

# NN Group

Lard Friese, CEO

Bank of America Merrill Lynch conference

London, 1 October 2014



# Leading Dutch insurer with strong businesses in European insurance, investment management and Japan

## Geographical reach



## Some facts and figures

- History dating back to 1845
- Strong business positions
- Market positions were built organically
- Unified international culture with shared best practices
- 15 million customers
- Almost 12,000 employees
- Shareholders' equity of EUR 16.9 bln at 30 June 2014
- Successful IPO on 2 July 2014

# Diversified businesses in Europe and Japan

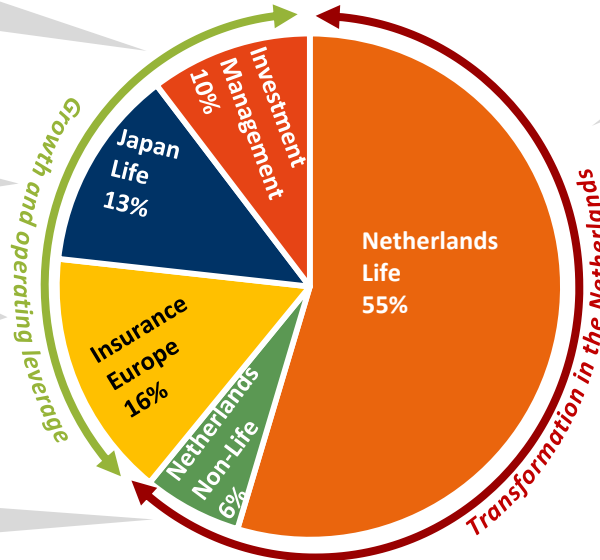
- International asset manager; EUR 177 bln AuM as of 2Q14
- Approx. 60% of revenues from third party clients

- Top 3 player in Japanese COLI
- Strong earnings, stable cash flow

- Top 3 player in CEE focused on life and voluntary pension
- Self-funded growth; net cash generator

- 10% market share in Dutch non-life
- Improving profitability and cash generation

- 19% market share in Dutch Life
- Managed for cash



NN Group ongoing business operating result before tax, excl. Other (2013)<sup>1</sup>








NN Group's activities also include:

- Japan Closed Block VA
- Capital release as portfolio runs off

Other

- NN Bank, NN Re and holding company

# Committed and experienced management team

	<b>Lard Friese (NL)</b> Joined 2008	Chairman/CEO	<ul style="list-style-type: none"><li>22 years of experience in the financial services industry, most recently with NN Group, ING Insurance EurAsia</li><li>Leadership positions at AEGON, VNU/ACNielsen, Ceska Pojistovna and Generali-PPF Holding</li></ul>
	<b>Delfin Rueda (ESP)</b> Joined 2012	Chief Financial Officer	<ul style="list-style-type: none"><li>21 years of experience in the financial services industry, most recently with Atradius</li><li>Previously held leadership positions at J.P. Morgan, UBS and Andersen Consulting</li></ul>
	<b>Doug Caldwell (USA)</b> Joined 1999	Chief Risk Officer	<ul style="list-style-type: none"><li>22 years of experience in the financial services industry, most recently with ING Insurance Asia Pacific</li><li>Leadership positions at ING Re, ING Group and ING Insurance US</li></ul>
	<b>Dorothee van Vredenburg (NL)</b> Joined 2009	Chief Change and Organisation	<ul style="list-style-type: none"><li>25 years of experience in the financial services industry, most recently with ING Group</li><li>Previously held leadership positions at Citigate Europe and RedZebra Group</li></ul>
	<b>David Knibbe (NL)</b> Joined 1997	CEO, Netherlands Insurance	<ul style="list-style-type: none"><li>17 years of experience in the financial services industry, most recently with NN Group</li><li>Leadership positions at ING's life insurance JV with Piraeus Bank in Greece, ING Bank and ING Investment Management</li></ul>
	<b>Stan Beckers (B)</b> Joined 2013	CEO, Investment Management	<ul style="list-style-type: none"><li>30 years of experience in the financial services industry, most recently with BlackRock</li><li>Leadership positions at Barra, Kedge Capital, Alpha Management Group, Barclays Global Investors, several pension funds, and KAS Bank</li></ul>
	<b>Robin Spencer (UK)</b> Joined 2014	CEO, International Insurance	<ul style="list-style-type: none"><li>19 years experience in the insurance industry across life, non-life and asset management in the UK and internationally</li><li>Previously CEO Aviva UK &amp; Ireland General Insurance, CEO and CFO Aviva Canada and from 2010 to 2012 Aviva Group Chief Risk Officer</li></ul>

# Investment proposition focused on cash generation

## Strong business positions and balance sheet

- Committed management team
- Strong positions with international presence
- Strong balance sheet and conservative regulatory liabilities
- Operationally separate from ING Group<sup>1</sup>

## Transformation in Netherlands

- Large closed book of individual life
- Scale player in pensions
- Continued focus on cost reductions
- Gradually move to higher yielding assets
- Release capital and de-risk liabilities
- Actions to restore non-life profitability

## Profitable growth and operating leverage in other segments

- Primarily fee and premium-based businesses
- Growth in Insurance Europe, Investment Management and Japan
- Drive operating leverage across segments through scale
- Self-funded, high margin, cash generative

## Focus on generating capital and improving earnings

- Significant cumulative cash generation expected in 2014-2018
- Medium-term goal to increase earnings and recurring cash flows
- Ordinary dividend of 40-50% of net operating result ongoing business
- Base case of returning capital in excess of capital ambition to shareholders<sup>2</sup>

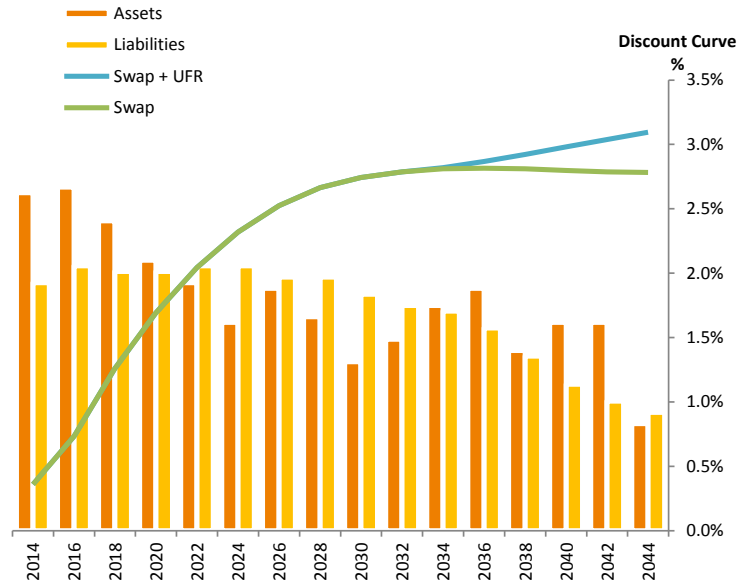
1. Belgium is the last business unit of NN to disentangle from ING Bank (full operations disentanglement to be completed by 2017)

2. To be returned in the most efficient form. Capital generated in excess of the Company's capital ambition (which may change over time), is expected to be returned to Shareholders unless it can be used for any other appropriate corporate purpose, including investments in value creating corporate opportunities

# Impact of low interest rates on capital actively managed

## Netherlands Life asset and liability cash flows

As of 31 December 2013



## Limited interest rate sensitivity across all segments

- Limited impact of interest rate shocks on regulatory capital due to cash flow matching of assets and liabilities
- Dutch regulatory balance sheets marked-to-market; capital position reflects impact of low interest rates and application of UFR
- High sensitivity to credit spreads; Solvency II discount curve likely to be more stable than current Dutch regulatory curve

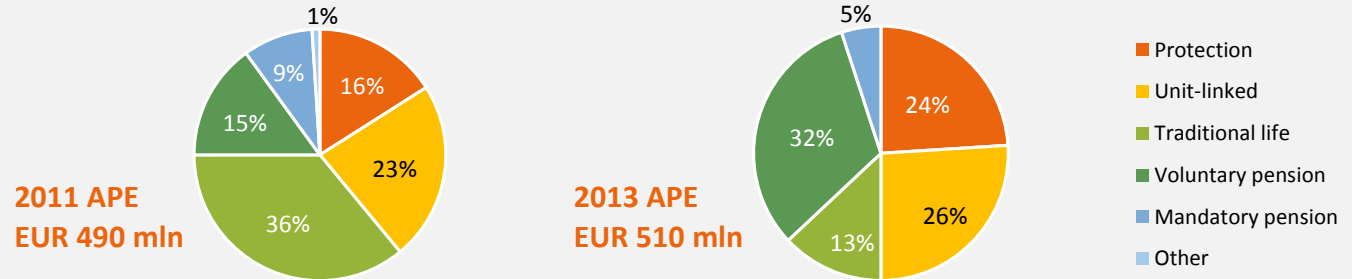
# New business shifting to fee and premium-based products

## Netherlands Life

- New business priced on a market consistent basis reflecting current interest rates
- Low interest rates driving a gradual shift from pure DB to DC and DB hybrid pensions
- Individual life business essentially closed; NN Bank addressing retail customer needs

## Insurance Europe

- Product mix historically less interest rate sensitive
- Successful shift to protection and fee-based products, including voluntary pensions



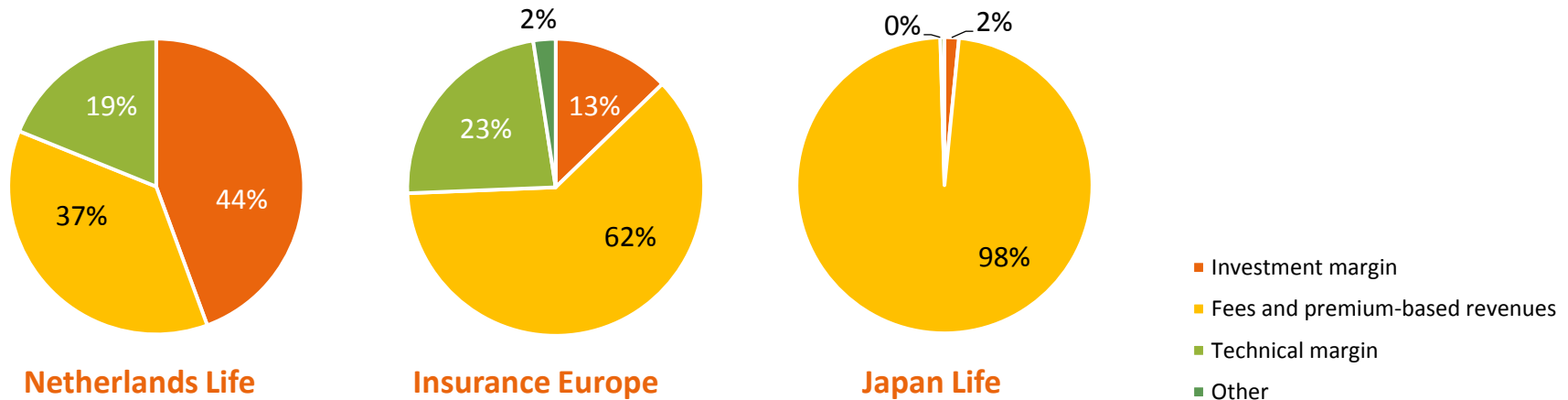
## Japan Life

- Profitable COLI business in low rate environment

# Fees and premium-based revenues large component of earnings

- Growth strategy in Europe and Japan geared largely to fee and premium-based products
- Netherlands Life predominantly spread-based business reflected in relatively large investment margin
- Pressure on investment margin at Netherlands Life being mitigated through re-risking

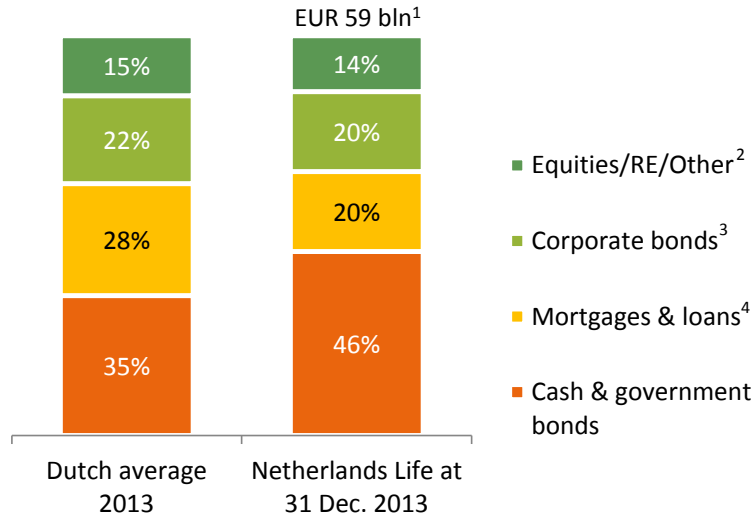
## Fees and premium-based revenues is major source of income<sup>1</sup> in Insurance Europe and Japan Life





# Netherlands Life: Focus on reducing expenses, shift to higher yielding assets and de-risking liabilities

## Opportunity for shift in asset mix



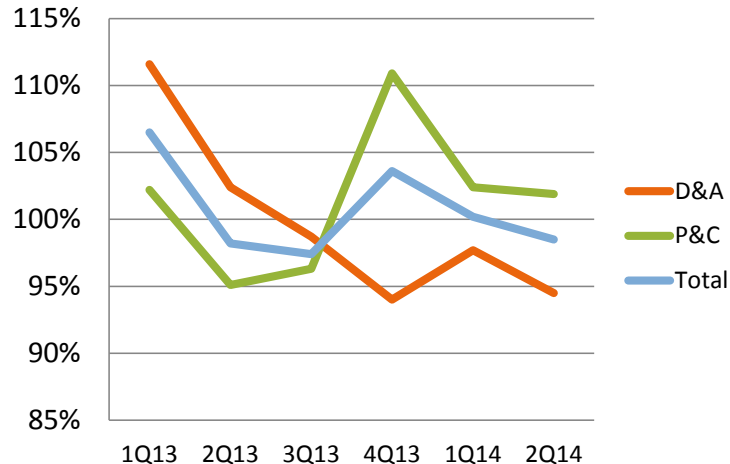
## Re-risking to maintain a stable investment margin

- Low interest rates and run-off of book putting pressure on IFRS earnings
- Selective re-risking opportunity due to current conservative asset mix and illiquid liabilities
  - EUR 3 bln additional allocation to higher yielding assets, including mortgages and ABS, in 1H14
  - Increasing exposure to mortgages originated by NN Bank
- Expense reductions of ~15% to offset decline in revenues

▪ **Target: maintain operating result before tax broadly stable at 2013 levels over the medium term**

# Netherlands Non-life: Focus on underwriting performance, cost reductions and growth opportunities

## Combined ratio



## Management actions taken to improve profitability

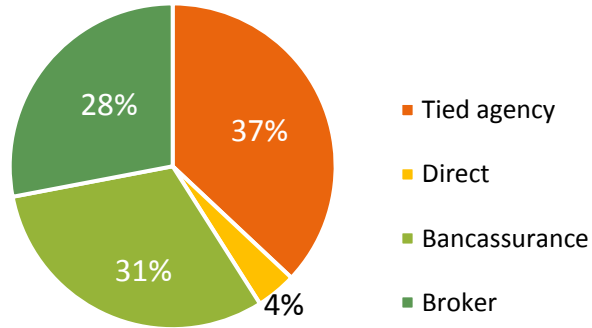
- Strategy to improve motor, disability and accident combined ratios
  - Premium rates increases
  - Rationalising claims handling processes
  - Stricter underwriting criteria
- Product rationalisation
- Expense reductions of ~10-15%
- Combined ratio of 98.5% at 2Q14

- **Target: Combined ratio of 97% or below by 2018**

# Insurance Europe: Self-funded growth with operating leverage

## Productivity improvements in distribution platform

Distribution channel by APE 2013



## Successful shift in Life product mix

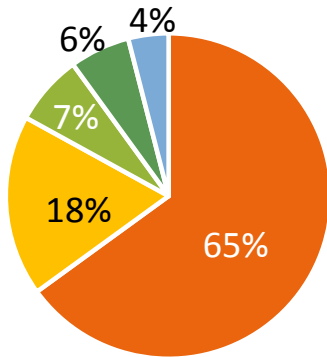
- Focus on protection and fee-based products
  - Higher margins and less capital intensive
- VNB margin 3.0% and IRR 9.7% (2013)
- Growth in underpenetrated CEE markets and recovering Spain and Greece
- Disciplined cost management; benefit from operating leverage

■ **Target: Mid-single digit operating result before tax annual growth rate on average, over 2013-18**

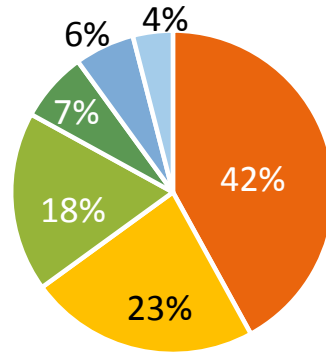
# Japan Life: Strong profitability and cash generation

## Opportunities to diversify product range and distribution channels

Product mix by APE 2013



Distribution channel by APE 2013<sup>1</sup>

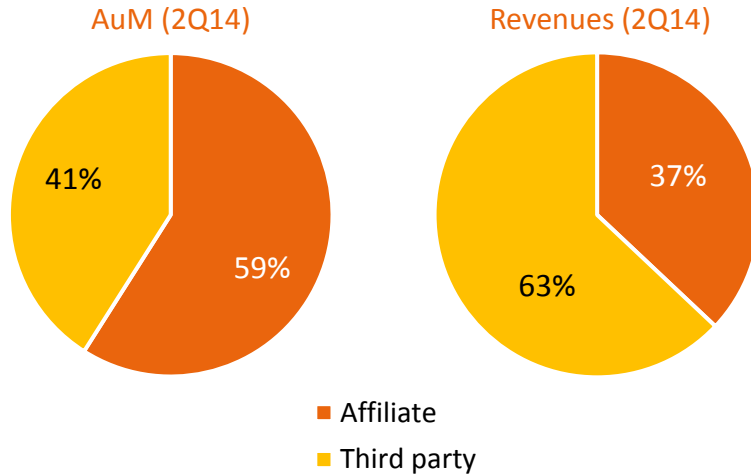


- Broad range of products, track record of innovation
- Long-standing distribution relationships
- VNB margin 3.3% and IRR 17.3% (2013)
- Strengthen profitability and cash flow generation by benefiting from scale and operating leverage
- Diversification opportunities by expanding protection product offering
- Leverage existing position in growing bancassurance channel

■ **Target: Low to mid-single digit operating result before tax annual growth rate on average, over 2013-18**

# Investment Management: Strategy to grow third party business and benefit from operating leverage

## Global asset manager with strong fund performance



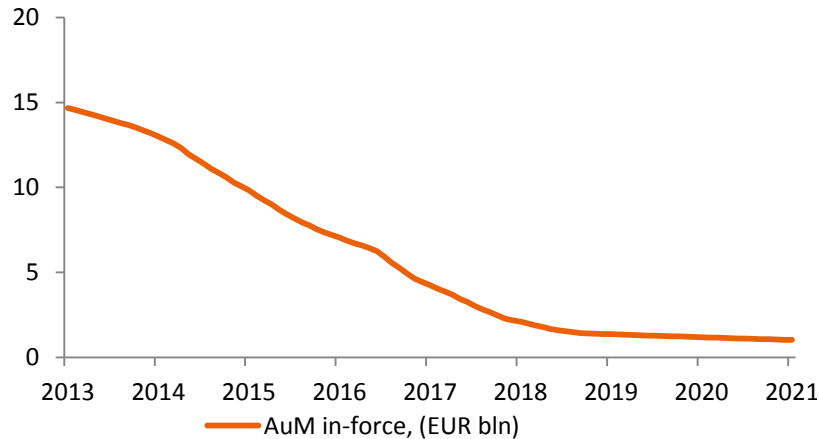
## Focus on growing third party business

- Total AuM of EUR 177 bln at 2Q14
- Third-party business - approximately 40% of AuM, but more than 60% of revenues
- Focused sales strategy and sharpened product offering to grow third party AuM
- Efficient and scalable platform driving operating leverage benefits

▪ **Target: Mid-single digit operating result before tax annual growth rate on average, over 2013-18**

# Japan Closed Block VA: Capital release from maturing portfolio

~90% expected to have matured by end 2019



- Significant capital allocated to back the guarantees
- Available capital (EUR 0.9 bln) and EC 99.5% (EUR 0.4 bln) within NN Re in the Netherlands

## Drivers of return to shareholders

<p>Fee-based operating earnings</p> <p>+</p>	<ul style="list-style-type: none"> <li>▪ Substantial fee-based operating result, EUR 80 mln in 2013</li> <li>▪ Expected to decline as the portfolio runs off</li> </ul>
<p>Release of capital as book matures</p> <p>+</p>	<ul style="list-style-type: none"> <li>▪ Release of capital as the portfolio matures</li> <li>▪ Exact timing and amount cannot be precisely predicted</li> </ul>
<p>Hedge Results</p> <p>+ / -</p>	<ul style="list-style-type: none"> <li>▪ Actively managed and hedged on a market consistent basis</li> <li>▪ Positive cumulative hedge result last 5 years</li> <li>▪ In normal markets, non-operating result expected to be in line with historical performance, roughly zero on average over time</li> <li>▪ Volatility expected to continue</li> </ul>

# Strategic priorities have been set to reduce expenses, improve earnings and increase ROE

## Administrative expenses

- Reduce administrative expenses in Netherlands Life, Netherlands Non-life and Corporate/Holding by 2016 vs. 2013

**EUR 200 mln**

## Earnings improvement

- Achieve annual growth rate of operating result before tax of the ongoing business in the medium term

**5-7% on average**

## Increase in ROE

- Increase the Net Operating Return On Equity of the ongoing business in the medium term

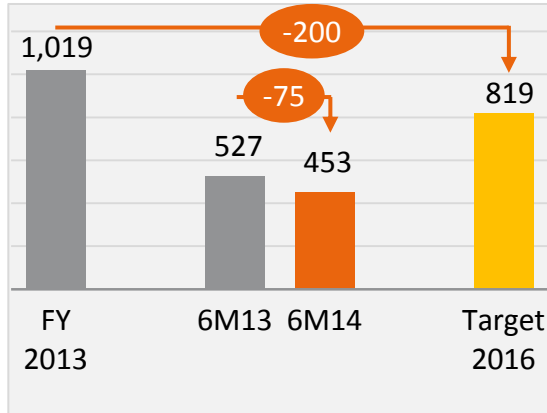
**From pro-forma 7.1% in 2013**

Over time NN Group expects to generate free cash available to shareholders in a range around the Group's net operating result of the ongoing business<sup>1</sup>

# Encouraging progress on delivering on these targets

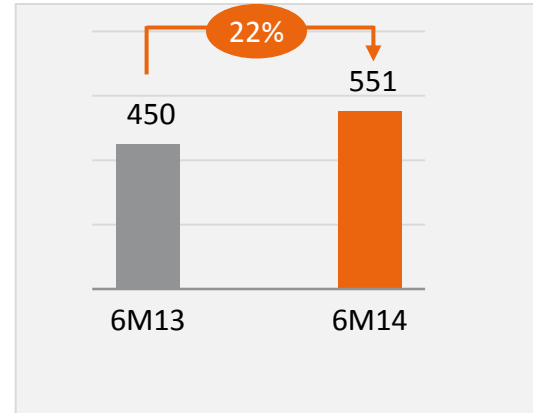
## Administrative expenses<sup>1</sup>

(EUR mln)

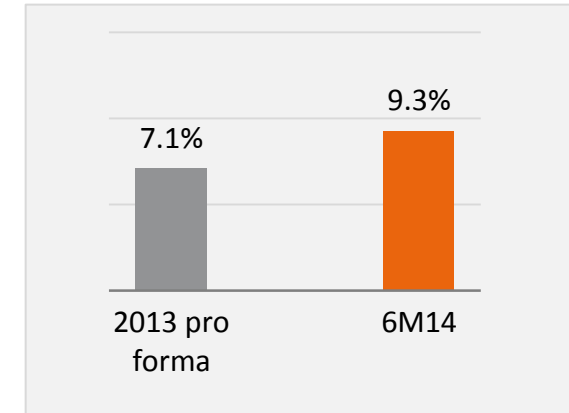


## Earnings improvement<sup>2</sup>

(EUR mln)



## Increase in ROE<sup>3</sup>



Capital generation of EUR 507 mln (excluding non-recurring impacts) mainly driven by operating performance and favourable markets; holding company cash capital at EUR 1,156 mln supported by EUR 446 mln dividends from operating units



# Solid capital levels and balance sheet

## Commercial capital at operating units

- Manage operating units to commercial capital levels
- Surplus capital above commercial levels to be returned to holding

**NN Life solvency up at 250%**

## Cash capital at holding

- Hold cash capital in holding to cover stress events and to fund holding costs

**Cash capital at holding increased to EUR 1,156 mln**

## Leverage

- Maintain leverage and fixed-cost cover ratios consistent with Single 'A' financial strength rating

**Last 12 months fixed-cost coverage ratio improved to 6.5x**

**Leverage ratio improved to 24%**

**Gross debt position down to EUR 3.7 bln**

**IGD ratio at 272%**

**2013 AFR/EC ratio (pro-forma) of 203%**

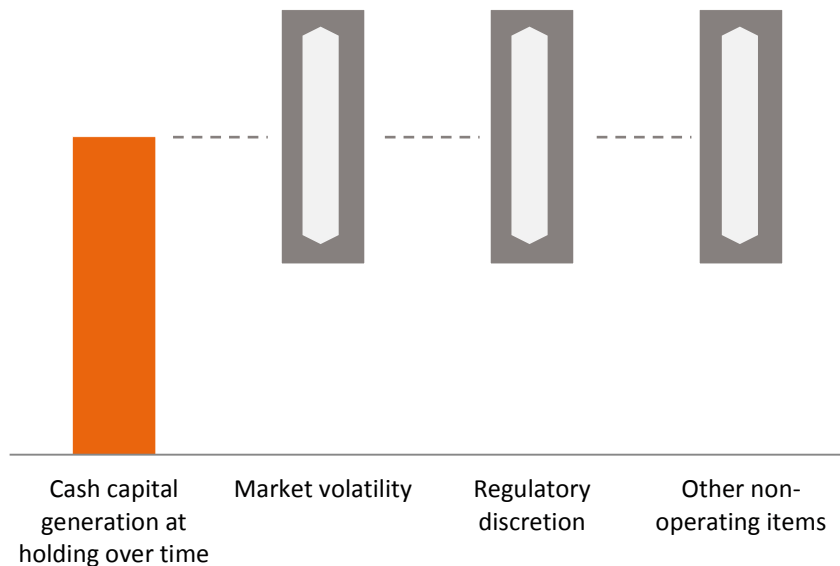
# Over time, NN Group expects to receive remittances from all segments

	Over time, remittance vs. net operating result	Drivers
Netherlands Life	>	<ul style="list-style-type: none"> <li>Regulatory liabilities more conservative than IFRS, realisation of investment spreads over swap incl. gains/losses on real estate and equities to drive cash generation</li> <li>Move from ECB AAA to swap curve</li> <li>Remittances currently lower than net operating result</li> </ul>
Netherlands Non-life	≈	<ul style="list-style-type: none"> <li>Relatively higher level of alignment between IFRS results and cash generation</li> <li>Recovery in profitability to feed through into cash</li> </ul>
Insurance Europe	<	<ul style="list-style-type: none"> <li>New business focused on capital light products but strain exists due to growth focus</li> <li>Back book producing cash</li> </ul>
Japan Life	<	<ul style="list-style-type: none"> <li>Remittances based on JGAAP earnings</li> <li>High new business strain</li> </ul>
Investment Management	≈	<ul style="list-style-type: none"> <li>Relatively higher level of alignment between IFRS results and cash generation</li> <li>Limited capital required and scalable platform allow growth without significant capex</li> </ul>
Japan Closed Block VA	>	<ul style="list-style-type: none"> <li>Significant amount of capital expected to be returned over the next five years as book runs off</li> </ul>
Other		<ul style="list-style-type: none"> <li>(-) Holding interest expenses (-) holding expenses, (+/-) FX movements, (+/-) other holding flows</li> <li>(-) NN Bank (investment in growth of NN Bank)</li> </ul>

Over time and assuming normal markets, current regulatory framework and no material special items, NN Group expects to generate free cash available to shareholders in a range around the Group's net operating result of the ongoing business

# Annual cash capital generation at holding will be significantly more volatile than operating result

## Cash flow volatility – Temporary items



## Drivers of temporary volatility

Market volatility	<ul style="list-style-type: none"> <li>High sensitivity to credit spread movements (incl. government spreads vs. swaps); movement temporary as assets held to maturity</li> <li>Limited sensitivity to interest rate movements due to well-matched cash flows</li> <li>Separate account pension guarantees</li> <li>Japan Closed Block VA results can be volatile</li> </ul>
Regulatory discretion	<ul style="list-style-type: none"> <li>Remittances dependent on local regulatory frameworks</li> <li>Solvency II still to be finalised</li> </ul>
Other	<ul style="list-style-type: none"> <li>Capital gains/losses, impairments, revaluations</li> <li>Potential costs related to unit-linked issue</li> <li>Restructuring costs, rebranding costs and other</li> </ul>

**NN Group has strong capital base to withstand a degree of market volatility**

# Dividend policy in line with strategy of returning cash to shareholders

- 2014 half-year dividend of EUR 175 mln payable in 2015
- This dividend payment is discretionary and not based on the dividend policy that NN Group intends to apply for 2015 and beyond

- From 2015 and beyond, regular and ordinary dividend annually in line with medium to long term financial performance
- Target of **40-50% of IFRS net operating result ongoing business**

- **Capital generated** in excess of NN Group's capital ambition (which may change over time), **is expected to be returned to shareholders unless it can be used for any other appropriate corporate purpose**, including investments in **value creating corporate opportunities**
- NN Group is committed to distributing excess capital in a form which is most appropriate and efficient for shareholders at that specific point in time (such as cash or share buybacks)

# Over the medium term, NN Group expects to ...

1

Deliver significant cash to shareholders

2

Increase exposure to growth markets and fee business

3

Improve efficiency and profitability of all segments

4

Maintain a strong capital base and de-risk liabilities

## Important legal information

NN Group's Annual Accounts are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU").

In preparing the financial information in this document, the same accounting principles are applied as in the NN Group N.V. condensed consolidated interim financial information for the period ended 30 June 2014. All figures in this document are unaudited. Small differences are possible in the tables due to rounding.

Certain of the statements contained herein are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Group's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro, (4) the implementation of the EC Restructuring Plan, (5) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations, (14) changes in the policies of governments and/or regulatory authorities, (15) conclusions with regard to accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit and financial strength ratings, (18) NN Group's ability to achieve projected operational synergies and (19) the other risks and uncertainties detailed in the Risk Factors section contained in the most recent annual report of ING Groep N.V.

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