Q4 2017 Earnings Call

Company Participants

- Delfin Rueda Arroyo, Chief Financial Officer & Member-Management Board
- Eilard Friese, Chief Executive Officer and Chairman
- Jan-Hendrik Erasmus, Chief Risk Officer & Member-Management Board

Other Participants

- Ashik Musaddi, Analyst
- Bart Jooris, Analyst
- Benoît Pétrarque, Analyst
- Cor Kluis, Analyst
- Farooq Hanif, Analyst
- Johnny Vo, Analyst
- Matthias de Wit, Analyst
- Robin van den Broek, Analyst
- Steven Haywood, Analyst
- Trevor D. Moss, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. This is the operator speaking. Welcome to NN Group's Analyst Conference Call on its Fourth Quarter 2017 Results. The telephone lines will be in listen-only mode during the company's presentation. The lines will then be opened for a question-and-answer session.

Before handing this conference call over to Mr. Lard Friese, Chief Executive Officer of NN Group, let me first give the following statement on behalf of the company. Today's comments may include forward-looking statements such as statements regarding future developments in NN Group's business, expectations for its future financial performance, and any statement not involving a historical fact. Actual results may differ materially from those projected in any forward-looking statement. Any forward-looking statements speak only as of the date they are made and NN Group assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. Furthermore, nothing in today's comments constitutes an offer to sell or solicitation of an offer to buy any securities.

Good morning, Mr. Friese. Over to you.

Eilard Friese

Yes. Thank you, operator. Good morning, everyone, and welcome to our conference call to discuss NN Group's results for the fourth quarter of 2017. I will kick off today's presentation by talking about the highlights of the fourth quarter results, and I will also take the opportunity to look back at the acquisition and the integration of Delta Lloyd in 2017, as well as the financial and commercial developments in the past year. Delfin Rueda, our Chief Financial Officer, will then take you through the details of the financial results and talk about the capital position and free cash flow. I will conclude the presentation with a wrap-up, after which we will open the call for Q&A. And Jan-Hendrik Erasmus, our Chief Risk Officer, is also with us today to answer your questions.

So, let's turn to slide number 3 with the highlights. NN Group's operating result of the ongoing business for the fourth quarter of 2017 was €345 million. This is an increase of 22% compared with the same quarter of 2016 and was driven by the contribution of Delta Lloyd. The net result for the fourth quarter was €700 million, supported by the higher operating results, capital gains on the sale of public equities securities and positive revaluations on real estate and private equity.

On the commercial side, our insurance businesses reported a 34% increase in total new sales at constant currencies compared with 2016. The value of new business increased 61% on a full-year basis. I will talk more about this on a later slide.

Our balance sheet and capital position remained strong. Free cash flow to the holding company was €336 million in the fourth quarter, driven by €370 million of dividends from our subsidiaries. This was offset by the repayment of €575 million of senior notes that matured in November and the repurchase of own shares under the share buyback program. On balance, the cash capital at the holding stands at €1.4 billion at the end of the fourth quarter.

The Solvency II ratio of NN Group at the end of 2017 was 199%, which is after a 5 percentage points deduction for the proposed 2017 final dividend. We are today announcing a proposed final dividend for 2017 of €1.04 per share, bringing the 2017 full-year dividends to €1.60 (sic) [€1.66] (00:03:54) per share. This represents a 7% increase on the 2016 full-year dividend per share.

I will now turn to slide number 4. We completed the acquisition of Delta Lloyd in the first half of 2017, in fact, within six months of announcing the recommended offer at the end of 2016. This included the successful tender offer launched in February, the issue of senior debt to finance the acquisition, the transaction with Fonds NutsOhra and, finally, the legal merger in June.

This momentum has continued throughout the year as we integrate the businesses. The management teams for all the business units and support functions were in place by the summer, and their integration plans were submitted in the second half of the year. Most head office departments are already integrated. We have started rationalizing systems and portfolios, and products are being rebranded from Delta Lloyd to NN.

As announced at the Capital Markets Day in November, we expect that the integration will lead to total cost synergies of €350 million by the end of 2020, half of which we expect to have achieved by the end of 2018. We have got off to a good start with total cost savings at the business units and the scope of the integration of €133 million in 2017.

We have also seen a reduction of around 900 internal and external FTEs in the Netherlands and Belgium. Of course, there were some quick wins by stopping redundant projects and removing the Delta Lloyd head office cost, but we will continue to drive further efficiencies in order to extract the synergies of the combined company. Finally, on January 1, 2018, the first legal mergers of business units were completed with Delta Lloyd Bank merging into NN Bank and Delta Lloyd Asset Management merging into NN Investment Partners.

Let's now move on to slide number 5. While the successful integration of Delta Lloyd is one of our top priorities, we never lose sight of our aim to enhance the customer experience and continue to innovate our business model. Let me give you some examples of some of the product and distribution initiatives in the past year.

We currently have six Sparklabs located in Europe and Japan, which provide an out-of-office environment to foster innovative ideas and infuse innovative thinking into NN. They also initiate and pilot new concepts. We also look for partnerships or investment opportunities within tech companies to accelerate our innovation efforts. For example, we recently invested in RightIndem, which offers digital customer-driven claims management solutions. In April 2017, Sumitomo Life started offering NN Life Japan's COLI products through its sales network of around 30,000 agents. This has supported the strong increase in sales of Japan Life.

In November, our business in Turkey ended into a strategic partnership with Hesapkurdu.com, a leading online loan aggregator for mortgages and consumer loans, giving us an online presence in that country and letting us reach a wider client network to cross-sell our products.

NN in Greece has renewed its bancassurance agreement with Piraeus Bank for the distribution of its products. And in Poland, we have launched a partnership with Play, the largest telecom provider in the country to provide health insurance through its insurance market platform.

Let's turn to the next slide. Slide 6 shows our strong commercial performance in 2017. Total new sales of our insurance businesses increased 34% in 2017 versus 2016 when measured at constant currencies. In Europe, we saw higher sales across the region while in Japan we saw higher sales of COLI products launched in 2017 and sales through the Sumitomo partnership, which started in April. The Delta Lloyd businesses in the Netherlands and Belgium also contributed to the increase.

Now, as you know, our focus is on profitable growth. The value of our new business in 2017 was €345 million, up 61% from 2016. At Insurance Europe, the higher-value new business was supported by the continuing shift to higher-margin protection products. And the higher-value new business in Japan was mainly driven by higher sales, an improved product mix, and an increase in interest rates.

Our asset manager, NN Investment Partners, has now reported six consecutive quarters of net inflows of third-party assets. For full-year 2017, the total inflow of third-party assets was €5.1 billion. This was offset by an outflow of affiliated assets. We are increasingly focusing on the quality of the asset flows, aiming to attract assets into those investment strategies, where we have a particular expertise such as emerging market debt and multi-asset. Finally, our banking business continued to grow its mortgage portfolio, which increased to €17.6 billion at the end of 2017, including the addition of the portfolio of Delta Lloyd Bank.

So, let's move to the next slide. On slide number 7, I would like to recap on our performance for the full-year 2017. To start with, the 2017 operating result before tax of the ongoing business increased 29% compared with 2016, mainly driven by improved results at most segments, as well as the contribution of the Delta Lloyd businesses for a total amount of €205 million. This was partly offset by the Non-life business where improved results from Property & Casualty were offset by an unfavorable claims experience in Disability & Accident.

As I mentioned earlier, we announced a new expense target in November, whereby we aim to reduce the 2016 administrative expense base of the units in scope of the integration by €350 million. In 2017, we managed to lower expenses by €133 million, so we are well on our way to reach our new target by the end of 2020. The net operating return on equity of the ongoing business for 2017 was 10.3%, up from 8.1% reported in 2016.

And finally, we aim over time, to generate free cash available to shareholders in a range around the net operating results. Bear in mind that this can be volatile from year-to-year. In 2017, the free cash flow was impacted by the capital injection into Delta Lloyd Life as well as a deduction for the provision related to ING Australia Holdings, and Delfin Rueda, our Chief Financial Officer, will go into the details of our free cash flow later in the presentation.

So, let's turn now to slide number 8. We have today announced that we are proposing a 2017 final dividend of €1.04 per share. And this brings the total 2017 dividend to €1.66, an increase of 7% on the 2016 dividend per share. The 2017 dividend represents a payout ratio of around 45% of the

2017 net operating results of the ongoing business in line with the envisaged 40% to 50% payout ratio in our dividend policy.

The proposed dividend will be voted on at the annual general meeting of shareholders on the 31st of May. As we announced at the time of the Delta Lloyd transaction, we anticipate a double-digit increase in the 2018 dividend per share versus 2017. In total, NN has returned more than €2.7 billion to shareholders in the form of dividends and share buybacks since the IPO in 2014 including the proposed 2017 final dividend announced today. This demonstrates our commitment to return excess capital to shareholders unless we can deploy it in other value-creating opportunities.

And with that said, I would like now to hand over to our Chief Financial Officer, Delfin Rueda. Delfin?

Delfin Rueda Arroyo {BIO 7032761 <GO>}

Thank you, Lard and good morning, everyone. Let me start with the fourth quarter results. NN Group reported an operating result of the ongoing business of €345 million in the fourth quarter of 2017, up 22% on the same quarter in 2016. This was driven by the contribution of the Delta Lloyd businesses of €104 million, which includes non-recurring benefits of €36 million, as well as favorable experienced variances. This was partly offset by a lower technical margin at NN Life due to negative non-recurring impacts, as well as unfavorable claims experienced in the group income portfolio at NN Non-Life.

The net result for the fourth quarter of 2017 was €700 million. The increase compared with 2016 was driven by the higher operating result and higher capital gains and revaluations. These were partly offset by higher special items, mainly relating to restructuring expenses, as well as the amortization of acquisition intangibles.

Moving on to slide 11, I would now like to take you through the fourth quarter performance of the individual segments. Let me start with the fourth quarter operating result of Netherlands Life, which increased to €170 million, mainly driven by the inclusion of Delta Lloyd and a higher investment margin, offset by a lower technical margin and lower fees and premium-based revenues. Please note that the current quarter reflects private equity dividends of €31 million in the investment margin and non-recurring negative items of €33 million and negative mortality and morbidity experienced in the technical margin.

The operating result of Netherlands Non-life increased to €25 million, driven by the inclusion of the Delta Lloyd and an improved underwriting performance in Property & Casualty. This was partly offset by an unfavorable claims experience in the group income portfolio in Disability & Accident. Altogether, the combined ratio for the segment Netherlands Non-life improved to 99.6% from 100.1% in the fourth quarter of 2016.

The operating result of Insurance Europe increased to €68 million, reflecting higher fees and premium-based revenues, partly offset by higher administrative expenses. The current quarter also includes the contribution of Delta Lloyd Belgium. Although the chart shows only a moderate growth of the operating result of Japan Life in euros, it increased 18% on the fourth quarter of 2016, excluding currency effect. This reflects higher fees and premium-based revenues and an improvement in the technical margin, partially offset by higher expenses.

The increase in the operating result of asset management was driven by the contribution of Delta Lloyd, which included €10 million of non-recurring performance fees. The improved results of the segment Other in the fourth quarter reflects higher operating results of the banking and reinsurance businesses, while the holding result was lower.

Now, let's turn to slide 12, which shows the expense savings. As Lard already mentioned, we aim to reduce the administrative expense base for all the business units in the scope of the integration by around €350 million by the end of 2020. We are making good progress. Compared with the full-year 2016 expense base, we have already achieved total cost savings of €133 million. This reduction represents around 38% of the total targeted cost savings.

Please note that the expense reduction will not be linear and that some units may at times see expense increases to support growth. However, as announced at the Capital Markets Day, we expect 50% of this cost reduction target to be achieved by the end of this year.

On the next slide, I would like to take you through the free cash flow of NN Group. The holding company cash capital position was €1.4 billion at the end of 2017. On slide 13, we show the movement in the holding cash capital during the fourth quarter as well as for the full year 2017. The free cash flow during the fourth quarter of 2017 was €336 million, including dividends of €370 million received mainly from the Dutch units. This was offset by the repayment of senior notes for an amount of €575 million in November and this year's repurchased in the quarter for an amount of €117 million. The share buyback program was completed at the end of December.

The total free cash flow for 2017 was €881 million, driven by dividends for a total amount of €1.8 billion received from all business segments. This was partly the offset by the €500 million capital injection into Delta Lloyd Life as well as a deduction for the provision related to ING Australia Holdings. Details of the dividend's upstream per segment can be found in the appendix to this presentation.

On slides 14 and 15, I will take you through the developments in our Solvency II ratio. NN Group's Solvency ratio (sic) [Solvency II ratio] (00:19:11) was 199% at the end of the fourth quarter of 2017, down from 204% at the end of the third quarter. This ratio reflects a 5 percentage points reduction for the proposed 2017 final dividend of €348 million that we announced today. The operating capital generation for the fourth quarter added 5 percentage points to the ratio and includes a contribution from Delta Lloyd of approximately €40 million to Own Funds. Please be aware that going forward, we will no longer report the contribution of Delta Lloyd separately, as the integration of businesses and legal mergers of entities means that this is no longer possible.

The market variances, which lowered the ratio by 5 percentage points, reflect mainly the tightening of corporate credit spreads. Please note that the reduction of the UFR by 15 basis points in January this year will reduce the Solvency II ratio by approximately 5 percentage points in the first quarter of 2018.

Let's turn to slide 15 for the full year. The Solvency II ratio was 241% at the start of the year. As you can see, the acquisition of Delta Lloyd had a total impact of 51 percentage points to the ratio. This reflects the inclusion of Delta Lloyd's Own Funds and SCR, as well as the cash paid to acquire the company.

The total operating capital generation in 2017 was €1.4 billion, of which €1.1 billion was the growth of Own Funds and around €300 million, the decrease of Solvency capital requirement. The operating capital generation includes the contribution from Delta Lloyd for three quarters, for a total amount of approximately €100 million to Own Funds, as well as a release of the SCR. Market variances can be volatile quarter-on-quarter, but we were actually – but were actually quite small on a full-year basis.

Finally, the cash flows to shareholders represent the 2017 interim and final dividends.

And with that, I pass you back to Lard for the wrap up.

Eilard Friese

Yes. Thank you, Delfin. There, thank you, Delfin. We have today presented NN Group's fourth quarter and full-year results for 2017. I'm pleased with our performance with most segments reporting improved full-year results and also with a strong contribution of the Delta Lloyd businesses.

In a Non-life business, an improvement in the P&C results this year was offset by a deterioration in Disability & Accident and given the nature of the business, adverse events can happen and can have an impact on the Non-life results, such as in the first quarter of this year, when we expect to see a loss from the severe storm that hit the Netherlands in mid-January. We are implementing a range of measures to sustainably improve the Non-life performance. Our balance sheet remains strong with a Solvency II ratio of 199% and a cash capital position of €1.4 billion. This robust position allows us to propose a final 2017 dividend of €1.04 per ordinary share.

Looking forward, we have defined several priorities. Firstly, we will deliver on the Delta Lloyd transaction. That means successfully integrating Delta Lloyd into NN Group and extracting the envisaged synergies. Secondly, we will continue to further improve the performance of our businesses. Our third priority is to use technology and innovation to transform our business model and improve our service to our customers. And finally, to continue to allocate capital rationally.

2017 was a memorable year in which we completed the acquisition of Delta Lloyd and started the integration of both companies. This has demanded a huge effort and focus from all our employees. I'm especially proud of the resilience and professionalism of everyone at NN Group and our commitment to always deliver an excellent customer service.

I will now open the call for your questions.

Q&A

Operator

Thank you, Mr. Friese. Ladies and gentlemen, we will now start the question-and-answer session The first question is from Mr. Johnny Vo, Goldman Sachs. Go ahead please, sir.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Hi. Just two questions, please. Just in terms of the operating capital generation of Delta Lloyd, it was €40 million this quarter which is lower than last quarter. And given the changes with UFR and the movement of rates in 2018, how should we think about where that capital generation should be or what level that capital generation should be at per quarter?

And then the second question, just in terms of CMI data in the UK have shown longevity improvements have reduced, have there been new CMI tables in the Netherlands? And what is the sensitivity of this to the Solvency of Delta Lloyd, given the prudency of its reserves? Thanks.

A - Eilard Friese

Yeah. Thanks, Johnny, and good morning. The first question will be answered by Delfin Rueda and then I suggest the second question on longevity to be discussed by Jan-Hendrik Erasmus. So first, Delfin, over to you.

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

Yes. Thank you, Johnny. The operating capital generation of Delta Lloyd in the quarter was a little bit lower and that was – and that is not a surprise due to the, let's say, volatility that we see from one quarter to another. In the previous quarters, it was somehow higher, and I think that going forward, we would expect a slightly higher operating capital generation than this €40 million that comes in the quarter.

Certainly, what we have seen in Q4 does not reduce our expectation of capital generation – operating capital generation within the Delta Lloyd. But please keep in mind that going forward, this is the last quarter that we will report Delta Lloyd contribution on a separate basis, as we're following the legal mergers and the integration of the business that won't be possible anymore.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay.

A - Eilard Friese

Okay. Jan-Hendrik?

A - Jan-Hendrik Erasmus {BIO 19801435 <GO>}

Thank you, Johnny, for the question. Yeah, we've also had a new table from Statistics Netherlands, the CBS, that came in the back – to the end of 2017. And it did show a slightly slower increase of life expectancy than in the previous table. We have reflected that already in our assumptions. And of course, I would say that we do that in a rational and disciplined way, so we don't just take the population statistics. We consider many factors when setting our actual best estimate assumption.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay. Thank you.

Operator

The next question is from Mr. Matthias de Wit, Kempen & Co. Go ahead please.

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

Yes. Hi, good morning. Two questions. First is on the technical margin in the Dutch Life business €5 million. If I exclude the €33 million one-offs you flagged, I get to a number significantly below where you were in the previous quarter. So, I understand there is some negative mortality, morbidity result. So, I just wondered if you could say anything on what we could expect in terms of normalized technical margins for Dutch Life. I think you mentioned €35 million per annum in the past, so maybe you could update us on that?

And then the second question is on the Own Funds generation, if I take the €1.1 billion for 2017, is that a number that includes any material positive or negative variances? And could you also share if there is an important drag included in that number from – linked to the growth of the Japanese business, because I think if the JGAAP numbers you take for the Own Funds? So, that could also be helpful if you could comment on that. Thank you.

A - Eilard Friese

Yeah. Thanks, Matthias. Delfin, can you take those questions?

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

Yes. Thank you, Matthias. So the technical margin in NN Life in the quarter has shown a negative performance. We have always flagged that there is a – from one quarter to another based on the experience variances, we have seen that. In the previous quarter, we saw some positive evolution on the technical margin and we have seen that, as you know, overall.

And when you look at the technical margin for the full year of €180 million, somehow provides a better reflection of excluding this volatility. So, maybe before I bring other explanations there to your last question, which I think is probably the most relevant, we do expect around €40 million to €50 million per quarter, although with this in technical margin for Netherlands Life including Delta Lloyd, although with a tendency trending down as a consequence of the reduction of the portfolio due to the runoff and also some negative trend results for longevity going forward.

Maybe if we go for the Own Funds generation for the full 2017, we flagged – if I recall properly in the first quarter of this year, we flagged a positive coming from the move from the separate account to the general account, and I think it was around €50 million or so. So, that would be one-off. We have always emphasized that the Own Funds generation is going to fluctuate somehow. So 2017, with the exception of that one-off, I don't – I wouldn't mention anything extraordinary just to remind you that 2017 only reflects Delta Lloyd for three quarters.

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

Yeah. And in terms of Japan, there you quote negative contribution on Own Funds because of the growth of Japanese business?

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

Yeah. Of course, it does. The drag for the new business, but also includes the positive of the growing in-force. And as a consequence, of course, it depends on the rate of the growth. It would be larger than the increase. But in general, over time, we will see the growth of the in-force profit to go. And as you know, Japan has been growing very nicely both commercially and in terms of profitability – IFRS profitability over the year 2016 – sorry, the year 2017, and we see that momentum continuing.

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

Okay. Very clear. Thank you.

Operator

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

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

Yes. Good morning, gentlemen. I think somewhere around Christmas you've issued a paper on the dynamic volatility adjuster. And if you look at your SFCR, you could conclude that for NN, this could be a potential risk. Could you maybe specify on what your best-case and worst-case assumption is? I appreciate that this is a lengthy process, but maybe some early thoughts here would definitely be appreciated.

And secondly, it's a bit cheeky, I guess, but your free cash flow for 2017 is €0.9 billion, well below the net operating result of €1.2 billion. Given your guidance, should we expect to catch up in future few years? Thank you.

A - Eilard Friese

Well, thanks, Robin. So, the first question, Jan-Hendrik. Second one, maybe, Delfin. Yes? So, first, Jan-Hendrik.

A - Jan-Hendrik Erasmus {BIO 19801435 <GO>}

Thank you, Robin, for the question. Yes, we have, of course, taking note of the opinion. And I guess what they're trying to do is to create a level playing field, somehow. One of the key principles there, they're looking for there, is to create the right risk management incentives. That means that you shouldn't somehow benefit from this dynamic vola as you move down the credit curve. Now, that is very similar to the DNB's view, which they already expressed in 2015. So, given how your view (00:33:02) is now very consistent with the DNB's earlier view, I think there's no real step change here, and we'll pick this up as part of our regular dialog.

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

Okay. That's very clear.

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

On your second question, Robin, it depends how you look at the free cash flow in 2017. Maybe as a reminder, it does include a capital injection of €500 million into Delta Lloyd Life. If you exclude that, then the free cash flow in 2017 was €1.4 billion. In any event, the key message here is that every quarter or even for the full year, the free cash flow can be higher or lower than the net operating result, but that over time, we expect to be approximately at the same level.

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

Okay. Thank you.

Operator

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

Q - Cor Kluis {BIO 3515446 <GO>}

Yeah. Good morning. Cor Kluis. Two questions. First of all, on the storm in the Netherlands, the €75 million expected cost, could you indicate what kind of reinsurance you have for fire insurance in the Netherlands and at which level that would kick in basically, because it was I think somewhat higher than expected? And are you also thinking about changing your P&C or fire reinsurance policy somewhat going forward? So, that's my first question.

Second question is about the Solvency II ratio, given what's happened year-to-date at least for the last two weeks in the Capital Markets. Can you give some update on how that the Solvency II ratio developed year-to-date? We know, of course, the UFR effect, but also especially the market effect year-to-date. Those were my two questions.

A - Eilard Friese

Yes, Cor. Thank you very much for your questions. Both will be taken by Jan-Hendrik. And on the storm, by the way, it was a quite a big storm that hit the Netherlands. Don't forget that we have a 28% market share roughly in fire which is, of course, the area that is most affected by this.

But maybe, Jan-Hendrik, on the reinsurance side, how is that going be treated?

A - Jan-Hendrik Erasmus {BIO 19801435 <GO>}

Thank you, Cor, for the question. Yeah, of the €75 million, you'll see €50 million emerge in the unit or segment Non-Life. The remaining €25 million will be in our internal captive reinsurer. And in Non-Life, therefore, we kept roughly €50 million. We have a combination of per event and aggregate cover. We actually did slightly increase our reinsurance coverage this year. So of course, we consider it all the time in a rational and disciplined way also based on risk versus return, what is the marginal benefit of reinsurance versus the capital costs and benefits.

On the Solvency II ratio, yeah, we of course see the market volatility. It's been a very interesting few weeks. Year-to-date, I would say that apart from the change in the UFR, which we flagged is a 5 percentage point change to our ratio, it's been flat. There's been many offsetting elements in there, but the volatility net outcome is broadly flat.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Very good. Thanks.

Operator

Your next question is from Mr. Ashik Musaddi, JPMorgan. Go ahead please.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good morning. Just a couple of questions. First of all, given that there are a lot of one-offs in the NN Life – Netherlands Life business. Can we get some sense as to what is the recurring number, because if I look at slide number 11, last year was €163 million, this year is €170 million, but then this year you include Delta Lloyd as well. So, how should we think about in normalized run rate? Is €896 million a good guide or should it be higher, should it be lower? So that's the one question.

Second thing is, can you give us some color about the cash flows? So, you're expecting to generate around €1.4 billion a year. Your dividend cost is around €600 million a year. So, what are you doing to going to do with the remaining €800 million going forward on an annual basis? Any color on that would be really helpful. Thank you.

A - Eilard Friese

Yes, Ashik, thank you very much. The first question will be taken by Delfin. Let me give you some color on the capital allocation on your question number two. As you know, first of all, we aim for a sustainable dividend, regular ordinary dividend that we wish to do. And secondly, the second piece of the commitment is that we – any excess cash that we have over time that cannot be deployed and value creating opportunity will go to – go back to shareholders over time. That's our main thing here. So, Delfin, maybe the first question?

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

Yes. Ashik, thanks for your question. I mean, you're using the term recurring figure and as you know that I am a bit adverse on talking about run rates or recurring. We have seen volatility particularly in the profitability of Netherlands Life in the previous years. We have provided guidance for the future of maintaining the operating result around the same level of the 2017. 2017, of course is including Delta Lloyd for only three quarters, but I think that the actual result of Netherlands Life for the full year is the base that we use for making that statement.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's clear. And just, sorry, going back to the first – to that question on capital, how should we think about 2018 and 2019? Is there any near-term cash outflow you're expecting apart from Delta Lloyd – apart from dividend? In the sense like do you have any debt repayment planned or is there any capital injection required anywhere? I'm just trying to get a bit of sense that if you accumulate €800 million a year, you're already at the higher end of your cash flow number that you aim to reach. So, what are you going to do like in this year and next year? So any planned stuff or maybe something will come up next year, so any thoughts?

A - Eilard Friese

Well, as I said earlier, I mean, we were comfortable with the overall balance sheet as you know, where we've repaid €575 million of the notes that matured in November. There is, let's say, a natural point in 2020 where a number of €300 million is going to mature. At that point in time, we will see what we're going to do with that. In the meantime, our guidance is I think pretty clear. We aim for a sustainable ordinary dividend, and any excess cash that we have over time will be returned to stockholders, unless we can deploy it in value-creating opportunities.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very clear. Thank you.

Operator

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

Q - Benoît Pétrarque

Yes. Good morning, everyone. Two questions on my side. The first one will be on the dividend from the Dutch Life business in 2018. Obviously, you're in the middle of the merger, also the move to the partial internal model. So what could be the kind of level for 2018? Do you still aim for something which is going to be above the net operating results, or is this target would be kind of for 2019, 2020? So maybe a level there would be useful.

And then just maybe on the kind of distribution agreement you have with ING Bank. Could you talk a bit about the growth you see now on the bank insurance (00:41:21) distribution? I've seen ING pretty vocal now that they want to cross-sell more products and actually push insurance more in their distribution network. So, you could benefit from that, I guess, and it would be useful to summarize a bit where you are and why you have a big relationship with them. I mean, many outside the Benelux obviously. Thanks.

A - Eilard Friese

Yeah. So let me comment on the second question, and then the first question on the dividends for Dutch Life will be taken by Delfin. We have a very good constructive relationship with ING in many markets. So, we operate already for many years and many markets with ING in the form of distribution. And it is something that we like and we collaborate very well with them, and we'll help to support their ambitions in growth wherever we can of insurance business.

I think next to that, we have also worked hard to increase the bancassurance platform over the last years. And what you can see is that we have struck a deal with Piraeus Bank in Greece where we have lengthened and extended the duration of the bancassurance agreement in Greece. We have a new bancassurance agreement in place in Poland, for instance, and in other markets across Europe. And also in Japan, we've increased the level of partnerships that we have with banks, with other distributors, but also with Sumitomo.

So, we are really positioning ourselves for continued growth momentum that we have been building over the last years where we focus – where we did two things. I think, first of all, we've moved the product set to more protection and fee-based products, which increase the margin, the profitability of the products, which is the second thing that we've done.

And the third thing is to build out the distribution and maintaining the cost under control. And the result of it is that you can see over the last periods already a momentum building on growth, 34% on constant currency for the full-year 2017 and also a proof testament to this is the value of new business that has grown more than 60% throughout the year. So, we will continue that momentum and continue that focus on profitable growth moving forward.

With that, Delfin, on the Dutch Life dividends.

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

Yes. Thanks, Benoît. Netherlands Life had very high dividends in 2017. Part of that was the additional €300 million dividend that NN Life paid in the second quarter in order to facilitate the capital injection within Delta Lloyd Life. In the last quarter of the year, NN Life increased the dividend to €175 million. And that basically shows the increased capital generation within the segment, Netherlands Life. And as you know, it's our overall philosophy to maintain sustainability and stability as much as possible from the dividend coming from both our subsidiaries, but also in our dividend to our shareholders.

At the end of the year, both entities - legal entities within the segment, Netherlands Life, are very well capitalized at 217% for NN Life and 150% for Delta Lloyd Life. And maybe just to remind you that, that is the intention to merge both entities at the beginning of 2019. So, that basically I think it gives you any indication that we will aim for some sustainability of the dividends coming out of this segment, Netherlands Life.

Q - Benoît Pétrarque

So, I should strip out the kind of €300 million from the €1 billion plus you've paid this year and that could be kind of the level of 2018?

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

Yes. I think that the €350 million was an extraordinary dividend, if you like for the second quarter, as I explained. And as you know, the statement that we gave about the remittances being the free cash flow to be above the net operating result is always mid-term objective. So, it doesn't have to necessarily hold for any particular period of time.

Q - Benoît Pétrarque

Great. Thank you so much.

Operator

The next question is from Mr. Farooq Hanif, Credit Suisse. Go ahead please.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Thank you very much. I noticed that you've had a dip in unrestricted Tier 1 capital and your Solvency II ratio. You haven't really talked about this in the past, but to what extent is that going to be a kind of a barrier to you distributing capital? So, what kind of target levels or what - how do you think about that unrestricted Tier 1 coverage of your capital requirements, does it concern you, for example? That's question one.

Question two is, with the cost savings that you're putting through, I think you might have discussed in the past, but is there going to be a positive capital impact that we'll see and when will that come through and also in a capital generation?

And then lastly, what are your plans and expectations for VNB in the Netherlands, because I mean, there are good reasons why they - why it's low, which you've explained in the past. But I mean, when do you think that's going to start turning more positively, given the ability to change product mix and cost savings? Thank you.

A - Eilard Friese

Yes. Let me take that last question from you, Farooq. Thank you very much for your questions. And then I'm going to ask Delfin to comment on the other questions that you have. So, on growth in the Netherlands, I think value of new business is - in the Netherlands has been I think a representation of the relatively low base over the last years, so it has been a representation of, I think, the level of market growth that you see in the Netherlands. So, when it comes to life insurance sales. We believe that most of the - the dominant theme in the Netherlands in the coming years is the move, the transition - the very gradual transition from defined benefit to defined contributions.

Now, we are very well positioned for that. Certainly, after the acquisition of Delta Lloyd, since we - in order to win a longer term in that defined contribution world, there are a couple of things that are very important. The first one is, a large installed client base, which given the size of the platform we have in the Netherlands to help our clients move with our sponsor schemes over time from defined benefit to defined contribution.

Number two, efficient - cost efficient platforms who can compete successfully in that new world that will emerge over time. That is something that is behind, of course, our drive to use the scale effect also of the synergies to extract the savings and to drive unit cost down. And thirdly, to have a good asset management capability (00:48:38) well recognized and a brand that is trusted as a result for this kind of pension business. And also that I think given where we are with the platform is a great opportunity for us longer term.

Now, value of new business, there is of course, the question whether if you move to the defined contribution world, which is more of an asset management kind of world, whether value of new business is the appropriate metrics for it. So, as we will progress over time, we will ensure that we give you more insight into how we will grow into that business.

Having said that, please note that sponsor plans from defined benefit to defined contribution is a very gradual process. Now - because the in-stock, the accrued benefits, and these plans are on the balance sheet for a very long time.

So with that, Delfin, can you get into the unrestricted Tier 1 discussion?

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

Certainly. Thank you, Farooq. So, we don't have any specific target for restricted Tier 1 or for Tier 2. So, we obviously see the opportunities to increase our restricted Tier 1 or Tier 2 whenever the opportunity comes. At this point of time, I think we are very well capitalized with the Solvency ratio (sic) [Solvency II ratio] (00:49:53) of 199% for the group, and our subsidiaries are at good level of Solvency. So, we don't see our level of capital or its composition being any barrier for our growth, or our plans. Just to mention that for restricted Tier 1, we still have approximately €400 million of untapped capacity. For Tier 2, that will be around €200 million. But as I said, we don't need to raise capital at this point of time.

Q - Farooq Hanif {BIO 4780978 <GO>}

Just going back on that - sorry. I mean, my question was more on unrestricted Tier 1. If the coverage of SCR is low and it looks low versus, let's say, from the rest of the company that you could pull up, I mean, is that not something that concerns you or your regulatory discussion about or is it really not something that you really think about?

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

No. There is no discussions ongoing or internal fear about the level of - I guess, you are talking in terms of what is the percentage of unrestricted Tier 1 versus the total. And I think that first and most important is, what is the total? And from there, one has to optimize that when the opportunities come. So, the composition of our Tier 1 is the result of the acquisition of Delta Lloyd and we are comfortable with it. And we don't see at this point of time any need to amend it.

A - Jan-Hendrik Erasmus {BIO 19801435 <GO>}

And we - I would add maybe, Delfin, that we also have some non-available own funds in many parts of the business. There is also some Tier 3 that is inadmissible. And our sensitivities that we published also today also reflect the impact of any Tiering already. So, you can see for yourself that we have a strong Solvency ratio and the sensitivities are all being managed actively and strong forward-looking capital generation.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you.

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

Then on the cost savings, I think we indicated at the Capital Markets Day that we had already realized around €350 million of capital synergies. Then, we also indicated that there could be additional benefits, but limited and mainly in the area of the reduction of the Solvency capital requirement if the partial internal model for the Dutch Life and Non-life businesses of Delta Lloyd are incorporated as we plan later this year. Please do recall that the positive impact of bringing in Delta Lloyd to the partial internal model will be partially offset by the loss of the longevity hedge benefit that currently is in place in the standard formula SCR of Delta Lloyd Life.

In terms of the cost savings, these come through into the Solvency II operating capital generation as and when they are realized by the different entities that are not Life businesses. So, for the entities like asset management, the holding and the short tail Non-life business, these savings, as you know, do come through Solvency at the time that they are realized.

For the life insurance businesses, this is more complicated as it interrupts with the unit cost assumptions embedded in our best estimated liabilities. And at fourth quarter 2017, we have, of course, updated these best estimate assumptions, as well as deducted their restructuring cost for the non-Solvency II entities. And this is something that going forward for the Life businesses, we'll have to do every quarter, so additional capital benefits will come to the extent that cost savings are higher than are currently estimated for.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

Your next question is from Mr. Trevor Moss, Berenberg. Go ahead, please.

Q - Trevor D. Moss {BIO 1741504 <GO>}

Good morning, gentlemen. Actually, (00:54:16). So anyway, never mind. Two areas of questioning, please. The first would be relating to group Disability where you've had two quarters in a row with pretty poor claims experience. I wonder whether you could just delve into that little bit more closely, whether you think it's some bad pricing or whether you think it's bad claims experience, whether you think it's going to be recurring? What's the sort of outlook going forward? Have we dealt with this issue or was it just bad luck?

The second really, I guess, was in relating to the cash position and Lard has been sort of suitably vague about what you might want to do with your excess cash which is fair enough, I suppose. So a couple of specific questions. Do you see any impediments to the ongoing high level of remittances in 2018 and beyond? And secondly, do you envisage any further capital injections being required in the areas around the group? Thank you.

A - Eilard Friese

Well, thanks, Trevor, for both questions. I'll take the group Disability one and Delfin will take the cash position. On the group Disability one, first of all, you were saying that we're two quarters with poor claims experience, that's not the case. Q3 was – in Q3, we flagged there was quite some volatility coming from the individual disability, while in this quarter we flagged the group Disability as a concern. So, that's the...

Q - Trevor D. Moss {BIO 1741504 <GO>}

All right. Fair enough.

A - Eilard Friese

That's the first thing I want to say. And on the group Disability and the group income, what happened is that we experienced higher claim in what we call sickness pay. This is a result of employees in the companies that have this kind of coverage that they're getting well later than we originally expected. So, I think that's – we need to follow and monitor obviously closely how that will develop moving forward and we will take action in pricing or other components if this is needed.

Then, Delfin the cash position.

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

Yes. So, in relationship to any possible impediment for the remittances from the subsidiaries to continue, nothing special to highlight. So, we see all the business units being able to finance their own growth and basically, a dividend to the holding. But decisions were to be taken according to their situation going forward.

In terms of the capital injections, when you look at the capital injections in 2017, they were high because of the €500 million injected in Delta Lloyd Life. There was some capital injection into Greece in order to finance the bancassurance distribution agreement with Piraeus, a little bit in Turkey but not very material and some – but we have seen that even the bank that in the past there has been always a recipient of capital injection is now at a good return on equity and provided a good return. And we do not expect any need to inject capital into the bank going forward.

Q - Trevor D. Moss {BIO 1741504 <GO>}

Okay. Delfin, thank you very much.

Operator

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

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Good morning, everyone. You had a €36 million non-recurring benefit in the Delta Lloyd business in the Q4. I see there's a €10 million from the asset management business of Delta Lloyd. But could you provide a bit more detail on where the other €26 million came from in this non-recurring benefit? Thanks.

And second question is on your expense savings and restructuring charges. I think at the current run rate of €133 million expense savings in 2017, you'll achieve your €350 million target one year early, well ahead of schedule in 2019. Can you give a bit more color on how the expense savings are going to materialize over the next couple of years? And the restructuring costs – I mean, the high level restructuring cost in Q4 was €100 million or €104 million or €102 million (00:58:57), something like that. Is this sort of restructuring cost going to continue every quarter? I know you said they're going to be front loaded and does that mean that the restructuring cost will finish by the end of 2018? Thank you.

A - Eilard Friese

Yes. Thank you very much, Steven, for your questions. I'll say something general about the expense reduction target and our progress to that. And then I'll hand over to Delfin to expand on that and on the other question that you have.

So far this year, we've achieved €133 million and we're, of course, pleased with the progress that we're making as we have a €350 million target, of which we want to achieve half by the end of 2018 and we're well underway, so that's good news. However, please also note that this €133 million also included some low-hanging fruit, stopping project spend, for instance, on projects that were no longer necessary.

And cost reductions generally are not easy, but we're, of course, pushing forward and we will try to, of course, do as much as we can. And if we can get more, then we will certainly try to do that. But please also know that cost reductions are also not quarter-by-quarter a linear – necessarily a linear pattern as we also need to sometimes invest, et cetera, to get access to these cost saves.

So, I will now hand over to Delfin for the other pieces of the question.

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

Yes, Steven, indeed the restructuring costs tend to come earlier than the actual savings. I think, as Lard has already indicated, we don't expect as you know the same linear progression on the savings, nor on the restructuring expenses. If savings are larger, they might come with the need of doing further restructuring expenses. These will continue up to 2020 but, of course, we do expect that over time the restructuring expenses will be lower.

A - Operator

(01:01:08).

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

So, I was forgetting the first question, but I was kindly reminded by my colleagues here.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you.

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

On the €36 million non-recurring of Delta Lloyd, indeed – you mentioned it, €10 million is related to the performance fee of the Delta Lloyd Asset Management. The rest is different aspects, more or less equally split between Life, Non-life and Belgium, and it includes different aspects.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Nothing specific, then?

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

No. Nothing specific and nothing that could read. So, it is, as I said, near evenly spread between the three units, Delta Lloyd Life, Delta Lloyd Non-Life and Belgium.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you very much.

Operator

And the next question is from Robin van den Broek, Mediobanca. Go ahead, please.

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

Yes. Good morning again. Sorry for being a drag on holdco cash. But there's a couple of markets that I think you referred to the merger of the Life units potentially lowering your holdco cash targets. Since that is up for beginning of 2019, when would be the logical point in time to maybe revise your holdco cash target €2.5 billion to €1 billion, rather than the €0.5 billion to €1.5 billion? Thank you.

A - Eilard Friese

Yeah. Delfin?

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

Yes, Robin. Indeed, we did mention that with the merger of the legal units, basically, the need to hold cash - capital at holding after a 1-in-20 event reduces and that's why we indicated that the need would be from now been more on the higher side of the range to be below the range. But we did not provided any indication of changing the target range itself. It's more of a question of the level of comfort within that range.

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

Okay.

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

So the range of between €0.5 billion and €1.5 billion is - unless we change for other reasons following the merger of the legal entities, we do not intend to change it due to that.

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

That's very clear.

Operator

The next question is from Bart Jooris, Degroof Petercam. Go ahead, please.

Q - Bart Jooris {BIO 3470300 <GO>}

Yes. Good morning. Thank you for taking my questions. Both on P&C and Non-life, the ratio was 98.3% in the last quarter. Can I assume that there is some non-recurring benefit in there from Delta Lloyd Non-life and what would be, let's say, a good starting number to look at for the coming years? And then secondly also there, could we assume that there are no longer problems with the large fire claims in Delta Lloyd?

A - Eilard Friese

Yes. Thank you very much, Bart, for your question. Now what we saw in Q4 is the second quarter in succession with the improved P&C results, benefiting from good experience in the fire portfolio. We had a combined ratio of 98% for the quarter. Now this is encouraging, of course, as we continue to implement a range of measures to structurally improve the Non-life profitability.

But I do want to say this is not a straight line journey. So, our objective for the total Non-life company to have 97% or below is not something that we want to hit one quarter, but we want to have that as a structural profitability view. And that, of course, takes a bit of time for all these measures to come to fruition.

We've given at the Capital Markets Day the guidance that we expect 12 months to 24 months that we need to - for the measures to take their full effect. And of course, then you also have ups and downs as the nature of the business, for example, the large storm that we flagged that happened in the first quarter of - in January, in the first quarter of 2018.

Q - Bart Jooris {BIO 3470300 <GO>}

Yeah. But excluding the storm, could we see like 98.3% as a level you can improve on further on?

A - Eilard Friese

We will continue to improve...

Q - Bart Jooris {BIO 3470300 <GO>}

In this year already?

A - Eilard Friese

Well, we can – again, we have two quarters which are encouraging. But to us, it should be in structural overall improvement, 97% or below. And we said that we take a lot of measures to get there, both expense reductions as underwriting improvements and the like. And that is something that will not be a straight line journey to get the total Non-life company into that place, and we're going to take a bit of time to get there.

Q - Bart Jooris {BIO 3470300 <GO>}

Okay. Thank you.

Operator

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

Q - Benoît Pétrarque

Yeah. Sorry. Two follow-up questions. First one will be on the cost assumption in the Solvency II calculation. So, how much of the €350 million cost cutting have you been able to substantiate in your cost assumptions, and I was wondering how much still you need to take going forward?

And then the last one would be just briefly on the UFR drag for 2018, so how much will that be post UFR (01:06:36) on the 1st of January? I was just wondering on that one. Thank you.

A - Eilard Friese

Delfin?

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

Yes. So, as I said, we have to take our best estimate assumptions, including expense assumptions when calculating our Solvency every quarter. So, we have basically a base, this on our best assumption now of the evolution of expenses going forward. And you always have to do that in a prudent manner. But I would not expect special increases or substantial increases in terms of capitalization due to this cost savings going forward.

As I mentioned before, unless our cost reductions increases and therefore, the best estimate assumptions improved over time, so don't estimate or expect that there's going to be a significant one-off increase on Solvency due to further capitalization of these cost savings.

Q - Benoît Pétrarque

But, let's say, the recurring capital generation will therefore not be impacted by future cost cutting, because you've already taken that into account?

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

Of those that...

Q - Benoît Pétrarque

Up to the level you have...

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

Correct. Of those that we have already recognized within our business plan and we are confident that are able to obtained, these are already reflected in our cost assumptions. However, this is the case for the Life businesses. No doubt that for the non-Solvency II entities for Investment Management, for the bank, savings in the holding in other or the short tail Non-life business, it does going to be reflected as basically the expenses are obtained and that will be reflected when the actual expenses happen.

Q - Benoît Pétrarque

Yeah. Okay.

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

In terms of the lowering on the UFR drag, absolutely we have explained and it's very logical that as we have hit in our Solvency due to the decrease on the UFR or when the interest rates go up and the benefit of the UFR decreases, that will result into increase on the operating capital generation as the UFR drag reduces. We prefer not to quantify the exact amount, because that fluctuates from one quarter to another, also depending on the evolution of the interest rates after year 2020. But, indeed, there's going to be a positive impact in the quarters to come due to this decrease of 15 basis points on the UFR.

Q - Benoît Pétrarque

Great. Thank you very much, guys.

Operator

Mr. Friese, there are no further questions.

A - Eilard Friese

Well, thank you, operator. Thank you all for your questions. Before we end the call, let me just round off by saying that 2017 has been a memorable year. We completed the acquisition of Delta Lloyd, we're making good progress in integrating the two companies, and significant cost synergies already have been realized. Ultimately, we aim to bring together the best of our businesses and cultures to create a stronger and better company. I wish you all a pleasant day.

Operator

Ladies and gentlemen, this concludes the NN Group's conference call. Thank you for attending. You may now disconnect your line. Have a nice day.