Q3 2016 Earnings Call

Company Participants

- Delfin Rueda, CFO
- Jan-Hendrik Erasmus, Chief Risk Officer
- Lard Friese, CEO

Other Participants

- Arjan van Veen, Analyst
- Ashik Musaddi, Analyst
- Bart Horsten, Analyst
- Cor Kluis, Analyst
- Matthias de Wit, Analyst
- Steven Haywood, Analyst
- Unidentified Participant, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. This is the operator speaking. Welcome to NN Group's analyst conference call on its Third Quarter 2016 results. (Operator Instructions)

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 day 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 a solicitation of an offer to buy any securities.

Good morning, Mr. Friese. Over to you.

Lard Friese {BIO 17008174 <GO>}

Yes. Good morning, everyone. Welcome to this conference call to discuss NN Group's results for the Third Quarter of 2016. I will start off today's presentation by looking at the highlights of the Third Quarter results, as well as the progress we are making to deliver on our strategic priorities.

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 then conclude the presentation with a wrap-up, after which we will open the call for questions and answers. Now, for the first time today we have Jan-Hendrik Erasmus, our Chief Risk Officer, with us to answer your questions.

Let's dive in and go to slide number 3 with the highlights. NN Group's operating result of the ongoing business for the Third Quarter of 2016 was EUR319 million. This compares with an operating result of EUR392 million for the same quarter last year, which benefited from a large private equity dividend. Excluding private equity dividends in both quarters, the operating results improved by 15%.

In the Netherlands, we were able to lower the expense base by another EUR21 million, continuing the progress on our expense-reduction program. We've also continued to shift to higher-yielding assets and Netherlands life to offset the impact of lower interest rates.

At insurance Europe and Japan life, we generated significantly higher sales in the Third Quarter. At the same time, NN investment partners was able to attract EUR600 million net inflows in third-party assets despite a difficult asset-management environment. NN bank continues to report healthy growth in both mortgages and savings, contributing to a higher operating result.

On the other hand, we continue to see pressure at Netherlands non-life, while the combined ratio improved to 101.8% in the Third Quarter. We recognize that more work is needed to bring it down to the target level of 97% by the end of 2018.

Our balance sheet and capital position remain strong. Free cash flow to the holding company was EUR298 million, driven by EUR320 million of dividends from our subsidiaries, bringing the cash capital at the holding to EUR2.4 billion at the end of the Third Quarter. The Solvency II ratio of NN Group decreased to 236%, mainly reflecting the impact of credit spread movements, partly offset by the operating return of the business.

I will now turn to slide number 4. As you are aware, we made public on October 5 our intention to make an all-cash offer for all issued and outstanding shares of Delta Lloyd at a price of EUR5.30 per share. We confirmed this intention on November 2. We continue to believe that the potential transaction is financially and strategically compelling, beneficial to stakeholders and representing a full and fair value to shareholders.

So far, we had some limited interaction with Delta Lloyd senior management, including some high-level conversations that have not yet progressed to the substance of the transaction. However, we do hope that we will have more substantive discussions in the coming weeks as we move towards December 28 and our draft filing with the AFM.

We have noted the disclosure by Delta Lloyd yesterday on the cost and capital synergies, as well as their update on Third Quarter financial and operating trends. And while I will obviously not go into the details, I will make a few observations.

As you can imagine, we developed our outside-in view on synergies before announcing our intention to make an offer at EUR5.30 per share. In this respect, we feel that the pre-tax EUR200 million of cost synergies suggested by Delta Lloyd represents a high percentage of the real addressable cost base. Given several areas identified by them as having very low to low synergy potential, as well as the ongoing cost-reduction plan of Delta Lloyd, which will further reduce the addressable cost base by 2018.

On capital topics, we will need to look carefully into the underlying assumptions to assess their actual value given the uncertain nature of those potential benefits. We view a large proportion of what has been identified by Delta Lloyd as either not to be valued one for one or items that can be achieved on a standalone basis and therefore already are reflected in base values. Both of these cost and capital items are clearly before any dis-synergies, restructuring charges, execution risk and alignment of solvency assumptions that may or may not be needed.

Finally, it is clear that we need to continuously assess the total value of the combination. Taking into account information presented with Delta Lloyd's Third Quarter results, including the decline in the solvency ratio and the identified headwinds to cash flow.

To summarize, we continue to believe in the strategic and financial logic of a combination and we remain constructive on engagement. It is important, as you will understand, that we have access to information in the coming period in order to allow us to validate our outside-in assumptions. And needless to say, we will update the market further if and when appropriate.

Now, on the next slide I will talk about developments in customer services at our business units. NN Group aims to help secure their financial futures -- help people secure their financial futures. And it is committed to delivering products and services that are easy to understand and meet customers' lifetime needs.

An example is the launch of a new corporate-owned life insurance critical illness product by NN life Japan, driving significant growth of new sales in the Third Quarter. At the same time, our Dutch non-life business launched a marketing campaign in Belgium to promote its new home and family insurance product, covering building and contents, as well as legal aid and liability. The initial results are encouraging.

The APF that was set up by AZL, NN life's pension administrator and NN investment partners', received its license from DNB. The APF provides an attractive solution for pension funds and employers to comply with increasingly complex pension regulations and to benefit from economies of scale.

NN Group serves its customers through multiple channels to achieve profitable growth. In line with this strategy, NN life Japan recently entered into a long-term collaboration with Sumitomo Life Insurance. Sumitomo Life Insurance will sell NN life Japan's COLI products to small; and medium-sized enterprises through its nationwide tied agency network. The agreement also provides a framework for collaboration on potential future product initiatives.

Finally, NN Group aims to make its processes as efficient and effective as possible across all segments. The international business continues to focus on protection products, the bank assurance channels and tied agents.

In addition, sales channels are being digitalized, leading to more efficient operations. This quarter, NN Hungary introduced an online client portal, NN Direkt, which is the first online client portal in the market with an audited electronic signature, increasing the means of communication with customers while simultaneously reducing cost.

I will now turn to slide number 6. In the Netherlands, the strategy is centered around providing digital, personal and relevant services with the aim of enhancing customer experience. And let me give you some examples.

Based on our knowledge of a customer, we can proactively offer services or products that we believe will fit their needs. We call these next best actions. In 2015, we included 150,000 of these next best actions in our customer conversations and we are on track to reach 0.5 million this this. The result is higher satisfaction, lower consumer losses and increased sales. We follow a similar strategy in pensions, where our new online service, pension assistance, provides personalized pension information to customers and non-customers alike.

Our Dutch non-life business launched a pilot in the Third Quarter for a new customer service called prevention scan. This service provides for an independent prevention coach to perform a comprehensive check on a client's house, tailor-made advice on how to improve fire safety, prevent burglary and avoid water damage, as well as assistance to implement these safety improvements.

Overall, as well as our ongoing focus on cost and capital management, we continue to innovate and invest in enabling our Dutch businesses to provide excellent customer experiences. Something we think is essential to the interest of all our stakeholders.

And with that, I will now hand over to Delfin Rueda. Delfin?

Delfin Rueda {BIO 7032761 <GO>}

Thank you, Lard. NN Group reported an operating result of the ongoing business of EUR945 million in the first nine months of 2016. The operating result for the same period last year benefited from higher private equity dividends and a significant higher technical margin in Netherlands life. While this year was impacted by higher claims in Netherlands non-life as a result of severe storms.

On the other hand, NN bank reported a strong growth in results as it continues to expand its mortgage and savings activities.

The decrease in the net result for the nine months of 2016, which you can see in the right-hand chart, can be mainly explained by the lower operating result and a higher negative hedge result in Japan closed block VA due to increased market volatility. Partly compensated by higher non-operating items.

Please now turn to slide 9, which gives more details about the expense savings in the Netherlands. About a year ago we set ourselves our new cost-base target in the Netherlands, aiming to reduce the annual administrative expenses of Netherlands life, Netherlands non-life and the holding entities to EUR685 million by the end of 2018. With this target, we will reduce expenses by around 15% compared with the annualized cost base at the end of the Third Quarter of 2015.

This expense-reduction program is on track. In the Third Quarter of 2016 we realized EUR21 million of additional cost savings, bringing the cost base in the Netherlands down to EUR765 million on a last-12-month basis. However, note that the progress in realizing cost savings will not be linear from quarter to quarter due to timing effects, project-related expenses, regulatory pressures and the need to invest in our businesses.

We still have a lot of work to do to reach this ambitious expense-base target as we have to deal with these upward cost pressures. But we are committed to the target and we believe that these initiatives will make our Company more efficient and agile and will improve the customer experience.

Let's now look at the First Quarter performance of each individual segment, starting, as usual, with Netherlands life on slide 10. The operating result of Netherlands life was EUR178 million in the Third Quarter of 2016. This is a decrease from EUR267 million a year ago, which benefited from a EUR110 million private equity dividend. The Third Quarter of 2016 included a EUR13 million private equity dividend.

An increased allocation to higher yielding assets helped to offset the impact of the low interest-rate environment on reinvestments. The last 12 months' investment spread was 114 basis points. Fees and premium-based revenues were down, reflecting the run-off of the individual life closed book and lower margins in the pension business.

The technical margin also declined as the Third Quarter of last year was supported by EUR6 million of technical provision releases, as well as higher mortality results. These items were compensated by lower administrative expenses due to lower staff-related expenses and IT cost.

I will now turn to slide 11 for the results of Netherlands non-life. The operating result for Netherlands non-life decreased to EUR21 million from EUR24 million in the Third Quarter of 2015. Which was supported by a private equity dividend of EUR17 million. The combined ratio improved to 102% from 106% in the Third Quarter of 2015. This was driven by a better underwriting performance in both property & casualty and disability & accident.

Let's now look at the two business lines within non-life separately. In disability & accident, the Third Quarter operating result decreased to EUR25 million from EUR32 million in the same quarter of 2015, which included a EUR12 million private equity dividend. The current quarter reflects a positive claims development in both the individual disability and the Group income protection portfolios. The disability & accident combined ratio was lower, at 97%, compared with 100% in the Third Quarter of 2015.

The operating result in property & casualty improved to a loss of EUR5 million from a loss of EUR7 million in the Third Quarter of 2015, which included a EUR5 million private equity dividend. This quarter reflects an additional impact from the severe storms witnessed in the Second Quarter of 2016 of EUR3 million. The Third Quarter of 2015 was impacted by severe summer storms in both the fire and motor portfolios. The P&C combined ratio decreased to 106% from 110% in the Third Quarter of 2015.

Please turn now to slide 12 and the results of insurance Europe. Insurance Europe reported an operating result of EUR52 million for the Third Quarter of 2016. This was broadly stable on the same quarter of 2015 as higher fees and premium-based revenues and lower commissions were offset by higher administrative expenses.

The cost-income ratio increased on higher administrative expenses, reflecting the tax on assets of insurance companies that became effective in Poland as of February 2016 and higher project expenses.

New sales increased to EUR100 million in the Third Quarter of 2016, up almost 14% year on year, excluding currency effects, largely driven to higher sales of less capital-intensive savings products in Spain and Greece.

Moving into Japan life, in slide 13, the operating result of Japan life declined 7.9% from the Third Quarter of 2015, excluding currency effects, reflecting lower mortality results. Fees and premium-based revenues increased, partly offset by higher DAC amortization and trail commissions, both driven by volume growth.

The cost-income ratio decreased as higher income was only partially offset by higher administrative expenses. New sales increased to EUR209 million, up 22.6% from the Third Quarter of 2015 at constant currencies. This was due to the launch of a critical illness product in the COLI market in July 2016.

I will now turn to slide 14 and the asset management segment. Total assets under management increased to EUR199 billion from EUR197 billion at the end of the Second Quarter. The increase was driven by positive market performance of EUR2 billion as a result of lower interest rates increasing the value of fixed-income assets.

Despite a difficult asset management environment, NN investment partners was able to attract EUR600 million net inflows in third-party assets in the Third Quarter of 2016. This was offset by outflows in the other affiliated business and proprietary assets.

The operating result increased to EUR38 million in the Third Quarter of 2016 from EUR34 million in the same quarter last year. Expenses decreased, reflecting lower staff-related expenses, as well as lower project cost. Fees were also down due to a movement to lower-margin assets. The cost-income ratio decreased as expenses decreased more than fee income.

The segment other is set out on slide 15. The operating result of the segment other improved to a loss of EUR11 million in the Third Quarter of 2016 from a loss of EUR23 million in the same quarter last year. The holding result improved to a loss of EUR30 million, mainly driven by lower holding expenses due to lower staff and IT cost, as well as timing effects.

The operating result of the reinsurance business decreased to EUR2 million in the Third Quarter of 2016 from EUR4 million in the same quarter last year, driven by lower underwriting results.

Finally, the operating result of NN bank increased to EUR70 million in the Third Quarter, up 9% year on year. This increase reflects a higher interest margin, partly offset by higher administrative expenses as we continue to make investments to support the bank's strong growth in the mortgages and savings market.

I will now move onto slide 16 to cover our last segment, Japan closed block VA. Japan closed block VA reported a loss before tax of EUR13 million, compared with a loss of EUR64 million in the Third Quarter of 2015, reflecting lower hedge-related losses. The Third Quarter of this year also reflects lower fees and premium-based revenues as the portfolio continues to run off.

The run-off the Japan closed block VA portfolio continues to evolve as expected. We do now expect NN re in the Netherlands to release capital of approximately EUR400 million by the end of 2019, plus or minus hedge results.

With that, I completed the results of our operating segments. On the following slides, I would like to take you through the free cash flow and the capital position.

On slide 17, you can see the movement in the holding company cash capital during the Third Quarter of 2016, which increased to EUR2.4 billion at the end of the quarter. The free cash flow during the Third Quarter was EUR298 million, which included dividends of EUR320 million received mainly from the Dutch units.

The details of the dividends upstreams per segment can be found in the appendix to this presentation.

During the quarter, we had capital flows to shareholders of EUR244 million. This comprises the cash part of the 2016 interim dividend of EUR130 million and the amount repurchased under the share-buyback program in the Third Quarter of EUR130 million.

On slide 18, I would like to take you through the developments in NN Group's Solvency II ratio. On this slide, we show the movement of the NN Group Solvency II ratio, the eligible own funds and the solvency capital requirement over the Third Quarter of 2016. In the Third Quarter, the Solvency II ratio decreased from 252% to 236%, mainly due to market variances, partly offset by the operating return.

Let me spend a moment to explain the main movements in a bit more detail. Starting with the largest movement, market variances, which had a negative impact on the Solvency II ratio of 22percentage points. This mainly reflects the impact of higher credit spreads on highly rated government bonds and lower credit spreads on corporate bonds. The latter led to a lower VOLA, resulted in an increase of the value of liabilities. This was partially offset by positive equity revaluations.

This negative impact of market variances has more or less reversed the positive impact on the Solvency II ratio of 21percentage points, which we benefited from in the Second Quarter of this year.

The operating return had a positive impact of 5percentage points. This quarter, the eligible owned funds includes the net result of asset management for both the Third Quarter and approximately EUR40 million for the first six months of 2016.

Starting from now, from the Third Quarter of 2016, we recognize the net result of asset management on a quarterly basis. As I have highlighted in the past, the operating return will move around quarter by quarter.

The bucket other mainly reflects the impacts of the update of the VOLA reference portfolio this quarter. The solvency capital requirement increased slightly, mainly due to interest and credit spread movements in the quarter.

Finally, in light of the intended offer for Delta Lloyd, the EUR500 million share-buyback program has been suspended for an amount of EUR333 million. This amount of EUR333 million continues to be deducted from own funds at the end of the Third Quarter. We may add this amount back in the Fourth Quarter if the share buyback continues to be suspended and depending on the status of the Delta Lloyd transaction at that time.

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

Lard Friese {BIO 17008174 <GO>}

Yes. Thank you, Delfin. I'm on slide number 20 now, the key takeaways. Going forward, our focus remains on delivering excellent service to our customers while making our operations more efficient and effective and pursuing profitable growth in selected European markets and Japan.

Our priority is to improve the operating performance of our businesses to increase earnings and generate cash. We are progressing well with these strategic priorities. But there is still more work to do. The entire management team is committed to doing this, while at the same time having to deal with regulatory changes and market conditions.

Our capital position remains strong and resilient, even in this volatile environment. And opens up possibilities for inorganic growth. We believe that a combination of Delta Lloyd and the Dutch and Belgium activities of NN Group is financially and strategically compelling and beneficial to both companies' stakeholder groups. Our intention remains a recommended transaction and we will update the market at the appropriate time.

I would now like to open the call for your questions. And can I kindly request you to limit the number of your questions to two per person so that everybody gets a chance to speak? Of course, feel free to come back with a second round of questions if they have not yet been dealt with.

And with that, I would like hand back to the operator for organizing the Q&A.

Questions And Answers

Operator

Thank you, Mr. Friese. Ladies and gentlemen, we will start the question and answer session. (Operator Instructions) Cor Kluis, ABN AMRO.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning. Cor Kluis, ABN AMRO. I've got two questions. First question is about Delta Lloyd. If the management of Delta Lloyd does not give or enable a recommended transaction, will you still continue to try to acquire Delta Lloyd or not? So that's the first question.

And the second question is about your, yes, extremely strong APE premiums in Japan life, the EUR209 million APE due to the launch of the new product in July. Is that a one-quarter effect or could we, for the next couple of quarters, expect quite elevated APE premiums from this successful product launch? And could you also highlight a little bit something about the profitability, IRR or the further cost of capital, how profitable that product is? That were my questions.

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you very much, Cor. So first, on your first question regarding Delta Lloyd, I don't think it's helpful to speculate on how things may evolve over the coming period.

As we said, I mentioned we had some high-level conversations. But not yet got into the substance of the potential transaction. But we remain open for constructive and more substantive dialogue. And we do see the merits of this transaction and we aim for recommendation. But I'm not going to speculate on any potential outcomes of this.

On the growth in Japan, yes, we are pleased with the fact that our Japanese business has been able to show, already, for quite a while, a sustainable, good growth pattern in terms of sales. It is a well-position business in the SME market segment in Japan.

You do know that sales are of course seasonal. So it's usually -- it's traditionally the highest in the First Quarter, which is the end of the fiscal year in Japan. And to a lesser extent in the Third Quarter, while sales are often seasonally somewhat lower in the Second Quarter and the Fourth Quarter. And this time we had a very good sales quarter on the back of, indeed, a new critical illness product that we launched, which is indeed also profitable.

And I certainly also believe that the Sumitomo long-term partnership will help to strengthen also the further penetration in the market segment. And we have signed that partnership in the Third Quarter. It -- we aim to start -- so the transaction. So not the partnership with Sumitomo life, we aim to start the sales as of April next year, in which the nationwide network will continue to carry our products or will start to carry our products in the SME segment.

So in that sense, good sales momentum. And we expect also the sales momentum in the future to continue on the back of the developments I just mentioned.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Wonderful. Thank you.

Operator

Arjan van Veen, UBS.

Q - Arjan van Veen {BIO 5197778 <GO>}

Thank you, gentlemen. I have two questions on capital, please. The first one is on the 22 basis point movement. You highlight credit spreads and corporate bonds spreads -- sorry sovereign spreads and corporate bond spreads. Did you make any adjustment to the reference portfolio on the volatility adjustment and did that have an impact in this quarter? And if not, are you planning to do so in the future?

The second question is on capital generation. If I now look at the three quarters you've reported this year, it was roughly 2% in the First Quarter; 3%, 3.5% in the Second Quarter, adjusting for some of the one-offs; and now 4%, taking out the asset management profit. So I'm just trying to -- I know it's volatile. So do you have any color you can give us on what you think a full-year number is or a sustainable number is going forward? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you, Arjan. The first question will be taken by Jan-Hendrik Erasmus and the second question by Delfin. So Jan-Hendrik, over to you.

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

Thank you, Lard. Good morning, Arjan. And everyone on this call. Firstly, let me say it's very good to be here after taking over from Doug Caldwell as the CRO of NN Group. And I hope to meet many of you in person in the coming months.

Now, to answer your question, Arjan, yes, EIOPA updated the VOLA reference portfolio from September 30. And the impact on our VOLA was around 2 basis points. And this is in the number. The impact on our Solvency II ratio was less than 3percentage points.

A - Lard Friese {BIO 17008174 <GO>}

So Delfin, maybe the capital generation.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. In terms of capital generation, as you know, we look at it from the perspective of the free cash flow generation coming from not only the change of owned funds. But also the movement in the solvency capital requirement and they are released of surplus capital from the different legal entities.

It's a quarter we have seen different evolutions. The main driver has always been the market movement so far. And within the operating return, we have highlighted, every quarter, what are the most relevant one-offs in order for provide some more clarity on what you could perceive as the main capital generation in that particular quarter. And I would not like to extend too much in order to what I have explained in previous calls that this capital generation varies from one quarter to another.

I think that in the Third Quarter, we have highlighted EUR40 million of one-offs related to the fact that it includes the net profit of asset management for the full nine months of the quarter. And as I said during the presentation, going forward we will include them only on a quarter-per-quarter basis. So that should give -- should provide more stability there.

If you were to exclude that, we are approximately on the EUR200 million of operating return in the quarter. And as I said, there is nothing particularly exceptional apart from what I said for asset management.

But let me insist again, every quarter will depend on the starting position of the Solvency II balance sheet. So it is difficult to just predict or normalize any particular quarter.

Q - Arjan van Veen {BIO 5197778 <GO>}

Okay. Thank you.

Operator

Ashik Musaddi, JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Hi. Good morning. I just have a couple of questions. Delta Lloyd is still a bit confusing, what's going on. You have clearly given your thoughts. But what if it doesn't go through? How should we think about your plan B or plan C with respect to your capital, i.e. what should investors be thinking with respect to your excess capital given that it's now very evident that you have loads of it? So that's number one.

Secondly is can we get some color about this cash flow that you're getting from your back book? At nine months' level already you have got EUR1.2 billion cash from subsidiaries to the holding company. So what is the right level on an annual basis, i.e. what are one-offs in first nine months? What is a recurring number we should think about? Is it still around a EUR1 billion number or should we be penciling in a bit more than that? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Ashik. Good morning. Let me take the Delta Lloyd question and then I'm going to ask Delfin to take your question on the cash flows from the back book.

So as I said earlier, I'm not going to speculate on what will or will not evolve. But let's take a step back here. Our approach to value creation is to generate earnings, generate cash and make that cash available for distribution to shareholders. And our -- we've always said that the merits of the Delta Lloyd transaction are very much in line with our equity story and are an acceleration of it. And as a result, we think it's attractive to -- that this deal has its merit and is logical and attractive for that purpose.

Now, our dividend statement has always been clear, which is that we have a -- we aim for a sustainable dividend pattern and distribution of capital to shareholders in the form of dividends. We gave guidance, 40% to 50% of the net operating earnings of the ongoing businesses. And any excess cash that comes out over time beyond our ambitions and that is -- that we cannot deploy, over time we'll get back to shareholders in the form of dividends or buybacks or et cetera. And that approach to value creation does not change.

So with that, maybe, Delfin, cash flow from back book.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. In terms of the -- I think your question was from -- what to expect in terms of overall remittance from the different subsidiaries, isn't it?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. From that, I -- we have indicated in the past what were the main cash flow generations coming from the different segments. And that basically provides the framework for the sustainable dividends coming over time.

That -- as you remember, when we were talking for Netherlands life, we do expect, because of the run-off of the individual portfolio, although there is some pressure on the investment margins and so on, to maintain, more or less, the dividends. And you've seen so far a relatively stable flow from dividends from NN life in the last quarters, has been EUR150 million, plus EUR10 million of the interest on the subordinated debt. And we do believe that, going forward, there's going to be some stability within the dividends from Netherlands life.

Non-life asset management will depend, not in a particular quarter. There's going to be variance from one quarter to another. But overall, similar to the operating -- the net profit of the units as they do not consume as much capital in order to either grow or -- and they don't have any run-off portfolio.

Obviously for Japan, in the closed block VA, we flag that we had around EUR400 million still of solvency capital requirement that will be free up from now to 2019. And therefore that's going to come later.

Then in Europe, of course it depends on the evolution of the profits for each of the different entities. Maybe when I look into the recent past, just to flag that dividends, in particular from Belgium, they are a bit elevated due to the run-off of the portfolio there. But otherwise, I think you have the main drivers of the cash flow generation. And from then, the expected evolution of remittance.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very clear. Thank you.

Operator

William Hawkins, KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, guys. Thank you very much. Lard, in your comments on Delta Lloyd you made a point of saying that there are specific areas, with regards to the synergy comments from them, where you see low synergies in contrast to what they're saying.

Could you just be slightly clearer about where you're cautious on the synergies? Dutch life sprang to my mind. But I may be wrong on that or there may be something else that was in your mind.

Then secondly, the life technical margin, it was EUR30 million in spite of the EUR8 million low-yield charge. So the cleaner figure was closer to EUR40 million, which seems a lot higher than the historical run rate. Can I be plugging in that higher figure for the future because of what you said about admin expenses or was there something else that was helping the Dutch life margin that I should not extrapolate? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thanks, Will. Good morning. So on your question with regard to the synergies, yes, the following. We've done our own outside-in analysis on the cost synergy potential. And given Delta Lloyd plans to cut costs to EUR530 million and themselves identified already a large proportion of the cost with low to very low synergies, I indeed think that the EUR200 million would represent a high proportion of what I would call the addressable cost base. So that's how I look at it and that's what I have to add to this.

Maybe now, Delfin, over to you on the technical margin.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, William. So we have indicated in the past that the technical margin in Netherlands life is volatile from quarter to quarter. It's difficult within that volatility to provide a clear guidance. But also we have mentioned in the past to be approximately between EUR30 million and EUR35 million per quarter as a run rate. And we believe that that trend still holds, with some trend downwards due to the run-off of the individual closed book. And there's some pressure on margins.

Apart from that, I think you did notice that the unit-linked guarantee provision was negative. We had to increase the provision by EUR8 million, impacting, as I said, negatively, the technical margin. But that was also similar to what happens in the Third Quarter of 2015.

Q - William Hawkins {BIO 1822411 <GO>}

That's great, guys. Good luck with the process. Thank you.

Operator

Matthias de Wit, KBC.

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

Good morning. The first question is on capital generation. I'm just wondering how sensitive your operating return is to changes in spreads and interest rates because your -- the EUR0.2 billion is based on the Q2 balance sheet, whereas spreads and rates change quite materially during the quarter. And since the start of Q4 as well. So maybe you could share something on how sensitive or what kind of impact this could have on the operating return.

Then my second question is on the Dutch life business, on the fee and premium-based revenues. They continue to level off compared to the last three to four quarters and the margin is also stabilizing at around 40, 45 basis points. So I'm just wondering how I should think about the Dutch fee and premiums going forward. Maybe you could also share some comments on what you expect in terms of margins on DC and APF type of solutions. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Thanks, Matthias. I'm going to ask Delfin to take those questions for you.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Matthias. Indeed, the operating return, as you can imagine, is very much or significantly influenced by the starting position of the balance sheet at the start of the period. And on that, the level of the spreads is important.

I am a bit reluctant to provide very specific guidance on that because also it varies so much from one quarter to another. And actually, we had, in -- very much whatever the impact you could have expected as an indication when we were looking at the Second Quarter, because the spreads move in one direction, then in the Third Quarter it is relatively similar impact. But in the opposite direction.

And in any event, it's not that helpful for the Fourth Quarter because we don't know in which direction that will move again. And from that perspective, that's why we keep referring to the medium-term guidance.

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

Is there a material change in the component of the operating return between excess spreads, on the one hand. And technical margin or expense margins on the other? Because I'm struggling a bit because in Q1 the underlying number was around EUR100 million if we exclude the impact from the transfer from separate account to general account. And now it's around EUR0.2 billion despite lower rates since the year-end balance sheet that was used for the Q1 numbers. So is there anything you could share on the drivers or the breakdown of that number?

A - Delfin Rueda {BIO 7032761 <GO>}

Sorry, Matthias, I have -- specific of which number that you're referring to? Sorry, I did not understand you well.

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

Yes. Let's take it maybe offline.

A - Delfin Rueda {BIO 7032761 <GO>}

Okay.

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

No, just wondering if there is any change in the breakdown of that capital generation number driven by the operating return between excess spreads and technical margin.

A - Delfin Rueda {BIO 7032761 <GO>}

No. I think that in the operating return, obviously, an important element is the investment margin. So that depends on the spreads. And you also have the UFR drag and the risk margin release that, as we have mentioned in the past, depends on the starting Solvency II balance sheet position.

But then it is also the new business, the operating variances. So it's not so much what are the technical expectations. But how much they vary from the already assume -- assumptions embedded in the Solvency II stating position and, of course, the contribution from Japan life, asset management and the pension funds.

So there is a lot of ingredients into this big pot of operating return. So there is nothing special or particular that I would flag in terms of improving or deterioration in terms of the technical result.

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

Okay. Thank you.

Operator

Bart Horsten, Kempen & Co.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes. Good morning, all. Two questions, one on the investment portfolio. Could you give an update on where you stand regarding the re-risking of the portfolio? And to what extent is the 114 basis points which you published in Q3 -- is that a new run rate based on the re-risked portfolio?

And maybe you could give some background on the concentration of your mortgage book. How big is it right now and do you expect more growth?

And the second question relates to your non-life activities. We see good progress in D&A. But still at P&C you're above 100%. Could you give an update of the actions you have taken and how you're progressing in that area? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thanks, Bart. This is Lard. Let me start with the non-life area and then I will pass onto Delfin to take your first question about the investment portfolio.

If you look at the non-life -- there's a couple of comments I want to make here -- the non-life results. First of all, they can be volatile as they are impacted by the size and frequency of claims in any quarter, et cetera. It's the nature of the business.

Disability & accident, please bear in mind it's a long-tail business, which means it's supported by investment income. So breakeven combined ratios are in fact in excess of 100% because we have a calculation method where we don't include the investment income there. So even if we would run that book around 100% we would still be making good money.

Now, we recognize, in general, that there is of course still more work to do to achieve the 97% or below target by 2018. But we still have some time to get there. So some of them -- some of these targets are more challenging than others. But our commitment remains the same.

Now, let's go now into the breakdown of the non-life area. The -- if I take a step back and if I look at the year-to-date evolution, if you will, for non-life business, the disability & accident business actually performing well. The 3Q combined ratio was 96.8%. That's an improvement over the same period last year. And you have seen already also in the last quarters, apart from the First Quarter where we had some elevation, a decent run rate of the D&A combined ratio evolution.

So if we look then at the other piece, it's property & casualty. Now, there we need to make a split between fire and motor and miscellaneous. If I look at the fire combined ratio year to date and if I would exclude, let's say, these severe storms that we had and that impact then the underlying rate or combined ratio of that fire business year to date is around 98%.

So the real, let's say, concern I have is more in the motor business and miscellaneous, where we have elevated combined ratios. We're doing a lot to improve those. But it's arduous work. So it's a combination of underwriting improvements, pricing, re-pricing of books, cutting and culling product lines in motor that we don't feel are, over the long term, profitable.

And obviously underlying everything is an expense-reduction program that is part of the overall target for the Dutch businesses that will improve the expense ratio and that will underpin and help to get the combined ratio obviously also in a better place.

One final point I want to make is that we are also seeing some negative run-off results of the past. So we don't carry those policies any longer in the motor book on our books. But we do have the past claims that need to be settled and we will have some run-off results coming through. They are -- they, at a certain point, will subside.

But the combination of all those elements, I think we will continue to work hard to make sure that we get to our 97% or lower by the end of 2018. And we still have time to get there. So more work to be done there.

Delfin, over to the investment portfolio.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. And so, Bart, in terms of the mortgages and the investment margin, maybe I should start by referring to the guidance that we have provided that because of the increase of the low interest rates, we expected the margin in Netherlands life to be around the same level of 2013. And that was between 100, 105 basis points.

The reality is that we have had higher, as you said yourself, investment margins for the Third Quarter. The last 12 months is 114 basis points. Obviously, keep in mind that that does include some of the high private equity dividends that were received in the previous quarters as part of the last 12 months. And I don't think we have better wisdom now that we change the guidance, as you know, going forward.

In relationship of mortgages, indeed we have been moving into higher-yielding assets. And for example, in the first nine months of the year we invested more than EUR2 billion in mortgages. It was a lower amount within the Third Quarter. And that increases to give you the percentage that the mortgages represent over the total investments of the Group for -- is around 12.5%. So there is still some room that we could increase mortgages still within our risk appetite.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thanks. Thanks very much.

Operator

Steven Haywood, HSBC.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning, everyone. A few questions, please. The Q4 dividend remittances upstreams, are there any businesses, that seasonally, that usually upstream in the Fourth Quarter, aside from the ongoing quarterly dividend that you're receiving from Netherlands life?

On your debt refinance that's coming up next year, is this the last debt instrument that is associated with ING? What do you plan to refinance it with? Is it Tier 1, Tier 2 or are you considering refinancing it with senior debt and taking a small hit on your Solvency II ratio for a benefit on your expenses?

Then you gave the fire combined ratio year to date. Could you give the motor combined ratio year to date, please? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Steven. I will ask Delfin to take your first two questions and in the meantime, we'll get you the motor combined, which I can already give you. The motor combined for the nine months is 113.7%, for the nine months, yes. So year to date.

Delfin, the first two questions?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. From the different segments, Netherlands life, I commented on it before. Generally speaking, there is no particular seasonality there. So in the Fourth Quarter once you'd considered, more or less, the same evolution that we have had over the year.

Usually for Europe, the business in Europe, there are dividends coming in the Second Quarter, the dividends for the full year. This time we might have some dividends coming from Belgium that we expect for the Fourth Quarter. Then investment partners, again, with different levels, we do expect dividends to come. There is the Japan close block VA that again is gradually decreasing. So there's no particular reason of having a special seasonality there.

And also, I bring you to the attention to the transaction that was done with NN re in Ireland, on which we do expect to have a EUR65 million dividend, approximately, coming from NN Ireland that will be coming in the Fourth Quarter.

Then in terms of the hybrids, well, Tier 1 is not really -- there's not really a market there. So it's more likely that we will refinance it with Tier 2.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions) Ashik Musaddi, JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Sorry, just again, one question I have. At the Investor Day, if I remember correctly, you flagged that there are some businesses, like Belgium, Spain I guess, where your ROEs were still low and you were thinking about what to be done with those low ROEs, et cetera.

So any thoughts on those, restructuring where we are at the moment? I guess you have released some capital from Belgium. But any update would be good from Belgium and Spain and any other businesses. Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

I think, Ashik, we have said we continue monitoring our portfolio and if there are opportunities we will consider them. But I would not flag anything in particular for either the two units that you have mentioned or any other at this point of time.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thank you.

Operator

Alain Lyons [ph], USB.

Q - Unidentified Participant

Yes. Morning. I was just wondering; it's been six weeks now since the offer was announced for Delta Lloyd. And as you were mentioning this morning in some of your comments, you're still struggling to get traction for the purposes of due diligence and whatnot. How do we actually bring this to a head? I know the AFM filing is due by December 28. But how do we actually move this forward? Because it just seems to be stuck.

A - Lard Friese {BIO 17008174 <GO>}

Well as I said, we've had limited interactions so far that have not really gone to the substantive components of the discussions. We are open to constructive and substantive discussion with Delta Lloyd management, obviously. We will conduct this process in a very rational and disciplined manner. That's how we approach this.

And indeed, we need to make sure that we -- that by December 28 that -- that's the time before that or the time that we have to file a draft of a memorandum to the AFM. And there is multiple things ahead.

There's no -- while we do appreciate the merits of the transaction and the attractiveness, it's also not that we absolutely need it or something. It's -- we're well positioned in this country with the current set of businesses that we have. I think that we demonstrate that we have a solid set of results also this time again. So we will be disciplined and rational in this process.

Q - Unidentified Participant

Okay. All right. Thanks for taking my questions.

Operator

Matthias de Wit, KBC.

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

Yes. Thanks for taking my follow-up questions. I had one question which I think was not yet answered on Dutch life on fee and premium-based revenues and margins. Yes. So we saw that the decline levelled off. So I was just thinking or wondering how we should think about fees going forward and also on DC and APF type of margins going forward.

Then maybe as well a second question on Japan, the technical margin, which was down on lower mortality results. Yes, I guess this is -- this can be lumpy and change from quarter to quarter. But is there anything you could say on what you would expect in terms of normalized technical margins over time for the Japanese business, same like you did for the Dutch life business? Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

Okay, Matthias. Sorry for forgetting the first question. Indeed, the fees and premium-based revenues has a downward trend due to the run-off of the individual life portfolio. And we have seen that quarter by quarter and we see that that will continue.

Obviously, one of the elements that we are focusing on in Netherlands life is also reducing expenses.

And also important to mention, that in terms of capital generation, is the run-off of this individual portfolio, although indeed under IFRS, results into a decrease in operating result (inaudible). On the other hand, it is releasing capital. And that is a component of our capital generation for -- coming from Netherlands life.

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

But we should not expect a growth in DC or APF, yes, like low-capital-intensive-type businesses, to compensate for a decline in run-off going forward or --?

A - Delfin Rueda {BIO 7032761 <GO>}

It will -- obviously depends on how the market grows and where -- what market share we get into the different parts of the pension business going forward. So if it is insured pensions or its pension buyouts, that will support the fees and premium-based revenues.

If it is through the APF or pure PPI, the margin will be earnt more through the management fee. And therefore will be reflected in an investment partner business or through the fees that our administrator, AZL, will receive.

So it's somehow difficult to read how it will evolve. The important thing to highlight is that we are prepared with all the different propositions. So either one direction or another I think we have the opportunity to capture that growth of the market. But from what we see today and the reality in our balance sheet, is that we see this decrease, downward trend in the fee and premium-based revenues for the segment Netherlands life.

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

Okay. And on Japan, please?

A - Delfin Rueda {BIO 7032761 <GO>}

In terms of the Japanese technical margin, there is obviously some changes and -- but it's very much driven by the mortality and the morbidity result. However, let me highlight once more that, leaving aside that volatility, the main driver of the operating result and the capital generation from Japan life is driven by fee and premium-based revenues.

So yes, we can see in the technical margin some trend down. And also, even there, there could be some volatility on mortality and morbidity. So it's not a clear as a trend as we have told for the fees and premium-based revenues for Netherlands life.

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

Okay. Very clear. Thank you.

Operator

(Operator Instructions)

A - Lard Friese {BIO 17008174 <GO>}

So because I think we've answered all your questions, I want to thank you for your questions. And let me conclude by saying that we are making good progress to deliver on all our strategic objectives. But we are fully aware that there is still more work to do. We are able to fully focus on improving operating performance thanks to our strong capital position, while at the same time we remain committed to disciplined capital management.

I want to thank you for your attendance to this call. And have a good day.