NN Group NV Conference Call to Discuss Its Recommended Transaction with Delta Lloyd

Company Participants

- Clifford Abrahams, CFO
- Delfin Rueda, CFO
- Hans van der Noordaa, CEO
- Lard Friese, CEO

Other Participants

- Arjan van Veen, Analyst
- Bart Horsten, Analyst
- Benoit Petrarque, Analyst
- Cor Kluis, Analyst
- Darshan Mistry, Analyst
- Matthias de Wit, Analyst
- Robin van den Broek, Analyst
- Stephane Suchet, Analyst
- Steven Haywood, Analyst
- Unidentified Participant, Analyst
- William Hawkins, Analyst
- William Wade, Analyst

Presentation

Operator

The conference is now being recorded.

Lard Friese {BIO 17008174 <GO>}

Yes. Thank you. Good morning, everyone and thank you for joining this call. My name is Lard Friese and I'm CEO of NN Group. And I am joined by Hans van der Noordaa, CEO of Delta Lloyd Group, by Delfin Rueda, CFO of NN Group and Clifford Abrahams, CFO of Delta Lloyd Group.

We are pleased to announce today that we have agreed with the boards of Delta Lloyd a recommended transaction at EUR5.40 per share for all the outstanding ordinary shares of Delta Lloyd. This comes after substantive and extensive discussions between our two companies in recent weeks, including targeted due diligence.

We have agreed a merger protocol and the main components of that protocol are contained in the press release that we issued this morning. This is a very important event for both NN Group and Delta Lloyd. We are bringing together two leading firms in the Benelux insurance and asset management industry. The combination will be a stronger group, better placed to provide our customers with the products and services they need.

It represents an acceleration of our strategy and brings additional scale to our Dutch businesses, creates a sustainable Belgian platform and adds around EUR60 billion of assets to the asset manager. We are excited to combine the two companies and welcome Delta Lloyd staff as we will work together in building a sustainable, profitable business for the future.

We anticipate that the combined business will be able to materially increase the free cash available to shareholders, thanks largely to the greater efficiency that the combination brings. We anticipate a double-digit increase in dividends per share for 2018 and onwards. We of course recognize that execution is key. And we have confidence that we will deliver as these are, after all, markets and businesses that we know well.

We also know it will not be easy and will require significant effort from both NN and Delta Lloyd staff. So as to build a company with a culture and the outlook that we are seeking. Finally, our balance sheet will remain strong. We estimate that the Third Quarter 2016 Solvency II ratio of the combination after capital synergies and actuarial adjustments, is approximately 185%. And the cash capital position of the holding company is in a range between EUR1 billion to EUR1.5 billion.

Maintaining a robust balance sheet is one of our priorities and we remain prudent in this transaction as well. So let's turn to slide number 3.

In terms of the details of the recommended transaction, it will be an all-cash offer at a share price of EUR5.40 per ordinary share for all issued and outstanding ordinary shares of Delta Lloyd. It represents a significant premium on Delta Lloyd's share price prior to our first announcement on October 5 of this year.

The transaction secures our leadership position in the Netherlands and accelerates our investment proposition by adding scale in Belgium, banking and asset management. The combination will facilitate a drive for further efficiency. And as a result we anticipate annual cost synergies of approximately EUR150 million pre-tax by 2020.

We do expect there will be some initial capital synergies but also a meaningful negative impact of aligning actuarial assumptions. The intention is to fund the transaction by deployment of EUR1.4 billion of excess cash and approximately EUR1.1 billion of debt financing.

The transaction is anticipated to generate a return on interment of around 10% and a material increase in free cash available to shareholders over time. This is expected to translate into double-digit accretion and dividend per share for 2018 and onwards.

I will now hand over to you, Hans van der Noordaa, CEO of Delta Lloyd.

Hans van der Noordaa {BIO 3144479 <GO>}

Thank you, Lard, for your introduction. We see today's announcement as a new chapter in Delta Lloyd's more than 200-year history now as part of NN. It's good that today the uncertainty around our Company's future has come to an end.

After extensive analysis of different alternatives, we made a clear decision that this is in the long-term interest of our stakeholders, offering immediate value to our shareholders. This announcement follows constructive interactions between the boards and the management teams of both companies, including a period of due diligence.

The offer provides a certain cash premium for our shareholders and also a secure future for our policyholders. Delta Lloyd is a highly client-focused organization with excellent market position, with strong brands and multi-channel propositions for our 4.2 million customers, which will contribute strongly to the combined Company.

I am proud of how the management and employees of Delta Lloyd have worked together over the last years to improve the operations and the capital position of the Company. We have been making good progress towards our goals. The boards have also recognized the risk to achievement of those goals which exists particularly given the ongoing evolution of Solvency II and the competitive market that's on the verge of consolidation.

We both believe that there is clear logic to bring consolidation to the Dutch market through a combination of our businesses in a way that provides benefits for both companies and our stakeholders. The combination of Delta Lloyd and the Dutch and Belgian activities of NN Group will be a leading player in the Dutch insurance and asset management market, with a strong earnings potential which will benefit from economies of scale and significant free cash flow. And offers a range of attractive products and services to our customers. And leading to shareholder return.

The combination of NN Group and Delta Lloyd will shape the future of pensions, insurance and asset management in the Netherlands and Belgium. Back to you, Lard.

Lard Friese {BIO 17008174 <GO>}

Thanks, Hans. In terms of next steps, which is on the next slide, on slide number 5, we will file the draft offer memorandum with the AFM no later than December 28, with a final filing probably in January 2017. And we will then work through the standard tender offer period of 10 weeks.

So let me now take you through the strategic merits of the transaction, starting at slide number 7.

The transaction with Delta Lloyd brings significant strategic benefits to NN Group and will create a business with more capabilities and a business that is better positioned to capture market opportunities. And will deliver a more sustainable financial return for our shareholders.

It also enables us to provide better products and services to our customers. We will create a leading provider of pension products within the Dutch market, the second-largest non-life provider. And a sustainable Belgium business which will now be a large market for the Group.

We will bring more scale to asset management and banking. And we will bring some additional capabilities that we think will be valuable to the Group, including strong digital capabilities and an additional bank distribution channel.

Let's go to slide number 8. Delta Lloyd brings to NN Group some very strong and attractive capabilities. The OHRA brand and platform, for example, is a leader in digitalization and direct distribution. The ABN AMRO joint venture will give us access to a valuable and successful bancassurance channel.

We anticipate that the continued distribution of health insurance will supplement our retail strategy in the Netherlands and will be a potential source of revenue synergies going forward.

So let's turn to slide nine on the Dutch market. Of course, one of the major drivers of the transaction is to bring additional scale to the Dutch pension and non-life businesses. We have noted for some time that the Dutch pension market is moving towards defined contribution. This brings significant opportunity and a need for scale. The combination of NN Group and Delta Lloyd is well placed to capitalize on these opportunities.

In addition, both companies have large in-force blocks of business which are increasingly paid up. Merging our businesses will help to run these books more efficiently. In non-life, Delta Lloyd and NN run similarly sized businesses and the combination will be highly complementary. We believe that the added scale, presence and underwriting capabilities of the combination will enable us to drive material improvements in the combined ratio.

Let's look now at the Belgium, banking and asset management businesses on slide number 10. In Belgium, we will create the number 4 in the market, with an 8% market share. We will combine a largely bancassurance business from NN Group with a largely broker business from Delta Lloyd.

Belgium will become a material market for NN Group and a platform for further profitable growth going forward. Our asset management will further increase its assets under management at marginal cost in an industry where scale is becoming more important. In the combined bank, we'll have a combined market share of 8.5% in new mortgage production.

Let's turn to slide 12 on the balance sheet and Solvency position. We estimate that he pro-forma Third Quarter 2016 Solvency II ratio of the combination will be 189%. This is calculated as the NN Group position plus the Delta Lloyd position, adjusting for the price paid, the reversal of the EUR333 million deduction of the share buyback and the removal of eligibility constraints on the Delta Lloyd side.

From this Third Quarter figure, we do anticipate a number of adjustments to be made, leading to a small decrease in the Solvency II ratio. First of all, we expect some initial SCR reduction due to diversification between NN and Delta Lloyd.

And we also believe, on the basis of our due diligence, that there will be some alignment of actuarial assumptions with meaningful negative impacts on owned funds. This is on items such as longevity best estimate and unit cost assumptions. However, in the overall context, we still see the combined Solvency II ratio being approximately 185%. And this is of course before any operating return, market movements, dividend payments, refinancing of hybrids and other movements on the Solvency II ratio until closing.

So let's look at the funding on slide 13. With respect of financing of the deal, it is an all-cash offer which will be funded through a combination of existing cash resources and new debt. Our base case is that we will raise senior debt.

Looking forward, we anticipate that we will need to operate at the top end of our EUR0.5 billion to EUR1.5 billion cash capital target range during the initial stages of the acquisition. Our financial leverage and fixed-cost coverage will remain consistent with our single A financial strength rating target, albeit at the top end of our internal appetite levels initially.

So let's turn now to slide 15. We're targeting pre-tax cost synergies of EUR150 million by 2020. This is over and above standalone cost-saving plans of both NN and Delta Lloyd. We see multiple areas of overlap that over time should allow for greater efficiency. And we will come back at a later date with more insight into our cost targets, including the restructuring charge associated with realizing these.

I will now turn to slide number 16. The transaction will significantly improve our generation of free cash available to shareholders. We believe that over time, as capital is built in the legal entities, we could generate additional free cash flows to our shareholders in the range of EUR250 million to EUR300 million. This is expected to translate into a double-digit increase in the dividend per share for 2018 and onwards. And we believe that the deal will generate a return of interment for our shareholders of around 10%.

So let's move now to slide number 18. We believe the transaction is financially and strategically compelling and fully consistent with our investment proposition. And in fact will accelerate it. Strategically this transaction secures our leadership position in the Netherlands and accelerates our investment proposition by adding scale in Belgium, banking and asset management.

Our balance sheet will remain robust and our free cash available to shareholders will significantly increase. Our dividend policy will remain unchanged, which means that the free cash available to shareholders will continue to be paid out through ordinary dividends and excess capital returns over time, unless other value-creating opportunities can be found.

So let me now wrap up on slide number 19. We are pleased that today we announced a recommended transaction at EUR5.40 per share, which we believe to be financially and strategically compelling. And beneficial as it significantly increases our cash flow and dividend per share. And enhances our position in the Benelux.

By next week, Wednesday, December 28, we will file a draft offer memorandum with the AFM. And we will announce the launch of our offer within six business days after obtaining AFM approval.

With that, I would like now to open the call for your questions. And can I kindly request you to limit the number of questions to two per person. So that everybody gets a chance to speak.

Now of course feel free to come back with a second round of questions if they have not yet been dealt with.

So operator, let's start the Q&A session.

Questions And Answers

Operator

(Operator Instructions) Benoit Petrarque, Kepler.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes. Good morning everybody. Two questions on my side. I was just thinking about the Solvency II ratio. So 189%. NN never actually disclosed the minimum level you were looking for. I think Delta had a minimum level in mind.

But with the combined entity now, which type of Solvency II ratio level are you aiming for? Which level are you thinking you are over-capitalized and you might actually start to pay excess capital? That's first question.

Second question is about the Q4 movement. I think Delta Lloyd sees a negative from LAC DT, also from longevity development, longevity hedge as well. How much impact will that have on the combined Solvency II ratio?

Then maybe just finally on the ABN AMRO joint venture. There's a change of control clause. So will you keep ABN? Did you agree something with ABN there? I think it will be useful to get an update on that. Thank you very much.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Benoit, thank you for your questions. Let's take them one by one. So the first question will be answered by Delfin, the second question will be answered by Clifford. Then I'll take the JV on ABN AMRO later. Yes? So first, Delfin, over to you.

A - Delfin Rueda {BIO 7032761 <GO>}

Okay. Thank you very much, Benoit. So your first question about the Solvency II target, we have mentioned in the presentation that we are not changing our capital management approach nor our dividend policy. So we're targeting to have cash capital upholding between EUR0.5 billion and EUR1.5 billion. But obviously with the integration of Delta Lloyd, we aim to be in the larger -- in the upper bound of that range.

So no change there in terms of capital management approach, nor in terms of dividend policy. In terms of the impact that Delta Lloyd has flagged, I will check if Clifford has anything to add. But I think it is overall expected to be stable.

A - Clifford Abrahams {BIO 7425676 <GO>}

Yes. That's correct, Delfin. We've commented -- we thought it was helpful to comment on some of the positive developments during Q4 but also highlight the negatives. Given Delfin's figures are based on the Q3 pro forma, I think you can take comfort that there's not a material impact from Delta Lloyd on the combined pro forma at a later date.

A - Lard Friese {BIO 17008174 <GO>}

Then finally on the JV, we believe that the joint venture between Delta Lloyd and ABN AMRO is a very strong proposition for customers. It's a business that they have built over a long time and we look at that as a very attractive part of the overall Delta Lloyd Group.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Okay. Thank you very much.

Operator

William Hawkins, KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, gentlemen, thank you. Can you just be slightly clear about how you've calculated the 10% return on investment, with regards to what exactly your assessment is of Delta Lloyd? Are you taking their previous Solvency II capital generation figure, the EUR200 million to EUR250 million? Or is it something else? If you can just help me understand what you're actually defining as the underlying return there?

Then secondly, can you give us any thought about what you're doing with regards to IFRS earnings? Presumably Delta Lloyd will be restated onto an NN Group basis. Do you have any idea of what Delta Lloyd would look like if you were applying NN's approach for IFRS? I presume that's going to be important for public disclosure at some point. Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Yes, William. Good morning. Delfin, over to you.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, William. So the first question is relatively straightforward. So we are basically looking at it only from our perspective, what is the marginal contribution of the acquisition. So this is the expected return, obviously, from the perspective of NN Group.

So we have taken into account the cost synergies that were mentioned, the EUR150 million pre-tax, approximately EUR110 million after tax. And we have looked at what is the capital generation of Delta Lloyd on a standalone basis as well as the additional free cash flow that the transaction will bring, taking this into account to the combined NN Group.

So when you look at it with price paid of EUR2.5 billion, that's how we come to the calculation of 10% return on investment. Obviously this transaction has allowed us to put a significant amount of excess capital to work as you have seen to good returns.

When you look at the IFRS earnings, that is much more complicated, because indeed, as you anticipate, the accounting from both entities are very different. And I think that here the important element to say is that we indeed expect an increase on the free cash flow. And as a consequence, dividend per share to go up substantially.

But it's too early to estimate the exact impact on Delta Lloyd's or on NN's IFRS earnings. We will obviously provide that additional information at the appropriate time.

Q - William Hawkins {BIO 1822411 <GO>}

I'll come back with some others later. Thanks guys, thank you.

Operator

Arjan van Veen, UBS.

Q - Arjan van Veen {BIO 5197778 <GO>}

(Technical difficulty) capital synergies, other than the moving Delta Lloyd (inaudible). Can you give a bit of color around what else may be available over time?

And secondly, related to that, when you combine particularly the two Netherlands life entities together, do you need to make any changes at Delta Lloyd to bring it in line with how you would run it from a risk control side? Closer matching or changes in the asset side, et cetera? Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

Thank you very much, Arjan. So in terms of the initial capital synergies, this related to mainly diversification benefits having an impact on the Solvency capital requirement. Later, over time, we do expect and we see potential further capital synergies. For example, merging legal entities which again will lead to lower risk margin. And also capitalizing the effect of lower unit cost assumptions.

So indeed, you mentioned it yourself, good and important benefit will be the transition of Delta Lloyd to our partial internal model, over time. And at the same time, as has been indicated by Delta Lloyd in the past, there will be the negative effect of removing the longevity hedge benefit, which will come together with a partial internal model. So one could compensate the effect of the other.

Q - Arjan van Veen {BIO 5197778 <GO>}

Sorry, Delfin, just to be clear, the current assumptions is all on current cost run rate? So any improvement from here will come through later?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. When we talk about the capital synergies that we expect to come later on. We obviously do anticipate that as the cost savings are going to materialize, this will have an impact into the capitalization of this lower unit cost. And as a consequence, they are not reflected in the combined pro-forma graphs that are shown in page 12. But this is an important benefit that will come over time.

Q - Arjan van Veen {BIO 5197778 <GO>}

Okay.

A - Delfin Rueda {BIO 7032761 <GO>}

And in terms of the risk framework or control, I think it's obvious that we'll have an integrated single risk approach. And that's something that we seek to reach in the short term.

Q - Arjan van Veen {BIO 5197778 <GO>}

Can I also just follow up on that, Delfin, on the second point. Just when you look at the two entities, is there anything potentially negative that you may need to adjust for which may have an impact? Either on earnings or on capital position, from bringing them into your risk control framework?

A - Delfin Rueda {BIO 7032761 <GO>}

Well I think we have mentioned. And you have that in slide 12, that there are some positives or negatives that we do expect at moment 1, or soon after the acquisition. And there we have mentioned that in the one hand, actions that have already been taken by Delta Lloyd in terms of closing the ALM gap, that's going to be beneficial.

Also, the capital synergies that we have just mentioned a moment ago, in relationship to the diversification benefits, that's something that will come. But we also have flagged that there will be some negative impact due to the alignment of actuarial assumptions in order to accommodate to the NN Group ownership.

And this, as Lard mentioned in this presentation, relates mainly to longevity best estimate reserving methodology and also in the unit cost assumptions. But important to highlight that these adjustments will come to, we estimate, a pro-forma level of around 185% pro forma. So for 3Q. Obviously, there are some uncertainties in order to come to the actual number.

Q - Arjan van Veen {BIO 5197778 <GO>}

Thank you.

Operator

Matthias de Wit, KBC Securities.

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

Yes. Thank you. I have two questions. The first is on the dividends in 2017. I think you only made a comment for 2018. But just wonder if there is anything you could say on the dividends you would expect to pay for 2017?

And with regard to the dividend policy, I think you mentioned that you stick to your guidance to pay out a certain percentage of the operating result. But to me, it's not fully clear how Delta Lloyd's operating result would look -- yes, how it would translate on your framework. So could you say anything in that respect?

Second question is on the holding company cash position. I get to around EUR1.5 billion on a pro-forma basis, is that correct? And maybe also is there anything you could say on how we should think about the year-end position?

And if you would be ahead of the target, I guess deleveraging is one of the priorities, as you mentioned that you would be at the high end of your appetite ratio. Is that also a reasonable assumption? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

So Matthias, that's a bunch of questions at the same time. So let us take them one by one for you. So Delfin, are you ready for those?

A - Delfin Rueda {BIO 7032761 <GO>}

Good, thank you Matthias. So the first one on the dividend for 2017. I think it's too early to give a clear guidance on the dividend of 2017. I think we have given a clarity that from 2018 onwards we expect a double-digit increase per share. In 2017, I think we'll have to see how that evolves in the year.

In terms of the guidance of the free cash flow being on the range of the operating result after tax, that has been an important constant of our framework. You are right that it is -- in terms of the payment of dividends, being between 40% and 50% of the operating result, it's true that we don't know yet precisely how the operating result in the consolidated entity, IFRS result will derive.

But here, I'd like to bring your attention basically to the comments that I made already in terms of the generation of free cash flow that is expected to be initially in the range of EUR150 million. But later on, by 2020, between EUR250 million and EUR300 million. So that basically gives you a relevant framework, I think.

In terms of the cash capital upholding, I've indicated that we do expect it to be more on the -- we aim to have more on the higher bound of the cash capital upholding. That depends a bit of how we finance the transaction and the level of debt that we decide to have. But there is some flexibility to be on that range. So I would not like to provide a precise target at this point of time.

And indeed, once we -- one of the considerations that we will have when we perceive that we have surplus capital is also to consider the possibility of deleveraging to the extent that that's advisable.

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

Okay. Thanks a lot.

Operator

Steven Haywood, HSBC.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning, everybody. I wonder if you could just tell me about the current share buyback? I know it's suspended at the moment. But is it suspended permanently now?

Then thinking about in the future, you've got, say, just over EUR1 billion of free cash flow generated from NN. And that's rising 10% to 15% in the short term and then rising 20% to 30% at the long term. So from my point of view, when is the next time that you could announce a new share buyback for the Company, if you don't use capital for other value-creating opportunities? Thanks.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. Thank you Steven. As I mentioned before, we're planning to maintain our dividend policy and as a consequence, an important part of our dividend policy is to repay back surplus capital to shareholders unless there is a value-creating opportunity to deploy that surplus capital.

The opportunity to acquire Delta Lloyd has been, we think, a very compelling opportunity to use the surplus capital. That's why we stopped the share buyback. We will have the benefit of EUR333 million increase in our own funds as a consequence of stopping the share buyback. That will come into effect in the Fourth Quarter.

And as soon as we feel appropriate, that there is surplus capital and there is no opportunities to deploy it, we will continue with the philosophy that we have so far. Then we will announce, if that's the case, a share buyback in due course, when it is appropriate.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, that makes sense. Just a quick follow up on the Solvency II ratio. That EUR333 million that you say, is that included in the 189% or excluded?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, correct. So for the pro-forma 189% as of 3Q, it's basically combining the two entities together. So NN and Delta Lloyd one plus the other. Then it's the addition, that's a positive of EUR333 million of the suspended buyback, then we have also a positive due to the removal of the eligibility constraints for tier 3 capital that Delta Lloyd announced on their Q3 numbers.

Then, of course, the biggest negative impact is the EUR2.5 billion of cash which is the consideration for the acquisition. These are the only three adjustments that are reflected in the 189%.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you very much.

Operator

Bart Horsten, Kempen & Co.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes. Good morning gentlemen. I have a few questions on free cash flow developments. I think you indicate initially EUR100 million to EUR150 million, rising to EUR250 million and EUR300 million. I suppose the largest part of that is driven by the expected cost synergies. But I was also wondering whether there are other benefits in that?

Because if I take the net benefit from cost synergies, it comes at around EUR100 million improvement. So I was wondering what the other synergies are or the other improvements or drivers of the free cash flow improvements. And would that also include refinancing of existing debts at Delta Lloyd which has some high interest debt on its books?

And the second question relates to the composition of the transaction. If I read correctly that if you acquire less than 95% and more than 67% of the shares of Delta Lloyd, you can also start merging Delta Lloyd entities. And remaining shareholders will be given NN's shares. Can you elaborate a bit on that structure please? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes. So, Bart. Good morning, let me take the last one first. First, obviously. So we will go through the AFM proceedings file and when we have approval, we will launch the offer. Then a tender period starts. After the tender period, we will see how many shares are being tendered.

If it's 95% then there is the, let's say, the legal normal (squeeze-out) proceedings for the 5% that are applicable. If it's below that number, there is a quite customary structure in place that we could pursue to ensure that we get control over the Company and that we can extract the synergies and drive the business forward to the plans that we have.

Indeed, in that structure, the remaining shareholders would then receive -- in that merger structure, would receive NN shares at that point in time.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay.

A - Delfin Rueda {BIO 7032761 <GO>}

And on your first question, on the free cash flow, it comes of course from the cost synergies but also from the capital synergies that will be obtained over time. And indeed, well there is also an element -- because this is net of the funding cost. And indeed, as you know, we're planning to do some refinancing of the some of the existing debt. Being the most important ones, the ING, the hybrids that are currently owned by ING, that we have flagged in previous quarters. But also the external hybrid that NN has in the Second Quarter of 2017. Then in the Fourth Quarter of 2017, there is also a senior debt from Delta Lloyd that we will be aiming to refinance then.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you.

Operator

William Wade, JPMorgan.

Q - William Wade {BIO 19104398 <GO>}

Yes, hello. Good morning. William Wade here from JPMorgan Credit Research. Just one question from me at this point; my other questions have been answered.

Would you mind just clarifying the rationale for using senior debt as the base case for the debt part of the transaction? I believe you might also have some capacity to issue sub debt? So just wanted to understand that rationale and what the drivers of that will be going forward? Thanks.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, William, I think it's quite simple. We obviously need to look at what is the level of Solvency. And if we feel comfortable with that. And otherwise, you finance yourself with the cheapest fund, the cheapest debt available.

So hybrid would count as part of our own funds. But senior debt doesn't. But it's also cheaper. So it's taken as a base case in order to look at the transaction issue in senior debt. But we also have the flexibility open in case we were to require or we see it appropriate to raise hybrid.

Q - William Wade {BIO 19104398 <GO>}

Okay. Thanks, that make sense. Then I guess just a follow up then. So this transaction with Delta Lloyd doesn't change -- and I think you alluded to this in the answer to the prior question. But there's no changes per previous announcements or previous expectations of refinancing certain NN debt.

So for example, the (inaudible), the ING debt, there's no change in expectations looking forward?

A - Delfin Rueda {BIO 7032761 <GO>}

You're right. So no change. Let's say our intention to refinance the hybrids owned by ING, they are independent of this transaction and this plan continues to be in our mind.

Q - William Wade {BIO 19104398 <GO>}

Fantastic, thank you very much.

Operator

Darshan Mistry, Citi.

Q - Darshan Mistry {BIO 19807857 <GO>}

Hi, morning guys. Just one quick question from me, please. What's driving -- sorry, are there any macro assumptions that are driving part of the increase in free cash from the EUR100 million to EUR150 million that you expect to be earning now, to your 2020 target?

So are you assuming a widening of credit spreads of any pick up in interest rates? Or do you assume that rates and spreads and everything else stays where it currently is? Thanks.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Darshan. So I think that when we have looked and considered the value of this transaction, we have obviously taken into account the current level of interest rates and that is something which is, I think, beneficial for all insurance companies, including Delta Lloyd and NN Group.

The free cash flow guidance that we have given of EUR250 million and EUR300 million is already, if you like, a relatively large range. There are some uncertainties around it and obviously the level of interest rates could be -- if they keep increasing, that would be, as you know, a positive or an upside.

But you know this, we have seen it from the recent past, it can go both directions and either way we are having a level of Solvency which is adequate. And of course, the free cash flow will be influenced by the change of interest rates that we have flagged in every quarter. We now are operating return capital generation.

Q - Darshan Mistry {BIO 19807857 <GO>}

Perfect. So you're not assuming a mean reversion of interest rates in that EUR250 million to EUR300 million? So you're assuming things stay where they are and everything's achieved, I guess, organically?

A - Delfin Rueda {BIO 7032761 <GO>}

No. We have assumed the best estimate that we've got at this point in time.

Q - Darshan Mistry {BIO 19807857 <GO>}

Okay. Thank you.

Operator

Robin van den Broek, Mediobanca.

Q - Robin van den Broek {BIO 17002948 <GO>}

Yes. Good morning. Thank you for taking my questions. First one is just thinking back about the mid-term capital generation target of Delta Lloyd on a standalone basis of EUR200 million to EUR250 million. How can I tie that up to the EUR250 million to EUR300 million you're mentioning which includes a EUR110 million cost saving by 2020? So what's the big delta here, because there seems to be a gap?

And secondly, I was wondering if you could give a little bit more color on the timing of the cost savings by 2020? Presumably maybe the bank and asset manager cost savings can be achieved more quickly than life? Maybe some color here.

And any color on the size of the restructuring costs would also help. Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

Okay. Thank you, Robin. So my understanding is that the EUR200 million to EUR250 million target of capital generation or the generation of surplus capital at the level of Delta Lloyd by 2020, of course is related but is not, sadly, the same with our EUR250 million and EUR300 million free cash flow generation.

And for us, the definition of free cash flow generation is the expectation of remittance to the holding minus the holding expenses. So obviously some of these benefits are included within that. But it's the definition, it's not precisely the same.

In terms of the cost savings, I think it's early -- it's now too premature in order to provide a very detailed guidance of how the synergies or the restructuring costs are going to come. And we aim to provide that in due course when we have been able to work more closely together with Delta Lloyd and also in order to communicate that with more certainty. But you're right that some of the savings are coming earlier than others.

Q - Robin van den Broek {BIO 17002948 <GO>}

Thank you, that's very helpful.

Operator

Stephane Suchet, Credit Suisse.

Q - Stephane Suchet {BIO 15194213 <GO>}

Thank you. Most of my questions have been answered. Just a quick follow up if I may. If NN were to own 100% of Delta Lloyd after the closing of the transaction, should we expect Delta Lloyd NV to be merged into NN Group and to the Delta Lloyd Levensverzekering operating entity to be merged with one NN operating entity? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

I think it's too early to say at this point in time how this would exactly -- in time, how this would exactly work. But it is of course one of the things that we will consider, is to merge legal entities, as Delfin has mentioned earlier, in due course. To extract the synergies as a result of it.

Q - Stephane Suchet {BIO 15194213 <GO>}

Thank you.

Operator

Cor Kluis, ABN AMRO.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning, Cor Kluis speaking. I've got a few questions. First of all, in the internal model of Delta Lloyd, or to the partial internal model, what's the speed that you -- because you already have an internal model running of course -- can get this partial internal model running? Because the current combination, of course, of the Solvency II ratios is based on a standard model of Delta Lloyd. It would be nice -- it's more the speed; can you do that within a year? When can you start with that? That's the first question.

And the second question is about the restructuring cost. You indicate that it should be consistent with earlier transactions. Should we think about EUR150 million, those kind of levels. And do you include that in your net operating profit, which is relevant for the dividend story of course, or do you want to work with that restructuring cost in a special item below the line?

And maybe one final question is about the longevity of reinsurance, a part of that will be reversed of course with the -- for the (inaudible) situation in Q4. Are you planning to apply for (inaudible) longevity reinsurance deal for your total Company and could you highlight what kind of size we could think about? Those were my questions.

A - Delfin Rueda {BIO 7032761 <GO>}

So thank you, Cor. Three questions. In terms of the timing of the internal model, I think it's early to say. Obviously, it requires some times in order to integrate with our partial internal model. That you know is as a significant change. We'll have some conversations with the regulator as well.

So let me by cautious for the time being and not provide a specific guidance on that respect. But obviously we all see the benefits of doing that as soon as possible.

Restructuring costs, they will be considered as part of special items. They will be relatively large due to the nature of the savings that we expect to integrate. But as I said before, it would be helpful to wait until we can provide more guidance on the timing and the specifics on the operating cost savings and include that at the same time with a better calculation of restructuring cost.

Longevity, this is something that NN Group has been looking at already for a long period of time. We have always been assessing when -- if there was an opportunity, not only in terms of capital optimization but also in terms of proper risk transfer. And obviously with a combination of Delta Lloyd the longevity exposure increases and of course the benefit or the opportunity to think and do a transaction in longevity increases.

With that, we will continue assessing the best timing and the opportunity and the pricing for that in due course.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay, wonderful. Thank you very much. And good that you could find a friendly deal, guys. Thanks.

A - Delfin Rueda {BIO 7032761 <GO>}

Thank you.

Operator

(Operator Instructions) William Hawkins, KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, thank you for letting me follow up. A couple of months ago, Delta Lloyd was talking about EUR200 million of synergies rather than EUR150 million. So what have we learnt that is more negative than that original view?

Then secondly, there's no mention of a break fee. Is there any break fee for this transaction or not? Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

So thank you, William. So I think that as you know, we made in October our recommended -- announced the intention to make an offer for EUR5.30 per share. Since then, we have considered all new information and the result of the targeted due diligence.

And we were very pleased to be able to not only to confirm our initial views on the value of the Company but also to come to an increased offer for the shareholders of Delta Lloyd. In terms of the cost savings, this is something that we've looked together and we have analyzed. And at the end of the day, it's the assessment that we had at NN of how these savings are going to be structured that by all means this is an effort and combination that comes from both entities, as obviously also NN being larger in size will also be part of these cost synergies.

And keep in mind that this is on top of the already-announced savings and initiatives that both NN and Delta Lloyd have. So from the combined overall expense target, when you do the numbers, it comes to a very significant cost reduction.

In terms of the break fees, there is clear explanation, I think, also included within the

press release. Maybe Lard, you want to cover this?

A - Lard Friese {BIO 17008174 <GO>}

Sorry, it's on the press release, Will, as well, for more details. But it's for a breach of the merger protocol is EUR25 million. For non-completion of the offer is EUR25 million. For breaking up as a result of anti-trust is EUR67.5 million. And for no approvals on the (DMB) side is EUR25 million.

Q - William Hawkins {BIO 1822411 <GO>}

Great, thank you, sorry if I missed that. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

That's okay.

Operator

(Alan Lyons), UFP.

Q - Unidentified Participant

Yes. Good morning. Two questions from me. One is did you seek irrevocables from Highfields and Fubon? And if so, why do we not see them in the announcement?

My second question was, on anti-trust. Is this going to be at the European Commission level or is it going to be national anti-trust approvals in the Netherlands and Belgium? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes. So on the first point, Alan, we have focused in the last couple of weeks on the constructive discussions that we've had between the boards on the various aspects of this transaction in order to arrive today to the launch of a recommended offer. So that's where we've been focusing on.

Obviously, conversations with shareholders (internally) since have taken place. But that's been really our focus to get that to the point of a recommended transaction today.

When it comes to the anti-trust, I'm sorry -- on the anti-trust, when it comes to the anti-trust, the anti-trust is at the EC level. We expect, at least, at the EC level. And that's a period that is set for that on a normal basis and we will file for that.

Q - Unidentified Participant

Okay. Thanks for your help.

A - Lard Friese {BIO 17008174 <GO>}

In terms of the -- no, that's it.

Operator

Benoit Petrarque, Kepler Cheuvreux.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, just a follow-up question on the use of the cash. Is that fair to assume you will first spend it to deleverage a bit? What level of leverage ratio do you have in mind? Do you want to go back to the initial level or are you happy with the 30%? Thanks.

A - Delfin Rueda {BIO 7032761 <GO>}

Thanks, Benoit. Yes. So the level of leverage at around 30% is very comparable within Europe. I think it's slightly on the upper side of our internal level. It is very comfortable within the rating agency's level that, depending which rate agency or how you look into it, might be between 20% and 40%. So we are very comfortable.

But indeed, as linking to one question before, one of the possibilities in due course is to reduce leverage if appropriate.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Right, thank you very much.

Operator

Matthias de Wit, KBC Securities.

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

Yes. Thank you. Two very small follow-up questions please. First on the EUR250 million to EUR300 million free cash flow target. Could you comment on what level of remittance ratio this is based? So what proportion of the capital generation you expect to pay out in that year?

Then secondly on LAC DT, you mentioned that the review might impact DL's Solvency II ratio. Is there any risk here that NN Group's standalone ratio might also be impacted by that review? Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

Thanks, Matthias. So the EUR250 million to EUR300 million is basically the target of incremental remittance minus holding cost that we expect as from 2020. So that is obviously taking into account all the benefits of the cost synergies as well as the capital synergies that we have talked before.

For the LAC DT, yes, we had a methodology that we feel comfortable with it. But there is always an element on any review on consideration that we'll have to take into account when more information is there. There was some indications mentioned for Delta Lloyd for the Q4 number. But I think it's premature to give any guidance on that.

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

Okay. Thank you.

Operator

There are no further questions. Mr. Friese, back to you, please.

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you for all your questions. And let me conclude by saying that we are pleased to announce our recommended transaction today. This represents a significant step in our journey to build a sustainable, profitable business for the future and to strengthen our leading position in the Netherlands and in Belgium.

Through this transaction, we will generate a materially higher cash return to our shareholders over time, while at the same time maintaining a solid balance sheet and capital position.

On behalf of Hans van der Noordaa, Clifford Abrahams, Delfin Rueda, the wider team and myself, I would like to wish you a very merry Christmas. Thank you very much.