Business Update Call

Company Participants

- Clifford Abrahams, Group Chief Financial Officer & Member - Executive Board
- Delfin Rueda Arroyo, Chief Financial Officer
- Eilard Friese, Chairman and Chief Executive Officer
- Hans van der Noordaa, Chairman-Executive Board

Other Participants

- Arjan van Veen, Analyst
- Bart Horsten, Analyst
- Benoît Pétrarque, Analyst
- Cor Kluis, Analyst
- Darshan Mistry, Analyst
- Matthias de Wit, Analyst
- Robin van den Broek, Director Benelux Financials
- Steven Haywood, Analyst
- Stéphane Suchet, Credit Analyst
- William Hawkins, Analyst
- William Wade, Credit Research Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. This is the operator speaking. Welcome to the NN Group Analysts Conference Call on its recommended transaction with Delta Lloyd. The telephone lines will be in listen-only mode during the company's presentation. The lines will then be opened for a question-and-answer session.

Before handing over this conference call to Mr. Lard Friese, Chief Executive Officer of NN Group, let me first give you the following statement on behalf of the company. Today's comments may include forward-looking statements such as statements regarding future developments in NN Group's businesses, expectations for its future financial performance and any statements not involved in the historical fact. Actual results may differ materially from those projected in any forward-looking statements. Any forward-looking statements speak only as of the date they are made, and NN Group assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

Furthermore, nothing in today's comments constitutes an offer to sell or a solicitation of an offer to buy any securities. Any offer will be made only by means of an offer memorandum. Any offer and the dissemination of information on the offer may be restricted by law or regulations in certain jurisdictions including the United States, Canada and Japan. Any failure to comply with these restrictions may constitute a violation of the security laws of that jurisdiction. Neither NN Group nor any of its advisors assume any responsibility for any violation by any person of any of these restrictions. Any shareholder who is in any doubt and to his position should consult an appropriate professional advisor.

Mr. Friese, please go ahead.

Eilard Friese

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

We are pleased to announce today that we have agreed with the boards of Delta Lloyd, a recommended transaction at €5.40 per share for all the outstanding ordinary shares of Delta Lloyd. This comes after substantive and extensive discussions between our two companies in recent weeks, including targeted due diligence. We have agreed a merger protocol, and the main components of that protocol are contained in the press release that we issued this morning.

This is a very important event for both NN Group and Delta Lloyd. We are bringing together two leading firms in the Benelux insurance and asset management industry. The combination will be a stronger group, better placed to provide our customers with the products and services they need. It represents an acceleration of our strategy and brings additional scale to our Dutch businesses, creates a sustainable Belgium platform, and has around €60 billion of assets to the asset manager.

We are excited to combine the two companies and welcome Delta Lloyd staff, as we will work together in building a sustainable, profitable business for the future.

We anticipate that the combined business will be able to materially increase the free cash available to shareholders, thanks largely to the greater efficiency that the combination brings. We anticipate a double-digit increase in dividends per share for 2018 and onwards. We, of course, recognize that execution is key, and we have confidence that we will deliver as these are after all markets and businesses that we know well. We also know it will not be easy and will require significant effort from both NN and Delta Lloyd staff so as to build a company with a culture and the outlook that we are seeking.

Finally, our balance sheet will remain strong. We estimate that the third quarter 2016 Solvency II ratio of the combination, after capital synergies and actuarial adjustments, is approximately 185% and the cash capital position of the holding company is in the range between €1 billion to €1.5 billion. Maintaining a robust balance sheet is one of our priorities and we remain prudent in this transaction as well.

So, let's turn to slide number 3. In terms of details of the recommended transaction, it will be an all-cash offer at a share price of €5.40 per ordinary share for all issued and outstanding ordinary shares of Delta Lloyd. It represents a significant premium on Delta Lloyd's share price prior to our first announcement on the 5th of October of this year.

The transaction secures our leadership position in the Netherlands and accelerates our investment proposition by adding scale in Belgium, banking and asset management. The combination will facilitate a drive for further efficiency, and as a result we anticipate annual cost synergies of approximately €150 million pre-tax by 2020.

We do expect there will be some initial capital synergies, but also a meaningful negative impact of aligning actuarial assumptions. The intention is to fund the transaction by deployment of €1.4 billion of excess cash and approximately €1.1 billion of debt financing. The transaction is anticipated to generate a return on investment of around 10% and a material increase in free cash available to shareholders over time. This is expected to translate into double-digit accretion in dividend per share for 2018 and onwards.

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

Hans van der Noordaa {BIO 3144479 <GO>}

Thank you, Lard, for your introduction. We see today's announcement as a new chapter in Delta Lloyd's more than 200 year history, now as part of NN. It's good that today the uncertainty around our company's future has come to an end. After extensive analysis of different alternatives, we made a clear decision that this is in the long-term interest of our stakeholders, offering immediate value to our shareholders.

This announcement follows constructive interaction between the board and the management teams of both companies, including a period of due diligence. The offer provides a certain cash premium for our shareholders and also a secure future for our policy holders.

Delta Lloyd is a highly client-focused organization with excellent market position with strong brands and multichannel propositions for our 4.2 million customers, which will contribute strongly to the combined company.

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

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

Back to you, Lard.

Eilard Friese

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

So let me now take you through the strategic merits of the transaction starting at slide number seven. The transaction with Delta Lloyd brings significant strategic benefits to NN Group and will create a business with more capabilities and a business that is better positioned to capture market opportunities and will deliver a more sustainable financial return for our shareholders. It also enables us to provide better products and services to our customers.

We will create a leading provider of pension products within the Dutch market, the second largest non-life provider and a sustainable Belgium business, which will now be a large market for the Group. We will bring more scale to asset management and banking, and we will bring some additional capabilities that we think will be valuable to the Group, including strong digital capabilities and an additional bank distribution channel.

Let's go to slide number eight. Delta Lloyd brings to NN Group some very strong and attractive capabilities. The OHRA brand and platform for example, is a leader in digitalization and direct distribution. The ABN AMRO joint venture will give us access to valuable and successful bancassurance channel. We anticipate that the continued distribution of health insurance will supplement our retail strategy in the Netherlands and will be a potential source of revenue synergies going forward.

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

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

Let's look now at the Belgium, banking, and asset management businesses on slide number 10. In Belgium, we will create the number four in the market with an 8% market share. We will combine a largely bancassurance business from NN Group with a largely broker business from Delta Lloyd. Belgium will become a material market for NN Group and a platform for further profitable growth going forward.

Our asset management will further increase its assets under management at marginal cost in an industry where scale is becoming more important and the combined bank will have a combined market share of 8.5% in new mortgage production.

Let's turn to slide 12 on the balance sheet and solvency position. We estimate that the pro forma third quarter 2016 Solvency II ratio of the combination will be 189%. This is calculated at the NN Group position plus the Delta Lloyd position, adjusting for the price paid, the reversal of the €333 million deduction of the share buyback and the removal of eligibility constraints on the Delta Lloyd side.

From this third quarter figure, we do anticipate a number of adjustments to be made, leading to a small decrease in the Solvency II ratio. First of all, we expect some initial SCR reduction due to diversification between NN and Delta Lloyd. And we also believe, on the basis of our due diligence, that there will be some alignment of actuarial assumptions with meaningful negative impacts on our own funds. This is on items such as longevity, best estimate, and unit cost assumptions.

However, in the overall context, we still see the combined Solvency II ratio being approximately 185%. And this is of course before any operating return, market movements, dividend payments, refinancing of hybrids and other movements on the Solvency II ratio until closing.

So let's look at the funding on slide 13. With respect of financing of the deal, it is an all cash offer which will be funded through a combination of existing cash resources and new debt. Our base case is that we will raise senior debt. Looking forward, we anticipate that we will need to operate at the top-end of our €0.5 billion to €1.5 billion cash capital target range during the initial stages of the acquisition. Our financial leverage and fixed cost coverage will remain consistent with our single A financial strength rating target, albeit at the top-end of our internal appetite levels initially.

So, let's turn now to slide 15. We're targeting pre-tax cost synergies of €150 million by 2020. This is over and above standalone cost-saving plans of both NN and Delta Lloyd. We see multiple areas of overlap that over time should allow for greater efficiency. And we will come back at a later date with more insight into our cost targets, including the restructuring charge associated with realizing these.

I will now turn to slide number 16. The transaction will significantly improve our generation of free cash available to shareholders. We believe that over time if capital is built into legal entities, we could generate additional free cash flows to our shareholders in the range of €250 million to €300 million. This is expected to translate into a double-digit increase in the dividend per share for 2018 and onwards and we believe that the deal will generate a return of investment for our shareholders of around 10%.

So, let's move now to slide number 18. We believe the transaction is financially and strategically compelling and fully consistent with our investment proposition and, in fact, will accelerate it. Strategically, this transaction secures our leadership position in the Netherlands and accelerates our investment proposition by adding scale in Belgium, banking, and asset management. Our balance sheet will remain robust, and our free cash available to shareholders will significantly increase. Our dividend policy will remain unchanged, which means that the free cash available to shareholders will continue to be paid out through ordinary dividends and excess capital returns over time unless other value-creating opportunities can be found.

So, let me now wrap up on slide number 19. We are pleased that today we announced a recommended transaction at €5.40 per share, which we believe to be financially and strategically compelling and beneficial as it significantly increases our cash flow and dividend per share and enhances our position in the Benelux.

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

With that, I would like now to open the call for your questions. And can I kindly request you to limit the number of questions to two per person, so that everybody gets a chance to speak. Now, of course, feel free to come back with a second round of questions if they have not yet been dealt with.

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

Q&A

Operator

Thank you, sir. Ladies and gentlemen, we will start the question-and-answer session now. The first question is from Mr. Benoît Pétrarque, Kepler. Go ahead please, sir.

Q - Benoît Pétrarque

Yes. Good morning, everybody. Two questions on my side. I was just thinking about the Solvency II ratio, so 189%. NN never actually disclosed the, kind of the minimum level you were looking for. I think Delta Lloyd had a minimum level in mind. But with a combined entity now, which type of Solvency II ratio level are you aiming for, which level are you thinking? You are kind of overcapitalized and you might actually start to pay excess capital. That's first question.

Second question is about the Q4 movement. I think Delta Lloyd sees a negative from (17:56) also from longevity development, longevity hedge as well. How much impact will that have on the combined Solvency II ratio?

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

A - Eilard Friese

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

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Okay. Thank you very much, Benoît. So, your first question about the Solvency II target, we have mentioned in the presentation that we are not changing our capital management approach nor our dividend policy. So, we're targeting to have cash capital at holding between €0.5 billion and €1.5 billion, but obviously with integration of Delta Lloyd, we aim to be in the larger – in the upper bound of that range. So no change there in terms of capital management approach, nor in terms of dividend policy.

In terms of the impact that Delta Lloyd has flagged, I will take – if Clifford has anything to add, but I think it is overall expected to be stable.

A - Clifford Abrahams {BIO 7425676 <GO>}

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

A - Eilard Friese

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

Q - Benoît Pétrarque

Thank you very much.

Operator

The next question is from Mr. William Hawkins, KBW. Go ahead please, sir.

Q - William Hawkins {BIO 1822411 <GO>}

Gentlemen, thank you. Can you just be exactly clear about how you've calculated the 10% return on investments with regards to what exactly your assessment is of Delta Lloyd? I mean, are you taking the previous Solvency II capital generation figure of €200 million to €250 million or is it something else? Just help me understand what you're actually defining as the underlying return there.

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

A - Eilard Friese

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

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yes, William. So, the first question is relatively straightforward. So we are basically looking it only from our perspective, what is the marginal contribution of the acquisition. So this is the expected return obviously from the perspective of NN Group. So, we have taken into account the cost synergies that were mentioned, the €150 million pre-tax, approximately €110 million as you know, after tax. And we have a look at what is the capital generation of Delta Lloyd on a standalone basis as well as the additional free cash flow that the transaction will bring taking this into account to the combined NN Group.

So when you look at it with price paid of €2.5 billion, that's how we come to the calculation of a 10% return on – in investment. Obviously this transaction has allow us to put a significant amount of excess capital to work, as you have seen, to good returns. When you look at the IFRS earnings, that is much more complicated, because indeed as you anticipate, the accounting from both entities are very different.

And I think that here, the important element to say is that we indeed expect an increase on the free cash flow and as a consequence, dividend per share to go up substantially. But it's too early to estimate a exact impact on Delta Lloyds on NN's IFRS earnings. We will obviously provide that additional information at the appropriate time.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. I'll come back with some of those later. Thanks, guys. Thank you.

Operator

The next question is from Mr. Arjan van Veen, UBS. Go ahead please, sir.

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

Capital synergies, other than the – moving Delta Lloyd to partial internal model, can you give a bit of color around what else may be available over time? And secondly, related to that, when you combine particularly the two Netherlands live entities together, do you need to make any changes at Delta Lloyd to bring it in line with how you would run it from a risk control or assisted side (23:51) that you know caused the matching or change in the asset side, et cetera? Thank you.

A - Clifford Abrahams {BIO 7425676 <GO>}

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

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

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

And then this is for Delfin, just to be clear that the current assumptions is all on current cost run rate, so any improvement from here will come through later?

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yeah. When we talk about the capital synergy that we expect to come later on, we obviously do anticipate that as the cost savings are going to materialize, this will have an impact into the capitalization of this lower unit cost and as a consequence, they are not reflected in the, let's say, combined pro forma graph that are shown in page 12, but this is an important benefit that will come over time.

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

Okay.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

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

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

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

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Well, I think we have mentioned and you have that in slide 12 that there are some positives or negatives that we do expect at moment one or soon after the acquisition. And there we have mentioned that in the one hand actions have already been taken by Delta Lloyd in terms of closing the ALM gap. That's going to be beneficial. Also, the capital synergies that we have just mentioned a moment ago in relationship to the diversification of benefits, that's something that will come.

But we also have flagged that there will be some negative impact due to the alignment of actuarial assumptions in order to accommodate to the NN Group ownership. These, as Lard mentioned in his presentation relate mainly to longevity, best estimate reserving methodology and also in the unit cost assumptions. But important to highlight that these adjustments will come to, we estimate, a pro forma level of around 185% pro formas of 3Q. Obviously, there are some uncertainties in order to come to the actual number.

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

Thank you.

Operator

Next question is from Mr. Matthias de Wit, KBC Securities. Go ahead, please.

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

Yes. Thank you. I have two questions: First is on the dividend in 2017. I think you only made a comment for 2018, but just wonder if there's anything you could say on the dividend you would expect to pay for 2017. And with regard to the dividend policy, I think you mentioned that you stick to your guidance to pay out a certain percentage of the operating result, but to me it's not fully clear how Delta Lloyd's operating results would look – yeah, how it would translate on your framework, so could you say anything in that respect.

Second question is on the holding company cash position. I get to around €1.5 billion on a pro forma basis. Is that correct? And maybe also, is there anything you could say on how we should think about the year-end position. And if you would be ahead of the target, I guess, deleveraging is one of the priorities that you mentioned that you would be at the high end of your appetites ratio. Is that also a reasonable assumption? Thank you.

A - Eilard Friese

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

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Good. Thank you, Matthias.

A - Eilard Friese

Okay. Here we go.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

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

In terms of the guidance of the free cash flow being on the range of the operating result after tax, that has been an important constant of our framework. You are right that it is, in terms of the payment of dividends being between 40% and 50% of the operating result is through that. We don't know yet precisely how the operating result in the consolidated entity, IFRS result we'll derive. But here, I'd like to bring your attention basically to the comments that I made as you know already in terms of the generation of free cash flow that is expected to be initially in the range of €150 million, but later on by 2020 between €250 million and €300 million. So that basically gives you a relevant framework, I think.

In terms of the cash capital of holding, I've indicated that we do expect that to be more on the – we aim to have more on the higher bound of the cash capital of holding. That depends a bit of how we finance the transaction and the level of debt that we decide to have. But there is some flexibility to be on that range, so I would not like to provide a precise – a target at this point of time. And indeed, once we – one of the considerations that we would have when we perceive that we have surplus capital is also to consider the possibility of the leveraging to the extent that that's advisable.

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

Okay. Thanks a lot.

Operator

The next question is from Mr. Steven Haywood, HSBC. Go ahead please, sir.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning, everybody. I wonder if you could just tell me about the current share buyback? I know it's suspended at the moment, but is it suspended permanently now? And then thinking about in the future, you've got, say, just over €1 billion of free cash flow you are generating from NN. That's rising 10% to 15% in the short-term and then rising 20% to 30% in the long-term. So, from my point of view, when is the sort of next time that you could announce a new share buyback for the company if you don't use capital for other value-creating opportunities? Thanks.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yes. Thank you, Steven. As I mentioned before, we're planning to maintain our dividend policy, and as a consequence an important part of our dividend policy is to repay back surplus capital to shareholders unless there is a value-creating opportunity to deploy that surplus capital. The opportunity to acquire Delta Lloyd has been, we think, a very compelling opportunity to use that surplus capital. That's why we stopped the share buyback. We will have the benefit of €333 million increase in our own funds as a consequence of stopping the share buyback that will come into effect in the fourth quarter.

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

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Just a quick follow-up on the Solvency II ratio. That €333 million that you say, that included in the 189% or excluded?

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yes. Correct. So, for the pro forma 189% as of 3Q is basically combining the two entities together; so, NN and Delta Lloyd, one plus the other. Then is the addition that's a positive of €333 million of the suspended buyback. Then we have also a positive due to the removal of the eligibility constraints for Tier 3 capital that Delta Lloyd announced on their Q3 numbers. Then, of course, the biggest negative impact is the €2.5 billion of cash which is a consideration for the acquisition. These are the only three adjustments that are reflected in the 189%.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you very much.

Operator

The next question is from Mr. Bart Horsten, Kempen & Co. Go ahead please, sir.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes. Good morning, gentlemen. I have a few questions on free cash flow development. You indicate initially €100 million to €150 million, rising to €250 million and €300 million. I suppose the largest part of that is driven by the expected cost synergies. But I was also wondering whether there are other benefits in that because if I take the net benefit from cost synergies, comes at around €100 million improvement. So I was wondering what the other synergies are or the other improvements or drivers of the free cash flow improvement and would that also include refinancing of existing debts at Delta Lloyd which has some high interest debt on its books?

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

A - Clifford Abrahams {BIO 7425676 <GO>}

Yeah. So, Bart, good morning. This – let me take the last one first. First, obviously – so we will go through the ASM proceedings to file. And when we have approval, we will launch the offer. Then, our tender period starts. After the tender period, we will see how many shares are being tendered. If it's 95%, then there is the – let's say, the legal normal fees (36:19) opportunities for the 5% that are applicable. If it's below that number, there is a quite customary structure in place that we could pursue to ensure that we get control over the company and that we can extract the synergies and drive the business forward to the plans that we have.

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

Q - Bart Horsten {BIO 2390919 <GO>}

Okay.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

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

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you.

Operator

The next question is from Mr. William Wade, JPMorgan. Go ahead please, sir.

Q - William Wade {BIO 19104398 <GO>}

Yes. Hello. Good morning. William Wade here from JPMorgan Credit Research. Just one question for me at this point. My other questions have been answered. Would you mind just clarifying the rationale for using senior debt as the base case for the debt part of the transaction? I believe you might also have some capacity to issue sub-debt. So I just sort of wanted to understand that rationale and what the drivers of that will be going forward. Thanks.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yes, William. I think it's quite simple. We obviously need to look at what is the level of solvency, and if we feel comfortable with that. And otherwise, you finance yourself with the cheapest fund – the cheapest debt available. So, hybrid would count as part of our own funds, but the senior debt doesn't, but it's also cheaper. So, we've taken as a base case in order to look at the transaction issuing senior debt. But we also have the flexibility open in case we were to require or we see appropriate to raise hybrid.

Q - William Wade {BIO 19104398 <GO>}

Okay. Thanks. That makes sense. And then I guess just a follow-up then. So this transaction with Delta Lloyd doesn't change, and I think you alluded to this in the answer to the prior question. But there's no change as per previous announcements or previous expectations of refinancing certain NN debt. So for example the 63,827 (39:37) ING debt. There's no sort of change in expectations looking forward?

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

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

Q - William Wade {BIO 19104398 <GO>}

Fantastic. Thank you very much.

Operator

The next question is from Mr. Darshan Mistry, Citi. Go ahead, please.

Q - Darshan Mistry {BIO 19807857 <GO>}

Hi. Good morning, guys. Just one quick question for me, please. What's driving – sorry, are there any just kind of macro assumptions that are driving part of the increase in free cash from the €100 million to €150 million that you expect to be adding now to the – to your 2020 target? So, are you assuming kind of a widening of base spreads or any kind of tick up in interest rates? Would you assume that rates and spreads and everything else stays where it currently is? Thanks.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yes, Darshan. So I think that when we have looked and considered the value of this transaction, we have obviously taken into account the current level of interest rates. And that is something which is I think beneficial for all insurance companies, including Delta Lloyd and NN Group. The free cash flow guidance that we had given of €250 million and €300 million is already you like relatively large range. There are some uncertainties around it. And obviously, the level of interest rates could be – if they keep increasing, that would be, as you know, a positive or an upside. But, you know, this, we have seen it from the recent past, it can goes both directions and either way. We are having a level of solvency that which is adequate, and of course the free cash flow will be influenced by the change of interest rates that we have flagged in every quarter. We now are operating a return – capital generation.

Q - Darshan Mistry {BIO 19807857 <GO>}

Perfect. So, you're not assuming a mean reversion of interest rates in that €250 million to €300 million? You're assuming things stay where they are and everything is achieved, I guess, organically.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

No. We have assumed, you know, the best estimate that we've got at this point of time.

Q - Darshan Mistry {BIO 19807857 <GO>}

Okay. Thank you.

Operator

The next question is from Mr. Robin van den Broek, Mediobanca. Go ahead please, sir.

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

Yes, good morning, thank you for taking my questions. First one is just thinking back about the midterm capital generation target of Delta Lloyd on a standalone base of €200 million to €250 million, and how can I tie it up to the €250 million to €300 million you're mentioning which includes €110 million cost saving by 2020? So, what's the big delta here, because there seems to be a gap.

And secondly, I was wondering if you could give a little bit more color on the timing of the cost savings by 2020, presumably may be the bank and asset manager cost savings can be achieved more quickly than life. May be some color here, and any color on the size of restructuring cost will also help. Thank you.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Okay. Thank you, Robin. So, my understanding is that the €200 million to €250 million target of capital generation or generation of surplus capital at the level of Delta Lloyd by 2020, of course, is related, but it's not exactly the same with our €250 million and €300 million free cash flow generation; and for us, the definition of free cash flow generation is the expectation of the remittance to the holding minus the holding expenses. So, obviously, some of these benefits are included within that, but it's the definition is not precisely the same.

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

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

Thank you. That's very helpful.

Operator

The next question is from Mr. Stéphane Suchet, Credit Suisse. Go ahead please, sir.

Q - Stéphane Suchet {BIO 15194213 <GO>}

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

A - Eilard Friese

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

Q - Stéphane Suchet {BIO 15194213 <GO>}

Thank you.

Operator

The next question is from Mr. Cor Kluis, ABN AMRO. Go ahead, please, sir.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning. And Cor Kluis speaking. I've got a few questions. First of all, in the internal model of Delta Lloyd, the quarterly partial internal model, what's the speed that you – a question is already asked on (45:48) internal model running, of course, can I get this partial internal model, yeah, earning, because the current combination, of course, of the Solvency II ratios is based on the standard model of Delta Lloyd. So it will be nice to – more to speak, can you do that within a year? When can you start with that? That's the first question.

And the second question is about the restructuring cost, you indicated it should be consistent with the earlier transactions. Should we think about €150 million, those kind of levels? And do you include that in your net operating profit, which is relevant for the dividend story, of course. Or do you want to put that restructuring cost in special item below the line?

And maybe one final question is about the longevity of the insurance. A part of that will be refreshed (46:39), of course, but – and for the (46:42) situation in Q4. Are you planning to apply for vendor longevity reinsurance deal for your total company? And could you highlight what kind of size we could think about? Those were all of my questions.

A - Hans van der Noordaa {BIO 3144479 <GO>}

So, thank you, Cor. Three questions. In terms of the timing of the internal model, I think it's early to say. Obviously, it requires, as you know, some time in order to integrate with our partial internal model, that is a significant change. We'll have some conversations with the regulator as well. So, let me be cautious for the time being and not provide any specific guidance on that respect. But obviously, we all see the benefits of doing that as soon as possible.

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

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

Q - Cor Kluis {BIO 3515446 <GO>}

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

A - Hans van der Noordaa {BIO 3144479 <GO>}

Thank you.

Operator

The first question is from Mr. William Hawkins, KBW. Go ahead please, sir.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you for letting me follow-up. Couple of months ago Delta Lloyd was talking about €200 million of synergies rather than €150 million. So, what have we learned that is more negative than that original view? And then secondly, there's no mention of a break fee. Is there any break fee for this transaction or not? Thank you.

A - Hans van der Noordaa {BIO 3144479 <GO>}

So, thank you, William. And so, I think, that, as you know, we made in October our recommended – announced the intention to make an offer for a €5.30 per share. Since then, we have consider all new information and the result of the targeted due diligence, and we were very pleased to be able not only to confirm our initial views on the value of the company, but also to come to increase offer for the shareholders of Delta Lloyd.

And in terms of the cost savings, this is something that we've looked together. We have finalized and at the end of the day, it's the assessment that we've had at NN of how these savings are going to be extracted that by your means this is a effort and combination that comes from both entities as obviously also NN been larger in size and will also be part of this cost synergies. And keep in mind that this is on top of the already announced savings initiatives that both NN and Delta Lloyd have. So, from the combined overall expense target, when you do the numbers, it comes to a very significant cost reduction.

In terms of the break fees, there is clear explanation, I think, also included within the press release. Maybe, Lard, you want to cover this?

A - Eilard Friese

Yes. So, it's on the press release, Will, as well, so for more details. But it's – for a breach of the Merger Protocol is €25 million. For non-completion of the Offer, €25 million. For breaking up as a result of antitrust is €67.5 million. And for no approvals on the DNB side is €25 million.

Q - William Hawkins {BIO 1822411 <GO>}

Great. Thank you. Sorry, if I missed that. Thank you.

A - Hans van der Noordaa {BIO 3144479 <GO>}

That's okay.

Operator

The next question is from Mr. Allan Leones, UFT (52:09). Go ahead please, sir.

Yeah. Good morning. Two questions for me. One is, did you seek irrevocable and Highfields and Fubon? And if so, why do we not see them in the announcements? My second question was on antitrust. Is this going to be at the European Commission level or is it going to be national antitrust approvals in the Netherlands and Belgium? Thank you.

A - Eilard Friese

Yeah. So, on the first point, Allan (52:34), we have focused in the last couple of weeks on the constructive discussions that we've had with – between the boards on the various aspects of this transaction in order to arrive today to the launch of a recommended offer. So that's what we've been focusing on, obviously. Conversations with shareholders in general since have taken place, but that's been really our focus to get that to the point of a recommended transaction today.

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

Q - Operator

Okay. Thanks for your help.

A - Hans van der Noordaa {BIO 3144479 <GO>}

In terms of that – no. That's it. That's what I was...

Operator

The next question is from Mr. Benoît Pétrarque, Kepler. Go ahead, please, sir.

Q - Benoît Pétrarque

Yes. Just a follow-up question on the use of the cash. Will you – is that fair to assume you will first spend it to kind of deleverage a bit? And what level of leverage ratio do you have in mind? Do you want to go back to the initial level or are you happy with the 30%? Thanks.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Thanks, Benoît. Yes. So, the level of leverage around 30% is very comparable within Europe. I think it's slightly on the upper side of our internal level. It is very comfortable within the rating agencies level, that's depending which rating agency or how you look into it, might be between 20% or 40%. So we are very comfortable. But indeed, as linking to one question before, one of the possibilities in due course is to reduce leverage if appropriate.

Q - Benoît Pétrarque

Great. Thank you very much.

Operator

The next question is from Mr. Matthias de Wit, KBC Security (sic) [Securities]. Go ahead, please, sir.

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

Yes. Thank you. Two very small follow-up questions, please. First on the €250 million to €300 million free cash flow target, could you comment on what level of remittance ratio this is based? So, what proportion of the capital generation you expect to pay out in that year?

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

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Thank you, Matthias. So the €250 million to €300 million is basically, they – the target of incremental remittance minus holding cost that we expect as from 2020. So, that is obviously taken into account all the benefits of the cost synergies, as well as the capital synergies that we have talked before.

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

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

Okay. Thank you.

Operator

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

A - Eilard Friese

Yes. Thank you for all your questions. And let me conclude by saying that we are pleased to announce our recommended transaction today. This represents a significant step in our journey to build a sustainable, profitable business for the future and to strengthen our leading position in the Netherlands and in Belgium. Through this transaction, we will generate a materially higher cash return to our shareholders over time, while at the same time, maintaining a solid balance sheet and capital position.

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