

# NN Group – Annual report 2014

Lard Friese, CEO

Annual general meeting

Amsterdam, 28 May 2015



# 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
- Around 12,000 employees
- Shareholders' equity of EUR 20.4 bln at 31 December 2014
- Successful IPO on 2 July 2014
- Businesses being rebranded to "NN" in 2015



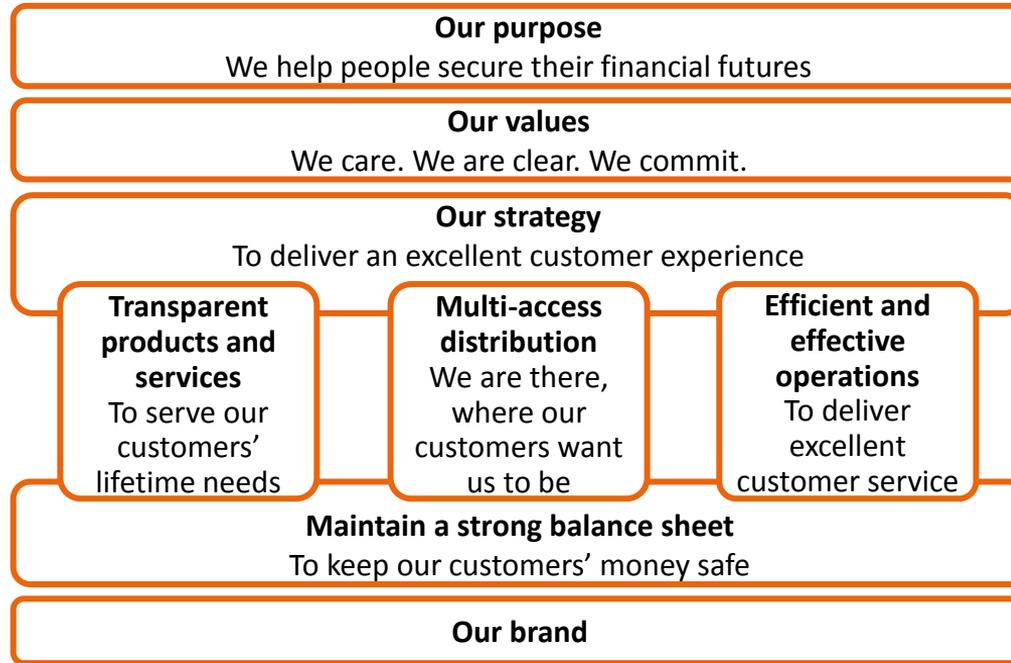
1. By GWP (2013), source: DNB

2. By APE (2012/13), source: internal estimate NN Group

3. By APE (2013); CEE includes Poland, Czech Republic, Bulgaria, Hungary, Romania, Slovakia, Turkey, Russia, Ukraine, the Baltics and the Balkans; Insurance Europe operates in all of these countries except for Russia, Ukraine, the Baltics and the Balkans, source: NN Group

# Our strategy

# Strategy to deliver an excellent customer experience, based on great service and long term relationships



# Delivering on our strategy

## Transparent products and services



Adapting  
products to serve  
customers needs

Testing future  
focused  
initiatives



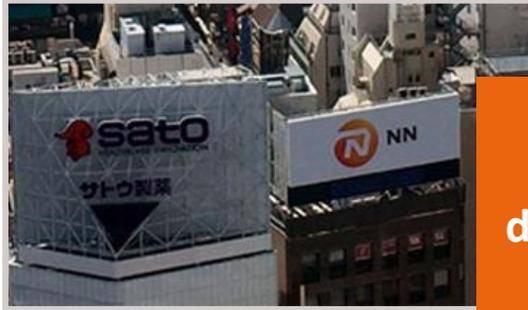
Offering personal  
experience  
at moments of  
truth

Receiving  
recognition for  
products and  
services



# Delivering on our strategy

## Multi-access distribution



Strengthening  
distribution base

Launching new  
direct platforms



Bringing together  
all products  
in one  
easy-to-use place

Aligning  
multi-channel  
operating  
concepts



Zgłoś szkody



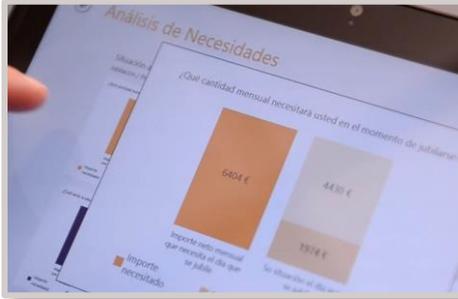
Zadzwoń do nas



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# Delivering on our strategy

## Efficient and effective operations



**Simplifying IT  
to drive down  
costs and  
complexity**

**Becoming  
more agile  
and  
more flexible**

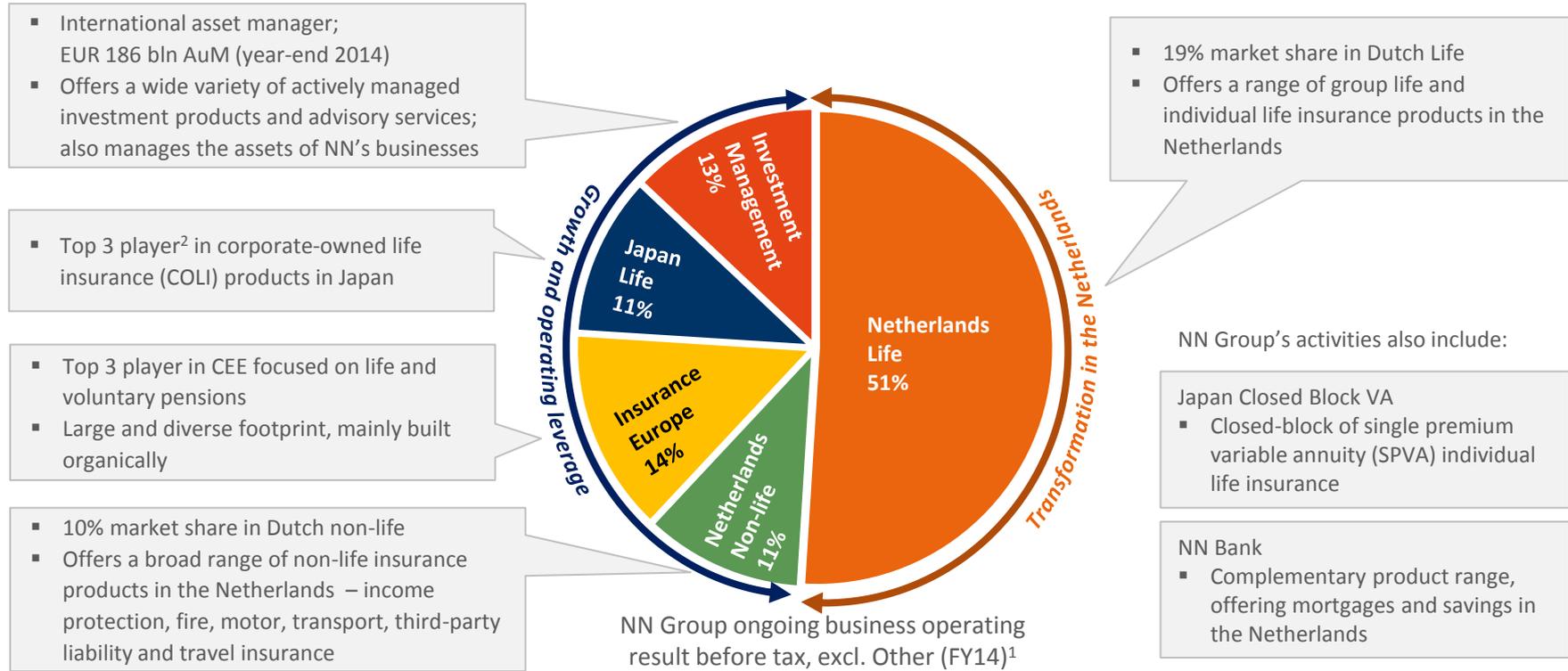


**Increasingly  
efficient with  
better  
processes**

**While further  
improving service  
and customer  
experience**



# Diversified businesses in Europe and Japan



1. Percentages based on operating result of EUR 1,216 mln [total operating result ongoing business (FY14) of EUR 1,086 mln, excluding segment Other EUR (130) mln]  
2. By APE (2012/13), source: internal estimate NN Group

# Committed and experienced management team

	<b>Lard Friese (NL)</b> Joined 2008	Chairman/CEO	<ul style="list-style-type: none"><li>25 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>23 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>20 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 Group 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 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

# Financial targets 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 NN Group's net operating result of the ongoing business<sup>1</sup>

1. Assuming normal markets, current regulatory framework and no material special items

# Strong solvency and disciplined capital framework

## Commercial capital at operating units

- Intention to manage the operating units to their commercial capital levels
- All surplus capital above commercial levels to be returned from operating units to holding, subject to regulatory restrictions

**NN Life solvency  
of 258%**

## Cash capital at holding

- Seek to hold cash capital in the holding to cover stress events and to fund 18 months of holding costs (incl. interest and other holding expenses)

**Cash capital at holding  
of EUR 1.4 bln**

## Leverage

- Aim to maintain leverage and fixed charge cover ratios consistent with single 'A' financial strength rating

- **LTM fixed charge coverage ratio 9.9x**
- **Leverage ratio 23.2%**
- **Gross financial leverage EUR 3.7 bln**

Resulting in

**IGD ratio 300%**

**Solvency II capital ratio (Standard Formula) estimated to be in a range around 200%<sup>1</sup>**

# Proposed dividend in line with strategy of returning cash to shareholders

## **NN Group aims to pay a dividend of 40-50% of IFRS net operating result ongoing business**

- ✓ Dividend proposal: EUR 0.57 per ordinary share over second half of 2014, representing a pay-out ratio of around 50% of net operating result of the ongoing business for half-year 2014
- ✓ Dividend to be paid in cash or ordinary shares at the election of the shareholders
- ✓ NN Group intends to pay ordinary dividends on a semi-annual basis going forward

**NN Group is committed to distributing excess capital, unless it can be used for value-creating investments, in a form which is most appropriate and efficient for shareholders at that specific point in time, such as special dividends or share buybacks which may include a repurchase of part of ING's shareholding in NN Group**

- ✓ Share buyback in February 2015 for an amount of EUR 200 mln
- ✓ Share buyback in May 2015 for an amount of EUR 150 mln

# 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

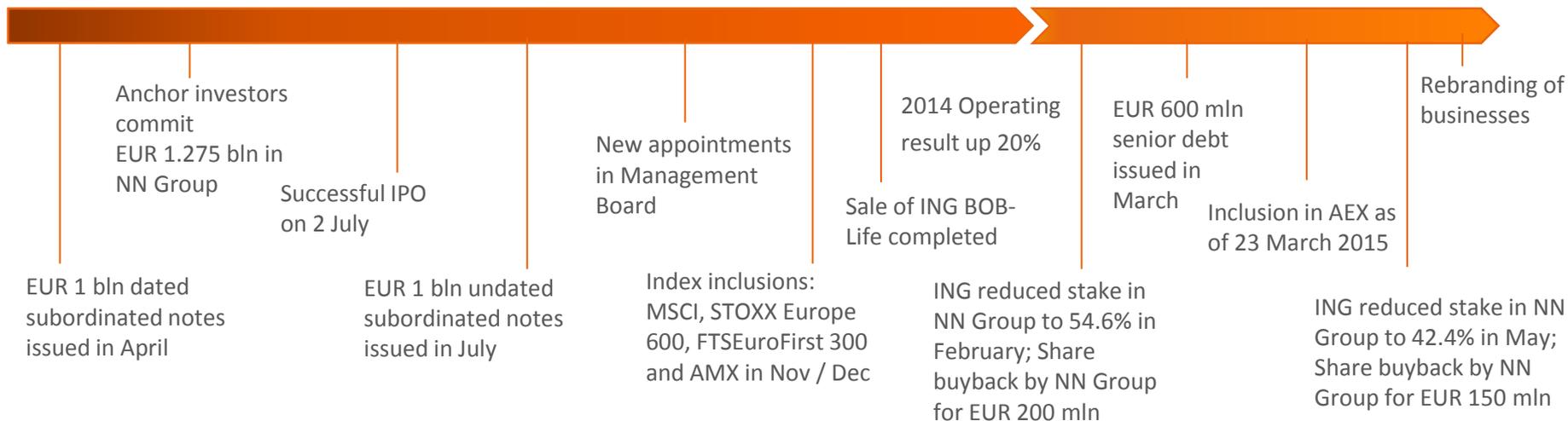
Maintain a strong capital base and de-risk liabilities

# Our achievements in 2014

# Our achievements in the past year

2014

2015



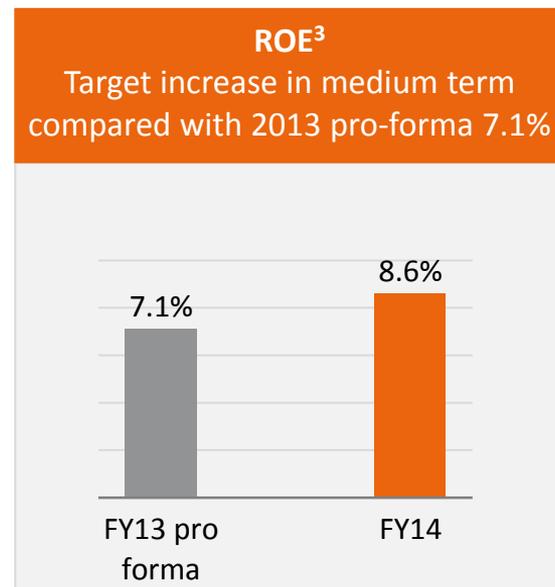
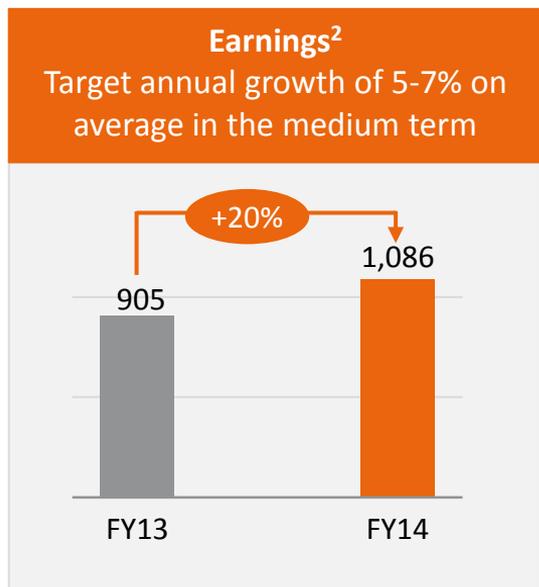
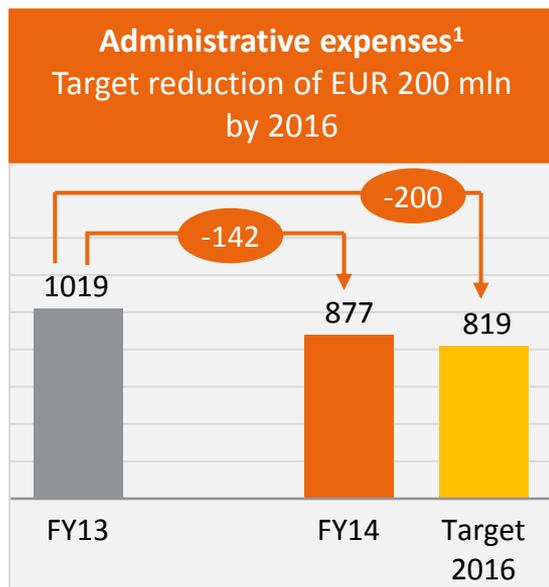
- Successful listing on Euronext Amsterdam on 2 July 2014; inclusion in AEX as of 23 March 2015
- Funding position strengthened and more flexible
- Strong 2014 full-year results reported: operating result up 20%, net result up 83%
- Good progress being made on equity story: first ordinary dividend proposed and distribution of excess cash via share buybacks in line with focus on returning capital to shareholders

## 2014 Financial highlights

<b>Operating result ongoing business</b>	<b>Net result</b>	<b>Net operating ROE ongoing business</b>	<b>IGD</b>
<b>EUR 1,086 mln</b>	<b>EUR 588 mln</b>	<b>8.6%</b>	<b>300%</b>
EUR 905 mln in 2013	EUR 322 mln in 2013	8.9% in 2013 Pro forma 7.1% in 2013	250% in 2013

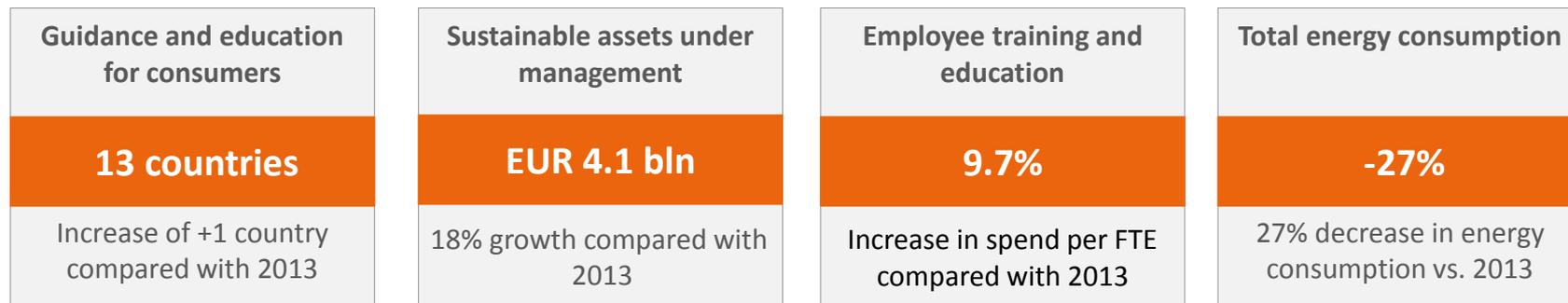
- Strong operating result ongoing business up 20% to EUR 1,086 mln, reflecting costs reductions (Netherlands), lower funding costs, improved performance at Netherlands Non-life, Investment Management and NN Bank
- Net result increased to EUR 588 mln, up 82.6%
- Full-year cost reductions of EUR 142 mln achieved in the Netherlands
- Strong capital position; IGD ratio up at 300% and holding company cash capital improved to EUR 1.4 bln
- NN Group Solvency II capital ratio (Standard Formula) estimated to be in a range around 200%

# Continuing progress towards achieving financial targets



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>4</sup>

## 2014 Non-financial highlights



- Developed NN statement of Living our Values: already 90% awareness of employees on NN Values
- Introduced an overarching Responsible Investment Policy Framework for NN Group
- Launched an international Corporate Citizenship programme, NN Future Matters, aimed at improving people's financial well-being
- Continued to compensate CO<sub>2</sub> emissions ('carbon neutrality'); and strengthened sustainability in procurement process
- The NN Group 2014 Sustainability Report follows the G4 guidelines from the Global Reporting Initiative and is externally audited

# Operating environment and business developments in 2014

<b>Netherlands Life</b>	<ul style="list-style-type: none"><li>• Low interest rates and pressure on fees and premiums from run-off of closed block, partly mitigated by increased asset allocation to higher-yielding assets</li><li>• Planned expense reductions on course for 2016</li></ul>
<b>Netherlands Non-life</b>	<ul style="list-style-type: none"><li>• Management actions have been successful in improving underwriting performance in D&amp;A</li><li>• Expense reductions well on track</li></ul>
<b>Insurance Europe</b>	<ul style="list-style-type: none"><li>• Performance impacted by low interest rates and Polish pension reforms</li><li>• Successfully shifting to protection and fee-based products and voluntary pensions</li></ul>
<b>Japan Life</b>	<ul style="list-style-type: none"><li>• Strong sales growth supported by diversification of distribution channels, mainly bancassurance</li><li>• Profitable COLI business in low rate environment</li></ul>
<b>Investment Management</b>	<ul style="list-style-type: none"><li>• Continue to invest in building and broadening the capabilities of the business</li><li>• Focus on growing third-party business</li></ul>
<b>NN Bank</b>	<ul style="list-style-type: none"><li>• Focus on building scale and improving profitability</li><li>• Expansion of mortgage portfolio to EUR 7.9 bln at the end of 2014</li></ul>
<b>Japan Closed Block VA</b>	<ul style="list-style-type: none"><li>• Capital release over time following run-off of portfolio</li><li>• Hedge programme remains effective</li></ul>

# 1Q15 highlights

## 1Q15 highlights

<b>Operating result ongoing business</b>	<b>Net result</b>	<b>Net operating ROE ongoing business</b>	<b>IGD</b>
<b>EUR 304 mln</b>	<b>EUR 485 mln</b>	<b>8.7%</b>	<b>335%</b>
EUR 295 mln in 1Q14	EUR -215 mln in 1Q14	9.9% in 1Q14 Pro forma 7.1% in 2013	300% in 4Q14

- Strong operating result ongoing business of EUR 304 mln
- Net result increased to EUR 485 mln
- Cumulative costs savings in the Netherlands of EUR 164 million versus EUR 200 mln target by end of 2016; EUR 22 mln achieved in 1Q15
- Strong capital position; IGD ratio up at 335%

# Important developments in 1Q15

## Rebranding

- Almost all international ING insurance businesses rebranded to NN or Nationale-Nederlanden
- Investment Management operations rebranded to NN Investments Partners and all investments funds rebranded to NN
- Central and local name change campaigns and marketing activities to support rebranding of businesses
- Total rebranding expenses expected of EUR 135 mln in 2015/16, of which EUR 20 mln recorded in 1Q15

## Share buy-backs

- As part of ING Group's sell-downs NN Group repurchased shares from ING Group
- NN Group repurchased 8.3 mln shares for an aggregate amount of EUR 200 mln in February 2015
- NN Group repurchased 5.9 mln shares for an aggregate amount of EUR 150 mln in May 2015

## Solvency II

- NN Group has applied for the usage of a Partial Internal Model for NN Group and the insurance entities in the Netherlands in May 2015

## Unit-linked products in the Netherlands

- European Court affirmed position of Nationale-Nederlanden regarding unit-linked products
- Additional information requirements in applicable national law must be clear, accurate and foreseeable
- Nationale-Nederlanden continues to reach out to customers to encourage them to carefully assess their unit-linked products in order to find an appropriate solution on an individual basis

# Wrap-up

## Wrap-up

- Successful IPO of NN Group in July 2014 marked a new beginning
- The full-year results and the first quarter results of 2015 demonstrate the progress we have made so far
- Our focus on our customers remains our driving force
- Introduction NN statement of Living our Values, setting out our values
- We are well prepared for Solvency II
- Proposed dividend over second half of 2014: EUR 0.57 per ordinary share, in cash or in shares
- The new branding represents another important milestone in our standalone journey

## Important legal information

NN Group's Consolidated annual accounts are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and with Part 9 of Book 2 on the Dutch Civil Code.

In preparing the financial information in this document, the same accounting principles are applied as in the 2014 NN Group Consolidated annual accounts.

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 contained in recent public disclosures made by NN Group and/or related to NN Group.

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