Q3 2014 Earnings Call

Company Participants

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

Other Participants

- Ashik Musaddi, Analyst
- Cor Kluis, Analyst
- David Andrich, Analyst
- Fahad Changazi, Analyst
- Farooq Hanif, Analyst
- Francois Boisson, Analyst
- Frank Kopfinger, Analyst
- Gordon Aitken, Analyst
- Matthias De Wit, Analyst
- Michael van Wegen, Analyst
- William Hawkins, Analyst

Presentation

Lard Friese {BIO 17008174 <GO>}

Good morning everyone. And welcome to this conference call to discuss NN Group's Third Quarter 2014 Results.

I will start today's presentation by looking at the highlights of this past quarter and the progress that we are making on implementing our strategy and delivering on our targets. Delfin Rueda, Chief Financial Officer of NN Group will then talk you through the financial details of the third quarter results at a group level and for each segment, and I will conclude the presentation with a short wrap up after we will open the call for Q&A. We have also Doug Caldwell, Chief Risk Officer of NN Group with us here to answer your questions.

So I suggest we turn to slide number three. I am pleased to report a strong set of results for the third quarter of 2014. The operating result of the ongoing business was EUR270 million, up 17% on the third quarter of 2013 and up 21% on a year-to-date basis. The net result for the third quarter of this year improved to EUR354 million. This compares with a net loss of EUR652 million in the third quarter of 2013, which included a loss on the divestment of ING Life Korea.

Our focus on reducing administrative expenses in the Netherlands is progressing well. In the first nine months of this year, we reduced expenses in the Netherlands by EUR108 million. The net operating return on equity of the ongoing business of NN Group remained stable at 8.3% for the third quarter of 2014, which reflects a higher operating result on a higher equity base, following the debt-to-equity conversion and the pre-IPO capital injection from ING Group.

Our capital position remains robust with our IGD ratio at the end of the third quarter standing at 283% and our holding cash capital stable at almost EUR1.2 billion. And finally, we successfully completed the issue of EUR1 billion of undated subordinated notes in July 2014, which we used to repay hybrid debt to ING Group. This has enabled us to further strengthen our financial flexibility and reduce funding costs.

So let's turn to slide number four. At the time of the IPO, we set out the strategy and the targets of NN Group and also of the individual operating segments. In summary, we are transforming the businesses in the Netherlands with a focus on reducing expenses. For Netherlands Life, we are also gradually shifting to higher-yielding assets, and in Non-Life, our focus is on restoring profitability by improving underwriting performance. At ING -- at Insurance Europe, Japan Life and Investment Management, we aim to achieve profitable growth and increase scale with our operating leverage.

The operating segments are focused on executing their strategy. In Non-Life, for example, we have taken management actions to restore profitability including premium rate increases and more stringent underwriting criteria. These measures are starting to bear fruit. In addition, Non-Life has already achieved substantial cost reductions this year.

At Netherlands Life, we continue to look for opportunities to invest in higher yielding assets, and in this way, keep our investment margin stable. Given the nature of the cost reduction program being implemented in this segment, these savings will only start to come through later in the program towards 2016.

In our growth segments, we are making progress despite some headwinds and the low rate environment. The pension reforms in Poland have impacted our income in Insurance Europe. However, we are successfully shifting our product focus to protection and fee-based products and voluntary pensions.

The higher new sales at Japan Life are driven by the continued economic recovery in that country, but also thanks to our efforts to increase agency production and to diversify the distribution channels. For example, 10 new bank distribution partners have been recruited so far this year.

Investment Management is investing in its people and processes in order to attract new mandates. For example, the emerging markets equity team has recently been strengthened with new hires. And of course, we are delighted with the announcement last week that we have been appointed by the ECB as one of the four asset managers to execute its asset-backed security purchase program. This prestigious mandate, which commences this month, follows a competitive tender procedure and underscores the quality and the expertise of our investment management professionals. Finally, NN Bank, which is included in the segment other, is showing satisfactory growth in retail savings and new mortgage production and is introducing new products such as the recently launched credit card.

So let's turn to slide five. I would like to recap the strategic priorities of NN Group as a whole. These priorities are to reduce expenses in the Netherlands, improve earnings and increase the return on equity of the ongoing business. We have set ourselves the following targets; firstly, to reduce administrative expenses in the Netherlands units, that being Netherlands Life, Netherlands Non-Life, and at the corporate and holding entities by a total of EUR200 million by 2016.

Second, to realize an annual growth rate of the operating results before tax of the ongoing business of 5% to 7% on average in the medium term, and lastly, to increase the net operating return on equity of the ongoing business in the medium term measured against the pro forma 7.1% for 2013. Although we are still at the beginning of our journey as an independent company, we are pleased to note that we are making good progress on delivering on those targets. In terms of administrative expenses, we have realized EUR108 million of cost reductions year-to-date, so we are on track to reach our target by 2016.

The year-to-date operating result before tax of the ongoing business, of EUR826 million, represents a 21% increase compared with the same period in 2013. Please bear in mind though that there may be quarterly fluctuations in our growth rate. Our target of an average annual growth rate of 5 % to 7% will be measured over the medium term.

We have reported a net operating return on equity of the ongoing business for the first nine months of this year of 8.9%. This is higher than our 2013 pro forma return on equity of 7.1%. Now, aligned with these targets, we expect over time to generate free cash available to shareholders in a range around the net operating result of the ongoing business. This assumes normal markets, the current regulatory framework and no material special items.

If we then turn to slide six, this shows the results so far of the execution of our strategy and our disciplined capital framework. NN Group maintained its robust capital position with the IGD ratio increasing to 283% at the end of the third quarter. Solvency I capital ratio of our biggest unit, NN Life has remained broadly stable at 252% at the end of the third quarter. The cash capital position at the holding company is also stable at almost EUR1.2 billion.

In terms of leverage, the gross debt position is EUR3.7 billion as the proceeds of the undated subordinated notes were used to repay hybrid debt to ING Group. Our fixed cost coverage ratio went up to 8.4 times and the leverage ratio improved to 23.7%.

And with that, I will now pass on to you our CFO, Delfin Rueda, who will take you through the financial details of the third quarter results. By the way I'm not passing on Delfin Rueda to you. I am passing on the mic to Delfin Rueda. Please go ahead, Delfin.

Delfin Rueda {BIO 7032761 <GO>}

Thank you, Lard. NN Group posted an operating result of the ongoing business, which excludes the Japan Closed Block VA business of EUR274 million in the third quarter of this year. This is up 17% on the third quarter of last year, mainly due to lower administrative expenses and lower funding cost. Investment Management and NN Bank in particular posted higher results in the third quarter of 2014, while the results of Netherlands Life and Insurance Europe were lower compared with the same quarter last year.

If we look at the first nine months of the year, the operating result of the ongoing business is up 21% compared with the same period in 2013. The net result for the third quarter of the year also improved significantly to EUR354 million. This reflects first the higher operating result, higher revaluations, lower special items and a couple of non-recurrent impacts. Firstly, a refund of EUR52 million was received from the guarantee fund, which was discontinued on 1st July 2014 as a result of the pension reforms in Poland. That was reported under market and other impacts. And secondly, higher lapse experience on out-of-the-money policies was reflected in our change in lapse assumptions at Japan Closed Block VA. This led to a decrease in reserves of EUR63 million.

The net loss in the third quarter of 2013 includes the loss on the sale of ING Life Korea. The net result on a year-to-year basis was down 18%, as the first quarter of 2014 included EUR400 million after-tax charged to the profit and loss account in order to make ING's closed defined benefit pension plan in the Netherlands financially independent.

I would like now to turn to the next slide and show the progress we are making on reducing expenses. One of our strategic targets as Lard has mentioned, is to achieve an absolute reduction of the administrative expenses in Netherlands Life. Netherlands Non-life and at the corporate/holding entities of EUR200 million by 2016. And that is measured against the 2013 cost base.

Of these, as you can see in the chart, we have already realized total cost savings of EUR108 million in the first nine months of this year. This progress is certainly encouraging. And however please remember, that this is a 3-year program and there is still plenty of work to do. Due to the nature of the expense reductions, about half of the savings have been achieved already this year, as was also flagged at the time of the IPO. But other initiatives in particular, of the Netherlands Life will take longer to start showing results and therefore, the associated cost savings at this entity will be somewhat back-end loaded.

I would now like to go through the results of each segment individually. Let's start in the slide 10 with Netherlands Life. The operating result of Netherlands Life amounted to EUR152 million, down 13% from the third quarter last year. The year-to-date operating result decreased 11%. The lower operating result is attributable to a number of factors. If I were to pick out the most significant, this would be. First, lower fees and premium-based revenues which reflects the run-off of the individual life closed book and lower fee income on the unit-linked portfolio. I would say that this is more of a structural trend.

The negative impact on the technical margin has also been under pressure, as a result of higher unit-linked guarantee provisions following a decrease in interest rates. This is more volatile in nature and influenced by interest rate movements. But also there was one-off negative of EUR18 million on a legacy book of paid-up pension contracts. These negative impacts were in part compensated by a higher investment margin and lower administrative expenses. The latter was also influenced by the reallocation of expenses related to personnel provisions for retired personnel in the Netherlands amounting to EUR11 million from this business unit to the segment "Other".

In line with our strategy, we are gradually increasing our allocation to higher yielding assets. Together with higher invested volumes, this is expected to offset the drag on the investment margin due to the current low interest rate environment. The investment spread remained more or less stable at 108 basis points.

Turning to slide 11, let's look at the results of Netherlands Non-life. The operating result for Non-life amounted to EUR32 million for the third quarter of this year. This was driven by a further reduction in administrative expenses. The current quarter operating result represents an increase of 14% compared with the third quarter of 2013. The year-to-date operating result was up 39% on the first nine months of last year.

Our two business lines in these segments are showing mixed results. First, if we look at Disability & Accident, we see that this line of business continues to report an improvement in results, reflecting the measures we have been taking during the past few years to restore profitability, such as more stringent underwriting criteria and premium rate increases, as well as more favorable claims development on prior accident years. The combined ratio as a consequence of Disability & Accident improved to 95.7%.

The results of Property & Casualty however, are impacted this quarter by negative claims experience, including bodily injury claims in the Motor portfolio and weather-related claims in the Netherlands in the Fire portfolio. The combined ratio increased to 102.6% in the third quarter of this year. However, the combined ratio Property & Casualty last year of 96.3% also benefited from a EUR15 million one-off provision release. Excluding this, the combined ratio would have been more comparable to last year. The total combined ratio came to 99.6% for the third quarter of 2014. Year-to-date, the total combined ratio was 99.4%.

Let's have a look now at Insurance Europe. The operating result of this segment in slide 12 decreased to EUR45 million for the third quarter of 2014 from EUR57 million a year ago. The year-to-date operating result was down 11% on the same period in 2013. Insurance Europe is facing some headwinds due to lower reinvestment rates and lower investment volumes, which are impacting the investment margin. The Polish pension reforms are also having a structural impact on operating income. We do see a steady sales growth across the region, which is reflected in higher fees and premium-based revenues. We continue to be disciplined in managing the cost of this segment in line with the operating income. The cost-income ratio on a year-to-date basis remained more or less flat.

Looking now at Japan Life, the segment Japan Life reported an operating result of EUR37 million for the third quarter of 2014. If we exclude currency effects, this represents an increase of 16% on the third quarter last year. On a year-to-year -- on a year-to-date basis, the operating result of Japan Life decreased 2% excluding currency effects on the same period in 2013.

The main source of income at Japan Life is fees and premium-based revenues. These were up 11% in the third quarter of 2014 versus the third quarter last year, driven by higher premium income, reflecting the strong sales and larger in-force volumes in 2014. This was partially offset by higher DAC amortization, which tends to follow the evolution of premium income.

New sales increased substantially and were up 20% from last year, excluding, again, currency effects. The productivity of independent agencies has increased and we are seeing growth in the bancassurance channel, this diversifying therefore our distribution.

Moving on to slide 14 and the Investment Management segment, I would start by mentioning that total assets under management increased to EUR180 billion at the end of September, thanks to the strong market performance during the quarter. The growing balance of assets under management is reflected in higher fee income.

The operating result for the Investment Management segment increased 32% in the third quarter of 2014 compared with the same quarter the previous year. This reflects an improved cost-income ratio as operating income grew faster than administrative expenses. On a year-to-date basis, the operating result grew 14% compared with last year on higher assets under management and as administrative expenses in the first half of 2014 benefited from EUR10 million of personal provision releases.

Our strategy is focused on growing third-party assets. While new third-party assets were acquired this quarter, this was more than offset by the outflow of assets, in particular by a couple of pension funds in the Netherlands that transferred their assets and liability to an insurance company as part of a buyout. We continue to invest in our investment proposition with the aim of attracting new mandates going forward.

The segment other, which comprises the holding, the reinsurance business and NN Bank is on the next page. The total operating result of this segment improved from a loss of EUR89 million in the third quarter of 2013 to a loss of EUR33 million in this quarter. This improvement was mainly due to lower funding costs, higher investment income and fees as well as higher result at NN Bank. Year-to-date, the operating result of the segment other improved substantially to a loss of EUR106 million from a loss of 300 million for the same period last year.

In the holding company, interest cost on hybrids and debt in the third quarter of 2014 went down by EUR18 million versus last year, following the refinancing of debt, the EUR1 billion debt to equity conversion last year and the classification of our newly issued undated subordinated notes as equity. I will give more details on this classification later on.

Investment income increased to EUR16 million as a result of the subordinated loans provided to NN Group -- to NN Life in the first half of this year. Holding expenses decreased by EUR4 million as the savings from our cost reduction program were partially offset by the EUR11 million reallocation of expenses to other referred to in the Netherlands Life segment.

The operating result of the reinsurance business improved to EUR2 million on better underwriting results. The improvement on a year-to-date basis reflects a EUR31 million loss on a specific reinsurance contract in 2013. NN Bank continues to expand its position in the mortgage and savings market. This is reflected in the increase of the operating result in the third quarter to EUR13 million from EUR3 million last year, which was mainly driven by a higher interest result.

Let's look now at Japan Closed Block VA. Japan Closed Block VA reported an operating result of EUR89 million in the third quarter of the year. This includes an amount of EUR63 million arising from a reserve decrease due to higher lapse assumptions, reflecting higher observed lapse experience on out-of-the-money policies. The result before tax in the third quarter of 2013 benefited from positive hedge results. The market related result net of hedging was EUR7 million as hedge assets largely offset EUR276 million movement in reserves. As you can see on the graph on the right, the net amount at risk was EUR393 million at the end of the third quarter versus reserves of EUR792 million. So the hedge program continues to demonstrate its effectiveness and the book evolved favorably in the third quarter. We still expect around 90% of the portfolio to run off by the end of 2019.

With this, I complete the results of our operating segments. I would now like to touch on our cash capital position. For that, let's move to slide 17. The cash capital position at the holding company remained essentially stable during the third quarter of 2014 at almost EUR1.2 billion. Dividends of EUR58 million were upstreamed from the subsidiaries. This was offset by capital injections, mainly relating to EUR25 million capital strengthening of NN Bank. Dividends from subsidiaries can be lumpy from quarter-to-quarter and the majority of annual dividends are received in the second quarter of the year. During our second quarter results, we started -- we stated that we would be reporting on capital generation on a six-months basis. We are therefore not disclosing that information this time around.

Turning to slide 18, we can see our gross debt position, which has remained stable at EUR3.7 billion. As you know, we issued EUR1 billion of undated subordinated notes in July this year, and the proceeds were used to repay an equivalent amount of hybrid debt from ING Group. The undated subordinated notes issued in July are required to be classified as equity under IFRS accounting rules. This means that the associated coupon payments of approximately EUR45 million a year are not recognized through the profit and loss account, but are distributed out of equity.

While this impacts the level of interest cost that you see reported in the segment "Other" and therefore also the net result, it has no impact on the return on equity, because we adjust for this in the calculation by treating the undated subordinated notes as debt. We also consider these undated notes as debt when reporting our gross debt position and in the calculation of our financial leverage ratio and fixed cost coverage ratio.

As you can see, both our leverage ratio and fixed cost coverage ratio has improved this quarter. The improvement in the fixed cost coverage ratio is quite notable to 8.4 times at the end of the third quarter. This is, of course, on a last 12-months basis, and this compares with 6.5 times at the end of the second quarter of 2014. Main reason behind this increase is the increase of profitability, lower funding cost and reduced debt levels.

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

Lard Friese {BIO 17008174 <GO>}

Yes. Delfin, thank you. Let's turn to the wrap up page number 20. I'd like to sum up by saying that we are pleased to report a strong set of results for the third quarter of 2014. The operating result went up, expenses down in line with our strategic focus, and we have maintained a robust capital position. We continue to make encouraging progress to deliver on our strategic priorities. Now, we recognize that we are in the early stages of our journey and there is still a long way to go, but that journey continues and we are confident that we are heading in the right direction.

So with that, ladies and gentlemen, I would like to open the call for your questions.

Questions And Answers

Operator

Thank you, Mr. Friese. (Operator Instructions) First question is from Mr. Cor Kluis. Your line is open. Please go ahead.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning. Cor Kluis, Rabobank. I've got a few questions. First of all concerning the bank, it has incredible increase of results that we have seen there, the 13 million operating result, is that a kind of recurring figure or is this something exceptional in that? That's my first question.

And second question is more broader that's on dividend. When you did the IPO, you clearly mentioned on the 175 million dividend that it's not a policy and it's discretionary. Might it be possible that you pay more than 175 million as a final dividend next year because of that link that seems somewhat on the low side given the great progress that the company is making, annualized EUR350 million dividend? The company is making much more on the free cash flow and earnings basis, solvency is quite good. So could you indicate something more about that or -- yeah, that's my second question.

And my last and third question is about your Solvency II ratio. When can we expect some new information on that? I believe that the Dutch regulator is going to manage, look closely to Solvency II ratio from next year onwards here in the Netherlands. Can you at least give some indication on the timing? And if you could give an indication on the level, that would be even better, of course, but that's -- those are my three questions.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Cor, thanks for your questions. So the first two will be covered by Delfin and the third one about Solvency II will be covered by Doug Caldwell. So Delfin, over to you.

A - Delfin Rueda {BIO 7032761 <GO>}

Thanks, Cor. On NN Bank in detail, we are very pleased with the improvement in profitability of NN Bank. Obviously it was to be expected. NN Bank started as a very small bank and as it has grown its balance sheet, has improved from increased interest margin. In terms of your specific question, if this 13 million can be considered recurring, obviously we do expect that over time the bank will grow further, but I think you have to -- I think there are several drivers of the profitability. In terms of the interest margin, this will obviously be influenced by the pace of mortgage production going forward and obviously the evolution of the cost of funding relative to the spread on the mortgages and that obviously can vary over time.

In terms of the operating expenses, as the bank grows, it's expected obviously to continue increasing some of the expenses. Maybe just to give you an indication of something that might not be in your radar screen is that as of the third quarter of 2015, NN Bank will incur charges for the deposit guaranteed scheme, something that is not currently the case. And that will be approximately 2.5 million per quarter or 10 million annually. I think that answers your question on NN Bank, Cor.

Q - Cor Kluis {BIO 3515446 <GO>}

Yeah, yeah. Correct.

A - Delfin Rueda {BIO 7032761 <GO>}

In terms of dividend policy, we have been very explicit about our policy in relationship to ordinary dividends with a target between 40% and 50% of our operating result of the ongoing business. Certainly, we are pleased with the positive evolution of capital generation and evolution of solvency reflected by the improvement of the IGD to 283%. And I think that we'll need to wait until we have more clarity in relationship to the required capital going forward, which of course, the ongoing discussions on Solvency II is a key input.

And as you know, for 2015, the ordinary dividend, as you rightly mentioned, is 175 million and as a consequence, the 40 to 50 million will start based on the 2015 fiscal year.

A - Doug Caldwell {BIO 17900909 <GO>}

And on Solvency II, I think the -- as we move toward January 1, 2016 we saw the regulation is becoming clear, we are working quite intensively on the implementation of the specifications, discussions with the regulator and further interpreting some of the regulations. This is ongoing. We're also considering our management actions as necessary to make sure we're prepared.

At the same time, there are still quite some material uncertainties, and while the technical details are becoming more clear, except for potentially the volatility adjustment which is still we're waiting on further specifications from EIOPA, but also we are -- it's also emerging how regulators will interpret all of the details, what the kind of ratios to be expected will be and these conversations are really now starting more in earnest, and very likely will run through most of 2015. So therefore it's certainly too early for us to provide further guidance or to say even conclusively when we will give further guidance.

Q - Cor Kluis {BIO 3515446 <GO>}

And when I combine your last two answers the fact that Solvency II has probably not yet totally clear at the end of this year, it does also mean that you will not pay more than 175 million dividend as a final dividend. Is that a correct conclusion or not?

A - Lard Friese {BIO 17008174 <GO>}

Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

I think that our conclusion on the payment of dividends can only be reached once that decision has being taken and obviously that needs to go through our own assessment over the capital situation, the stress events that we consider based on the new regulatory regime and also in consultation with our supervisory board. So it's premature in order to say anything else than the guidance we have already been -- we have already provided.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay, wonderful. Thank you.

Operator

Next question is from Mr. Farooq Hanif who is with Citigroup. Your line is open. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Good morning, everybody. Thanks for taking my questions. I've got two question areas. One is on Japan Closed Book and the second is Solvency II again. And so on Japan Closed Book, you took a positive reserve release on lapse assumptions. I was wondering, firstly, what is the likelihood that if we continue to see an improvement in net amount at risk and the out-of-the-moneyness, markets going up. Would you -- would it be normal to expect further reserve -- additional reserve calculation changes of this nature? And the reserve release that you've taken now, what does that imply for the outstanding duration of capital release of policyholders? Has this been a material change? That's sort of question one.

Question two is, on Solvency II again, could you update us on internal model validations? So I believe that ING and NN Group were quite advanced in the production of internal model and discussion with the DNB on this. Are you still confident that at some point in the next couple of years the internal model process could be the main driver more than standard formula? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

So Farooq, thanks for your questions. Doug will cover both.

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah. So on the Japan VA, I think it's important to note that we regularly review our assumptions usually approximately this time annually. And the overall change is not that -- it's a modest changes to our assumptions for out-of-the-money lapses. So we just over the last year have been getting much more experience in account values above the guarantees and those lapse rates have been higher than we had been assuming. And so we've reflected that experience into the figures as best we can estimate it. And that is also used for our hedging in all of our models because -- for all purposes.

In terms of -- since we've updated our best estimates and based on experience, then we don't necessarily anticipate updating them further in the future, but we will always monitor experience and see where we end up. In terms of -- because of course we do model the lapses that differ by where the account value is versus the guarantee and that's certainly the way customers have behaved.

In terms of whether this could be running off faster, it's not a highly material change to our figures, but it does say that in general, our assumption show that if customers have account values higher than the guarantee, they are more likely to lapse, which could lead to some acceleration, but again the -- because of the maturity process, the main focus we have is the 90% of the block will run off by 2019.

In terms of Solvency II, I think the internal model, the standard model, how those will interact, how the regulators will assess these and exactly how it will go through is one of those things that's still to be worked through. It is true we've discussed with the regulator for quite some time on the internal model, but the process begins for -- in earnest in 2015 when you have to formally provide an internal model application. And it's really only working through that process that you have -- we have enough clarity to give more definitive guidance.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much for those. Thank you.

A - Doug Caldwell {BIO 17900909 <GO>}

Okay, Farooq. Thank you.

Operator

Next question is from Mr. William Hawkins who is with KBW. Go ahead please.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, thank you for taking my questions. First of all, in the roll forward of the holding company cash capital, could you just remind us what you'd expect to be a normal quarterly negative? I think there have been some positives that have helped you this year, but what sort of the normal running costs, and if you like, interest cost we should allow? And if we think into the fourth quarter, is there any reason to be expecting any dividends coming out of the subsidiaries then or are we now really holding on till the second quarter next year?

And then secondly, just briefly on the investment margin, I think you've repeated most of your comments about re-risking and the rest of it, but can you just remind us, if we're on, I think the 108 basis point Dutch life investment margin, is that a figure that should stay about stable or do you think it could be going up or down over the next couple of years? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Good morning, William. Delfin, can you please take both?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, in terms of the holding capital, the cash capital generated, is difficult to have a normal running cost, because this depends on the decisions of distribution of dividends from the different subsidiaries. Keep in mind that, particularly for Japan Life, but also in Insurance Europe, dividends tends to come in the second quarter or normally in the first half of the year, but more towards the first quarter.

Then there are also elements like proceeds from divestments. We are still waiting for closing on one transaction, important transaction in China with our joint venture with Bank of Beijing, and basically you have the running cost, which relates to the funding cost and that is easy to calculate based on the level of outstanding debt.

And also keep in mind on that, that although the interest on the undated subordinated notes are accounted -- are paid out of equity, for the purpose of calculating the cash flow generation on the holding company, this is included as a flow towards -- basically an outflow, so it's considered as an expense.

And in terms of the normal holding expenses, you can take around 30 million a quarter. And if you look at the interest cost including this undated, I think it's around 40 million. So I would say that pre-tax is around 70 million or 40 million around -- after-tax.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. And any dividends in the fourth quarter?

A - Delfin Rueda {BIO 7032761 <GO>}

We'll see the dividends as they come along, William. It might -- we might receive some dividends, but I think it's better to wait for that outcome. The most important element here in terms of the capital generation is that it's not a quarter-per-quarter evolution that matters. It's the overall evolution. That's why we have always set also the targets in a medium-term, but in terms of, as I said before, keep in mind that the second quarter is the one that tends to be bigger in terms of dividend generation.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Okay. William, does this answer your question one?

Q - William Hawkins {BIO 1822411 <GO>}

Yes.

A - Lard Friese {BIO 17008174 <GO>}

Then we'll go to the investment margin development. So Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, certainly the investment margin is under pressure. For Japan, it's not that relevant or important. For Insurance Europe, we have seen that due to the lower investment -- lower volumes of investments, assets -- of invested assets as well as the low interest rates on the reinvestments, that there is -- are affected negatively and that we expected to continue.

And also within Netherlands Life, which is obviously the highest contributor to this line, as we have mentioned in the past, the effort to invest into higher yielding assets so far has bear fruit and we have managed to compensate that investment margin going forward. We will -- there is -- that policy we will continue to be applying, but it's difficult to predict into the future how interest rates or spreads might evolve.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

Next question is from Mr. Ashik Musaddi who is with JPMorgan. Your line is open. Go ahead please.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, hi. Thank you and good morning, everyone. Just a couple of questions. First of all, can you give us a bit of color about your cash in the holding company. I mean, you are running at around 1.2 billion cash at the moment whereas, if I remember correctly at your IPO, you were kind of running at around 900 million, which you mentioned is kind of a comfortable level. So what's the likelihood of you doing a buyback or something, maybe a buyback from ING Group in 2015? What's the likelihood of that or would you want to hold this 1.2 billion cash in the balance sheet going forward as well? So that's the first question.

Secondly, if you can update me on -- update a bit on, have you taken any hedges on your credit exposure on your credit risk, because certainly your IGD is very volatile if credit spreads start moving in. So have you thought about taking any hedges on that or do you think it's best to avoid that thing?

And thirdly, any thoughts on litigation, any news, good, bad anything we should expect? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Thanks Ashik. The first question about the cash capital at holding will be covered by Delfin, the second one by Doug and the final one on litigation by myself. So Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Ashik, thanks for the questions. Obviously, we very pleased with the evolution of our Solvency and the evolution of the cash capital. In terms of your explicit question about the possibility of doing a buyback in 2015 is something that is not reasonable to answer at this time. And we have to -- and I repeat myself now, we have to wait and see how the cash capital evolve over 2015 and what is also the intentions of ING Group in relationship to their divestments.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Sorry, just to add on to that, just to put it other way, do you intend to think about any M&A at the moment or i.e., use this cash at capital to do any M&A maybe in your local market or anywhere else? Yeah. Thank you. Just a follow-up on that.

A - Lard Friese {BIO 17008174 <GO>}

Yeah, Ashik, when it comes to M&A, we are focused -- our priority is really taking the current platform that we have and driving the earnings improvement and generating cash capital. That's our priority, that's our focus and that's what we are busy with. So please continue Delfin or maybe we can cover the hedges on credit exposure.

A - Doug Caldwell {BIO 17900909 <GO>}

So in short, we're not against hedging this at some point, but we are not currently holding any material hedges on spread exposure. I would say though, I mean, if you look at, again

I reiterate, our balance sheet, we have a significant number of government bonds and also we've been expanding in mortgages and loans, which had a little less exposure to spread risk. So when you look at the overall fixed income, it's true that you have a spread risk, but we also note that we have a very illiquid set of liability. So we want to -- there will be some volatility but over time we believe this will be a reasonable way to manage this.

A - Lard Friese {BIO 17008174 <GO>}

When it comes to the unit-linked file, well, there is no material update or material developments otherwise we would have updated you also in the form of press releases et cetera. So nothing to update you on what already has been disclosed. So that's basically it.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, but just so -- just one thing on that. I mean, I remember that there was some thought that by the end of the year, we should hear back from European Court of Justice. I mean, any thoughts on where we are on that or has that period passed or any thoughts on that?

A - Lard Friese {BIO 17008174 <GO>}

No, Ashik. That's still the same expectation that we have. So a -- the European Court case that will -- that's aimed to provide more insight into the interpretation of the European Directive on information provision, that court case is expected to have a ruling no earlier than by the end of this year. That's the same situation.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thanks a lot for your answers.

A - Lard Friese {BIO 17008174 <GO>}

Thank you, Ashik.

Operator

Next question is from Mr. Michael van Wegen who is with Bank of America. Go ahead sir. Your line is open.

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

Yeah, hi. Good morning. Two quick questions. First of all, on the NN Non-Life P&C combined ratio, you flagged weather and bodily injuries as factors that resulted in above 100% combined ratio. Can you specify for each of these components, how much they affected the combined ratio? And then secondly, I heard what you just said about the "woekerpolis" issue to Ashik, but yesterday, I think the Consumentenbond made an announcement of a proposal to the insurance sector or the request to this insurance sector to resolve this issue. Do you expect that this could trigger a general agreement for this issue across the sector or how do you look at the Consumentenbond statements from yesterday? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yeah, let me take the unit-linked file first, Michael, and then hand over to Delfin for the Non-Life question. So yeah, indeed the Consumentenbond, which is a large consumer organization in the Netherlands, has indeed written a letter to the industry, to all the insurance companies. We received this letter as well. We are studying that letter.

Having said that, that's -- whether that leads to general outcome for the entire industry, I mean, it's really very early to speculate on that. And by the way, there is many -- during the weeks and months et cetera, there is oftentimes media around this issue where various interesting parties are -- interested parties are giving their views or their opinions or other things. So we will just look at the letter that Consumentenbond has sent to the various insurance companies and take it from there.

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

So maybe on the Non-life company?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Michael. So indeed that has been -- to understand the combined ratio for Netherlands Non-life, one has to split and look at what has happened with Disability & Accident that has improved the combined ratio significantly both in the quarter and year-to-date. And some deterioration in the Non-life Property & Casualty combined ratio. When -- your specific question was about weather-related claims. And in the third quarter, that represented a 2 percentage points of combined ratio within Property & Casualty.

One thing to take into account when comparing the ratio, Property & Casualty with the same quarter of last year is that, in the third quarter of last year, there was an adjustment of 15 million provision release and that has basically lowered that combined ratio then. If you were to adjust for that, basically we would be at around the same level in terms of combined ratio, and obviously if you were to take the weather-related claims, that will reduce by approximately 2 percentage points in the combined ratio Property & Casualty. However, I think that weather-related claims might come and go and I don't -- I wouldn't say that it is a non-recurrent, but it just happened this quarter.

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

Okay, thank you. And maybe one follow-up on that, if I may. I think also you guys flagged bodily injuries. Is that something that you consider as a one-off? And if so, what was the impact?

A - Delfin Rueda {BIO 7032761 <GO>}

No, I don't think is a particular one-off. I think it's within the deterioration on the claims ratio for Motor. This is one part that obviously is included and there is -- we have seen a deterioration on the underwriting there, but I would not say it is one specific non-recurrent event within the particular quarter, but that can be obviously be bumpy from one quarter to another.

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

Thank you.

Next question is from Mr. David Andrich who is with Morgan Stanley. Go ahead, sir. Your line is open.

Q - David Andrich {BIO 15414075 <GO>}

Hi, good morning. Thank you for taking my questions. I just want to follow up on the -- one of their earlier questions on internal versus standard model under Solvency II. And I understand that the formal process for submitting the internal models is just getting started. I was just wondering if you had any kind of estimate or guidance of when it might be approved by and I understand that's very tough because it is just at the starting stages, but I'm just wondering if you comment on that?

And then second of all, in terms of your normal historical operations, when would you normally expect to see the Japan Closed Block VA or the Dutch Life business or any other unit kind of upstream the dividend, particularly I am thinking 4Q and what possibly could be upstreamed. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

David, thanks for your questions. The first one will be covered by Doug and the Japan CBVA dividend upstream question will be covered by Delfin.

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah, on the -- in terms of timelines, I think these things run pretty close to the start of January 2016. So to the extent you would work to an IMAP [Internal Model Approval Process] or to the extent that you'd be using standard model, those discussions are probably only going to be finalizing in the fourth quarter of 2015.

Q - David Andrich {BIO 15414075 <GO>}

Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

And in terms of the potential dividend from the Japan Closed Block VA, just a reminder to everyone, this is the capital release under ING Re within the Netherlands and indeed the net amount of the risk has reduced and as the portfolio has started to run off, we have seen positve development in the solvency and the capital required behind. But as I said before, any decision on the actual dividends will be announced and communicated when decided.

Q - David Andrich {BIO 15414075 <GO>}

Okay. That's helpful, and just historically, just wondering possibly when --

A - Delfin Rueda {BIO 7032761 <GO>}

I'm sorry. I did not --

A - Lard Friese {BIO 17008174 <GO>}

We didn't hear, David, your last question. So can you please repeat?

Q - David Andrich {BIO 15414075 <GO>}

Sorry, I was just wondering historically when the Japan Closed Block VA paid out the dividend?

A - Delfin Rueda {BIO 7032761 <GO>}

The dividend -- you have to differentiate two things. One was the dividends coming from Japan legal entity. Japan legal entity, in relationship to the Japan Closed Block VA, benefits from the administrative fees that the company receives there. In terms of the dividends coming out of ING Re, we have come through a process where there has been some strengthening of the capital of ING Re recently. So i.e., there is no, let's say, seasonal or a pattern on when ING Re paid dividends in the past.

Q - David Andrich {BIO 15414075 <GO>}

Okay. Thank you very much.

Operator

Next question is from Mr. Francois Boisson of BNP. Your line is open.

Q - Francois Boisson {BIO 2188833 <GO>}

Yes, good morning, everybody. Three questions please. The first one is on the Netherlands. You are seeing a fairly good business growth there on pension renewals and the new pension fund buy-outs. I was wondering whether you could give a bit more details about the terms you are getting on renewals, the level of internal rate of return that you can get, or I'd say the ways where it can reduce guarantees and improve the profitability of the capital being deployed there? And also if you can give a bit more details about the pension fund buy-outs, the size and the terms you reached?

And second question is on your Investment Management business, and I was just wondering what was going to be the impact from the mandate you get from the ECB on the ABS program? And last question would be around your tax rate. I think it's 19% in terms of effective tax rate in Q3 and which seems to be lower than, I think, the 26% you are guiding on, so a bit more details?

A - Lard Friese {BIO 17008174 <GO>}

Yes, so let's -- so first of all I'm going to cover the first two and Delfin will cover the tax rate question. So when it comes to the business in the Netherlands, indeed we were able to -- as we know, there is this pension buyout opportunity in the Netherlands. This is something that we are active in. Having said that, we've always said that we maintain our own pricing targets, in let's say, negotiations on these deals. And if they meet our pricing targets, then we hope to -- if we win them, then great. If we don't, then not.

We have been able to win a contract in this quarter. It's roughly 100 million single premium. That was a pension buyout. In terms of its terms, we generally price this on a market consistent basis and always -- and also look of course at return on capital that we will be making for this. We have specific pricing targets for that, and it needs to adhere to that in order to make sure that we get the right bang for our buck, if you will, in terms of return on capital. When it comes to the --

Q - Francois Boisson {BIO 2188833 <GO>}

Sorry, on that, do you have a minimum threshold in terms of return on capital deployed?

A - Lard Friese {BIO 17008174 <GO>}

Yeah, I would say, MCVNB obviously needs to be positive and the internal rate of return, I would say it's high single-digit, high single-digit at minimum. So when it comes to the impact of the ECB mandate, well, obviously we are very pleased with -- that our Investment Management group has won this mandate in the sense that it's been appointed by the ECB as one of the four asset managers to support the ECB in the ABS purchasing program. It's I think proof testament and underscores the expertise and the experience that our investment professionals have in this field.

Now obviously, the ECB mandate has -- in terms of the size, has not been disclosed by the ECB at this point. It's run a competitive process. So we expect obviously the mandate to contribute to the profitability of the business, but please bear in mind that, the ECB has run a competitive process. The tax rate? Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Francois. In terms of the tax rate, 19% is not that extraordinarily low or different. I mean, normally you can expect anything from 20, 26%. Any changes of course in relationship to the effective tax rate in all the different tax regimes that where we are operating. But the largest explanation for this lower tax rate in the quarter is driven by the tax exemption in the Netherlands for investments that you hold for more than 5% as stakes.

Q - Francois Boisson {BIO 2188833 <GO>}

Okay, very clear. Thank you very much.

Operator

Next question is from Mr. Matthias De Wit who is with KBC Securities. Go ahead please.

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

Yes, good morning. Two questions please. First is on the IGD Solvency at group level. Wondered if you could break down the 12 percentage points sequential increase between the part driven by organic capital generation of the market movement and the unrealized capital gains? And also related to that, if you could just update us on the economic capital ratio, you were at around 200% at the start of the year. Just wondered how that evolve in the meanwhile.

And my second question was on the Dutch Life. I wondered if you could provide the breakdown of the operating results between the individual and the group life segments, just in order to get a better idea of the impact of the run-off process on your individual or on your Dutch Life earnings power? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Okay. Delfin, can you cover maybe both the topics?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, the IGD ratio, the increase is mainly driven by the increase in the IGD capital base, which was around 10 million [ph] while the required capital increased by approximately 100 million. And basically the main reason behind this increase in the available capital, it is related to the net result of the period of 344 million and also the positive revaluation resulting from market movements. Does that answer the question, Matthias?

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

Yes, partially and just wondered with regard to the economic capital ratio and the more market-based framework. Would you see the same movements, for example, since the start of the year from the 200% economic capital ratio?

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah. Yeah, this is Doug. I'll take this one. The -- on the AFR/EC ratio, we disclosed this once a year and we disclose it, I think, as you said, 203% at the end of the year 2013, including the pro forma for the capital injections. We haven't been disclosing this on a quarterly basis. I think it's fair to say though that we are comfortable with our current capital levels. And so that we have a good level of capital.

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

Okay.

A - Lard Friese {BIO 17008174 <GO>}

Okay. So Delfin, on the Dutch Life company?

A - Delfin Rueda {BIO 7032761 <GO>}

Yeah, in terms of on the run-off move, this is very much, as you know, a part of the individual life. And I think that going into more details will be a bit complex here, but I refer you to the equity prospectus where there is some detailed explanation on the run-off of the different blocks.

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

Yeah, that' correct, but nothing is found on the earnings contribution and the split between individual and group life. So just if you could provide some indication, it would be helpful.

A - Delfin Rueda {BIO 7032761 <GO>}

Yeah, that is right, Matthias. It's true that we have not provided breakdown of results between individual life and pensions. So I think it's something that we have not done so far and it will be strange to do it so quickly in answer of a question now. So I think that the explanation on the run-off, you have the details in equity prospectus, and on the different profitability of the segments so far, we have not provided details.

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

Okay. Thank you.

Operator

Next question is from Mr. Gordon Aitken who is with RBC. Your line is open.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah, good morning. A couple of questions on Dutch defined benefit, please. You obviously had a lot of success through renewal of the DB schemes that you are administering. Could you just please give us an indication of persistency of those schemes?

And the second question is on the buyouts. I know you've answered a little bit of this already, but it's relatively small, but we didn't -- the guidance sort of we got at the IPO was that maybe you weren't looking to do these sort of deals for a few years. And just why particularly do you think you won that scheme? Is it lack of competition, is it the strength of your brand? And is it maybe more desire from your part, if you could just talk about that please? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yeah, so first on the -- yeah, thanks, Gordon. First on the Dutch renewals, so first of all, when it comes to Dutch pensions as a strategy, the -- our focus is on doing renegotiations or renewals in such a way that we cater for the need also for our clients to move to the defined benefit, more to defined contribution in terms of their features. So that's what we're doing and we have a very elaborate renewal strategy in place to do that.

We are indeed quite successful on that which is good. So we have a high persistency rate, the percentage of which, I cannot give you at this point in time. So we'll get back to you separately on that, but we have quite a successful way of doing that, including those negotiations.

When it comes to the buyout market, we have -- first of all, this buyout opportunity stems from let's say, smaller pension funds that want to find a new home for the liabilities and insurance companies are competing for that. There's a number of insurance companies, small number of companies that actually do this business and can do this business and we are one of them, as we are one of the largest pension businesses in the market.

We've always maintained a view that we want to participate in this market of the buyouts, but only at terms that what are agreeable to us. And in the past years we've seen quite some softness in our view of the markets. So the pricing targets that we have could not be achieved, and in those negotiations, at a certain point, you come to a certain area and then it stops, and then you basically hook off.

And in some cases, in this case, we actually were able to get through and we won. This is not because of a lack of pricing discipline. It's because we -- there is many puts and takes and many particular components in such a deal that you're negotiating, which we were able to conclude more successfully than others and that's why we won the deal. But again, our pricing discipline is driving this and the pricing discipline is as I just mentioned, MCVNB positive, internal rate of return and return on capital appropriate with the minimum level of at least high single-digits.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks. I'll just follow-up on the first question, and it seems -- if you give us an indication of that conversion of DB to DC, just an indication of size more proportionally. I mean, it doesn't seem -- whenever I see so, don't seem that the Dutch market is going DC any time soon. It seems with the industry fund that's so big and so defined benefit, that seems to be a -- I mean there's no real move that we've seen in the UK or the U.S. in the Dutch market yet.

A - Lard Friese {BIO 17008174 <GO>}

No, I agree with you, Gordon that this is a gradual process, but please bear in mind that, the history of the Netherlands is that pension plans were very much defined benefit plans. Having said that, first of all, the low rate environment et cetera are really making these plans in terms of the renewals, et cetera very expensive for employers that are the sponsors of these plans. So what you can -- and secondly, you have the IFRS volatility that on their balance sheet often times, these DB plans bring.

So what you see is that there is a need, a real need that we see progressing and accelerating actually the Dutch market where employers say, we'd like to move more to defined contribution plans -- this requires negotiations between trade unions and between employer representation. So it's quite a complicated structures and that takes time to completely roll through, but we are very well positioned for driving this change in the market through our own portfolio and to getting business from our competition. We have a full set of solutions for this, insured solutions, non-insured solutions. So we're very well positioned to do this for our own clients and from clients of our competition.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thank you very much.

Operator

Next question is from Mr. Frank Kopfinger who is with Commerzbank. Your line is open.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thank you. Hello, everybody. I have two questions. My first question is on Life Netherlands. Life technical margin was 70 million, looks very low. And I think in your presentation, you mentioned that this was internal rather volatile and this was driven for Q3 by negative hedging impacts. And my question would be, could you elaborate a little bit on the magnitude of the hedging impact on -- and overall what you would regard as a normalized technical margin level for the Life Netherlands business?

And then secondly on the Investment Management division, there you had net outflows of 2 billion. In the presentation, you said this was driven by pension plan company. Could you comment also whether this was rather a one-off or there is more to come in the next quarters?

A - Lard Friese {BIO 17008174 <GO>}

Please, Delfin -- thanks, Frank. Delfin, can you take those questions?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. Frank. There is no hedging impact within the technical margin, but in the technical margin indeed, there is some volatility from one quarter to another. In this particular quarter, there are two large impacts that we have flagged with our press release. First is an 18 million negative impact related to our legacy book of paid up pension contract, which have a 4% guaranteed interest rate and receive a percentage of any positive technical result. Any negative technical result is netted with this investment income or otherwise is deferred and offset against future positive technical result.

As the investment income is under pressure and the technical result due to mortality was also under pressure, following a review of the particular contract, we concluded that it was necessary to basically write off this asset of potential compensation with the future technical results. So this is certainly a non-recurrent 18 million explaining the decrease in the technical margin.

And then we have another one that may change from time to time, which is related to the unit linked guarantee provision. And this is the reflection of the lower interest rates that have on these guarantees that we have provided in the past for a portfolio of around 400 million. And when the interest rates decrease as it happens not only in the second quarter of this year, but also in the third quarter the value of the guarantee increases and additions to the provisions need to be made. And as a consequence, this can be volatile, but in this particular quarter was negative by 13 million.

Just for your information. Last year in the second quarter and third quarter, it was the other way around, interest rates decreased and as a consequence the provision as you know, move in the opposite direction. And that in itself in a year-to-date as you know had in 2013 an impact of 44 million in the technical margin. So the comparability with last year is important to take that into account. So no particular trend that I can see here, but basically this volatility quarter-per-quarter may and will continue to exist.

Then the second question on the net outflows. These are obviously that there is 2 billion of net outflows, about half of this is explained by the third-party mandates and your question about the pension funds, basically, this is a couple of pension funds in the Netherlands that following their decision to transfer the liabilities to insurance company, we lost the assets under management for those companies.

Don't know if I have answered all the question or there is something --

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yeah, when would we open the -- there is more to come in terms of outflows in Q4 now or this was it?

A - Delfin Rueda {BIO 7032761 <GO>}

Well, we should not understand this net outflows as the fact that, that we did not have inflows and this will always be -- so we are talking about the net impact this time that indeed was affected by these transfer of the pension, but also by some other small things like the closing of our office in Hungary that although the majority of the assets under management were transferred to other locations that has an impact. But that will go up and down.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay, thanks.

Operator

(Operator Instructions) And the next question is from Mr. Fahad Changazi, Nomura. Go ahead sir, your line is open.

Q - Fahad Changazi {BIO 15216120 <GO>}

Good morning. I have three questions but hopefully they are very, very quick. First on the Investment Management side of things. But -- quite good earnings, it was actually 14% looks like sort of beat the mid single-digit percent increased target you disclosed at the IPO given that you just hired your emerging markets equity team, can we take the 67%

cost to income ratio at nine months stage as a good base to work from going forward? That's the first question.

Second question is on the cost savings. I know Delfin, you don't want to give too much detail in terms of breakdown, but you've achieved 108 million already, 60 million for Netherlands Life, which is 30% of the original is going to be back-end loaded. So that 60 million coming later, 100 million achieved now, bit more in Q4. Does that mean 2015 will have no cost savings coming through? I'm just trying to get -- understand how the projection would be working on that one.

And the final question is on Insurance Europe. I appreciate that in a recent scale in some of the markets, but could you just reprise us that when, at what point in terms of time, would you have a look at these operations here? We've tried turning them around, if not working, perhaps we should look at disposals. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

So the first two will be covered by Delfin and I will do the last one. So Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, in terms of cost income ratio going forward for Investment Management, the first thing you need to take into account is in the first half of the year, there were 10 million extraordinary releases of provisions so that is something to be taken into account. However, taking a longer perspective, as the assets under management increase, we do expect to have improvement on the cost income ratio in the future, while at the same time, obviously the investment in building up the franchise may slow down these improvements.

In terms of the cost reduction program in the Netherlands, of course, we are expecting that in 2015, there will be -- there will continue to be some cost savings. As explained some of the savings particularly in corporate/holding we're very much front-loaded, particularly those related to legacy business. And one cannot extrapolate our savings going forward or the split of savings. And we do not consider at this point of time that our indication or target towards 2016, there is no change on that.

A - Lard Friese {BIO 17008174 <GO>}

And Fahad, when it comes to our portfolio considerations, so we take regularly we do a review of our portfolio and we look at the performance obviously of the businesses that we put it in context of why we are in that market, what the future trends are in that market, the attractiveness et cetera. And we will take it -- we take a dispassionate view on that. We basically analyze it regularly, make sure that we put it in context, we ask ourselves are we the right owners for this and we'll take our decisions from there.

Q - Fahad Changazi {BIO 15216120 <GO>}

That's great. Thank you very much.

Operator

No further questions.

A - Lard Friese {BIO 17008174 <GO>}

So if there are no further questions, then I would like to sum up by saying that we are pleased to report a strong set of results for the third quarter of 2014. The operating result went up, expenses are down, in line with our strategic focus and we have maintained a robust capital position. We continue to make encouraging progress to deliver on our strategic priorities. We are in the early stages of our journey, and there is still a long way to go. But that journey continues and we are confident that we are heading in the right direction. I want to thank you for your interest. I want to thank you for all the questions, and I wish you a very good day.

Operator

Ladies and gentlemen, this concludes today's session. You may now disconnect your phone. Thank you for attending. I wish you have a very nice day.