Y 2014 Earnings Call

Company Participants

- Delfin Rueda, Chief Financial Officer
- Doug Caldwell, Chief Executive Officer International Insurance
- Lard Friese, Chief Executive Officer

Other Participants

- Ashik Musaddi, Analyst
- Cor Kluis, Analyat
- David Andrich, Analyst
- Fahad Changazi, Analyst
- Farooq Hanif, Analyst
- Francois Boissin, Analyst
- Frank Kopfinger, Analyst
- Gordon Aitken, Analyst
- Matthias De Wit, Analyst
- Michael van Wegen, Analyst`
- Steven Haywood, Analyst
- Unidentified Participant
- William Elderkin, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, this is Anand welcoming you to NN Group's Fourth Quarter 2014 Results Conference Call. Before handing this conference call over to Lard Friese, Chief Executive Officer of NN Group. Let me first say that today's comments may include forward-looking statements such as statements regarding future developments in our business, expectations for a future financial performance and any statement not involving a historical fact. Actual results may differ materially from those projected in any forward-looking statement and the discussion of factors that may cause actual results to differ from those in any forward-looking statement is contained in our public filings, including our earnings press release as posted on our website today. Furthermore nothing in today's comments constitute an offer to sell or a solicitation of an offer to buy any securities.

And now to Mr. Friese. Please go ahead, sir.

Lard Friese {BIO 17008174 <GO>}

Yes, good morning everybody and welcome to this call. I will kick off today's presentation by looking at the highlights of the past quarter and what we have achieved in 2014, as a whole, including the progress we're making on implementing our strategy and delivering upon our targets. Delfin Rueda, our Chief Financial Officer will then take you through the financial details of the fourth quarter results at group level and for each segment.

I will then conclude the presentation with the wrap up and then we will open the call for a Q&A. And as we had in the past quarters as well, Doug Caldwell our Chief Risk Officer has joined us as well. So he's here as well to answer your questions.

Let's go to the first slide, the 4Q highlights, NN Group is reporting another set of strong results for the fourth quarter of 2014. The operating result of the ongoing business was EUR260 million, up 18% on the fourth quarter of 2013.

The full year '14, the full year 2014 operating result of EUR1,086 million was up 20% compared with 2013. This reflects cost reductions of EUR142 million in the Netherlands, in line with our strategic focus on lowering administrative expenses, as well as lowering funding cost of the holding company, and improved performance reported by our Non-Life Investment Management and NN Bank units.

The net result for the fourth quarter of this year improved to EUR197 million this compares with a net loss of EUR157 million in the fourth quarter of 2013, which include amongst others a charge of EUR575 million to restore the reserve adequacy of Japan Closed Block VA.

On a full year basis, the 2014 net result went up 83% to EUR588 million. The net operating return on equity of the ongoing business of NN Group improved to 7.6% for the fourth quarter of 2014, largely driven by the higher operating results. Our capital position has improved further the IGD ratio at the end of the year was higher at 303% and our holding company cash capital went up to EUR1.4 billion.

In today's press release, we have given our first disclosures on NN Group's Solvency II position. We estimate our Solvency II capital ratio based on our current interpretation of the standard formula to be in a range around 200% at the December 31st, 2014. And while this estimate is still subject to significant uncertainties we believe that we are well prepared for Solvency II. And finally, we are pleased to announce a dividend proposal over the second half of 2014, EUR0.57 per ordinary share, which represents a total dividend of approximately EUR200 million.

Let's turn to next page. I would like to take this opportunity to briefly look back and what we have achieved this past year. The major event of 2014 for our company was undoubtedly the listing of NN Group's on Euronext Amsterdam on 2nd of July . This process began in earnest back in 2013 and the commitment of the Anchor investors in April 2014 was an important milestone in the run-up to the IPO.

The NN Group share is now been included in various indices including MSCI and stocks. We successfully placed two subordinated debt issues. One in April and one in July for a total of EUR2 billion and we used the proceeds to repay hybrid debt to ING Group. These debt issues, increased our financial flexibility and reduced funding cost. The appointment of Robin Spencer, CEO International Insurance In August, brought our Management Board to full strength.

At the same time David Knibbe was appointed to the role of CEO of the Dutch insurance activities of NN Group. We've clearly defined responsibilities for each business line and as a team, we are focused on implementing our equity story and delivering upon our targets.

Looking forward, we've embarked in a large project to rebrand our subsidiaries from ING to NN. Over the next two years we expect to incur additional rebranding expenses of in total EUR135 million although the majority of these activities should be completed in 2015.

Let's move to slide five. We have communicated clear financial targets to the market against which we can be measured. Overall, I'm satisfied with the progress made in 2014 towards delivering on these targets, but more needs to be done to ensure that we achieve them all in the medium term. Our three financial targets are as follows. Number one, we aim to reduce administrative expenses in the Dutch units that means Netherlands Life, Netherlands Non-life and at the corporate and holding entities by a total of EUR200 million by 2016. We are well on track with this cost reduction program, having realized total cost savings of EUR142 million at the segments in 2014.

Number two, we aim to realize an annual growth rate of the operating result before tax of the ongoing businesses of 5% to 7% in an average in the medium term. The 2014 operating result before tax of the ongoing business of EUR1,086 million represents a 20% increase compared with 2013.

Lastly, we aim to increase the net operating return on equity of the ongoing business in the medium term measured against the 7.1% pro forma for 2013. The 2014 net operating return in equity of the ongoing business was 8.6%. 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 business. Delfin Rueda our CFO will go into the details of our free cash flow later in the presentation. But to summarize the adjusted free cash flow at the holding company in 2014 was EUR450 million, which included EUR710 million of dividends received from our subsidiaries.

This compares with a net operating profit from ongoing business in 2014 of EUR806 million. As Japan VA book runs off and our Dutch life subsidiary starts up streaming capital, we would expect these two numbers over time to convert.

On the following slide, allow me to run through the business developments and the progress we are making at each of the operating segments and I will dwell a bit on them. At our larger segment, Netherlands Life were focused on managing the run-off of the individual life closed block and selective growth in the pension markets where we have recently secured some new deals on financial terms that meet our requirements.

On the Closed Block we continue to focus on reducing unit expense to ensure that we will over time release the capital backing that business. In keeping with the whole sector, we are feeling the impact of the low interest rate environment. although we are actively managing this through effective cash flow matching.

We are managing our investment margin by increasing our asset allocation to higher yielding assets.

The management actions taken at our Non-life business are designed to achieve a combined ratio of 97% or better by 2018. These actions have been successful to-date. Our total combined ratio in 2014 was 99.4% compared with 101.5% in 2013. The improvement in the disability and accident has been even more pronounced at 97.3% combined ratio versus 101.9% combined ratio last year. These improvements were achieved through expense reductions and better underwriting.

Let's move to Insurance Europe. The performance of Insurance Europe has been below expectations. We believe that this business should grow at a mid-single digit rate over the period, 2013 to 2018 as we improve the productivity of our distribution and shift our product mix more towards protection and fee-based products. New sales of protection products were up almost 17%. However, the growth strategy has been held back in 2014, as the business was impacted by the Polish pension reform and the impact of lower rates. Nevertheless, we remain committed to our target, and this is an area, which we will focus in 2015. In contrast, I believe that our Japanese business had a very successful 2014 in terms of new sales. We are a sizable player in the COLI market and have some genuine competitive advantages in that niche.

This is a core business for us, our growth has been driven by increasing agency productivity and diversifying our distribution channels. For example, we recruited 16 bank distribution partners new bank distribution partners over the past year. While our operating profit has been impacted by lower interest rates. I'm confident that the underlying position and dynamics of this business strengthened in 2014.

We continue to invest in building and broadening the capabilities of the Investment Management business to attract higher inflows of third party mandates in the coming years, while continuing to serve the insurance company's needs. Inflows of net assets in 2014 were below expectations, although overall assets under management increased 7% on the back of strong markets, we hired investment professionals for our convertible bond team and won some important mandates, most notably for the ECB asset-backed securities purchase program.

NN bank is successfully growing its mortgage portfolio and its customers saving activities, and finally, Japan Closed Block VA continues to effectively hedge the main risk on the portfolio and manages its run off over the next few years.

So let's go to the capital position and the balance sheet on page number seven. The Solvency 1 capital ratio of our biggest unit NN Life has increased to 260% at the end of 2014 from 252% at the end of the third quarter. Please note that the Solvency ratio of 260% already reflects the deduction of EUR350 million dividends paid by NN Life to NN Group earlier this week. In terms of leverage the gross debt position remained unchanged at EUR3.7 billion. Our fixed cost coverage ratio went up to 9.9 times and the leverage ratio improved to 23.2%.

The IGD ratio also increased to 303% at the end of 2014. And as I mentioned before, our solvency 2 capital ratio based on our current interpretation of the standard formula is estimated to be in a range of around 200% at the end of 2014, both the IGD ratio and the Solvency 2 ratio reflect the reduction of the EUR200 million proposed dividend to shareholders. Delfin Rueda will give some more color on the solvency ratios later on in the presentation.

So, let's go to page number eight. I would like to say a few words on our dividend proposal to our shareholders. We have been very clear that our equity story is geared to improving the earnings power in capital generation of our businesses and then to return those earnings and capital to our shareholders unless we find value creating opportunities in which to invest.

I'm pleased to be able to announce today that we will submit a proposal for the Annual Shareholder meeting on the May 28 to distribute a dividend of EUR0.57 per ordinary share over the second half of 2014. This is the equivalent of a total dividend of approximately EUR200 million based on the current number of outstanding shares. This represents a payout ratio of around 50% and it's higher than the EUR117 million intended dividend that was announced in the run-up to the IPO. The dividend will be payable in cash or ordinary shares at the option of the shareholder and the dilutive effect of the stock dividends will be neutralized, via a share repurchase.

Going forward, we intend to pay ordinary dividends on a semi-annual basis. Looking ahead, our management time remains focused on improving earnings generating capital and either investing that capital in value-creating opportunities or returning it to shareholders in the most shareholder friendly form, which we will assess at that time. This could be special dividends or share buybacks, which may include a repurchase of part of ING shareholding in NN Group.

And with that, I would like to pass now on to our CFO, Delfin Rueda, who will take you through the financial details of the fourth quarter results. Delfin over to you.

Delfin Rueda {BIO 7032761 <GO>}

Thank you, Lard and good morning to everyone. NN Group posted an operating result of the ongoing business, which as you know as closed that closed block of variable annuity business in Japan of EUR260 million in the fourth quarter of 2014. This is up 18% on the fourth quarter of 2013. On a full year basis, the operating result of the ongoing business increased to EUR1,086 million up

20% on 2013. Driven by EUR142 million of cost reductions in the Netherlands, lower funding cost and improved performance and Netherlands Non-Life, Investment Management and NN Bank.

The results of Netherlands life insurance, Europe and Japan Life where lower compared to 2013. The net result for the fourth quarter improved to EUR197 million. On a full year basis, the 2014 net result went up to EUR588 million from EUR322 million in 2013. When comparing the 2014 net result with that at earlier, please keep in mind that the net result of the fourth quarter of 2013 included two negative non-recurrent items. Lard has already made reference to the EUR575 million charges to restore the reserve adequacy of Japan Closed Block VA into the 50% confidence level. The other non-recurring item was a negative impact of EUR117 million due to the refinement of the market interest rate assumptions in Netherlands Life.

The 2014 net result reflects the higher operating results of the ongoing business, offset by a EUR541 million negative impact in the first quarter caused by the agreement to make our closed benefit, defined benefit pension plan in the Netherlands financially independent.

Let's look now at the referring components explain in these results. Starting with expenses. The slide 11 shows the progress we are making our 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 the corporate and holding entities of EUR200 million by 2016. All this measure against the 2013 cost base. So far we have realized total cost savings of EUR142 million in 2014, with the majority of the reductions in administrative expenses achieved at Non-Life and at the corporate upholding entities. We are progressing well on this target. However, please remember what I have said before.

This is a three year program running from 2014 to 2016. As flagged at the time of the IPO, a large part of the savings were to be realized in the first year. But all the initiatives, in particular at Nederland Life will take longer to start showing results. And therefore the associated decrease in administrative expenses at this entity will be back-end loaded. So we are still having plenty of work to do as Lard mentioned.

I will now go through the results of each segment individually. Starting as usual with Netherlands Life on slide 12. The operating result before tax of Netherlands Life was EUR157 million in the fourth quarter, down 18% from the same quarter in 2013. The full year 2014 operating result decreased 13%. The lower operating results in the fourth quarter was influenced by a number of factors, both positive and negative. Fees and premium-based revenues remained under pressure, reflecting the run-off of the individual life closed book and lower fee incomes on the unit linked portfolio. We already like (inaudible) in previous quarters. There was an adverse impact on the technical margin due to an increase in the unit linked guaranteed provision fallen our decrease in interest rates. As well as lower mortality results, when comparing the technical margin with the fourth quarter in 2013, please keep in mind that the technical margin in that quarter included a EUR41 million benefit primarily related to our provision release.

These negative impacts in fees and premium based revenue and technical margin were partially offset by a higher investment margin, which was driven by an increased allocation to higher-yielding assets in line with our strategy higher invested volumes and also supported by a EUR23 million dividend from private equity.

You can see in the far right chart that the investment a spread increased to 111 basis points in the fourth quarter. Administrative expenses decreased by EUR15 million for the full year. And it stayed flat for the fourth quarter versus the fourth quarter of 2013. However, adjusted for the release of some personal provisions in the fourth quarter of 2013 administrative expenses of Netherland's Life were 6% lower.

Turning to slide 13, now for the results of Netherlands Non-Life. The operating result for Netherlands Non-Life was EUR35 million for the fourth quarter of 2014, a significant increase compared with a year earlier. This was driven by lower expenses and improve Property & Casualty. Maybe better if I talk about the 2 business lines in this segment separately, as the results in the quarter move in opposite direction. First the results of Property & Casualty improve in the fourth quarter following favorable claims development thanks to milder weather conditions and fewer large claims done in the same quarter in 2013.

In that quarter in 2013 we suffers from severe storms a large file claims. The combined ratio of P&C in the fourth quarter improved to 97.8%. Contrary to P&C, the operating result of Disability & Accident was down on the same quarter in 2013, which included higher than normal results from prior accident years. The combined ratio of the D&A in the fourth quarter 2014 was 101.4% and for non-life as a whole, 99.4%. For the fourth quarter, that's for the fourth quarter.

For the full year non-life had an operating result of EUR128 million up 62% on 2013 driven by a decrease in administrative expenses. The full year combined ratio was also 99.4%, the same as for the fourth quarter, which represent an improvement on the combined ratio of more than two percentage points. The operating result of Insurance Europe in the next page was below expectations as it decreased 17% to EUR40 million for the fourth quarter and 12% to EUR176 million for the full year.

As Lard already mentioned Insurance Europe is facing some headwinds due to the pension reform in Poland. The lower investment rates and lower invested volumes are impacting the investment margins. Obviously, we continue to focus on cost control in this segment. However, the fourth quarter administrative expenses went up due to a write-off in Turkey and higher project costs. Consequently, the cost to income ratio deteriorated. We do see sales growth year-on-year with new sales up almost 8% in 2014 at constant currencies.

Let's move now to Japan Life. Japan Life reported an operating result of EUR12 million for the fourth quarter of 2014. The full year operating result was 140 million, down 4% on 2013 excluding currency effects. Given the low results in the fourth quarter due to normal seasonality, I find it more relevant here to focus on the full year results of this segment.

Fees and premium-based revenues, the main source of income at Japan Life went up 10% at constant currencies compared with 2013. This was driven by higher sales and larger in-force volumes. This increase in revenues was offset by a lower investment margin and a lower technical margin, as well as higher DAC amortization and trail commissions. Sales growth was as strong in 2014, as new sales went up 20% on 2013 excluding currency effects.

Let's move now to Investment Management. Total assets under management increased to EUR186 billion at the end of 2014. This was driven by a strong market performance. The higher balance of assets under management and a more favorable asset mix is reflected in the higher fee income. The operating result for the Investment Management segment increased 46% in the fourth quarter compared with the fourth quarter in 2013, which was EUR41 million, sorry, it was EUR41 million in the fourth quarter of 2014. So 46% above that of the fourth quarter last year. Administrative expenses were higher at the segment. As we continue to invest in a staff and systems. However, this increase in expenses was more than compensated by the increase in operating income, resulting in an improved cost-income ratio.

The full year 2014, operating result 22% compared with last year. Compared with 2013 reflecting higher fee income, but also at EUR10 million releases of personal provisions within administrate expenses in the first half of 2014.

The segment other in the next page comprises the holding the reinsurance business and NN Bank.

The total operating result of this segment improved from a negative result of EUR73 million in the fourth quarter of 2013 to a loss of EUR24 million in the fourth quarter of 2014. This significant improvement reflects lower holding expenses, lower funding cost, higher investment income, higher operating result at NN Bank.

The full year 2014 operating results of this segment other also improved substantially to a loss of EUR130 million from EUR373 million negative result in 2013. In the holding company interest cost on hybrid on debt went down by EUR7 million in the fourth quarter compared with the fourth quarter of 2013 from EUR33 million to EUR26 million. This follows the financing of loans and the retention of hybrid debt using the proceeds of the undated subordinated notes issued in July.

Let me pause here to remind you that the interest of the undated subordinated notes is recognized through equity instead of through the P&L. Investment income increased to EUR16 million as our results of the subordinated loans provided by NN Group to NN Life in the first half of 2014.

Holding expenses decreased by EUR22 million, reflecting the savings from our cost reduction program and a release of personal provisions. The operating result of the insurance business remained more or less flat at EUR4 million in the fourth quarter. The higher results on a full year basis reflects better underwriting results as well as a EUR31 million one of loss are on a specifically reinsurance contract in 2013.

NN Bank continues to successfully expand its mortgage portfolio and attract customer savings. This increased activity is reflected in a higher net interest result, but also in higher expense as investments are made to support the continued growth of the bank.

I will now move on to slide 18 to cover our last segment, Japan Closed Block VA. Japan Closed Block VA reported a loss before tax of EUR24 million in the fourth quarter. This compares with EUR423 million negative results in the fourth quarter of 2013, which included the EUR575 million charges that I have mentioned before.

While the fourth quarter of 2014 included a market-related result net of hedging of EUR39 million negative due to increased market volatility, the full year 2014 market-related result net of hedging was EUR21 million positive.

The full year 2014 result before tax improved to EUR109 million positive. The portfolio continues to run off and this is reflected in lower fees and premium-based revenues, but also in an increase in administrative expenses due to higher processing cost as a result of increasing surrenders. Higher project costs are also being incurred in order to prepare for the large volume of future maturities expected in the portfolio.

We still expect around 90% of the portfolio to run off by the end of 2019. The net amount at risk was EUR133 million at the end of the fourth quarter versus reserves of EUR556 million. That completes the results of our operating segments.

On the following slides, I would like to take you through our capital position and cash generation. On slide 19, let me start by repeating our definition of free cash flow of 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 fourth quarter of 2014, we generated free cash flow of EUR229 million, which is the sum of the four elements within the box in the chart.

As there were no capital flows with shareholders and no change in external debt in the fourth quarter, the full change in the level of cash capital at the holding company was due to the free cash flow generated in the quarter. The cash capital position at the holding company increased during the fourth quarter of 2014 to over EUR1.4 billion. This was driven by EUR206 million of dividends received from the subsidiaries, of which EUR100 million was received from our reinsurance unit, ING Re in the Netherlands. Cash capital was also supported by the EUR112 million of cash proceeds received on the closing of the sale of ING Bank of Beijing Life. This explains the free cash flow generated in the fourth quarter.

Next slide shows the same graph, but this time covering the full year. The free cash flow generated in 2014, was EUR424 million negative. These number, however, included that capital strengthening of NN Life for an amount of just over EUR1 billion and the cash proceeds received from the divestment of SulAmerica of EUR176 million, which were upstream to ING Group. If we exclude this two items, the adjusted free cash flow at the holding company in 2014, was EUR450 million.

The free cash flow in 2014, was supported by total dividend received from subsidiaries of EUR710 million. The capital flow from to shareholders reflected the net capital injections into NN Group prior to the IPO while internal [ph] debt reduced by EUR200 million.

In the slide 21, we show the capital generation for the subsidiaries for the second half of the year. As we report these on semi-annual basis, the graph on the left shows the change in the excess of our valuable capital over the minimum required capital level in the second half of the year for all the subsidiaries excluding discontinued operations.

The minimum required capital level is typically set based on the minimum required from a regulatory perspective, and that's not represent commercial capital levels. In the second half of 2014 we generated almost EUR1.3 billion of capital. This was driven by tightening of credit express on a decrease in interest rates in combination with positive operating performance and a net positive impact from mobile and assumption changes.

When added to the capital generation in the first half of the year, the total capital generated in the first half. In the second half of the year. We can't to EUR1.8 billion, excluding the non-recurring impact of the pension plan and they move to fair value accounting in Japan Closed Block VA.

On the right hand side we can see that our largest units NN Life and generated capital of EUR930 million during the second half of the year.

I would now like to talk about our solvency ratios on a slide 22, and NN Group's IGD solvency one ratio has increases a steadily over the past year from 250% at the end of 2013 to 303 at the end of 2014. Largely driven by the EUR850 million capital injection by the ING Group pre-IPO. The full year 2014 net result of EUR588 million and positive revaluation resulting from market movements. The proposed dividend to shareholders of EUR200 million is already reflected in the ratio of 303%. NN's Life Solvency I ratio has also improved to 260% supported by equity market appreciation and a decrease in interest rates, as well as a net positive impact from model and assumption changes.

As Lard already mentioned, this ratio already takes into account the EUR350 million dividend paid by NN Life to NN Group earlier this week. Excluding the reduction of this dividend, the Solvency I ratio of NN Life at the end of 2014, would be 272%. We now feel comfortable to be able to give the market an indication of what our capital ratio is estimated to be under the new Solvency II regulations.

While we are still planning to apply for the use of a Partial Internal Model, based on our current interpretation of the Standard Formula, NN Group Solvency II capital ratio is estimated to be in a range around 200% at December 31, 2014. Please bear in mind that the Solvency II capital ratio whether a Standard Formula or Partial Internal Model remains subject to significant uncertainties.

For example, the final specifications of the Solvency II regulations are not yet known in full and the regulatory approval process still has to be completed.

Finally on slide 23 I will talk about our value of new business numbers. This is the first time that we are reporting on our value of new business since the IPO. At Netherlands Life, the value of new business improved from EUR53 million negative in 2013 to EUR25 million positive in 2014. This improvement was largely driven by the renewal of a few large group life contracts on more favorable terms.

However, please keep in mind that the renewal pattern of these contracts can be rather lumpy from year to year. The internal rate of return increased from 4.5% in 2013 to 10.5% in 2014. The value of new business at the Insurance Europe decreased to EUR78 million in 2014 from EUR96 million in 2013. There were higher volumes and better quality of sales in this segment reflecting [ph] reprising actions, commission changes and a better business mix.

However, this was offset by some negative items including refinements to persistency assumptions and expense overruns in Turkey some one-offs as well as lower interest rates and currency impacts. This also meant a decrease in the internal rate of return to 9.3% in 2014. Japan Life, the value of new business increased to EUR93 million in 2014 from 96 million in 2013, reflecting higher sales, which were partially offset by the lower interest rates. The internal rate of return on your sales decreased to 14.3% in 2014 due to lower interest rates and a change in reinsurance arrangement.

And with that I will pass it back to Lard.

Lard Friese {BIO 17008174 <GO>}

Yes, everybody. So let's wrap it up for this piece of the call and then we go into Q&A. I'd like to round off by saying that we are pleased to report a strong set of results for the fourth quarter of 2014 and for the year 2014 as a whole. The operating result went up and we are making good progress on reducing expenses in line with our strategic focus.

Our capital position is strong and we are confident that we are well prepared for Solvency 2. 2014 has been a momentous year for NN Group on various fronts, including the IPO and the successful debt issues, but also because we are proposing our first dividend to our shareholders at which we hope they will prove at the AGM in May. However, we have still a lot of work to do in the coming years. And we will continue to focus on executing our strategy.

We are committed to delivering on our targets of generating capital and improving earnings while at all times providing excellent service and products to our customers.

And with that I would like to open the call for Q&A.

Questions And Answers

Operator

Ladies and gentlemen we will now start the Q&A session (Operator Instructions) And the first question is from Mr. Cor Kluis.

Q - Cor Kluis {BIO 3515446 <GO>}

Cor Kluis, Rabobank. I got few questions, first of all, concerning the very strong (inaudible) that you presented, you mentioned the range around 200%. What kind of range do we think about is it 50% up and down. At the range could you highlight some on that way of thinking.

Second question is also about Solvency 2 and especially the internal model that outcome should probably be from higher than the 200 million range figure. Can you update us on the status how far are you in building the internal model and talking with the regulators and then could we expect that internal model Solvency 2 ratio by mid-2015.

My third question about Solvency is more Solvency 1 which still have it, but we saw that going to put an life question in the fourth quarter, but 20 percentage points from 52 to 72, can you explain where the 20% growth in one quarter, one your (inaudible) one ratio was coming from the equity interest, the interest rates, can you explain, especially on the interest part or how that works because normally companies are hedge to interest rates, benefiting from the decline in interest rates.

And my last question is about the expenses you already achieve 70% of your cost-cutting targets in one year. And it was a 3-year program and now we understand that from that it seems that mid this year you are going to reach your targets in a 1.5 year, while your plan to do it three can you comment on that. Or are we too optimistic that you might achieved already by mid this year. These are my questions.

A - Lard Friese {BIO 17008174 <GO>}

Thank you, Cor. Let me start with the expense question and then I'm going to hand over to Delfin to discuss with you, your three questions around the year, Solvency ratios. So it come to the expense program. First of all, it is a 200 million expense reduction program on nominal terms, meaning that you're looking at a point in time, which is the end of 2013 and 2016 and the difference EUR200 million for the segments. That means that we will have to eat inflation will have to eat all kinds of regulatory pressures and headwinds, et cetera. In order to achieve that reduction.

Now obviously, we are pleased with 142 million reduction that we have obtained so far, but there are still 60 million roughly to do and that's a lot of work that we flagged that especially in the life company.

This has to do with for instance migrating policies to new technology platforms that its back-end loaded in the three-year program. So a lot of work to do and therefore, we are committed to delivering upon our targets. We're pleased with the progress we've made, but at this point we are going to leave it at that and keep our head down and work on reducing expenses.

So Delfin, the rations.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes I go with a few questions here. So the first one was on in the range of 200% and what did we mean within the range we did not mean anything especially to highlight their fact that there is still significant uncertainties are rounded best estimate of 200% that we performed. In terms of the process for our personal internal model one has to our intense we are considering, to apply within the second quarter of this year and obviously but the final outcome and the final decision by our regulator will not be known. I would expect until the very end of the year.

In terms of the improvement for NN Life Solvency I ratio, we obviously have significant benefit from the movements in the credit spreads.

So market impact was very significant, but also we had some positive effect coming from the operating result, as well as some small positive impacts from model changes, but less significant.

Q - Unidentified Participant

Okay, great. Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

Next question maybe.

Operator

(Operator Instructions) Next question is from Mr. Farooq Hanif from Citigroup.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi everybody. Thanks very much for taking my questions. I want to come back on Solvency II. So on the standard model, I am a bit confused by the significant uncertainties, because certainly my kind of researches suggests that a lot of this is now becoming far clear on standard model and the real uncertainty is on internal model approval. So can you just talk about -- give me -- give us couple of examples of what those are in terms of the uncertainties?

And secondly, second question on cash flow, can you talk about which areas of your business are likely to the paying better cash flow sort of sooner, so in 2015, so you have already told us the (inaudible) like number of 350 which I think some improvement, but what about Japan Closed Block and other areas? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

So Farooq, thanks for your questions. So Doug on Solvency II

A - Delfin Rueda {BIO 7032761 <GO>}

Yeah, I think that you're correct in the sense of the Standard Formula has less uncertainties than a partial internal model approval process. However, there are uncertainties for instance for our business (inaudible) we're still waiting for (inaudible) to come out to specify the volatility just occurred, which impacts the own funds. And it's certainly an uncertainty. We're still looking at various parts of the Standard Formula, while you can read them sometimes the double as in the detail and in the implementation and that need to go through the process and also through some discussions with over time with the regulator as well.

And well as certain uncertainties like taxes and exactly how those are applied. So that's what we mean. Those are some of the things we mean by the uncertainties.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can I just come back little bit on that, I mean, I know the volatility just obviously major but there has been some guidance from the DNB and people are seemed to be coming around the sort of 20 basis point level or thereabouts, (inaudible) have changed since then, since spreads have come in. But just, it just seems to me that what you're talking about isn't that major, am I right?

A - Lard Friese {BIO 17008174 <GO>}

Well, I think, I mean DNB you're right, has come out with a metric for the voluntary gesture for December and now for January and even those two have differences. But we've taken into account in our estimate -- we've taken into account kind of our own views of maybe where we understand the voluntary gesture we've taken into account what the DNB has given and even there can be uncertainties.

At this point we're not even certainly sure how much the DNB curve is an accurate prediction or not and what the (inaudible) will deliver. And given our -- especially our long-term liabilities in the

Netherlands, any difference can affect the figures and this is why we use terms like estimate and in a range around. Okay. Let's move to the cash flow questions, Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. In terms of expected dividends coming from the different segments, I think we are glad that Netherlands Life started with a strong dividend of 350 million already in this quarter. But the same as for last year, we are expecting dividends coming from all the different segments, so there is no particular, a special pattern to highlight here.

Q - Unidentified Participant

And so can I just ask, I am sure, nobody asked this question. But so -- did your Japan life kind of release of capital required and what is the kind of pattern of that over the next few years qualitatively of the 900 million?.

A - Delfin Rueda {BIO 7032761 <GO>}

So I think.

Q - Unidentified Participant

Sorry I mean Closed Block.

A - Delfin Rueda {BIO 7032761 <GO>}

In Japan sorry -- yeah so in Japan we have two businesses, first, obviously the Japan Life that the driver of the dividends are driven to a certain extent by the local Japanese GAAP results. And we have seen a positive evolution on the dividends in the past and we do anticipate also this to continue in the future.

For Japan Closed Block VA, the capital is allocated or is sitting in the ING Re legal entity in the Netherlands. And they have paid 100 million in the past, but obviously as we see the run off of the portfolio developing and also looking at a strong capital position of both ING Re as well as in Japan Life, we should expect also normal flow of dividends during the year.

Q - Unidentified Participant

Thank you very much. Thank you.

Operator

Next question is from Mr. Ashik Musaddi of JP Morgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you and good morning everyone. And thanks for the higher dividend that was nice. Couple of questions I have. First is can you give us a number where you are comfortable with respect to your holding company cash, because if I remember correctly, when your IPO you'd mentioned you were at 900 million and you are comfortable.

Now you are at what 1.4 and then we had 350 from NN Life, so that's 1.75 is strip of 200 million dividend we are 1.55 i'e. it's more or less double of what you were at the IPO. So I'm still struggling to understand what is the right levels here. There is so much of excess capital, it looks like, but how should we think about that is one question.

Secondly, would you be able, I mean in my view, a lot of your solvency numbers has been largely driven by credit spread movement. So would you give us some sensitivities towards that given on both the credit spread on the corporate bond side and on the sovereign bond side as well. And are you doing anything to damp in that credit spread impact if suppose credit spread take a U turn from here. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Thanks, Ashik. So let's go to thing Delfin for the holding company cash and Doug will take the credit spread movements.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, sure. Thanks.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Ashik your right. That was comfortable with a 900 million and I'm comfortable with the 1.4. So may be the only conclusion that we can get from this is that the CFO is quite easy to make him happy that you like. But jokes apart, it is not our desire to set and explicit target for cash capital upholding. We have that in the past. This level is going to fluctuate up and down, sometimes in what my look, low levels and sometimes high.

The most important element here is the fact that I would like to highlight is that we have already plus and we have to approve our desire to pay proper return to our shareholders have returned excess capital with at the end of the range dividend for the second half of the year. We have indicated that, we are going to pay dividends twice a year, and also highlighted the fact that we are prepared to do share buybacks, not only to neutralize a possible dilution related to shareholders deciding to take the dividend in shares. But at (inaudible) payback excess capital when that is appropriate, including the possibility of participating in further sell offs by ING group. The uncertainty is still around final Solvency 2 is something that once is decided, it is more clear, we know how the industry is as a whole, that might be a point of time where we can be more precise on setting targets for this and other capital metrics.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thanks that's very clear. But just on this follow-up on this uncertainty thing, I mean 200% Solvency 2 on a standard model looks a relatively very, very strong relative to wherever the entire Insurance industry would be. I mean if I look at the stress test, which was based on the data that was provided on 2013 I mean majority of the industry was in around 150 to 170 rates and you are at 200%.

That means, clearly you an outlier from a very strong capital position.

So, any thoughts on what sort of discussion are you having with the regulator at the moment with respect to the Solvency 2 I mean are they worried for any perspective, any thoughts on that would be great.

A - Delfin Rueda {BIO 7032761 <GO>}

No I concur with you that we are in a very good position as it has been flat already and it is consistent with our solvency 1 ratios as well. So we're very glad with that and as you can imagine, this is something that any discussion with your regulator when you are in a stable solid capital position, helps on that, on those discussions, but you should not read anything at all in the fact that with this levels of capital we are prudent in order to provide a guidance for the future and I do confirm with you that the I concur with you that the level of capital at 200% for the standard formula is very strong position to be in.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you. And on the second question, which was on credit spreads.

A - Lard Friese {BIO 17008174 <GO>}

Credit spreads. So that's, so Doug, please.

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah, I mean, I think it's some correct we curtained flat at the time of the IPO and in another and our annual accounts and other especially on the Solvency I basis we have significant sensitivity to spreads and that would be any assets moving to swap.

I think it's important to note that we have a sizable position as we've discussed before, AAA [ph] government bonds. So it's not simply just kind of on credit risk assets, but it's also the spreads of Germany or the Netherlands versus. the swap curve and of course we are quite long dated versions of those. I think by the end of this year the spread on those head moved even further the swap, which does provide some benefit. I think it's important to note that on Solvency 2 we do have some differences. So we asked about terms of positioning, to deal with that we are of course increasingly looking at exactly how this works on Solvency 2. And there with there are some reduced sensitivity because of the volatility adjuster, but that has its own unique characteristics as well. That we continue to look at to manage. In general we have long, a lot of long-dated assets especially lot of fairly sequence to match our cash flows and to make sure that, that we deliver what we need to also finding pockets of yield.

And so we continue to manage that. We will look at all of these sensitivities and we'll continue to work to manage our capital and our overall company NOI.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. I mean just take a suggestion. Just a request in future results in case you can get a bit more clarity on the sensitivities around credit spreads would be really very helpful I think, because I think this is the big moving parts for your capital going forward as well. So it would be great to get some clarity.

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah, I would, and I will point to the annual accounts of last year, but also the upcoming annual accounts in the risk paragraph where we do give both in terms of our economic capital types disclosures and our some other disclosures we give more details on this.

Q - Farooq Hanif {BIO 4780978 <GO>}

Yes, thanks a lot. This is really appreciated.

Operator

Next question is from Mr. David Andrich from Morgan Stanley.

Q - David Andrich {BIO 15414075 <GO>}

Hi, good morning. Thank you for taking my questions. Just a kind of as follow-up on the Solvency 2 questions we've had already, but would you going to give kind of any kind of just general guidance, a range in terms of the range of outcomes or uncertainty around the Solvency 2 figure. Are we talking kind of plus or minus 20 percentage points, or 10 percentage points in terms of the range outcomes with volatility adjusted tax treatment et cetera.

And then second can you just, I just wanted to follow-up in terms of your capital generation and dividends being upstream I'm just try to square that some looks like you generate about 1.3 billion of capital in the second half of 2014. And you've up streamed little bit over 260 million and just a trying to square this two figures and I guess a sense of I guess maybe what's holding it back a little bit. Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

Sorry David for the last question you said how to reconcile the 1.3 billion capital generation with what sorry.

Q - David Andrich {BIO 15414075 <GO>}

The dividends upstream from the subs, it looks like a you've only upstream to around 260 million in second half year versus 1.3 billion and capital being generated. And just kind of square those?

A - Delfin Rueda {BIO 7032761 <GO>}

Okay, thank you. So in terms of providing further sensitivities within Solvency 2, obviously as a Doug has mentioned there is a factors that may affect significantly the Solvency 2 a standard formula or delivered (inaudible) that one is to apply, but let me remind to you that, the let me remind to you that the sorry for solvency 2, as I said there are different factors affecting. So for example, taxes can be quite significant. How that premium taxes can be, the as I mentioned is something that might have significant impact, but they are all other factors like how to treat investment expenses and that needs to be taken into account.

In terms of the capital generation for the year you have to make the distinction I mean cash generation is obviously anything that involves our cash flow to the holding. However, capital generation is just the increase in available capital over the minimum regulatory capital.

So it can be that the capital generated in our subsidiary, but if that is not, paid as a dividend to the holding company then does not count as cash generation.

And then maybe if I can take you through over the capital -- the free cash flow that were generated in the fourth quarter these were 229 million and then adjusted for the IPO transaction 450, that's the level of free cash flow, so that flows with the holding. But in terms of your capital generation for the full year, it was 1.3 billion and that is very much impacted by the movement of the markets. We have just discussed the very positively impact that the decrease in spreads and particularly for sovereign debt half as well as for the operating results and to a lesser extend model changes that also in the year has some positive effect.

Q - David Andrich {BIO 15414075 <GO>}

All right thank you very much.

A - Lard Friese {BIO 17008174 <GO>}

Next question.

Operator

Next question is from Mr. (inaudible) Research.

Q - Unidentified Participant

Good morning gentlemen. Just one question really just trying to tell you about the 210% Solvency 2 ratio to the indication you gave at the IPO, if you recall that with saying that AFR/EC ratio by 203% full year '13 and Solvency 2 would lie materially essentially below that.

Now, obviously with the IPO my question would be giving us the comparable 200% for full year '13 and then a sense of what the year-on-year increase was possibly a sense of what the drivers were behind that increase. And then how much of that you might be able to answer?

A - Lard Friese {BIO 17008174 <GO>}

Okay. So just to repeat here, so it's about the. I think the movement between AFR/EC guidance that we gave at the back end of last year and pre-IPO to where we are today with, by the way different metric, which is the Solvency 2 Metric on a standard formula basis.

Q - Unidentified Participant

Yeah alright daily even 200% would have been a year ago and more that does you drives well.

A - Delfin Rueda {BIO 7032761 <GO>}

So I think is, you have to keep in mind that we have generated 1.3 billion of capital during the second half of the year. And in addition to that, there has been no more clarity in some of the indications for how to calculate the standard formula. So these are the main, drivers the capital generation itself 1.3 billion in the second half and then also the some differences between how the AFR/EC calculated versus their this year [ph].

Q - Unidentified Participant

Okay. I have just a quick follow-up that I mean, if we look at the macro movements so far year-to-date, including the declining interest rate. Should we expect that Solvency 2 ratio to further improve on that macro environment?

A - Delfin Rueda {BIO 7032761 <GO>}

Sorry, we couldn't hear you very well can you repeat the question.

Q - Unidentified Participant

Sorry, just a follow-up in terms of looking forward from here, given the macro adjustments

we've seen year-to-date, obviously including a very large fall in interest rate. Should we assume that the Solvency 2 ratio is continue to improve.

A - Delfin Rueda {BIO 7032761 <GO>}

If is the interest rate stay as they are basically the benefit of the change of interest rate has already been reflected in our solvency. So we would not expect a deterioration due to a stable situation. But nor an improvement as we had during 2014. I think as you referring to macroeconomics a more.

Q - Unidentified Participant

Referring as.

A - Delfin Rueda {BIO 7032761 <GO>}

Rates on the (inaudible)

Q - Unidentified Participant

Well I'm referring more to the macro since the year-end. And particular the very large decrease interest rates that we've seen. I'm just trying to get a sense of how that would have come through in the Solvency 2 ratio, so far this year?

A - Lard Friese {BIO 17008174 <GO>}

I think, the rate is fallen already quite significantly by end of December. So I think, well, it continues to move on this can with the numbers around, but with any sort of mark-to-market regime, things are quite volatile. So tracking month-to-month changes is on is something to be careful. But I think to your point, to the extent rates fall modestly helps our ratio if rates go up. That will modestly impacted, but spreads of course also can move and that's in all the asset classes and they can move a little bit differently. So you have to put a lot of factors together.

Q - Unidentified Participant

Okay, thanks Lard.

A - Delfin Rueda {BIO 7032761 <GO>}

Next question.

Operator

Next question from Mr. William Hawkins of KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, thank you. First of all, could you just walk me through little most specifically the thought processes is going on around the capital management and analyze it sustainably surprising that within a year you inject EUR1 billion and then we are able to get EUR350 million out, and I understand a lot of the answers you've already been giving, but I'm -- I'd just like to understand still to me somewhat surprising, and is that 350 million sustainable figure one that maybe you could even grow in the future and specifically how reliant on the runoff of the Closed Block? That so one question by the run off.

And then secondly your earnings guidance of 5% to 7% growth, I know that's a medium-term targets. Do you think it's a medium-term target that we could now take 2014 as the base for? Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

In terms of the capital evolution of NN Life, you have to take into account the evolution of capital generation in NN Life over the second half of the year, so it was 930 million. We have discussed before the factor behind it, obviously before the IPO one could not anticipate what would have been a day impact of market movements. Also let me pause here, that if I were to move back one year ago or a little bit more, there was more of our account sensors everywhere that interest rates could probably go up more than coming down as they have done.

So basically at the time of the IPO, we felt that the level of capitalization of Netherlands Life have to be a strong in order to face the uncertainties at that time. We have had a fantastic second half of the year and I don't think is any surprise that these capital generation at least partially has been shared with the current dividend.

And looking forward, the question if you could expect this type of level higher or lower, the answer is all the three. So that eventually depending on how markets evolve and what is our view and how the regulatory regime evolves, you can see higher dividends, they stay at the same level or eventually been lower for the remaining of the year.

Q - William Hawkins {BIO 1822411 <GO>}

So you're not aiming for some level of stability from the space and the dividend from NN Life? Because the risk have been fabulous you don't tell me the that if we went back to the June market environments you would re-inject 350 million.

A - Delfin Rueda {BIO 7032761 <GO>}

Absolutely not. So obviously we are looking for some stability within that range, but what I'm saying is, I don't want to -- we don't have rule that we'll tell us how to evolve, but indeed the same as for our dividend to shareholders, ordinary dividend, we will try to have some stability and that's why we have cash capital buffer, which will help us in the times where the regulated entities cannot distribute as much dividend we can't continue with our ordinary dividend and then times like today, we might have cumulate mortgage capital, because the dividend have been very strong from the units. I think they've have another question in terms of the guidance at the time of the IPO of NN Life over time, I think that indeed is an ambitious target, because the headwinds in NN Life over the last years has been a strong. But at this point of time we stay with our target of growing sustain the NN Life operating results that more or less the level of NN Life by the end of 2018.

Q - William Hawkins {BIO 1822411 <GO>}

Thanks. My question was for the whole group, today, do you thing 5% the same can be applied to the base of 2014.

A - Delfin Rueda {BIO 7032761 <GO>}

Yeah, I think we've mentioned. Sorry for that, but the 5% to 7% for the whole group. It's obviously as indicated. As you know our medium term target which implies that sometimes it might be higher or lower. I think we have had a good performance this year, and I don't think we should change that ambition for the medium term at this stage.

Operator

Thank you. Next question is from Mr. Michael van Wegen from Bank of America Merrill Lynch.

Q - Michael van Wegen {BIO 6435238 <GO>}

Yeah, hi, good morning, Michael Wegen from Bank of America Merrill Lynch. First of all, actually going back to what you answered a second ago on the question from Will with regards to the Netherlands your Life business.

You indeed have a target I think to on ambition to keep the investment margin relatively flat. I think part of that would come from re-risking. This was set at an time when interest rates were substantially higher than where they are today. Can you talk us through what your new money yields are at this stage and to what degree it's still realistic to assume a flat investment margin or what you can do to offset that.

Second question is on the capital generation. The 1.3 billion for the second half of the year. Can you please split that between market impacts and let's say the underlying recurring capital generation and it would be great if we could get that split going forward as part of your normal disclosure that would be fantastic. Thank you.

A - Doug Caldwell {BIO 17900909 <GO>}

Yes, let me first take Michael, the Life operating result at the time of the IPO, we said that our ambition is over time to make sure that the operating results of the Life segment is stable at the level of 2013. We said that the low rates, low reinvestment yields et cetera would of course have put pressure on the IFRS earnings and the investment margin and that we would fight that with taking on more high yielding assets on the balance sheet. If you look at what we've done over the last year in that, I mean, that by the way this is the last year 2014 on the back-end of I want remind you on the back end of 2013 we did large mortgage transaction with ING of 2.9 billion, but we took 4.5 billion of higher yielding assets on the balance sheet, and if I would split that in mortgages and private loans that's about 40%, there is about 25% in equities and real estate and the balance of 35% 1.5 billion in corporate bonds and fixed income funds.

So that's basically the split on how we're doing this and we will continue to take on higher yielding assets, but we will maintain to be disciplined to the quality of the assets that we take on the balance sheet to ensure that we really keep the robustness that we feel we have at this point in time.

Now, when it comes to the other dynamic, which is the raw profile of the Closed Block, which obviously leads to lower fees and lower margins coming in at the book runs off, that run our profile we fight with -- we fight against and making the company more efficient and reducing the expenses. And you could see that we -- the Life segment took 15 million [ph] expenses out this year that we'll continue to do so in the coming years in order to obtain the targets, and we will continue with this to ensure that we obtain our target over a time.

Now we'll -- the falling rates obviously have a -- the further falling rates have for us put more pressure on the investment margin. So what we need to do is be a realistic here, still continue in line with our strategic asset allocation to take on more high-yielding assets, but maintain the discipline to ensure that these assets are high quality. But at this point, we feel that we can continue this progress because of our capital position and because of our for instance on mortgage production capability that we have.

There is another dynamic, I'd like to point you to Michael on this, there is this IIM profile, which I'd like to point the analyst to, which is, that you can see this year that the operating earnings, the IFRS offering earnings have gone up quite substantially on the back to (inaudible) the back of the low rates, because on the back of the fixed-income assets that they manage at these assets, appreciate in value, the fee is higher and as a result, you see some of our countervailing element here on the IFRS earnings profile as rates go down.

With that, I would like to hand over to you Delfin to the point on the capital generation.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes Michael. Certainly the largest impact has been due to market for the full year. After that, is the operating result and then to a lesser extent the changes on assumptions and models. So a very big impact from the market, but we won't provide a precise breakdown of each of the different parts at this at this point of time.

Q - Michael van Wegen {BIO 6435238 <GO>}

Okay. Just as a request, would it be possible to start doing that going forward, because it would for us be very helpful to better understand what your underlying cash generation is and with that what potential coverage on dividend et cetera, is there we are at the moment yeah, it's basically all dominated by volatile items that can move anyway?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. I understand your request. I think the important, one important element to focus on is the free cash flow generation to the holding and we give a lot of details and explanation into what are the actual flows coming in and out of the holding.

One of the reasons that make us being big prudent about providing more detail on the evolution on the core rental regime is also that it is changing and that in terms of managing our capital, we are basically taking more into account what is the impact on the new metrics on Solvency 2. And I think that the way of providing more details and clarity on the evolution of our capital generation will come with the clarity of Solvency 2 on that metric.

A - Lard Friese {BIO 17008174 <GO>}

Thank you. Next question.

Q - Unidentified Participant

Next question is from Mr. William Elderkin with Goldman Sachs.

Q - William Elderkin {BIO 3349136 <GO>}

Thank you. Good morning everyone. Two questions. One should we -- regard the uncertainties around Solvency 2 that you flagged and discussed a block to additional capital return above the only dividends or impact is do you have suspicions reserves and buffers to tactically asks for example over this year, if you so wish?

Second question in terms of the dividend as it came in top of your guided payout ratio given at the point to the IPO, again given the comfortable cash capital position you generally talk to can we regard that top end of payout ratio range as something that you are likely to be able to sustain?

A - Lard Friese {BIO 17008174 <GO>}

Delfin.

A - Delfin Rueda {BIO 7032761 <GO>}

So the first question was about the uncertainties in relationship to the Solvency 2 ratio if this is a block or is an impairment for us paying further a capital to shareholders. The answer is no, with the estimate of Solvency 2, a standard formula 200%. This is not a constrain at this point of time is more under for, at the right time we must consider the possibility or not of distributing further capital. But it's not biting constrain at this point of time.

In terms of dividend indeed we have solid results, solid capital generation and very comfortable solvency ratios and that drove us to go to the top of the range of the dividend and linking it to what we have discussed before yes we are trying to find certain stability in to the ordinary dividends and that's why, particularly in these times we intend more to distribute surplus capital through extraordinary or cash backs or buying back from ING Group. If they decide to do further sell-offs in the future.

Operator

Thank you. Next question is from Mr. Matthias De Wit from KBC Securities.

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

Yes, good morning. the first question on the low interest rates. Could you quantify or provide some guidance on the impact on the non-life business where investment profits are still important source of total earnings.

I guess it's more difficult to a higher yield mortgages given the different duration profile of that book. And also on the low rates the solvency position benefited, but I wonder whether any of these gains are distributable considering that part are driven by the apart broader [ph] benefits, which might be lowered over time.

Then I have a second question on the Solvency 2 again could you provide some indication of whether regulator is looking at in terms of Solvency 2 ratio, I noticed that you were able to upstream capital from the Dutch business in Q1. So you obtained the required declaration of no objection. So can you provide some insight into what the regulator is looking at to provide such declaration of no projection. Thanks.

A - Lard Friese {BIO 17008174 <GO>}

So Matthias on the first question, Doug. I going to ask you to deal with the low interest rate impact on the non-life business investment margin and the results exactly in this and then Doug will take the insight into regulatory discussions on dividends.

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah. I think on the non-life business, we can still maintain a diversified portfolio, clearly, if rates stay low and that will be factor, and then we have to factor into our ongoing pricing in our ongoing management of that book of business. But it is -- we are able to invest in a mix of assets around that book as well, because, you should also remember that some of the disability in accident type of income business, which also had a longer tail, and so some fairly sticky liabilities to have a great portfolio.

In terms of the lower rate environment. I mean I think there is multiple factors that go into the Solvency 2 ratio. As we noted, because we cash flow match quite -- very hard to cash flow natural long-term liabilities, we do have a slight pickup when rates go down, based on the fact the liabilities do not move as far, because of the UFR, but that's just one component of several components where Solvency 2 or Solvency 1 ratio and it's one that we continue to manage, but there is no specific separation for interest rate impact versus other impacts.

Q - William Elderkin {BIO 3349136 <GO>}

Okay.

A - Delfin Rueda {BIO 7032761 <GO>}

In terms of needing or not need into have a regularization of no objection from our regulator in the Netherlands, that did not apply, basically there was regulatory regime, so call, Solvency 1, but basically it means that if you are below certain threshold then the regulator is required to provide you a declaration of no objection. Certainly, we did not need to ask for any of regulatory -- any declaration of no objection.

Q - William Elderkin {BIO 3349136 <GO>}

But is there certain Solvency 2 ratio, where the VNB is looking at before you allowed to upstream capital in the Solvency 2 or too early days to tell?

A - Delfin Rueda {BIO 7032761 <GO>}

No, there is no particular threshold that as all now aware of that the regulator requires for that purpose on the solvency 2.

Q - William Elderkin {BIO 3349136 <GO>}

Okay, thank you.

Operator

Next question is from Mr. Steven Haywood, HSBC.

Q - Steven Haywood {BIO 15743259 <GO>}

Hi, good morning. So you disclosed your 200% Solvency 2 ratio on a standard formula. I was wondering why go ahead and apply for an internal model, when you already have 200% on a standard formula? And just allocate resources elsewhere?

A - Lard Friese {BIO 17008174 <GO>}

Yeah, so Doug.

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah, well, it's -- and I think in the end, it's also about how you manage risk and how do you align all of your resources together in the business. And so we've been working on an economic capital and so called IFRS-EU model for many, many years. We find that useful to help us manage our business, it can also be useful as one of the whole ideas of Solvency 2 would be it was to ultimately align risk and capital management as closely as possible. We think that would be -- could be better under partial internal model, but that also depends on what's the discussions and also if we can actually get to a model that we find useful for risk management and capital management.

And so we're in the final stages of that and we are making a decision here soon to how we go forward on that basis.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thanks. Very clear.

Operator

Next question is from Mr. Francois Boissin from Exane BNP Paribas.

Q - Francois Boissin {BIO 16045021 <GO>}

Yes, good morning everybody. Two questions please. The first one is related to the UFR, could you give up the sense of sensitivity offshore Solvency 2 standard formulae number not assuming the UFR and how the Dutch regulators is looking at this favorable impact.

And the second question is related to your internal rate of return that you disclose it's naturally up year-on-year. I was just wondering what's investment, your assumptions you had behind that?

A - Lard Friese {BIO 17008174 <GO>}

Sorry Francois can you please repeat the last question because it was hardly audible actually.

Q - Francois Boissin {BIO 16045021 <GO>}

No, I mean back on the IRR that you disclosed I mean, the question is how, let's say what type of investment returns do you expect on your assets, when you make your internal rate of return calculations?

A - Lard Friese {BIO 17008174 <GO>}

Okay. So thanks Francois. Now, we could hear you. So Doug?

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah on the second question first maybe on the IRR, I think the best thing is just refer you to our embedded value report from last year where we showed various spread over risk free rates and we would not have made significant changes to those assumptions. So you can update that for the risk free rates and you see the spreads.

I think we are not necessarily I mean we have the UFR is part of the regulatory regime is part of, it's part of Solvency 2, we have no indication, this is about to change. We recognize it does have impact. So I think at this stage given all sorts of elements to go into a particular to the Solvency 2figures I think choosing one and starting to give sensitivities is not best.

Q - Francois Boissin {BIO 16045021 <GO>}

And maybe just, sorry about that just a follow-up question on your capital position, I mean how do you think of the negative yield in environment today. I mean, what's your take on that, what do with that. Do your models account for this or?

A - Lard Friese {BIO 17008174 <GO>}

Obviously the low rate environment in general is not a very conducive environment for life insurance and pension when it comes to the new business environment, for instance. So what we do there we do a number of things because it affects us in a number of ways. So the first thing is that we're moving away from, let's say, long-term guaranties and products more into capital Life products and protection products that's what we have done especially in the Netherlands, but also in Europe where our sales were up 17% on the protection side. And where we have really fundamentally change the product mix already for the couple of years.

So that's the, that's the first thing. Secondly when it comes to the balance sheet as Doug said, but he can provide may be little bit more detail around, that is we are closely matched. Matching our liabilities and our assets. So we feel that we have never been able to navigate through the low interest rate environment pretty okay. In addition to that we feel that the balance sheet that we have in the asset side is robust and is pretty conservative.

Doug you want to provide more. No, okay.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay. Thank you very much.

Operator

Ladies and gentlemen in the (inaudible) time we kindly ask each analyst to limit the amount of questions to one. Next question is form Mr. Simon David with Credit Suisse.

A - Delfin Rueda {BIO 7032761 <GO>}

Simon please go ahead.

Q - Unidentified Participant

Hi, it's actually (inaudible) the question is already been answered so I'll pass. Thanks.

Operator

Okay, next question is from Mr. Gordon Aitken with RBC.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah, thank you, so a couple of question please. First on bulks, your guidance at the time of IPO was renewables is on two -- I was want to changed can you just talk about the bulk pipeline and do you expect this market is developed like in the UK with by end I think the future as supposed to just by once.

And the second question is persistency of excising DB schemes in Netherlands Life, you mentioned that you have some very large group life contract that have been renewed on more favorable terms and is it a case or is just a real lack of supply here. You can increase your price and still retain the business thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Gordon. Thanks for your question. First on the buyback market the pension opportunities in the Netherlands. We have there are pension funds especially smaller pension funds that have lift the crises and that are basically seeking a home for their liabilities with insurance companies. We have seen that trend over the last years.

We have participated at first when we saw the market dynamics such that it didn't meet a pricing hurdles we basically continued our engagement, but we are not able close the transaction because the competition, it because competition was choose by the client. What we saw while back it that the rationality as call in the market is coming back and that the terms that we were able to negotiate with our clients were on the terms that comply with our hurdles our financial requirements, we've always said that we play in this market that we continue to play in this market that one of the few people that can really do this from a competency perspective, but that we really want to stay very disciplined and we therefore pleased that the market is returning to rationality. I'm pleased that we were able to do a couple of deals in a very large one pretty recently.

When it comes to the existing renewals of the -- and by the way, I think that this in terms of the outlook for that market segment it will still be there. I expect this to continue and we will of course actively play in the market, but only transact at our requirements.

Then on the renewals, the negotiations. We have with our clients this is a far more complex thing then just negotiating better terms. This has to do with the fact that defined benefit, pension plans also for our clients given the current rate levels and longevity rates are quite expensive. So our clients themselves would like to move to a new kind of product profiles.

And we help them with that. They move to defined contribution programs or transitional structures. We have a full suite of solutions for that and what we do is offer that discussed that help them to navigate through the, let's say the works councils et cetera with that, and we were able to do that at the same time, making these liabilities less capital intensive and therefore having better terms for us that's why you see back in an improved renewal profile.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah just, I mean the improvement in the IRR is presume a down to DB to DC. It's all down to renew pricing on existing DB, where the schemes are still open to future crew and still open to new entrants?

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah. But there, but the profile for the new cash flows for the new cash coming in even the liability profile. So the terms and conditions, but also the structure of the product can change for the back for the existing stock that's on your balance sheet.

And therefore we do as well, for instance one of the components there is that we have companies with contracts that have separate accounts. In a lot of cases we moved the, we unwind the separate accounts moved to the general account, which keeps it gives us the opportunity to take control over the assets to have better hedge able situation, which allows us to have better terms for the client

in the total package it improves the liability profile, the stability for themselves as well.

So it's, this is a very let say sophisticated way in which we transact with the clients.

Q - Gordon Aitken {BIO 3846728 <GO>}

Alright. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Okay.

Operator

Next question is from (inaudible).

Q - Unidentified Participant

Yes. Good afternoon. I think it's already, two questions from my side left, if I may. First is to risking of that general account, which I guess isn't credible difficult strategy to execute in these markets, since you're not really been trying to take risks in these markets. Except maybe in Dutch markets. Can you confirm your guidance of flat net operating revenues in the Dutch Life businesses on the medium term. Despite the low interest rate environment and let's say low credit risk environment, and in terms of getting the returns is it still the strategy to put a bulk of your, let's say re risking effort in Dutch mortgages, despite also falling yields in Dutch mortgage side, I would say and that in the 5% stake in the Dutch equities, which are becoming expenses as well. Or you maybe sort of reconsidering this strategy and becoming a bit more cautious or wait until the market becomes a bit more rational again.

And if you could give us a feel, actually for your net new money yield versus your current portfolio yield that would also be quite helpful. And then maybe briefly on solvency 2 this might be, might have been asked already I'm not sure of about it. Can you give us a feel what should a delta you expect in terms of your whole Solvency 2 ratio on your internal model versus your stand up model.

And secondly, what would be a solvency 2 ratio you would be comfortable with. And lastly maybe on the access capital I mean your specially have a very strong cash capital bear for at the moment while your turn-on capital distribution is still quite cautious.

These can be more ambitious, I would say. Can that be explained by maybe an increasing discomfort with you or the regulator in applying you have are. Of course in the low interest rate environment and the flattening yield curve, has increasingly beneficial impact I would say on the ratio of your liabilities. Or is there also an element of holding a sort of cash capital for a potential unit linked selling settlement claims. Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Thanks (inaudible) those are, that's a bunch of questions. At the same time, so and a number of questions actually. I think we've answered already on earlier moments in the call. So let's just quickly recap them.

So our objective for the Dutch Life segment is to over the medium term arrive to an operating result which is the stable levels versus 2013, we have that ambition, we have that target. We will continue to work our way through there.

The tactics, the strategy that we have for that are a combination of expense reductions on taking on higher yielding assets in a disciplined manner. And on making sure that we improved the risk profiles of our liabilities. And that's what we're doing and continue to do.

Now we do think obviously the low rates and difficult yield environment is not making it easy to find the assets with the good yields. Having said that, we still feel that there is quite some opportunity and we focus on mortgages, we focus on loans we focus on liquid assets. There is a number of things that we're doing and we will not lose the discipline on the quality of those assets, as I mentioned earlier on the call. So that's how we look at that peace.

Then I think when it comes to Solvency 2 Delfin maybe you can take this on Solvency 2.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes the question on Solvency 2, I think it was the difference between the standard formula and what the partial internal model is. I think it will be premature to provide any guidance before we have advanced further with our regulator on this front.

In terms of the excess capital if the reasons for holding excess capital is due to UFR, unit-linked litigation, I can only repeat what I have said already that we are looking into Solvency 2 within the currently regulatory regime and we have obviously there is some uncertainty on unit-linked, it has been much flat at the time of the IPO and is still is there, but we will provide a more clarity on targets on excess capital let's say on capital management once we have more clarity on Solvency 2, but at this point of time, let's say that the unit link litigation is not waiting too much in our resistance so for dividends or otherwise

A - Lard Friese {BIO 17008174 <GO>}

Okay?

Q - Unidentified Participant

Okay, thanks for that.

Operator

Next question is from Mr. Fahad Changazi from Nomura.

Q - Fahad Changazi {BIO 15216120 <GO>}

Good morning. I'm sorry I just dialed in but I have a couple of questions on Solvency 2, actually just very quick ones hopefully. Could I follow up on William's question, Goldman Sachs's William's given we don't have binding constraint in terms of regulatory stuff going forward individually it linkage now. In terms of, to take a decision on the targeted solvency 2 ratio and potential or not excess capital return, will that be done in conjunction with same way your peers plant on Solvency 2as well? That's question I.

Question two is falling on assets question on the central liquidity. My prediction 100 million 1.4 billion but going forward, is all of the operational cash generation there for distribution, you are not going to be willing, looking to build up 1.4 billion. And also on the payout ratio which appears now it is 50% given the net earnings after tax will equate the cash you cash cover will increase from here onwards. Now is there any reason that you have been looking to do that? Thanks.

A - Delfin Rueda {BIO 7032761 <GO>}

Okay. The first question on -- if what the level of competition is going to have an influence on our targets or capital positions. Obviously is an additional reference that we will look at and take into account. Certainly it's not the most important one, but is an irrelevant one. In terms of the last question, I'm not sure I have understood it, can you repeat it please?

Q - Fahad Changazi {BIO 15216120 <GO>}

Sure. It's on the central liquidity 1.4 billion you comfortable with that, you comfortable 100 million. Just let me see in terms of the operational cash generation here onwards, will you be looking to increase the 1.4 billion I presume not. And if that's the case, given the net IFRS after-tax earnings will at some point equal cash earnings, your cash cover of the dividend will increase and I was wondering is there any reason for you to be looking to increase the cash cover of the dividend? I'm just trying to imply whether you can increase IFRS stay out ratio. Thanks.

A - Delfin Rueda {BIO 7032761 <GO>}

Okay. Indeed there is no any specific target to increase the current level of cash capital. So I can confirm that. And in terms of the payout ratio, I think that obviously over time this is something that we will have to access, I think it's a very early and we have stated with our target guidance for our dividend based on the operating result after tax of the ongoing business in the range of 40% to 50%, and obviously a capital situations will influence any other distribution of excess capital outside of the ordinary dividend.

Q - Fahad Changazi {BIO 15216120 <GO>}

Okay. That's great, thanks.

Operator

Next question is from Mr. Frank Kopfinger from Commerzbank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thank you, and hello everybody. I have two questions. My first question is on the dividend from your subsidiaries. Could you provide some more insights and for the full year 2014 into the segments. So which segment pay to what upstream which dividend to the holding level.

And my second question is on your Investment Management segment, certainly one side, the segment benefited from the higher market valuations from the market impact, but if I read the statistics correctly, you also had 14 billion of net outflows in 2014.

So, could you comment on these outflows, how do you think about those and what your expectations would be for going forward?

A - Delfin Rueda {BIO 7032761 <GO>}

So on the dividends on the dividend from the subsidiaries, Delfin.

So in terms of dividend in the -- I think you were asking for the full year?

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yeah, correctly.

A - Delfin Rueda {BIO 7032761 <GO>}

Okay. So in terms of the dividends for the full year, the main payments are coming from Non-Life, ING Re and Japan, Poland Investment Management and Belgium Life, basically in this order of amounts.

A - Lard Friese {BIO 17008174 <GO>}

So and on the investment management company, yes we saw some net outflows of this year was mainly due to reflecting the outflow of assets managed for ING Pension Fund and also some smaller other outflows. At the same time, we saw on the back of the markets a strong overall AUM increase. And what we're doing because that's our strategy for investment management is strengthening the capabilities of the investment manager in different strategies to ensure that we fulfill the objective that we have, which is to grow the third-party business.

As you know our investment manager has a strong third-party business capability and we'll continue to build on that and I think you know the -- I think it's proved testament that the ECB was appointing as it's one of the four asset managers to support them in their ABS purchasing program and also there are other wins that we had as well on the back of our third-party engagements and we will continue to do so in the future.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay, thanks.

Operator

Okay. Last question from Ms. Angela Grove of Audi Asset Management [ph].

Q - Unidentified Participant

Hi, good morning everyone. So my question relates to Solvency 2 and the capital positions again. I want know why a decrease in interest rate, would actually benefit capital generation? I think you mentioned something about cash flow hedging and then on realized gains on asset. I just wonder would Solvency 2 actually take a different view on capital generated this way, because it's not economic in my view. Thanks very much.

A - Lard Friese {BIO 17008174 <GO>}

Thank you, Angela. So Doug.

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah, sure. Good question Angela. I think so for us the bulk of this is driven by what happens in the Netherlands and Solvency 2 and Solvency 1 are very similar in that basis, because they are both mark-to-market type regimes. What I was trying to explain, is that we have cash flow match, especially for our long-term liabilities and what happens in Solvency 1 in The Netherlands and in Solvency 2 for all going forward is that the liabilities have the impact of a ultimate forward rate starting from your 20. So that means they don't move as much with the interest rates as the other assets do. And therefore since we are matched on that, if rates go down, we have a modest benefit there is offset a little bit by the fact that some of our risk margins go up for things like longevity risk.

So overall, we have a modest benefit when rates go down to the solvency ratios under Solvency 1 and Solvency 2 and that's the way it works.

Q - Unidentified Participant

So just to clarify sir basically the benefit comes from the extrapolation from your 23 years 60 because we used ticket [ph] whereas asset is fully mark-to-market so you benefitted from a lower interest rate therefore inflated asset value?

A - Lard Friese {BIO 17008174 <GO>}

Yeah basically that's right under the fact that we course choose the cash flow match indifferent to the UFR. So based on the way we manage our assets and liabilities and then based on this, what you just explained is exactly what happens.

Q - Unidentified Participant

And would you expect say winning is raised out fully or reverse then how does that impact your hedging strategy and your capital generation then going forward?

A - Lard Friese {BIO 17008174 <GO>}

Well again our strategy is to match our cash flows as much as possible. That's been our strategy. Obviously, if we have a modest benefit when rates go down, then we will have a modest impact negatively if rates were top go up. It's also impacted just on parallel shifts, but also even the curve difference between the 20-year rate in the 30-year rate. So there is several facets to go into it.

But that's I think you've got a good understanding now how it works.

Q - Unidentified Participant

Okay, thank you very much.

Operator

Ladies and gentlemen, this concludes the question-and-answer session and now to Mr. Friese.

A - Lard Friese {BIO 17008174 <GO>}

Thanks everybody. It's the afternoon now. So good afternoon everybody and thank you very much for all of your questions and interest being on this call today, with us. I would like to round off by saying that we are pleased to report a strong set of results for the quarter and for 2014 as a whole. The operating result went up and we're making good progress on reducing expenses in line with our strategic focus.

Our capital position, which we discussed I think quite extensively on the call today, we feel is very strong and we are confident that we are well prepared for Solvency 2. The 2014 is the momentous for us on first fronts various fronts, including the IPO and successful debt issues, but also because we are proposing our first dividend, which we hope that our shareholders will approve at the Annual Meeting in May. However, we have a lot of work to do in the coming years. And we will continue to focus on executing our strategy. We are committed to delivering on our targets of generating capital and improving the earnings profile business, well at the same time providing excellence service and products to our customers.

Thank you for question, thank you for your attention until the next quarter. Thank you.

Operator

Ladies and gentlemen this will conclude the NN Group analyst call. Thank you for attending. You may now disconnect your lines. Have a nice day.