this, this is measured based on our economic capital and, indeed, as the runoff of the portfolio continues its path that will gradually allow us to release capital and eventually to distribute it up to the holding.

In terms of the holding cash capital, as mentioned during the presentation, that level is more or less stable when compared with the situation at year end. We do expect further dividends coming over the quarters and we'll take the decisions in terms of dividends or buybacks as the opportunity comes going forward.

Of course, to confirm once more that the level of capitalization remains strong and that gives us financial flexibility.

Q - Matthias De Wit {BIO 15856815 <GO>}

Okay. And just in terms of timing of dividends from the units you mention that Q2 you would expect from Insurance Europe, is that the only entity which is expected to up stream, or --?

A - Delfin Rueda {BIO 7032761 <GO>}

No. What I commented is that the dividends from Insurance Europe tend to come in the Second Quarter. But that does exclude dividends from other units, nor that dividends might come from some of the operations outside of the Second Quarter. It's just a bit of concentration on dividends in the quarter, that's all.

Q - Matthias De Wit {BIO 15856815 <GO>}

Okay. Thank you.

Operator

Farooq Hanif, Citigroup.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thank you. So much. I'd just like to come back on Matthias' question actually on cash flow release. You told us what we already know, in a way. So apologies. But it seems that the surrender rate and the reserve rate in Japan CBVA is just accelerating faster than we thought.

So does that not suggest an earlier repayment of the EUR900 million of capital all together from that business? So if you could just comment a little bit more on that.

And secondly, going back to the UFR, has the DNB asked you to recalculate your model submission without UFR? Is that a formal request from the DNB?

And finally, going to the investment management business, the cost/income ratio is up. How much is that is one-off in nature? Or should we assume that the absolute cost level remains at the current level? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Okay. So let's first -- thanks, Farooq. So let's make sure we answer your questions. So on the cash release, Japan CBVA. So Doug. And then I think on the UFR question and the cost income ratio, Delfin.

A - Doug Caldwell {BIO 17900909 <GO>}

Yes, on the VA, maybe just to be a little bit more specific on what the reserve reduction means, it doesn't mean very much to cash release. What's important when you look at the VA book is the capital, not the reserve. And the hedge results which we disclose to you in our regular reports. Those two release.

Effectively you can think of the reserves are going up and down also with our hedges. So reserves going up or down per se doesn't say a lot. What matters is the runoff by policy and the hedge results. That's the best thing to track.

A - Lard Friese {BIO 17008174 <GO>}

Okay, Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Sorry, the microphone was off. So to cover your last two questions, in terms of the UFR what DNB has actually done is that they have stated in a policy paper that very low rates have made the UFR a more significant influence on solvency ratios, which of course is true and everyone agrees to it. And also they have added that they would like this to be taken into account in dividend decisions.

And obviously we take all information into account when assessing our financial position and making dividend decisions, including of course the impact of the UFR from year 20. But also other known factors there that affect our current and future capital generation.

So we are, as I said before, comfortable with our financial position and flexibility and, obviously, we monitor what is our current and future capital generation following the existing regulatory regime.

Then in terms of the question on the expenses for investment management, particularly when you compare it with the First Quarter of last year you need to take into account that then were two non-recurrent items, if I may call them like this.

One was having a positive impact of EUR5 million in the revenues and the other was due to release of employee variable pay that was EUR5m. So there was a EUR10 million non-recurrent.

And during this First Quarter, as mentioned in the press release, investment management has continued to invest in their capabilities and some of that will continue going forward.

Q - Farooq Hanif {BIO 4780978 <GO>}

So the -- obviously there are -- I think the rebranding costs are not shown in the operating line. I'm not sure if they are. But excluding that you think that the 1Q number is (the) run rate?

A - Delfin Rueda {BIO 7032761 <GO>}

I would not highlight any particular non-recurrent in the cost of investment management and, indeed, the branding expenses for investment management and all other segments are reflected within special items and, as mentioned before, that amounted to EUR20m.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, that's very clear. Thank you.

Operator

Richard Burden, Credit Suisse.

Q - Richard Burden {BIO 1809244 <GO>}

It's actually okay. All of my questions have been answered already. Thanks.

Operator

Guilhem Horvath, Exane BNP Paribas.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes. Good morning all. Two questions from my side. I will take my colleague's questions on the other side. You seem to be quite confident on your solvency position in NN Life. My question is, given the DNB position on the UFR, do you think that the cash remittance you can remit to the holding is actually sustainable going forward?

And do you see a risk of the regulator in telling you guys, well, you can't remit that amount of cash? Basically, is the EUR350 million something sustainable in the future as the regulator has (brought) some issues in some of your competitors' cash circulation?

And the second one is on Insurance Europe. You seem to be selling quite a bit more protection products there, which is in my -- from my point of view is pretty good news. Is there any country of specific focus for this type of shift? Which countries are the most contributing to the shift? And yes, that would be questions. Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Thank you very much, Guilhem. So let me talk first about Insurance Europe and then Delfin will take your question on solvency in NN Life.

Already for quite a while in Insurance Europe we're moving the product mix away from traditional guaranteed products so you can -- and moving more to protection products. That has been, let's say, something that we've willfully executed over the last years.

And you can see that this year in this quarter our new sales were up in Insurance Europe protection products 17% -- sorry, 17% in 2014 and 40% in this quarter. However, there was one big contract in Spain that contributed to this marked 40% increase on protection product sales this quarter. If you exclude that one big contract it's still an 11% uptick.

And basically it's something that -- if I look at the various countries it's in -- it's across the board basically where you see a movement towards protection sales. And I would --

I think that if I look at the total APE for Insurance Europe now roughly 70% to 80% of that APE is actually coming from protection sales. So it's an area that we've focused on and that we've done over the last years and that you can see the results coming through now.

With that point let me just hand over to Delfin.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Maybe just (if I could) follow-up on this one. Just a follow-up, please.

A - Lard Friese {BIO 17008174 <GO>}

Yes.

Q - Guilhem Horvath {BIO 18460437 <GO>}

What's the situation in Poland now following the change in Group pensions last year? And what's your strategy here?

A - Lard Friese {BIO 17008174 <GO>}

Yes. So in Poland we saw the full effect in this quarter of the pension reform coming through. You may recall that last year it was -- the pension reform impact was starting in March, while this year we have the full three months in the quarter being affected by that impact. So that's one thing.

What we've done there strategically is that if you look at the new sales it's -- the pension sales are really very small. It's really focused at protection products sales. And that's what we see in Poland.

Q - Guilhem Horvath {BIO 18460437 <GO>}

(Multiple speakers).

A - Lard Friese {BIO 17008174 <GO>}

So with that I would like to hand over now to Delfin on the solvency question.

A - Delfin Rueda {BIO 7032761 <GO>}

Guilhem, on -- in terms of the UFR, which, as you know, is not something new, it has been in place since June 2012. What we are doing is considering for the distribution of dividends in NN Life or any other subsidiary, what is the expectations in terms of capital generation going forward in addition to what has been the capital generation over the period of time.

So on that sense when we did our IPO we made a statement that we felt comfortable with the level of solvency of NN Life. Since then, thanks to the evolution of the market, that situation has improved. And as a consequence I would not read anything negative on the comments on UFR in relationship to our capacity of distributing dividends from NN Life.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Well thanks, that was very clear. Thanks.

Operator

Farquhar Murray, Autonomous.

Q - Farquhar Murray {BIO 15345435 <GO>}

Morning, gentlemen. Just two questions, if I may, both on the ECJ judgment. There seems to be a relatively wide gulf of opinion over -- about judgment and, in particular, both sides claiming vindication. The judgment clearly states that open unwritten rules can now be applied. But does clearly qualify that they must be clear, accurate and, as you say, foreseeable.

NN seems to be lending particular weight to those references to clear and accurate and foreseeable. And I just wondered if you could explain your understanding of what that would legally entail, i.e., in terms of, say, burden of proof around them within a Dutch court, given your view that it affirms your position.

Then as a follow on could you just clarify the legal status of the preliminary judgment from the Advocate General at the ECJ, because that document was obviously more extensive and somewhat more critical of the information provided to policyholders?

In particular I'm just trying to understand whether that document would be outside the scope of what the Dutch courts can look at. Presumably they can only look at the final judgment. Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you very much, Farquhar. So first on the last piece, the Advocate General opinion does not have a separate legal status. So it is a part of a proceeding in which multiple parties in that proceeding give their views, or are asked by the European Court of Justice to give their views. And one of those parties is the Advocate General.

And of course the Advocate General's opinion is an important opinion (that) the ECJ. So that court needs to take into account. But it does not have a specific legal status. So that's the first point I'd like to make.

Q - Farquhar Murray {BIO 15345435 <GO>}

(Multiple speakers). So as follow on to that, can they actually -- can the Dutch court look at that document, though, given it's part of the process?

A - Lard Friese {BIO 17008174 <GO>}

Yes. But it's been public and clear, it's there. So it's something that they can look into and it's well known. But it doesn't have a legal status. The European Court of Justice has made the ruling and they've taken the opinions of all the parties into account, including the opinion of the Advocate General.

They need to take -- the European courts need to take the ruling of the ECJ into account.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay.

A - Lard Friese {BIO 17008174 <GO>}

I think that's the important thing.

Q - Farquhar Murray {BIO 15345435 <GO>}

Sorry for interrupting.

A - Lard Friese {BIO 17008174 <GO>}

They need to take into account the ruling of the Court of Justice itself.

Now, on that Court of Justice ruling, the following. The Court of Justice has said that the Member State can place additional information requirements in national law. But they need to be clear, accurate and foreseeable. Now, we -- this affirms the position that we are taking on this -- on these points.

And why we think that is important is that if you -- in some legal cases in individual legal proceedings in the Netherlands sometimes they are based on -- things are put forward that are based on, let's say, general principles of law, like in open norms like, for example, reasonable and fairness.

What we -- our opinion is that that is not clear, it is not precise and it is not foreseeable. And as a result according to our opinion these open norms cannot form a basis for placing additional requirements on insurance companies, as they are not clear, not precise and not foreseeable for us.

Now -- that now -- the ECJ judgment affirms our opinion on that in our view and now it's up to the Dutch courts in individual legal proceedings to take this into account. And we'll have to await how they deal with that interpretation of the European Court of Justice.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

And we need to await the outcome of that in individual proceedings.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thanks. And sorry for interrupting earlier.

A - Lard Friese {BIO 17008174 <GO>}

Okay, Farquhar. So let's move on.

Operator

Benoit Petrarque, Kepler.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes. Good morning. Thanks for taking my questions. To come back on these legal updates, my understanding is that the information disclosed need to be clear, accurate and necessary. But this is for the policyholders. This is -- clearly, the information should be clear and accurate for the policyholders, not -- nothing to do with NN there.

And I think they only mention that it should be foreseeable for the insurance, obviously. However, they describe that given the complexity of the product it was up to the insurance to make -- well, decide whether they had to disclose something. So I'm a bit confused, actually, because it looks like the decision is much more negative for NN than you actually mention now. That's the first thing.

The second thing will be on your dividend and capital distribution going forward. Now that we've got this European Court of Justice decision are you going to be maybe await a local court to take their own view before being maybe more vocal on additional capital distribution, as you have very good capital ratios now?

Then finally, on the Dutch margins, again, you have private equity gains. I just wanted to talk about it. On the clean basis it looks like it was 96 bps and that was down year on year. So what is your view on the underlying investment margin, again clean, for all the private equity gains? And are you going to book again private equity gains going forward? Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Yes. So first, Benoit, I will take the first two points and then I will ask Delfin to take the point of the investment margin. So first, okay, once more on the ECJ ruling, it is about the requirements.

So according to the ruling also the legal basis for additional information requirements in national law must be such that in accordance with the principle of legal certainty it enables insurance companies to identify with sufficient foreseeability what additional information they must provide and which the policyholder may expect. So I think we are -- yes, we -- therefore, I maintain and we maintain our opinion that I expressed earlier on the question that was raised earlier on this.

When it comes to the impact of this file with respect to capital distribution, we assess -- as you know, we assess whether we have at a certain point in time surplus capital. We assess that by taking many things into account.

We take into account the cash generation that we see, the cash generation that we expect moving forward, the situation on the financial markets, the various risks that the Company is exposed to, the existing solvency positions and the uncertainties that we need to deal with.

And one of these uncertainties is the migration from the current solvency framework to the new Solvency II framework, which is still not fully embedded and clear.

And the second -- and another element that we take into account is uncertainty with respect to the outcome of, let's say, the unit-linked filed, which over time can -- we've always maintained the view that we cannot reliably estimate what that item can be. But it may be substantial.

So that is another thing that we will take into account, along many other components that we take into account when assessing the capital position of the Company and making decisions on capital distribution.

So with that on the investment margin, Delfin.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. In terms of investment margin, of course, dividends from equity is an important element of the investment margin. In this quarter it was relatively high, particularly coming from some dividends from private equity. So one should not obviously estimate that that will be recurrent going forward of course.

We have mentioned already in previous calls that the low interest rate environment is obviously putting pressure on our investment yields. And that's something that we have tried to compensate so far, investing in mortgages and trying to invest in infrastructure loans and higher-yielding assets.

But even in those the investment return is coming down. So there is going forward maybe some pressure on the investment margin that we have not seen so far. But it depends for how long the interest rates will stay low.

One aspect maybe to take into account is that somehow when the interest rates are low we benefit, as you have seen over the last quarters through our investment management business as assets under management and fees increases with the low interest rates.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Great, thank you very much.

Operator

(Operator Instructions) Frank Kopfinger, Commerzbank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good morning, everybody. I have two questions. My first question is coming back to the closed block VA business. It looks that the runoff is going faster. How are your feelings there? Do you stick to your guidance of having runoff 90% until the end of 2019? Or is there a chance that this could be really faster?

And my second question is on the technical margin in Netherlands life. There the technical margin had been affected negatively by a EUR20 million hit for higher provisions on the unit-linked business. How should we think there going forward?

So do you have any sort of sensitivity if, let's say, the interest rates stay at that level so you don't have to further strengthen the reserves there? Or is this is a continuous process which will continuously be negatively affected through higher provisions for the unit-linked business? Then, on the other side, is there a chance that you even release reserves if interest rates go up?

A - Lard Friese {BIO 17008174 <GO>}

So thank you very much, Frank. We will -- so, Doug, can you take care of Japan CBVA? Then the technical margin, Delfin. So first the Japan CBVA question.

A - Doug Caldwell {BIO 17900909 <GO>}

Yes. I think when we say it's going to runoff over 90% by the end of 2019, that's already a pretty high number. Whether it becomes 91% or 95% is going to depend mostly on the markets.

What's happening now is the markets are very buoyant, the customers' account values are much higher than they were a couple of years ago and they're very close or above their guarantees and so it becomes an attractive time. And definitely when that happens the surrenders go faster than when the account values are further down.

That's what happening now. As we've seen, that can -- markets can change, that can change. But that is running off. And if markets stay where they are the block will probably run off a little faster. But still over 90% by the end of 2019 is a pretty big number.

You would not expect that to move to, say, 2018 because just the nature of the block of business. So it's all marginal, I guess, versus that benchmark.

A - Lard Friese {BIO 17008174 <GO>}

Delfin.

A - Delfin Rueda {BIO 7032761 <GO>}

Frank, in terms of the unit-linked guarantee provision, if interest rate stays at the same level then there is no movement up or down. Basically, these relate to the guarantees provided to unit-link. So as interest rates come down the value of the liabilities increases. That's what has happened over the quarter, with a negative impact of EUR20m.

Keep in mind that there is, if you like, a little bit of accounting symmetry here in the sense that the impact on the increase in the liabilities is obviously reflected through the technical margin in our profit and loss account.

However, any appreciation on the general account assets move through the revaluation reserve in shareholders' equity and, as a consequence, you don't see that impacting equally on the operating result.

Q - Frank Kopfinger {BIO 16342277 <GO>}

And just in theory if interest rates go up you are able to release the reserves?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. Indeed. So if interest rates goes up then you will have that impact in the technical margin. The reserves will be released.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thanks.

Operator

Steven Haywood, HSBC.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Just one question. Because your dividend payout ratio is 40% to 50%, because you're targeting to return surplus cash to shareholders over time. And also that your net cash generation will be roughly equal to your net operating result, are you in any way restrained on paying out greater than 100% of net profits to shareholders?

I believe that you might have to ask the regulator if you want to payout more than 100% of earnings in one year. Is that true?

A - Lard Friese {BIO 17008174 <GO>}

So Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. There is no particular legal or regulatory constraint about paying below or above the net earnings of the year. And I think that was the core of your question. So there is no restriction.

Q - Steven Haywood {BIO 15743259 <GO>}

So yes. And as time goes on, obviously, you're generating as much cash as your operating result then you can pay all of that out to shareholders. Is that correct?

A - Delfin Rueda {BIO 7032761 <GO>}

That's the guidance that we provided at the time of the IPO and is indeed the way that we manage the Company towards. Obviously, we also indicated that the surplus capital is above any opportunity to reinvest that cash generated within the Company.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you very much.

Operator

Okay, Mr. Friese, these were all the questions for today. So over to you.

FINAL

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A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you, operator. So with that I would like to thank all of the analysts' panel for their questions and for your time.

Again, I would like to repeat that we are pleased with -- to report another strong set of results for the First Quarter of 2015. But we also know that we are operating in an environment which continues to be challenging both in terms of low rates and regulatory pressure.

So we're fully aware that we have to remain focused on cost discipline and capital management. And we are committed to delivering on our strategic targets. But will not lose sight of the fact that we have a main objective, which is to provide an excellent service and products to our customers.

So thank you very much for your attendance and have a good day.