Q4 2015 Earnings Call

Company Participants

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

Other Participants

- Ashik Musaddi, Analyst
- Cor Kluis, Analyst
- Farooq Hanif, Analyst
- Farquhar C. Murray, Analyst
- Gordon Aitken, Analyst
- Jan Willem Knoll, Analyst
- Matthias de Wit, Analyst
- Nadine van der Meulen, Analyst
- William H. Elderkin, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. This is the operator speaking. Welcome to the NN Group's Analyst Conference Call for its Fourth Quarter 2015 results. (Operator Instructions).

Before handing this conference 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 the future developments in NN Group's business, expectations for its future financial performance and any statements not involving historical fact. Actual results may differ materially from those projected in any forward-looking statements.

Any forward-looking statements speak only for – 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 or an offer to buy any securities.

Mr. Friese, go ahead, please.

Eilard Friese

Yes, good morning everyone, and welcome to this conference call to discuss NN Group's results for the fourth quarter of 2015.

Now, I will start off today's presentation by going through the highlights of the fourth quarter results and of the year 2015 as a whole, including the progress we have made to deliver on our financial targets. But I will also look forward at our priorities for the coming year.

Delfin Rueda, our Chief Financial Officer, will then talk you through the financial details of the results at Group level and for the individual operating segments as well as our capital position. I will conclude the presentation with a wrap up, after which we will open the call for Q&A. And we also have our Chief Risk Officer, Doug Caldwell, here to answer your questions.

So let's go to slide number 3, the financial highlights of the fourth quarter. NN Group's operating result for the fourth quarter of 2015 was €250m, which was down on the same quarter of 2014.

Let me start with the positive developments in the quarter. We continued to reduce administrative expenses in the Netherlands and the results of Insurance Europe and Japan Life were up compared with the same quarter in 2014.

On the other hand, the results of our non-life business were impacted by less favorable claims experience in the property and casualty segment. And the lower operating result at asset management reflects restructuring provision which has been taken as part of its strategy enhancement program, which I will talk about later.

If we look at the year as a whole, the full year 2015 operating result of the ongoing business was €1,435 million, which is up more than 32% compared with 2014, with almost all segments reporting improved results.

As you know, the Dutch Central Bank approved our Solvency II partial internal model in December 2015. Delfin Rueda will talk in some detail about our capital position in his part of the presentation, so I will simply say that our Solvency II ratio under the partial internal model was 239% at the end of 2015. And our cash capital at the holding company increased to almost €2 billion.

In view of our strong capital position and the earnings development we are proposing a final dividend for 2015 of €1.05 per ordinary share. Together with the interim dividend that we paid in September, the full year 2015 dividend comes to €1.51 per ordinary share and represents a payout ratio of 41% of the 2015 full year net operating result of the ongoing business, in line with our stated dividend policy of 40% to 50% of the net operating profit.

Let's now turn to the next slide, and look how the individual businesses developed in 2015. In our largest segment, Netherlands Life, we remained focused on achieving further cost efficiencies while managing the run-off of the individual life closed block. We continued to selectively pursue growth in the pensions market and in December 2015 saw the launch of our general pension fund, or APF, ahead of the new pension regulations that became effective in January of this year.

Our aim is to improve the combined ratio of our non-life business to 97% or better by 2018. This ratio stood at 101.5% for 2015, and so we have still more work to do. Progress within the disability and accident segment has been encouraging with a combined ratio of 97.6% for 2015. However, the property and casualty segment was hit by large fire and weather-related claims in 2015, resulting in a combined ratio of 104.8% for the year.

At the businesses in Insurance Europe, our focus is on profitable growth, which means that we put the value of the business before volume. This is reflected in the higher value new business numbers for 2015. This should help us achieve our earnings growth target even in this low interest rate environment.

Our COLI business in Japan is performing well, as it builds on its ability to offer innovative products, through an expanding distribution channel. Our Bancassurance sales grew by approximately 20% in 2015.

The market environment in 2015 was very challenging for the asset management industry as a whole and NN Investment Partners, our asset manager, was no exception in struggling to attract new mandates during the year.

To address this, we have embarked upon a program to focus, simplify and optimize our asset management business, by rationalizing and creating scale in its product range and building on its specific areas of expertise. As I already mentioned, we have taken a €13 million restructuring provision in the fourth quarter in connection with this program which is reflected in the operating result.

In addition to delivering cost savings, these measures should enable our asset management business to achieve its growth ambitions in the coming year -- years.

Finally, NN Bank is steadily and successfully growing its franchise in the Netherlands as it expands its mortgage portfolio and customer savings activities.

Let's move on to the next slide, and let's look at our progress on the financial targets that we have set for NN Group as a whole. Firstly, we aim to realize an annual growth rate of the operating result before tax of the ongoing business of 5% to 7% on average in the medium-term.

The operating result before tax of the ongoing business in 2015 of over €1.4 billion represents a 32% increase compared with 2014. This growth rate obviously reflects the particularly high results in 2015, which were supported by some large favorable items.

We've always stressed that this is a medium-term target and that we intend to measure our average growth rate over a longer period.

At our Capital Markets Day in November, we announced our new target to reduce the administrative expense base in the Netherlands to €700 million by the end of 2018. We achieved €15 million of cost savings in the fourth quarter of 2015.

Thirdly, we aim to increase the net operating return on equity of the ongoing business in the medium-term. The net operating return on equity of the ongoing business for 2015 was 10.8%, so higher than the 8.6% for 2014.

Aligned with these three targets, we expect over time to generate free cash available to shareholders in a range around the net operating result of the ongoing business. In 2014, the free cash flow adjusted for the IPO related items was €450 million compared with the net operating result of €806 million.

The free cash flow of the holding company in 2015 was almost €1.4 billion, which included a total of about €1.5 billion of dividends upstreamed by our subsidiaries. This compares with a net operating result of the ongoing business for 2015 of almost €1.2 billion.

Please bear in mind that this is an over time target and there can be volatility in both the operating results and the dividend flow.

Delfin Rueda, our Chief Financial Officer, will go into details of our free cash flow later in the presentation.

Turning now to slide 6. We aim to always maintain a robust balance sheet while at the same time using the balance sheet efficiently. Being well capitalized allows us to fully focus on improving the returns on that capital. Thanks to strong capital generation, NN Group's Solvency I IGD ratio increased to 320% at the end of 2015, even after distributing €849 million to shareholders during the year.

The holding company cash position was almost €2 billion at the end of the year, mainly driven by the dividends upstreamed by all business segments in 2015. Please bear in mind that this number reflects the position before the payment of the announced final 2015 dividend and the share buyback completed in January 2016.

In terms of financial leverage, our fixed cost coverage ratio went up to 13.1 times. The leverage ratio decreased to 21.7% while the gross financial leverage position remained stable at €3.7 billion.

From now on, we will report our capital position based on our Solvency II partial internal model as approved by the Dutch regulator last December. The NN Group's Solvency II ratio was 239% at the end of the fourth quarter of 2015, down from 247% at the end of the third quarter of 2015. But please note, that both the Solvency II ratio and the IGD ratio already reflects the proposed final 2015 dividend of €341 million.

The share buyback of €250 million in January 2016 will be reflected in the Solvency II ratio at the end of the first quarter of 2016.

So let's move to slide 7. We've always been very clear about our commitment to execute on the equity story set out at the IPO with a focus on creating shareholder value. Our priority is to improve earnings and generate cash with a base case of returning that cash to shareholders unless it can be used for other value creating opportunities.

Since the IPO, we have returned a total amount of €1,440 million to shareholders. This includes the final 2015 dividend that will be proposed to the Annual General Meeting in June 2016, and it also includes our participation in ING's sell down of a further stake in NN Group in January 2016, when we bought back another €250 million of NN Group shares. As a result of that sell down and the conversion of the final tranche of subordinated notes to the anchor investors, ING's stake in NN Group has been reduced to 14.1%.

So finally, on slide number 8, I would like to spend a minute on our priorities for 2016. Our primary focus is on improving performance across all of our businesses. That means continuing to achieve efficiencies and cost savings while at the same time investing in our products and services to customers in the various regions.

Two areas are being given particular focus and that is non-life and asset management. I've already mentioned the program we have launched at our asset manager to sharpen its strategic focus. And at our non-life business, we continue to take measures to further improve the results such as adjusting premium rates and improving underwriting performance.

We will continue to deploy capital in the best way, in the most profitable businesses in order to generate value for our shareholders. And when looking at future growth opportunities, be it organic or inorganic, we will always apply strict financial criteria and compare it with the alternative deployment of that cash by returning it to shareholders.

At all times, we will maintain our capital discipline. We have today disclosed our target range for the cash capital position in the holding company at €0.5 billion to €1.5 billion, and Delfin will talk more about this later in the presentation. This solid capital position will allow us to cope with the remaining regulatory uncertainties and market volatility and continue to deliver on our dividend policy.

And with that I would like to hand over to you, Delfin.

Delfin Rueda Arroyo {BIO 7032761 <GO>}

Thank you, Lard. Good morning, everyone. I will start with the consolidated full year results.

NN Group reported an operating result of the ongoing business of €1.4 billion for the full year 2015. This is up 32% compared with 2014. The operating result excludes the result of the closed block variable annuity business in Japan.

The 2015 operating result was supported by some favorable items including large private equity dividends of €221 million, cost reductions in the Netherlands of €75 million, and non-recurrent benefits of €52 million in the technical margin. It also reflects higher results at Insurance Europe and Japan Life as well as lower funding cost. These positive developments were partly offset by a lower result at asset management, and an unfavorable claims experience in our non-life property and casualty business.

In the right-hand chart, you can see that the full year net result increased significantly compared with 2014 to almost €1.6 billion.

Special items in 2015 comprise rebranding expenses. In addition to that, special items include €13 million of restructuring expenses taken in the fourth quarter related to our new cost reduction target in the Netherlands. To achieve this target, we expect to spend €30 million to €35 million before tax per year over the next three years. We will report these expenses as special items.

Before going through individual operating segments, please turn to slide 11, which gives more details on the cost savings in the Netherlands. As we announced at our Capital Markets Day in November, we have set ourselves a new target cost base in the Netherlands. We aim to reduce the administrative expenses of Netherlands Life, Netherlands non-life, and the holding entities to €700 million by the end of 2018. This is a reduction of almost 15% compared with the annualized cost base at the end of the third quarter of 2015.

We have got off to a good start, with total expense savings of €15 million achieved across all the Dutch units in the fourth quarter of 2015, bringing the cost base in the Netherlands down to €803 million in an annualized basis.

As Lard already said, improving efficiency remains a priority for us going forward. We are implementing a range of initiatives to achieve these savings from operational efficiency improvements in individual departments to more cost effective IT platforms.

Let's now look at the fourth quarter performance of each individual segments, starting as usual with Netherlands Life on slide 12.

The operating result of Netherlands Life remained broadly stable at €155 million in the fourth quarter of 2015. There are both positive and negative developments influencing this result.

Firstly, the technical margin was higher as the current quarter included €25 million benefits following updates to certain technical provisions, partly offset by lower mortality results. Please also note that the fourth quarter of 2014 included a €19 million addition to the unit-linked guaranteed provision due to a decrease in interest rates.

Secondly, fees and premium based revenues remained under pressure due to the individual life closed block runoff. The investment margin decreased in the fourth quarter of 2015, following a non-recurring negative adjustment of €13 million related to mortgage amortization, while the fourth quarter of 2014 included a €23 million private equity dividend.

The large private equity dividend received in earlier quarters in 2015 led to an increase in the investment spread to 136 basis points. We continue our strategy to gradually shifting the asset mix to higher yielding assets.

Finally, as already seen in the previous slide, administrative expenses decreased compared with the fourth quarter of 2014, supported by lower staff costs.

I will now turn to slide 13 for the results of Netherlands non-life. The operating result for Netherlands non-life was €28 million compared with €35 million for the fourth quarter of 2014. This was due to an increase in the claims ratio in property and casualty. The combined ratio for the fourth quarter increased to 100.7%.

Let's look at the two business lines within non-life separately.

The fourth quarter 2015 operating result in disability and accident remained stable at €21 million. The results of D&A have improved over the last few years following the various management actions we have taken. As you can see in the right hand chart, the combined ratio has decreased accordingly and now stands at 97.6% for the full year 2015.

The fourth quarter operating results in property and casualty, however, decreased to €6 million from €13 million in the fourth quarter of 2014. This was due to lower results in the motor portfolio as well as in the miscellaneous portfolio which primarily comprises liability and legal aid cover. On the other hand, the current quarter saw fewer large fire and weather related claims leading to a higher result in the fire portfolio.

On balance, however, I think it is fair to say that we still have more work to do to bring the property and casualty combined ratio down, which has stood at 104.8% for the full year 2015.

Please turn to slide 14 and the results of Insurance Europe. Insurance Europe reported a higher operating result of €48 million for the fourth quarter of 2015. This is compared with €40 million for the same quarter the year before. This was supported by higher fees and premium-based revenues related to traditional life, unit-linked and universal life insurance products. Also, administrative expenses were lower compared with the fourth quarter of 2014, resulting in an improved cost/income ratio.

Moving to Japan Life. The operating result of Japan Life was €27 million, up significantly from the fourth quarter of 2014. Fees and premium-based revenues increased almost 5% on a constant currency basis, driven by larger in-force volumes. And the technical margin improved, reflecting a higher mortality result. This was partly offset by a decrease of the investment margin due to lower interest rates on the invested assets. The cost/income ratio improved as a result of the higher income and flat administrative expenses.

Moving now to asset management. Total assets under management decreased to €187 billion at the end of the fourth quarter of 2015. The decrease reflects net outflows of third party assets of €4.1 billion, partly offset by positive market performance of €1.6 billion.

The operating result decreased to €21 million for the fourth quarter. Fees were down on lower average assets under management in the quarter and expenses were higher due to the €13 million restructuring provision already mentioned by Lard. This one-off expense was partly offset by lower staff-related cost.

The lower income and higher expenses are of course reflected in the higher cost/income ratio for both the fourth quarter and the full year. Our focus remains on bringing this ratio down by increasing fees on assets under management and reducing expenses.

The segment Other, which comprises the holding company, the reinsurance business, and NN Bank is set out on slide 17. The total operating result of the segment Other decreased from a loss of €24 million in the fourth quarter of 2014, to a loss of €29 million in the fourth quarter of 2015. This result mainly comprises the three elements shown in the graphs on this slide.

Let me go through these individually. First, starting with the first graph. The improved holding result was mainly driven by cost reductions. The result of NN Bank increased to €11 million in the fourth quarter. The bank continued to grow in both mortgages and customer savings which led to a higher interest margin. On the other hand, administrative expenses were also up as investments are being made to support this growth.

Finally, at the reinsurance business, the operating result was down due to lower underwriting results. Also, the fourth quarter of 2014 included favorable mortality and lapse assumption updates.

I will now move on to slide 18 to cover our last segment, Japan closed block VA. Japan closed block VA reported a result before tax of €24 million, up from a €24 million loss in the fourth quarter of 2014, mainly driven by positive hedge results. As we have mentioned before, these hedge results can be volatile from quarter to quarter, and tend to have a negative bias in volatile markets.

As you can see in the right-hand chart, the portfolio continues to run off. The number of policies decreased by more than 31% in 2015 and the account value of this closed book now stands at €10 billion.

That completes the results of our operating segments. On the following slides, I would like to take you through the value of new business, free cash flow, and capital generation, starting with the value of new business.

As Lard mentioned in the presentation, we were much focused on profitable growth in Europe and Japan, where we are shifting our business mix towards higher margin products. The success of this strategy can be seen in the value of new business for the full year 2015, which went up at both Insurance Europe and Japan Life. On the other hand, the value of new business at Netherlands Life decreased due to an overall decline in interest rates.

I will now move on to slide 20, to cover our free cash flow. As we have done in previous quarters, let's start with the movement in the holding company cash capital during the fourth quarter of 2015, which increased from €1.6 billion at the end of the third quarter, to almost €2 billion at the end of 2015.

The free cash flow during the quarter was €335 million, which is the sum of the four elements within the box in the chart. As you can see, the free cash flow was mainly driven by dividends of €376 million received from our subsidiaries. This included a total of €250 million of dividends received from NN Life.

The free cash flow for the year 2015 as a whole is on slide 21. The cash capital position at the holding company increased during 2015 from €1.4 billion at the beginning of the year, to almost €2 billion at the end of the year.

This increase reflects total free cash flow during the year of €1,336 million driven by dividends received from all business segments. This was partly offset by €792 million of net capital flows to shareholders, which mainly consists of ordinary dividend payments of €349 million and the three share buybacks completed during the year for a total amount of €500 million.

The appendix to this presentation on slide 32 shows a breakdown of the dividends received in 2014 and 2015, from our segments and subsidiaries. As you can see on that slide, they are broadly spread across the various businesses.

Let's now turn to capital generation on slide 22. This slide shows the capital generation of our subsidiaries and for NN Life separately for the second half of 2015 based on Solvency I. The total capital generated by the subsidiaries during the second half of the year was €951 million. This was predominantly generated by NN Life for an amount of €804 million and reflects decreasing interest rates and the tightening of credit spreads in combination with positive operating performance, partially offset by the investment in new business.

Now that Solvency II has become effective, this will be the last quarter that we report these Solvency I numbers.

On the following slides, I would like to take you through some additional disclosures on Solvency II. In the table of this slide, we provide you with the Solvency II ratios for NN Group and the insurance entities in the Netherlands based on the partial internal model. As you can see, they have different levels of solvency but are all strongly capitalized under Solvency II.

Let me now update you on the sensitivities of our Solvency II ratio based on the partial internal model on slide 24. On this slide, as you can see that in time of stress the Solvency II ratio based on the partial internal model moves in a similar direction as the standard formula ratio which we disclosed at the Capital Markets Day last November.

NN Group's solvency ratio is exposed to rising and falling rates, but is relatively well matched to interest rate movements as own funds under SCR both move in the same direction under parallel interest rate shifts. The own funds are most exposed to widening spreads on AAA sovereigns and reducing corporate spreads.

On the other hand, the fact that own funds benefit from widening corporate spreads provides a good offset to equity risk, especially in times of stress. This is mainly the result of the difference between our own investment portfolio and the VOLA reference portfolio and the fact that we have substantially more AAA government bonds and fewer corporate bonds.

If we apply these sensitivities to market developments since the beginning of the year and we exclude the impact of the €200 million share buyback – we did in January, the impact from market movements on our Solvency II ratio was not material.

I will finish off by looking at our cash capital target and dividend on slide 25. We told you at the time of the IPO that we would look to have free cash available to shareholders in the range of the net operating profit of the ongoing business. While this varies year on year due to financial markets and other items, this guidance remains in place as we transition to Solvency II.

Today, we also give you some more clarity on the cash capital position at the holding company, which we see as requiring a target range of €0.5 billion to €1.5 billion. As I have previously communicated, the amount of capital we need in the holding depends on the risk in our units relative to their financial position.

As they take on more risk or have lower solvency ratios then we will need more in the holding and vice versa. For this reason, we give you a guidance range which we think will cover most scenarios.

The combination of these two statements should allow you to have a better sense of our deployable capital in the holding, both in terms of what you can normally expect to be generated and also what you can normally expect us to hold.

Looking at our position today, and if we take into account the €200 million share buyback that we completed in January, and the proposed final 2015 dividend that, if approved by shareholders, will be paid in June, our pro-forma cash capital position stands at almost €1.4 billion. So within our target range.

The proposed final dividend taken together with the 2015 interim dividend that was paid in September represents a payout ratio of 41%, in line with our stated dividend policy.

And now I will pass you back to Lard for the wrap up.

Eilard Friese

Yes, everybody, so I'd like to round off this presentation by saying that we are pleased with the strong results for 2015 and the progress that we have made during the year to achieve our financial targets and generate value.

We reached an important milestone in December, when our Solvency II partial internal model was approved by the Dutch regulator. We believe that our strong capital position will allow us to deal with any remaining uncertainties and market volatility. But it also allows us to keep delivering on our promise to return capital to shareholders by proposing a final 2015 dividend of €1.05 per ordinary share.

We still have a lot of work to do in 2016 to further improve performance and this goes hand in hand with delivering an excellent customer experience by offering transparent products and services that serve our customers' lifetime needs and being a company that truly matters in the lives of our stakeholders.

And with that, I would like – now to open the call for your questions. Delfin Rueda and Doug Caldwell, our Chief Risk Officer, and myself are here to help you with that. So please, operator, over to you.

Q&A

Operator

Thank you, sir. Ladies and gentlemen, we'll start the question-and-answer session. The first question comes from Ashik Musaddi from JPMorgan. Please go ahead, sir.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Delfin, just a couple of questions. First of all, on your dividend. So how should we think about the dividend? So is it strictly based on payout ratio, i.e., if your earnings move up or down based on, say, a private equity dividend coming in or not, or do you have some sense like okay, you aim to have at least maintained the absolute cost of dividend, or any thoughts on that?

Secondly, in your partial internal model, is it more or less final, or are you still in discussion with DNB or others regulators to get a bit more clarity on stuff like LAC DT or anything else that is still pending, or do you think this is more or less the final number? And then whatever happens, it will be like proper industry-wide, not just Netherlands, but for all of Europe.

And thirdly is can you give us a bit more color on cash flows for 2016. Because you extracted a lot of cash out of Netherlands last year, how should we think about? Is it like you are extracting cash ahead in – from Netherlands, or from like – from year 2016, you have already got a lot of cash in 2015, or that was just done and now it's all about 2016 and you continue to expect recurring strong cash flows from that? Thank you.

A - Eilard Friese

Yes, thanks Ashik. Delfin, I think you would be so kind to take those questions.

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

Three questions, good morning, Ashik.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes.

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

So the first one, how to think about dividend? We have established the guidance on the dividends in the range of 40% to 50% of the operating result of the ongoing business after tax. And we have also highlighted, and we do so again, that we are aiming for a sustainable dividend over time. So that means that fluctuations that might happen on the operating result should not be translated one on one towards the amount of dividend to be paid. That's why, as you know, we have a range between 40% and 50% on which under normal circumstances we like to drive the ordinary dividend.

Obviously, as this been commented already in the past, any surplus capital that we have will be distributed at the appropriate time on top of the ordinary dividend, as we have done already over the past quarters.

In terms of the partial internal model, we did receive approval by the – our regulator mid-December and we have already disclosed what is the amount of the solvency ratio under the partial internal model. We have indicated that, as it was the case for Solvency I, that the solvency ratios are not final until they are filed with the regulators.

And it is true, that under Solvency II there are more areas for potential interpretation with the new regulation that it was the case with Solvency I. But otherwise, we do consider that our partial internal model is stable, has been approved and subject to the uncertainties that we have mentioned in the press release and in further disclosures, there is nothing else or special to comment upon.

Looking at the cash flows for 2016, I can refer you back Ashik to our general statement that we do expect these cash flows to be, over time, in the range of the operating result after tax. And I think that you highlighted yourself, indeed, 2015 has been very strong. And there are certain elements there, particularly the dividends on private equity, that although we do expect to keep receiving dividends from private equity not to the same extent that happens in 2015.

Q - Ashik Musaddi {BIO 15847584 <GO>}

But there is no such thing that you have accelerated cash outflow – cash flows from Netherlands Life, i.e., we may see a bit of drop in Netherlands Life cash flow this year? It's not like that. You still expect recurring cash flows from Netherlands Life in the range of your operating profits.

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

Netherlands Life had a very good dividend for the parent company. But they are not out of line with the guidance that we have provided in terms of the cash flows coming from Netherlands Life to be, over time, at or above the operating result. But, as we have always flagged, there is volatility on how this comes quarter per quarter or year per year. But nothing special that happened in 2015 that under normal circumstances could not be repeated going forward.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thanks, Delfin. Thanks a lot.

Operator

The next question comes from William Hawkins from KBW. Please go ahead sir.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you very much. First of all, on Solvency II. Now that you have had the PIM signed off, could you just try and be clearer to us about what you think is an acceptable Solvency II ratio as a Group and then Dutch Life and non-life subsidiaries?

And then part b of that, forgive me, if you've disclosed it and I've missed it. But can you just remind us what's the LAC DT contribution to available capital and the tiering between tiers 1, 2 and 3 again? Some of that might have changed since the Investor Day.

And then secondly, could you just give us a brief strategic update on what's changed in the asset management division since the IPO? I'm maybe not following this as closely as I should have done, but it does sound like the performance hasn't been coming up to scratch and you've got this further restructuring investment today. So, can you tell us what's been going wrong and, more precisely, what you're changing that means the performance is going to be better in the future? Thanks.

A - Eilard Friese

Yes, thanks, William. I'm going to take the asset management discussion first and then I will ask Delfin to comment on the other two questions that you had.

First, on the asset management business. We want our asset manager to grow its third party flows. That's our objective. And we want also our asset manager to improve its earnings over time. And we've given a target for that at the time of the IPO.

What we're seeing, and this is against a backdrop that is a reality for the asset management industry, but also our asset manager is not immune to that, is that we've seen outflows. So we obviously would like to change that profile moving forward and make sure that we get the growth that we want to achieve there.

And why? Because we've invested, for instance, in a platform to rewire the asset manager and ensure that we can take on more assets. And, secondly, because we believe that there is a lot of good strategies that we have that can attract new flows.

So what we've done to sharpen that focus and to make sure that we achieve our objectives moving forward, we have done a couple of things. We've designed a new program which goes by the name of Focus, Simplify and Optimize and that pertains to a number of things.

First of all, we will focus on selected areas, meaning that we will focus on some flagship strategies in the income space, multi-asset space, the liability-driven investments, sustainable impact, emerging markets, real assets and private debt where we think that we have a great expertise and we combine our expertise with higher fees charged in these strategies.

Secondly, in terms of rationalizing, we think that we can rationalize our product range and our product offering. We currently have over 300 funds in seven fund domiciles and we expect to rationalize that in the coming three years.

More focus is what we want also in our distribution and in our client – in our target client segmenting – sorry, targeting client segments. So we want more focus on more client segments and build our distribution in those areas. And we want to simplify our structure within the asset managers – within the asset manager and simplify the processes following the implementation of that platform that I just mentioned earlier.

Now in order to support all this, we've taken a restructuring provision of €13 million in the fourth quarter operating result line of the asset manager. And this has to do with some investments that we need to make, plus also some personnel costs are included in that. And that's what we've done to ensure that we achieve our objective moving forward, which is to improve the net flows and grow the asset manager.

With that, I'd like to hand over to you, Delfin, to take William's other questions that he had.

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

Of course. William, so in terms of your first question about targets on Solvency II ratios, I think that maybe on this we are slightly having a – slightly different approach than others. But we are not at this time ready to elaborate on specific targets for the subsidiaries or for the Group.

The reason being is because we believe that these ratios, how they are interpreted, remains fluid and there still remains some uncertainties over the final numbers as we move over the next quarters.

We will see how the environment pans out over the coming year. And for this reason, our capital guidance at this point of time remains focused on capital generation and in the holding cash capital levels. And I think that guidance should provide you a good metric in order to grasp not only what – subject to some volatility, we will be able to generate cash flow available to shareholders. And then how, as this accumulates in the cash capital at holding, how that will be distributed to shareholders over time within the range guidance of €0.5 billion to €1.5 billion.

Your second question was about deferred taxes. You've got in the press release in the capital management section in page 22, you've got the contribution to own funds – to eligible own funds of the different elements. So that also can allow you to do the tiering of capital. So then you can see there, that the deferred tax asset is basically all of tier 3, of €735 million, representing around 6% of the total.

Q - William Hawkins {BIO 1822411 <GO>}

Great. Thanks. Sorry, I missed that last one. Thanks.

Operator

Next question comes from Cor Kluis from Rabobank. Please go ahead, sir.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning, Cor Kluis, Rabobank. I've got a few questions. First of all, on the Solvency II ratio in the NL Life business, which declined only by 5 percentage points from 225 to 220, despite the big upstreams that you have done this quarter. Could you tell what happened during the quarter? What's the roll forward for that solvency development over the quarter?

And the second question is about energy exposure and China exposure to this probably fairly small for you. But at least could you give some indication or sizes or figures on that one? These were my questions.

A - Eilard Friese

Yes, let's start. Thanks, Cor. So let's start with the exposures in China and the energy sector. So, Doug, can you take that? And then I'm asking Delfin to take the Solvency II ratio of NN Life.

A - Doug Caldwell {BIO 17900909 <GO>}

Sure. The China – I think you used the word non-existent. I think it's very – we would not have any material exposure to China directly.

In terms of the energy sector, we have – In the appendix we show 3% under utilities and natural resources. About €1.2 billion of that is exposed to oil. There could be of course, again, indirect exposure, but that would be more difficult to quantify. So in total, you're talking about 1% of the general account investments exposed to oil and essentially, no exposure directly to China.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. And the metals business?

A - Doug Caldwell {BIO 17900909 <GO>}

Metals?

Q - Cor Kluis {BIO 3515446 <GO>}

Yes.

A - Doug Caldwell {BIO 17900909 <GO>}

I think that would be in our utilities and natural resources. The total exposure we would have is 3% of our assets.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Thanks.

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

So, the evolution of the Solvency II ratio in NN Life, basically, you have to take here into account first the market impact has not been this quarter that significant. So the variance from the previous quarter are mainly driven by the dividend payment of €125 million that is being deducted from the solvency. And I think that is – and obviously the operating result that has contributed positively over the quarter.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Thank you.

Operator

Thank you. The next question comes from the line of Farquhar Murray from Autonomous. Please go ahead, sir.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Morning, gentlemen. It's Farquhar from Autonomous here. Just two questions, if I may, just starting on the holding cash target. Could you just explain the reasoning or framework behind the €0.5 billion to €1.5 billion target there? And, also, could you just explain whether there's been any incremental upstreams from the subsidiaries to the Group in the first quarter to date?

And then just on the – just a little bit of an extension on the question from Ashik on the dividend. Obviously, net operating profit in 2015 was boosted by private equity dividend. My question, therefore, to a certain extent is when you think about the dividend trajectory, did you look through those perhaps with an intention of at least maintaining a stable nominal? I think the answer is very much yes, but I just want to confirm that. Thanks.

A - Eilard Friese

Yes, thanks, Farquhar. I'll hand over to Delfin for these questions.

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

Okay. So, Farquhar, the first question about the way of looking at the targets of the hold company cash levels. Maybe if I refer back, as you know, at the time of the IPO we did explain that the free cash available to shareholders will be in the range of the net operating profit of the ongoing business. We have repeated that several times. And now basically what we have given you now is more clarity on the cash capital position at the holding, of which we think that the range of €0.5 billion to €1.5 billion is our target.

The cash capital, you have to think of it as the amount we believe that we require to cover stress events and to fund holding cost. So this amount depends, therefore, on the risk in our units relative to their financial position. So, as I said during the presentation, as we take more risk then we need to have more cash capital at holding. And also it depends what is the level of solvency in existence at the subsidiaries.

So this is, if you like, a dynamic situation on which also levels of interest rates and other valuations of financial assets impact your solvency over time. So the combination of these two statements how much we are expecting to generate of cash flow and how to move from there should provide you a good guidance.

And obviously you should not expect that this target is a complete fix. So that means that there will be times in which we are outside of the range. And obviously, as any target, we will aim taking the right actions in order to move towards the range again.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay. And dividends in the first quarter in terms of upstreams?

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

In terms of dividends for the first quarter you have to – basically, just as a reminder, the dividends for Europe tends to come into the second quarter. And I think that one element maybe to highlight is that in the case of Belgium, because their portfolio is – part of their portfolio is running off, we are expecting to release during the period of 2016 and 2018 a bit more dividends than in the past.

For Netherlands Life and for the other operating units the capital above the commercial target is upstreamed to the holding company as it comes through. And we expect this remittance of Netherlands Life to be larger than the net operating result, as I have said. So I don't think there is anything in particular to flag for the existing quarter.

A - Eilard Friese

And then finally I think, Delfin, that Farquhar also had a final question around the dividend policy. In general, the 40% to 50% range, and how you think about – how we think about that. So maybe you want to take that as well.

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

Yes. I think the dividend policy we – on the ordinary dividend I stated already that we're looking for a stable evolution on that respect. And obviously the private equity contribution, as others, can be volatile, but we should still – I think that the right definition is to look at sustainable, hopefully, growing dividend over time.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay. Thanks very much indeed.

Operator

Next question comes from Farooq Hanif from Citi. Please go ahead, sir.

Q - Farooq Hanif {BIO 4780978 <GO>}

I want to return to the holdco cash target because you're clearly going back into the target range now having been above it. So I just want to understand what this means because you are – we are in a time of stress with lots of potential risk and – but at the same time you've got very good capital in your subsidiaries.

So, should we interpret you being below that €1.5 billion range as – if you're within the range, buybacks we should assume in this climate don't happen until you get above the range? What happens as you get to €0.5 billion? What is the range of different actions that you take within that range? If you could just explain a little bit more.

And my second question is you've given the €1.8 billion of Solvency I capital generation. Was the Solvency II capital generation in 2015 greater than this or less than this? And can you make a general comment on Solvency II capital generation versus the Solvency II generation that we've seen before? Thank you.

A - Eilard Friese

So, Farooq, thanks for your question. Let's start with Delfin, on the range and how to think about that.

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

So when considering how we return excess capital, I think we have to take into account different factors. Our own risk and solvency assessment, current and future capital generation, market volatility, regulatory uncertainties, litigation risk as a unit link.

So many factors need to be taken into account when we take a decision to return excess capital.

For this reason, we have given a guidance that covers most scenarios within that range. But, as I said, you should not look at the €1.5 billion or €0.5 billion as hard target. We will, over time, come back to the range. And that does not mean that if we are below €1.5 billion that we don't have capacity to do share buybacks or distribute further dividends on top of the ordinary dividend. That's why there is a range.

And, again, within that range, then what we will look is into considering all these factors, the solvency of the subsidiaries, the situation of the risk profile at that point of time. We will decide on the share buybacks. But the range, I would say, if anything, gives us financial flexibility in order to aim for the sustainable return to shareholders.

A - Eilard Friese

Yes. And, Doug, can you take the second piece of the question for Farooq?

A - Doug Caldwell {BIO 17900909 <GO>}

Yes. I think maybe just to focus on the differences between the Solvency I and Solvency II regime and primarily in the Netherlands. It was – I think when you look at NN Life where you have – the change in the assets is very similar between the two.

On the liabilities, there is a credit risk adjustment and a volatility adjustor that you have to take into account that was not there in Solvency I because it was on the swap curve. During 2015, that was a net positive, so that would have been a little bit lower capital generation for the fixed income and the liabilities.

Then the other main difference is the risk margins. The risk margins are generally a little bit higher under Solvency II than under Solvency I, so that would generate a little bit higher capital. But those are the types of points that I think are the key differences.

A - Eilard Friese

And I think, Delfin, can give a bit more on the capital generation.

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

Yes. I think maybe the base reference for you to look at, Farooq, is in – again in the capital management section where you can see the evolution of the solvency capital ratio in the quarter. You can see that in terms of the solvency capital requirement has been very flat, as you know, around €5.6 billion capital requirement, and there has been, however, a reduction of €0.5 billion in the eligible own funds.

But when you look into that, as you can see that there are two elements impacting that. Basic own funds decrease not much, by around 200, and is being – the increase in the non-eligible own funds as well as the non-eligible own funds – non-available own funds, sorry, and the non-eligible own funds.

So the main driver for the reduction of the basic own funds is, of course, the proposed final dividend of €341 million, and so you have to take into account that the solvency requirements and the basic own funds already reflects the €340 million dividend. And as I was --

Q - Farooq Hanif {BIO 4780978 <GO>}

The implication of what you're saying is a normalized run rate is essentially similar to the dividend – final dividend payment in the quarter.

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

Sorry, Farooq, can you ask the question again?

Q - Farooq Hanif {BIO 4780978 <GO>}

Yes, sorry. I was just trying to do some maths in my head. So what you're saying is that the SCR was flat but the own funds was down mainly due to the dividend. So if we take the final dividend payment, that gives you an idea of the operational solvency generation in that quarter?

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

Yes. Actually, I think that if you were to exclude the impact of the dividend, instead of 239% it will be 245%. So, excluding the dividend, it is a decrease of 2 percentage points from 247% to 245% and the majority of that is explained by basically the non-available own funds and the non-eligible own funds that has increased somehow. The markets have not had much impact during the quarter for both NN Life or the Group.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

Next question comes from Nadine Van Der Meulen from Morgan Stanley. Go ahead Miss.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Hi. Good morning. Firstly, I suppose, on Netherlands Life. The value of new business was a little low. You mentioned declining interest rates. What are your expectations here going forward? So what, in your mind, is a more normalized level going forward? And in that light, perhaps you can comment also on the development of new products like APF, etc.

The second question is previously you mentioned there are regions where you see the potential to reduce solvency positions. Can you remind us which regions and how much capital you expect to be released from lowering this in the coming years?

Thirdly, on the P&C performance, clearly the last three years are above the 100%. Apart from further expense saves, what actions are you taking to improve this?

And lastly, can you – as far as you can say, give an indication of your appetite for acquisitions given that you still have quite low leverage, strong capital and low growth? Thank you.

A - Eilard Friese

Yes, thanks Nadine. So let me start with taking a couple of these and then I'll make sure that – I think Solvency ratio Delfin is something for you and then the remainder I will take, to a large extent.

So first on the appetite for M&A. Our focus and priority is on the existing businesses and activities and making them stronger in the markets where we operate. And obviously we monitor the developments in the various markets where we operate closely. But nothing has changed in that sense in the IPO. So if we have excess cash, your base case is to repatriate that back to shareholders unless there is a corporate opportunity that presents itself and creates a lot of shareholder value. So in that sense, nothing has changed.

When it comes to our property and casualty business and the combined ratio of the non-life company, as you know, let me start by repeating the target that we have for this is 97% or better by the end of 2018. In spite of the fact that the full year the combined ratio has gone up, we are going to continue to get after that target and work towards it. But in order to go deeper into this, we need to dive a bit deeper into the various segments of the non-life company.

Disability and accident, which is a large piece like 45% of the premiums of the non-life business, is actually in a decent place. It's down at 97.6% and don't forget that is a healthy level for a D&A business where we also have reserves in the balance sheet. We also made money on the investments there.

When it comes to property and casualty, we have – there is a number of dimensions here. Over the full year we have seen an increase of the combined ratio there, which was mainly driven by the first three quarters in which we saw large fires in our fire book and quite some weather-related claims. You may recall the hail storms, even the summer storms that we had this summer. So we saw that coming through.

We've looked extensively at whether these large fire claims would constitute a pattern. We've looked ourselves. We've made sure that we've had proper diligence done on that. Nothing came out that there any – that was signaling towards a trend in that area. And also Q4 actually confirmed that because in Q4 we didn't have these large fires. And the combined ratio for fire for instance in Q4 was back to 88%. So that gives you a dynamic which has been important for understanding the driver of our combined ratio evolution in the non-life business.

The motor book is something that we focused on, and I mentioned that in earlier quarters. There we have improved actually over the year from 111% combined ratio to 109%. Now, obviously, that's not where it should be, so we continue down that path to bring the combined ratio in a better place for the motor book. And what we have done so far is the following things.

We have taken individual approach to frequent claimers. We terminated large car fleets. We introduced usage-based car insurance, and we had some differentiated premium rate increases, 6% roughly round numbers, in 2015 for small car fleets, round numbers 10% to 20% depending on the experience that we have in the particular client, with a particular client.

And for the next steps, we will take ongoing measures on loss making pools, mandate the broker portfolios and additional car fleet pruning. So we will continue to do this and also adjust premiums based on risk reviews. We will do that in a sophisticated manner to ensure that we improve the overall risk profile of that book.

So bottom line is, combined with the expense reductions, we aim for the target of 97% combined. Now that's for the non-life business.

For life, VNB was low. I want to start by saying that actually the sales growth in the life business, in the Netherlands, is obviously very, very small since it mostly constitutes of the pension business where we have a lumpy evolution of renegotiating of existing pension contracts.

In the individual life insurance space, we basically sell term life. And for the remainder, the long-term savings needs are catered for by the savings products that we offer through the NN Bank business that we have, which is growing quite nicely.

And then we focus especially on the DC and the PPIs etc., which is low guarantee or very low guarantee and therefore, less capital intense new business in the defined contribution space. So that's where we do think that there is growth opportunity and we have launched new products there and also launched the APF as a new vehicle to capture DC arrangements.

With that, I'd like to hand over to Delfin for the question about potentially reducing Solvency II ratios in various markets.

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

Hi, Nadine. We are well capitalized across the different end subsidiaries. So that will give us a good position. Maybe the best reference I can give you Nadine is what we described already in the Capital Markets Day, when we expressed that for Netherlands Life, for some entities within Insurance Europe and certainly for the Japan closed block VA, is where their reduction from the level of surplus capital will be also a contributor to the cash generation coming from these segments.

Within Europe, I have already mentioned Belgium, as being the entity with the largest potential for releasing capital due to the runoff of part of their business there.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Thank you very much.

Operator

Your next question comes from Gordon Aitken from RBC. Please go ahead, sir.

Q - Gordon Aitken {BIO 3846728 <GO>}

Good morning. Thanks. Firstly, one of your competitors yesterday was saying it is not currently profitable to write defined benefit and showed a negative new business margin. I am just wondering is it profitable currently for you? I noticed the IRR has declined. As you've said, you've renewed a few large group contracts. Is it possible in this market to take schemes from other providers? Would you look at doing that and if that's not possible, can you simply just up your prices that you charge in the schemes? That's the first question.

The second one is on Solvency II and UFR. I see you've given some sensitivity for 100 basis points move south. What's your view as to the likelihood of this happening? Thanks.

A - Eilard Friese

Yes, thanks Gordon. Let me start with the pension business in the Netherlands. We have always maintained a view that when it comes to writing pension business, you need to be disciplined. And we have our own pricing discipline and as a result, you did not see us participating as much as some of the others did in the buyout space, for instance.

So we maintain that discipline also when renewing new pension contracts where we do observe, given the low rates and the quotes that we would give in the renegotiations to our clients, that there is – obviously it's become quite expensive and as a result you see a move to defined contribution, or at least to renewals on a different basis where you have a more of a hybrid system that employers often to their employees, or really define a contribution business. So we will continue to maintain our pricing discipline and, as a result, that's how we migrate and help our clients towards let's say less capital intense and affordable pension plans.

When it comes to the margins of the DC business, they are lower indeed. Having said that, the capital that is associated with this business is also quite low. So, as a result, the return on capital, of course, looks also different in this area.

We believe that over time, and it will take time, because the existing stock on the balance sheet of our Company is there and that represents the past accruals and past rights of all pensioners, that over time we clearly see a move towards the defined contribution. So over time that will happen. It is accelerating at this point in time especially for new business. But it will take time before our total balance sheet has migrated into that direction.

So when it comes to the Solvency II sensitivities, I will hand over to Doug for this.

A - Doug Caldwell {BIO 17900909 <GO>}

Yes, thank you. I think yes, the question, show the UFR sensitivity. I think the question is what's the likelihood of that? Of course, we don't really assign a likelihood. That's something that will go through the process of EIOPA. They will review this. It's one part of Solvency II as well. So it's not necessarily likely that only one part will be reviewed. But we will see how it plays out during 2016 and see what the nature is. I think one point that's not mentioned on this slide, it's important though to remember, is if it were to be adjusted, while that would have the impact on the Solvency ratio that we show, that would also increase capital generation going forward. So this is one where there is a trade-off between the two.

Q - Gordon Aitken {BIO 3846728 <GO>}

Great. Thanks.

Operator

Next question is from William Elderkin from Goldman Sachs. Please go ahead, sir.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you. Good morning, everyone. Most of my questions have been asked and answered. But I just wondered can you give us any – how we should be thinking about this very, very strong solvency you're showing in the Dutch Life business? I know you've made comments around the holding company and previous comments around capital generation. But is there anything more you can add in terms of where your major uncertainties are, or how and when some of that excess capital may return to the holding company?

A - Eilard Friese

Yes, Delfin, please.

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

Thank you, William. No, I don't think there is anything special or uncertain there. Obviously, the impact of the loss absorbing capacity of deferred taxes and actually of any of the sensitivities that we have shown in the presentation very much impact. NN Life has been the largest and the most important entity. But nothing special to indicate in terms of how the capital will be generated or will flow into dividents to the holding company.

As we explained in the Capital Markets Day, we do expect that to have positive evolution on the own funds. But also in the solvency capital requirement, we expect to have decreasing capital requirements due to the individual life portfolio.

And then for the pension business, depends of how things play out in relationship to insured defined contribution. But keep in mind that as the business shift towards defined contribution, that is very capital light and more management net fee based. And then we have already said that Netherland's Life has a strong solvency ratio. So reduction from the current level of solvency ratio might also be a contributor to cash flow generation towards the holding.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you.

Operator

Next question comes from Matthias de Wit from KBC. Please go ahead.

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

Yes, good morning. Just to come back on the question of the dividends paid to the holding company since the start of the year. I'm still not entirely clear whether or not you remit – you did remit any cash specially related to the Netherlands where in last year in Q4, you announced that you paid the dividend in February. So I just wonder whether you did do that again. Could you – linked to that also remind me when the international and Dutch operations typically pay their annual dividends to the holding company? I thought it was Q2 for international and Q1 for the main dividends from the Netherlands.

And then secondly on Solvency II. I understood you were working on some optimization initiatives or looking at them including longevity swaps, the refinancing of the non-eligible hybrids and a number of other actions. So could you update us in this respect? Thank you.

A - Eilard Friese

Yes, Matthias, good morning and thank you. So, Delfin, would you take those questions please?

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

Yes, maybe just -- okay,the microphone is now on. So maybe Matthias, on the dividends paid from Netherlands Life, I think there is no particular quarter on which that's going to be done. Actually when you look at how 2015 has developed, we paid €350 million in the first quarter, we paid €150 million in the third quarter, and €250 million in the second – in the fourth quarter.

So that's a total of €750 million, which actually, you should add to that the approximately €10 million per quarter that we do receive as part of the coupon, or the interest on the hybrids that has been lent from the holding to Netherlands Life. And that, the same happens with other business units like investment partners or NN Re. That don't have so much of bias towards the second quarter and this is more distributed across the year.

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

Okay. So for Insurance Europe and Japan it's...

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

Japan as well. Japan as well. It tends to be in the second quarter, or maybe the third quarter.

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

Okay. And then on the dividends received since the start of the year, because normally you announced it when you pay, you remit cash from the Netherlands, you announce that it's – what was paid after the quarter ended, but you didn't do this this year. Is there any different timing or?

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

No, yes. Well I think, one has to be – it can be a little bit misleading and one is to read carefully, because every time we announce our dividend, it's already reflected in the solvency ratio of that entity.

However, if you were to look at the graph, or the numbers in relationship to the cash flow to the holding, obviously cash flow is only accounted when the actual cash transfer from the subsidiary to the holding. But, basically, what we have already paid has been €125 million in the month of October from Netherlands Life, another €125 million in the month of December, and we have not announced anything yet from Netherlands Life so far, otherwise would have been highlighted and also included in the solvency ratio as of December 31.

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

Okay, that's clear. And on Solvency II optimization?

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

In terms of – so Solvency II optimization, I think there are a few things that we are looking at. I mean, one clear one is the longevity on which we are looking into what is the possibility of doing a transaction. I think this is something that we have to be very careful with in the sense that it has different elements and one has to be sure that when we do the transfer of longevity risk it is done based on the right basis.

Another potential action is reducing expenses faster than our expense assumptions and that will have a positive impact. And then, but it is more marginal, is if we were to apply some transitionals on the countries for the technical provisions in the countries in Europe under the standard formula. But that will have a very marginal impact on the overall the solvency.

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

That's clear. Thanks a lot.

Operator

Next question comes from Jan Willem Knoll from ABN AMRO. Please go ahead sir.

Q - Jan Willem Knoll {BIO 18247722 <GO>}

Yes, good morning. Thanks for taking my questions. A couple of brief questions. On non-life, do you think your combined ratio in D&A can improve much below the current 97.6 %, or will the improvement in the Group P&C ratio fully have to come from the P&C business?

And then on disability specifically, do you think that on the back of the economic recovery in the Netherlands you will see some positive impact on the claims ratio in the disability business?

And actually, both in P&C and D&A, how much room do you have to reprice the business, or is that quite difficult given the competitive environment?

I guess on the longevity swaps. I guess that's partly a choice between capital now and capital generation in the future and given your strong capital ratios, I mean why would you sort of consider doing all the effort in executing longevity swaps?

And then briefly also, sorry for coming back on the cash capital target at holding. I mean you made it very clear that the target depends on, amongst other things, the risks in the underlying businesses. We could argue that looking at the risks and developments in the underlying business that the risks are rising and you are rerisking the general account still. It seems that risks in the financial markets are rising, at least in my view. Not all your litigation risks have been resolved. So given these risks and developments, is it fair to assume that you will aim to keep the cash capital in the upper half of the guidance range?

And maybe lastly on your asset quality. You talked about your exposure to energy and mining. So we use the utility and national resources exposure as a proxy. What percent of these portfolios is below investment grade and what sort of credit migration have you seen in the first quarter and do you expect in the rest of the year. And basically similar on your exposure to financial institutions. How much exposure do you have to AT1 say, if any? Thanks.

A - Eilard Friese

Well, Jan Willem, good morning. That's quite a number of questions, so we'll try to answer them in an orderly fashion there for you. So, let's take them one by one.

First the non-life comments – questions that you had. The disability and accident business runs at 97.6% combined. I already mentioned earlier that on a breakeven level you can also run this business on a 100% combined. So 97.6% combined is a very healthy effect, healthy level of this business. But we will obviously – we do think that most of the improvement that we need to get to the 97% or better by the end of 2018 needs to come from the property and casualty side of the house. Having said that, we will also aim to improve the combined ratio on the D&A side by especially lowering expenses etc. But of the most improvement we expect to have to be come from the property and casualty business.

When it comes to the economic developments in the Netherlands, will that have a positive impact on D&A? It's not a one-on-one relationship. But it is true that if the economies are better, usually you see a better risk profile emerging in the D&A portfolio. That is true. But let's not – but I am not going to be more concrete on that moving forward. So the bottom line is most of the improvement will need to come from P&C. And D&A is in a healthy position right now, but we aim to improve further through expense reductions and improvements with the underwriting performance.

Then we go to the longevity swaps, which is the second question you had. And I ask Doug to comment on that.

A - Doug Caldwell {BIO 17900909 <GO>}

Yes, I think we have a few considerations when we look at the longevity swaps. One is it's simply a risk concentration for our Company. So it's one of our biggest single concentrations and we need to consider if we want to adjust that over time. And then, of course, how to do that because these contracts can be very long dated and so you have to be very careful that you are entering into something that you are comfortable with.

Of course, we also want to look at the capital efficiency of it and whether that improves our return on capital, and these are probably the two biggest things that we will look at and consider as we continue to work through that.

A - Eilard Friese

Okay, and then the questions on the holdco cash capital levels and then subsequently the energy exposure questions, so let's move to Delfin.

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

So I think it's -- we have given a range for a reason in order to cover most scenarios. So I think it should not be that appropriate just to speculate if we are going to be on the very top of the range or come down below that element.

The only thing I would highlight is that once more that the subsidiaries are strongly capitalized and that the level of the cash capital of holding is strong and as a consequence, unless there is extraordinary circumstances, markets moving very badly, the sustainable return to shareholders should be maintained over the next quarters.

Keep in mind that so far, as Lard emphasized during his presentation, we have given back €1.4 billion to our shareholders since the time of the IPO. And that has been done at a time where obviously we have benefited from positive impacts of the market because while doing so we have increased at the same time the level of solvency and the level of cash capital at the holding. So there is some flexibility there, I would say.

In terms of the exposure to energy and investment grade and the CoCo or AT1, first our overall exposure to financials is very low. We basically don't have any exposure to CoCo. You can also see in the appendix the breakdown of the fixed income securities by category and you can see that the part Other, that will include non-rated or not investment grade is very limited with a total of 2% and as said, again this includes non-rated securities.

And in terms of the exposure of energy, it is also very limited. And I think it was 2% of the total of which oil related is 1%.

Q - Jan Willem Knoll {BIO 18247722 <GO>}

Yes, and in terms of credit quality of the specific oil and mining exposures, what percent of that is below investment grade?

A - Eilard Friese

I think we have to get back to you on that specific question. But again I think it's good to note that it's very limited the exposure that we have. But on that particular question we'll get back to you, Jan Willem.

Q - Jan Willem Knoll {BIO 18247722 <GO>}

Yes. Thanks.

Operator

Next question is from Farquhar Murray from Autonomous. Please go ahead sir.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Hi gentlemen. Thanks for allowing me to come back. Actually, I've just got two quick questions if I may. Several of your peers have given Solvency II targets for subsidiaries and for Group level already. So, can you just explain which uncertainties are driving your decision not to give these and are these specific to NN?

And then more broadly, you have stated before that there is excess capital within NN Life and certainly 220% looks extremely strong versus peers. But at the same time, you seem to be now saying that the €0.5 billion to €1.5 billion holding cash target builds in the position of the subsidiaries.

Does that mean that if you upstreamed from NN Life and lowered the capital in that subsidiary, that there will be an offsetting increase in the cash target at the holding and would that offset be one to one or is that far too extreme a kind of interpretation of what you're saying? Thanks.

A - Eilard Friese

Thanks, Farquhar. Delfin?

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

Yes, starting with your first question about any specific uncertainties driving our approach to provide guidance on capital management, the answer is no. I don't think there is anything specific. Obviously, each company has its own characteristics and risk profile. Maybe it's also a question of office style and approach that we have taken from the very start at the time of the IPO. And I think we've been clear on which uncertainties do assist at this point of time.

We just think that maybe at this point of time, providing a specific target for the subsidiaries might, in certain scenarios, going forward, prove not to be that helpful. So we'd better provide a guidance that gives you, as I said already, indication of how cash flow might be generated and how can be distributed to shareholders going forward.

And your second question. If indeed NN Life continues having a healthy and a strong dividend flow to the holding, there is not a one by one need to increase it at the holding company. Obviously, the levels of €0.5 billion to €1.5 billion is designed for covering most scenarios over time. So that means that there is flexibility within that range and it's not mathematical one by one.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Could I please extend that question? I mean if you took the position in NN Life below say 200%, does it become one to one at that stage? I can't imagine it does. I just think the way you spoke to that comment, actually just opened up a point of uncertainty.

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

Obviously, you treat the cash capital at holding differently if your largest subsidiary is at 220% Solvency or that is at 120% Solvency for the sake of argument, that's obviously the case. But one has to consider the flexibility that currently exists in the solvency ratio for Netherlands Life in order to cover any uncertainty or risk they can be facing and 220%, as you have said, it is a very strong solvency ratio and certainly compared with other peers.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay. Thanks very much indeed.

Operator

There are no further questions, please continue.

A - Eilard Friese

Well then I would like to thank all of you for your questions and for your participation in this call this morning. So I'd like to round off by saying that we are pleased with the strong results for 2015 and the progress we have made during the year to achieve our financial targets and to generate value.

We reached an important milestone in December when our Solvency II partial internal model was approved by the Dutch regulator and we believe that our strong capital position will allow us to deal with any remaining uncertainties and market volatility. But it also allows us to keep delivering on our promise to return capital to shareholders by proposing a final dividend for 2015 of €1.05 per ordinary share.

We still have a lot of work to do in 2016 to further improve performance and this goes hand in hand with delivering an excellent customer experience, by offering transparent products and services that serve our customers' lifetime needs and being a company that truly matters in the lives of our stakeholders. I wish you all a very good day.

Operator

Ladies and gentlemen, this concludes the NN Group conference call. You may now disconnect your line. Thank you.