Q1 2018 Earnings Call

Company Participants

- Delfin Rueda, Chief Financial Officer
- Jan-Hendrik Erasmus, Chief Risk Officer
- Lard Friese, Chief Executive Officer

Other Participants

- Albert Ploegh, Analyst
- Arjan van Veen, Analyst
- Ashik Musaddi, Analyst
- Bart Jooris, Analyst
- Benoit Petrarque, Analyst
- Cor Kluis, Analyst
- Farooq Hanif, Analyst
- Jason Kalamboussis, Analyst
- Johnny Vo, Analyst
- Matthias de Wit, Analyst
- Robin van den Broek, Analyst
- Steven Haywood, 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 First Quarter 2018 Results. The telephone lines will be in listen-only mode during the company's presentation. The lines will then be opened for a question-and-answer session.

Before handing this conference call over to Mr. Lard Friese, Chief Executive Officer of NN Group, let me first give the following statement on behalf of the company. Today's comments may include forward-looking statements such as statements regarding future developments in NN Group's business, expectations for its future financial performance and any statement not involving a historical fact. Actual results may differ materially from those projected in any forward-looking statement. Any forward-looking statements speak only as of the date they are made and NN Group assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. Furthermore, nothing in today's comments constitutes an offer to sale 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 and welcome to our conference call to discuss NN Group's results for the first quarter of 2018. I will start today's presentation by talking about the highlights of the first quarter results, as well as our progress on the integration in the past quarter. Delfin Rueda, our Chief Financial Officer will then take you through the details of the financial results and talk about the capital position and free cash flow. I will conclude the presentation with a wrap-up, after which, we will open the call for Q&A. Jan-Hendrik Erasmus, our Chief Risk Officer is also with us today to answer your questions.

So let's move to slide number three. NN Group's operating result of the ongoing business for the first quarter was EUR313 million. As you know, a severe storm hit the Netherlands in January and this quarter's operating result reflects the related total impact of EUR89 million in our non-life and reinsurance businesses. This is more or less in line with our market share. The first quarter operating result also includes the contribution of Delta Lloyd, while the operating result a year ago benefited from 41 million of private equity dividends.

The integration is progressing well and we continue to drive the improvements in efficiency. Further cost savings of EUR42 million were achieved this quarter in the business units in the scope of the integration, bringing total cost reductions to 175 million compared with a full year 2016 expense base. This represents half of our targeted cost reduction of 350 million by 2020, so well ahead of the earlier envisaged schedule and I will talk more about this on a later slide.

Our balance sheet and capital position remained strong. NN Group's solvency position at the end of the first quarter was 213%, up from 199% at the end of 2017, driven by a combination of positive market impacts and operating capital generation. Free cash flow to the holding company was EUR198 million, bringing the cash capital at the holding company to EUR1.6 billion at the end of the first quarter. New sales were down by just under 8% at constant currencies. At Netherlands Life, there was a lower volume of existing group pension contracts, which came up for renewal this quarter. New sales at Insurance Europe increased, driven by the contribution of Delta Lloyd Belgium, while new sales in Japan remained broadly stable, despite increased local competition.

Let's move to slide four. We have already achieved a number of milestones to integrate Delta Lloyd into NN Group. For example, Delta Lloyd Bank, Delta Lloyd Asset Management and Delta Lloyd Life in Belgium have been legally merged into the respective NN businesses and are now operating as combined entities. We are re-branding the Delta Lloyd products and services and re-branding has already been completed in Belgium and we expect this to be largely finalized at the other units by the end of the year. We are also in the process of relocating Delta Lloyd employees to NN locations.

In terms of IT, the Delta Lloyd Asset Management portfolios have been transferred and are now running on NNIP's systems. We have started decommissioning some head office systems, while other systems at the business units can only be decommissioned, once policies have been migrated. We are currently working on expanding our internal model to include the Delta Lloyd Life and non-life entities and we aim to complete the mergers of the life and non-life companies in 2019. We are well on-track, but obviously still have a lot of work to do and some of the more complex integration projects are ahead of us.

Throughout the integration process, we make sure that we never lose sight of our customers. This process [ph] was particularly evident following the January storm. We were there for our customers in their time of need and were able to settle most of the thousands of storm claims within one month. Our focus is also on maintaining our commercial momentum by offering our customers innovative solutions and value-added products, while at the same time, writing profitable new business by focusing on value, rather than volume. We continue to launch new protection products in Europe and we have opened a new innovation Sparklab in Spain to develop creative solutions and drive innovation in that country.

So, let's turn now to slide number five. At our Capital Markets Day last year, we announced our target to reduce the administrative expense base for all the business units in the scope of integration by around 350 million by the end of 2020, of which 50% by the end of 2018. As I mentioned earlier, the integration is progressing well and we have already realized a total cost reduction of EUR175 million at the end of the first quarter. This means that we are well ahead of schedule. Now given the strong process so far and progress so far, we have announced today that we are raising the cost reduction guidance to EUR400 million by the end of 2020 and expect to achieve at least half of these savings by the end of this year. The split of the total cost reductions by segments can be seen in the right-hand graph on slide number five. We are confident that we can continue our track record of cost discipline and achieve the targeted cost reductions.

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

Delfin Rueda {BIO 7032761 <GO>}

Thank you, Lard and good morning, everyone. Let me start with NN Group's operating result of the ongoing business, which was EUR313 million for the first quarter, down from 406 million in the same quarter last year. This was mainly due to the severe storm in January, which had a total impact of EUR89 million in our non-life and reinsurance businesses. The current quarter also reflects the contribution of Delta Lloyd, while the operating result in the first quarter of last year benefited from 41 million of private equity dividends. The net result for the first quarter was EUR399 million versus 435 million in the first quarter of 2017. The decrease reflects the lower operating results, higher special items largely relating to restructuring expenses, as well as the amortization of acquisition intangibles. This was partly offset by higher revaluations on real estate portfolio.

Moving on to slide eight, I will take you through the performance of the individual segments. The first quarter operating result of Netherlands Life was EUR212 million, reflecting the inclusion of Delta Lloyd, while last year's result included 41 million of private equity dividends. The loss at Netherlands Non-Life was largely due to a 56 million impact of the January storm. We also saw less favorable underwriting performance in both the individual disability and group income portfolios. The combined ratio for the segment Netherlands Non-Life was 106.3% or 98.6%, excluding the impact of the storm. Insurance Europe reported a higher result this quarter, driven by higher fees and premium based revenues and a contribution of Delta Lloyd Belgium. At Japan Life, we saw the result decreased 15% excluding currency effects, primarily due to less favorable mortality and surrender results compared with a strong quarter last year. This was partly offset by higher fees and premium based revenues as a result of a larger in-force portfolio.

The higher operating result of asset management was driven by the inclusion of the Delta Lloyd activities as well as expense reductions. And finally, the loss in the segment Other was due in part to a 33 million impact of the January storm and a claim from our legacy portfolio, which are reflected in the result of the reinsurance business, while the holding result includes some non-recurring expenses. On the other hand, the banking business reported a higher operating result, driven by the inclusion of the Delta Lloyd activities, as well as lower expenses and favorable risk cost, partly offset by a lower interest margin.

Let's move on to the next slide, which shows our cash capital position. The holding company cash capital increased to EUR1.6 billion, at the end of the first quarter from 1.4 billion at the end of last year. The free cash flow during the first quarter was EUR198 million, driven by EUR256 million of dividends, received mainly from the Dutch units. Details of the dividends upstreamed by segment can be found as usual in the appendix of this presentation.

On slide 10, I will take you through the development in NN Group Solvency II ratio. Our Solvency II ratio was 213% at the end of the first quarter, up from 199% at the end of 2017. The operating capital generation for the first quarter added four percentage points to the ratio and includes a negative impact of EUR67 million after-tax related to the January storm. Excluding this impact, the own funds capital generation would have been EUR0.3 billion, with a contribution of five percentage points to the Solvency II ratio. Market variances made a positive contribution of 10 percentage points. This mainly reflects favorable movements in both government and corporate bond spreads, and flattening of the curve as well as positive revaluations of our real estate investments. The column, Other includes the negative impact of the reduction of the UFR by 15 basis points in January this year. Capital flows are zero this quarter as we already deducted the proposed 2017 final dividend from the Solvency II ratio in the fourth quarter of 2017.

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

Lard Friese {BIO 17008174 <GO>}

Yeah. Thanks, Delfin. We have today presented NN Group's results for the first quarter of 2018, which were impacted by the severe storm that hit the Netherlands in January. Notwithstanding this, the businesses continue to focus on driving performance and improving efficiency in order to achieve their medium term targets. The integration of Delta Lloyd is progressing very well and cost reductions are ahead of schedule. We have today announced that we are raising the cost reduction guidance to EUR400 million by the end of 2020 and we expect to achieve at least half of these savings by the end of this year. Our balance sheet remains strong, in line with our disciplined capital management approach. The Solvency II ratio increased to 213% and the cash capital position to EUR1.6 billion at the end of the first quarter.

We are committed to delivering on the Delta Lloyd transaction by combining the strengths of our businesses and cultures and successfully extracting the synergies. We have seen encouraging commercial momentum and our customer satisfaction scores is measured by the net promoter score, have increased over the past year. As we progress with the integration, we will never lose sight of our main objective, which is to provide an excellent customer service through innovative solutions and value-added products.

I will now open the call for your questions.

Questions And Answers

Operator

Thank you, Mr. Friese. Ladies and gentlemen, we will now start the question-and-answer session. (Operator Instructions) The first question is from Mr. Arjan van Veen, UBS. Go ahead please, sir.

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

Thank you. Can I ask a couple of questions please? The first one, just on the capital position, that's surprisingly very strong at 213%. I would assume it gets better once you implement the partial internal model for Delta Lloyd. So you are getting back to levels that you were at when you were regularly paying buybacks. So could you maybe discuss a bit around that, what kind of -- what your criteria are surrounding a decision whether or not to do any form of capital return or increased dividend or the like?

The second question was around the Netherlands Life results. The numbers remain somewhat weak and I understand this is obviously lower PE dividends in there et cetera, but this quarter as well as last quarter, our levels that look like Delta Lloyd is not even in there. So just curious if you can give a bit more color around your confidence that the earnings from the Netherlands Life division will bounce back to a level that we would have expected before the Delta Lloyd acquisition in terms of adding that back in some of the changes you've done, the asset change de-risking et cetera?

A - Lard Friese {BIO 17008174 <GO>}

Yes, Arjan, thank you for your questions. I will take the first one and I will ask Delfin to talk about the Life results. Yeah, so about the capital position, obviously, we're pleased with our Solvency II position and with the cash capital buffer of 1.6 billion and we're comfortable with our leverage position. It's all about being disciplined and rational and that's what we aim to be in our capital allocation decisions and you know that we have a policy that if we have capital in excess of our ambition, we will return it to stockholders unless we can invest it in a value-creating opportunity, including M&A. We aim for an attractive, growing dividend per share and I would like to remind you of our guidance that we expect a double-digit increase of our dividend per share over the year 2018. Share buybacks, which we have done in the past, are an efficient way to return excess capital to stockholders, but obviously, we'll take such a decision at the appropriate time.

A - Delfin Rueda {BIO 7032761 <GO>}

Thank you, Arjan. So on your question on Netherlands Life, I mean may be good just to remind everyone that the medium-term guidance that we have provided for Netherlands Life is to be broadly stable to the level of 2017 and the fact that we do however expect a possibly higher free cash flows than the net operating result of Netherlands Life. In terms of the evolution in this quarter, you are right, when you mentioned that the main driver for this apparent weaker situation is the lower private equity dividends that were very strong in the first quarter of last year, that was EUR41 million in the last quarter. And however this quarter, this is much more limited, only 7 million and these private equity dividends are volatile, so it might happen in one quarter or another.

In terms of the technical margin, I think is -- the quarter is very much according to the guidance that we have provided between 40 million and 50 million per quarter. And we have indicated in the past that there is this pressure on the fees and premium based revenues due to the runoff of the portfolio. However, I can confirm although we no longer disclose separately that the Delta Lloyd Life business has contributed positively also to the segment.

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

And Delfin, in the past, you gave guidance around the margin, is it possible to re-introduce that?

A - Delfin Rueda {BIO 7032761 <GO>}

We have seen in -- I think you're referring to the investment margin as --

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

Exactly, yeah.

A - Delfin Rueda {BIO 7032761 <GO>}

As a percentage of the assets under management. And you have seen that it has been more or less stable, so it was a bit higher in Q4. We are at approximately the same level as Q3 last year and this margin between 80 and 85 basis points varies, among other things for example on the contribution of the dividends in the particular quarter. This margin, just to remind everyone, is calculated as the last 12 months margin.

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

So it's -- 85 is a reasonable range from your point of view?

A - Delfin Rueda {BIO 7032761 <GO>}

From 80 to 85 basis points is I think is a reasonable range to estimate. Of course, we have always indicated that can be a bit volatile from one quarter to another.

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

Okay, thank you.

Operator

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

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning, Cor Kluis, ABN AMRO. I've got a few questions. First of all about the warrants that are outstanding on ING. Could you indicate, how you look to that? Is it possible that you might buy that back in the future or how will -- will you put fully diluted number of shares in it, if it -- if the share price rises to the exercised price? So could you give some comments on that one?

And secondly, on the cost cutting, had 50 million extra, that is the second upgrade basically after the acquisition. And you show on the slide five, I think on the right side how the composition of the 400 million is, but could you indicate where most of the 50 million delta is coming from an extra cost cutting point of view. And last question is about Solvency, the Solvency II radio, of course, quite good, it's also dependent on macro factors, which was the big swing factor in the quarter of course, given what's currently going on in the macro environment, can you give us some indication of how the Solvency II ratio developed in the second quarter, at least till now? Those were my questions.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Cor, thank you for your questions. So what we're going to do is, I'm going to do the cost question first and I'll ask Delfin to comment on the warrants and Jan-Hendrik to comment on the S2 ratio question that you had. So on the expenses, we've raised our guidance today, not only for the full period from 350 million to 400 million, but also de facto for the year itself, where we say that for the EUR400 million, we expect at least half to be done this year as well. We are doing that because we have a raft of programs running on this and what we're seeing is that those programs, allow us to be better in the way we can drive efficiency across the board. And as a result, it's not a particular area that we expect the additional 50 million to come. We just believe that the additional 50 million we're able to do on the back of the programs that we have planned for and that's why we've come out with additional guidance now, because we're ahead of our plan and our experience so far has given us the confidence that we're doing the right things and that we're implementing better and also faster than expected and that's the background of this.

Let me pass it onto Delfin on the warrants.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, thanks, Cor for your question. On the warrants, may be just to remind everyone, these warrants were established before the IPO by ING, gives them the right to exercise warrants for approximately 35 million shares, new shares and that represents around 10% of total capital. The warrants can be exercised upto July 2024. If they were -- their strike price is at EUR40 per share, so if they were to be exercised at any point of time, the impact that it will have is a capital increase in the equal amount of the exercise price. Obviously, if they are exercised, it's assumed that the share price will be above with some dilution effect for the existing shareholders later in the future. So, we have not done any hedge or anything to protect this dilution, which is potentially in the future and we will consider options as they come along.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Jan-Hendrik?

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

Hello, Cor. Thank you for the question. Yes, since the end of March, we've seen positive developments in equity markets and a slight increase in rates. On the other hand, we've seen a slight widening in the high-quality sovereigns that we have on the portfolio as well. So the net effect of these different movements is broadly neutral, I think.

Okay, thank you. Very clear.

Operator

The next question is from Mr. Ashik Musaddi, JP Morgan. Go ahead please, sir.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, good morning team. Ashik here. Just a couple of questions. First of all, let me ask the buyback question in another manner. So your cash at the moment is 1.6 billion and I'm hoping you will generate decent cash by the end of the year. Solvency ratio is 213%, probably quite high compared to what three, four quarters have been in the recent past. So you mentioned that you'll give clarity on buyback in the future, but whey we -- can we get some clarity on M&A? I mean, what sort of M&A would you potentially do, is there anything in the pipeline that we should think about? That's number one.

Secondly is on deleveraging, is there any need to de-lever at the moment, because if I understand correctly, you don't have any call dates in the near future. So do you think you'll be using deleveraging and you'll be doing deleveraging on an accelerated basis, just to use up cash. So these two -- this is one question. The second one is, I noticed that you have booked around say, roughly 3 billion of realized cap gains in the assets of building profit below the line. As an analyst, clearly that's the way we look at it is as one-off. We don't really care about realized cap gains, but one of your peers in the Dutch market normalizes this realized cap gains in operating profit. So how should we think about that ? Are we still looking like for like or should we be moving that to operating profit if it's always positive, I mean 3 billion is a big number over past four years, even if you normalize over 30 years, it's still like 100 million a year. So these two questions would be appreciated if you can give some color. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yeah, thanks, Ashik. I will take the first one and I will then pass onto to Delfin for the question about the gains. On the leverage position, we're comfortable with the leverage position that we have, there is indeed no maturities coming anytime soon. The first one is in 2020, another 300 million that is up for maturity. So we'll cross that bridge when we get there at that particular point in time, but we're fine with where and comfortable where we are with our leverage position.

When it comes to M&A, a couple of things. Let me repeat what I said on that also at the Capital Markets Day on November 30. We have just acquired a large company, Delta Lloyd and our focus is on integrating those businesses and extracting the synergies and we're pacing well on that at the moment. Then on the Netherlands, for instance, we have a great platform, a thriving franchise with very substantial positions. So there is no need for large-scale insurance M&A in the Netherlands. And therefore, when we look at M&A opportunities, we'll obviously judge them at their own merits and with a priority on existing businesses and existing markets where we are present. But that's what I said earlier and I'm repeating that now today. So and with respect to your buyback question, as -- I think I've already answered that question on the first when Arjan asked it as well. So we want to be disciplined and rational in our capital allocation decisions and we're pleased where we are and we will take any excess capital that we cannot put to work. We believe we have that -- we'll go back to stockholders in the most efficient form. So with that, I'll hand back to Delfin.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, on your question, Ashik so, how to think about the capital gains is, I mean we could be discussing and debating for a while. I think that for the purpose of this call, I will keep it short. We're doing best in our assets for not only the regular income like dividends and interest coupon, but in certain asset classes like private equity, in equity, there is an important element of value creation that comes through the capital gains and these are from time to time recognized below the line. So one has to assess how you want to think about it, but is obviously a part of expected investment result, is expected over time to becoming below the line. Another way of looking at it is basically from, leaving aside the IFRS perspective, looking it from a Solvency II capital generation point of view on which all investment assets are at market value and that will recognize every period of time the surplus of these returns versus the regulatory discount rate that we used to discount off our liabilities and that is, if you like a more stable and logical and comprehensive point of view, but I do recognize that we don't have the same granularity in terms of reporting under Solvency II that we have under IFRS, I hope that answers.

Q - Ashik Musaddi {BIO 15847584 <GO>}

No, that's definitely the case that the Solvency II is, I mean based on my understanding, is really more relevant than IFRS, but the only reason I'm trying to flag this is, it creates a bit of, not like for like when I compare with your peers because the peers set numbers is always including cap gains which could be big and given that you have already realized 3.5 billion, I mean, it's a huge number for the past 3.5 years, so that's what I was thinking like, how should we think about that, but I got your answer and maybe we'll touch base offline at some point on this one. Thank you.

Operator

The next question is from Mr. Johnny Vo, Goldman Sachs. Go ahead please.

Q - Johnny Vo {BIO 5509843 <GO>}

Thank you very much. Just a couple of questions. I mean, I am quite surprised that how large your losses were for windstorms. Is this a fact of that there is overlap in exposure between Delta Lloyd's book and your book? That's the first question. And the second question just relates to Delta Lloyd's solvency increase which increased substantially. I mean, can you give an impact of what was going on with the Delta Lloyd book? Obviously rates have gone up quite substantially since the start of the year and how this impacts Delta Lloyd's capital generation going forward? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yeah. Thanks Johnny, indeed the solvency ratio of Delta Lloyd was nearly 170% now, so I'll pass onto Delfin for that. But on the windstorm losses, first, but to be honest, it's in line with our market share right? We're a large player and certainly after the acquisition of Delta Lloyd, we have a very large fire book with -- and therefore, the loss that we incurred as a result of this heavy storm is really in line with our market share, and that's something -- so to me, not surprising in that sense.

Now we did give an estimate at the Q4 numbers, which was only very shortly, a couple of weeks after the storm and obviously now, we're a couple of months later and we can give you the tally now, which is 89 million and that's what we reported today. But I would say, yeah, heavy storm in line with our market share on fire insurance and therefore, to us, not a big surprise.

I'll give it to Delfin now for the S2 ratio on Delta Lloyd Life.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, thanks. Johnny, on your question on the movement for Delta Lloyd life solvency, indeed from 153% to 169% is a very positive evolution. The underlying reasons are the same as for the group. It comes from a strong operating return, the market variance as you know, the same elements that we have mentioned for the Group, the flattening of the yield curve, the reduction on the credit spreads for sovereign bonds, particularly those that we hold in a larger proportion.

Also the increase of the credit spreads for corporate bonds that is also positive for us, the flattening of the yield curve. So we actually have a very good quarter from a market perspective as most of the changes with the exception of equities has been positive to us. And even in equities, our portfolio has performed better than the indexes, the Dutch indexes on that front. In the case of Delta Lloyd, there has been a little bit higher proportion on the impact of the revaluation of the real estate that for the rest of the Dutch entities, but apart from that is the same, the same logic.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay, thank you.

Operator

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

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

Yes, good morning. Three questions if I may. The first one is on the cost savings, where you raised the target to 400 million. I wondered why you did not change the guidance for 5% to 7% growth in the operating result and for flat earnings in the Netherlands. So is that just because you expect some negatives elsewhere to -- which will offset these savings? And then on capital, just a bit more detail would be helpful on the markets variances. Can you break them down between the different components, you mentioned? Just trying to get an idea of the improvement in the economic capital position, so excluding items like flattening of the curve, et cetera. And then lastly on the asset mix, there is not that much going on in terms of re-risk during the quarter. So the mortgage book is rather static. Also another risky asset that there is not much of a shift out of sovereigns into risk assets. So can you maybe provide some color on that and also on the outlook for the re-risk? Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Yes, thank you. Matthias. So Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Okay. So let me go one by one on your three questions. The first one on the cost savings, let me remind everyone that our guidance for the growth of our operating result is a medium-term guidance between 5% and 7%, obviously (inaudible) this is medium term and therefore, you can always expect positives and negatives. As a matter of fact, this quarter we have seen some unusual amount of negatives, including the storm. So we see no reason to change this guidance which is, as I said a medium-term guidance between 5% and 7%.

In terms of the market variances, there has been -- each of them actually are relatively significant. We mentioned, I think that probably -- not probably, the largest impact is coming from the movement on credit spreads. Then it is the increase in interest rates and the flattening of the curve that also have a significant impact, the real estate revaluations that we mentioned and I think that overall, that explains the 10 percentage points increase in the Solvency II ratio in the quarter.

In terms of re-risking, I am getting a bit boring on this in the sense that we continue with our very gradual process of finding, if possible, more illiquid assets, mortgages being one of them and basically, we are little-by-little, finding these opportunities when it happens during the quarter. There has been 1 billion invested in mortgages and other asset that provides a bit higher investment yield. But again, every quarter may be higher or lower, depending on the availability of these assets and is more of a gradual process.

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

Okay and if I understood you well, there is no major SCR stream to be extracted from the re-risk -- is that correct?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Matthias. So in -- of course, we have seen also in the past that some reduction actually on our equity exposure, that has had an impact on our reduction on the SCR, but in general and particularly, the mortgages are not very unfavorable on the contract. As you know, the balance between the expected return and the regulatory capital consumption of mortgages continue making it a very attractive asset class for us.

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

Okay.

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

Yeah, maybe to add to that, I think we do see, but we look at risk and return when we do this -- move into higher yielding assets and Delfin is correct that when you sell something like equity and invest it in mortgages, then you would see a benefit of course, where you sell government bonds and invest it in mortgages, you would see a slight increase in the SCR, but you shouldn't look at one effect, you should always look at the joint effect on the portfolio and gradually what we try to do is to optimize the return for a given level of SCR.

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

Okay, thanks.

Operator

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

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

Yes, good morning, everybody. I wanted to talk about the quality of capital a little bit, because it seems that your other bucket is only down 1% and your Solvency II evolution, where the guided impact from UFR should already be five percentage points and also the interest on non-qualifying debt -- or for qualifying, that should also be one percentage point, so it seems that you have a large offsetting factor which presumably is non eligible funds becoming eligible. So I was just wondering if you could maybe specify the headroom you now have in your tiering buckets.

And the second question is on UFR drag, I can remember that in -- I think it was in Q1 16, that rates moved down and you mentioned that your UFR drag would increase by 100 million per annum. I did some numbers myself, and I think your overall UFR drag with Delta Lloyd is around 400 million at the moment. And I was just wondering if you could give some interest rate sensitivity to that number if rates were to go up, how much would your capital generation improve on the back of that? Those are my questions.

A - Delfin Rueda {BIO 7032761 <GO>}

Yeah, so thank you, Robin. Delfin will take your first question and then -- sorry and then I'm going to ask Jan-Hendrik to talk about the UFR drag and interest rate sensitivities et cetera.

Yes. Thank you, Robin. Indeed today, the segment Other covers many different things, the biggest negative impact as you rightly said is the reduction of the UFR from 4.2% to 4.05% and this has been reflected and very much the impact according to the disclosed sensitivities.

So you also pointed right to one of the element explaining the positive impact, which is the reduction of non-eligible own funds, which come as a consequence of the increase of basic own funds. But there are also many other aspects, among other, model and assumption changes, some positive impact of the legal merger in Belgium, resulting in a reduction of the SCR. So, quite a few different elements, impacting that change in the negative 1% in the segment Other, not segment, in the bucket other.

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

Okay and the headroom in your tiering buckets?

A - Delfin Rueda {BIO 7032761 <GO>}

In terms of the tiering, there is approximately 600 million for restricted Tier 1 and approximately 200 million for Tier 2. So a bit increase from the previous quarter in restricted Tier 1 and more or less at the same level or slightly down for the Tier 2.

A - Lard Friese {BIO 17008174 <GO>}

So, Jan-Hendrik?

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

Yeah, thank you Robin for the question. The first thing to say is that when the UFR change happened, of course it moved exactly in line with the sensitivity we disclosed before. So you can see from that and we also think by the way that the next 15 basis point change is also going to be roughly five percentage points. In terms of getting it back, you're right, it comes back over time, of course exactly how quickly and how much depends a lot on where rates are at that point. But we think it will come back roughly, the way to think about that is roughly seven to eight percentage points off the reduction that you see is what you get back in capital generation when you look forward.

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

And if rates go up by 50 bps, say what kind of reduction of the UFR drag would you expect or is that something you won't disclose?

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

I don't think we should get into the exact details on that, but what I would do is to look at the sensitivity we have disclosed and extrapolate a bit from that if I were you and then I would take that effect and see the 7% to 8% per annum of that own funds movement.

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

Okay, thank you very much.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. You alluded to some initial capital synergies in Q1 with Belgium. Can I just ask sort of roughly factually, the phasing of more capital synergies, that sounds like you may or may not get internal model approval, but you're hoping to get it this year. So there will be potentially an uplift then. And then, would you also then get capital synergies and in the solvency model if you can find them next year with the merger? So do we basically have another sort of two main events for the capital synergies and an uplift in the ratio? Second point is, on your private equity portfolio, can you remind us of the market value of that right now and what do you expect the return is? What do you hope to get? Those are my questions. Thank you very much.

A - Lard Friese {BIO 17008174 <GO>}

Thanks, Farooq. So on the PIM, et cetera, Jan-Hendrik please and on the private equity portfolio, Delfin. So Jan-Hendrik?

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

Hi, Farooq. Thank you for the question. While our PIM, major model change or expansion of scope is progressing according to schedule is what I can say. We are still hoping for approval by the end of the year and that is of course subject to DNB approval. With regards to capital synergies from that, the first thing is to remind you of the 350 million benefit currently in our standard formula SCR in Delta Lloyd, which we also had in our annual report, which of course we first remove when we move to the internal model. So any additional benefits first have to make good that difference, so we don't expect substantial benefits beyond that. And on the merges, I think on the PIM at group level, of course, you get already the full diversification benefit. So there could be a benefit, at sort of Netherlands Life level in terms of fungibility, but perhaps not a substantial benefit, additional benefit from the legal merger at the group level.

Q - Farooq Hanif {BIO 4780978 <GO>}

Maybe I can just quickly ask in 1Q, you mentioned the Belgium merger, but what was the impact in Other?

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

On the SCR, it was --

Q - Farooq Hanif {BIO 4780978 <GO>}

On the -- yeah, yeah.

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

So on the SCR, there's a small, I mean, you can see in their books, Other, it's also rounding to less than 0.1. So it's not substantial, these are all small benefits coming through and as Delfin said, it's a number of different things in that bucket leading to the overall benefit that you referred to.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you.

A - Lard Friese {BIO 17008174 <GO>}

Then on private equity.

Q - Farooq Hanif {BIO 4780978 <GO>}

Yeah.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, on the private equity, we have approximately EUR1 billion of private equity investments and well, what to expect in terms of return, I guess your guess is as good as mine on this. What -- yeah, I think let's leave it on this. And so it's EUR1 billion and we have seen so far, I mean, the return has been quite good. So when I look back into the last 14, 15 years of private equity, the return has been very good. But as they say, past performance is only an indication or what could be the future performance.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you very much.

Operator

The next question is from Mr. Albert Ploegh, ING Bank. Go ahead please.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes, good morning all. Yeah, two questions from my end, more on the operational side. First on Japan Life. You explained why the technical results were weak in the quarter. Should we then really see is as some kind of a really one-off or could there be some follow-on effect into the following quarters as well, especially on the lower surrender results. And also in Japan, of course, the cost base corrected for FX was up quite a lot. Is there also a one off element in there or is this basically a new kind of cost base going forward as well?

And secondly, a question operationally, on the non-life operations in Holland, on the disability business, if I recall I think you were guiding more towards let's say normalized combined ratio there of 90% to 95%, you were at the high end, we all know that reasons with high claim trends, that are still unfavorable. Yeah, how is this progressing and how are you dealing with the book? I mean, should we basically expect the high end of that range to continue for the -- at least the coming quarters or is there anything more you can share on that, that will be helpful.

A - Lard Friese {BIO 17008174 <GO>}

Yeah, so thank you, Albert. So first on the D&A, I will take that question and then I will hand over to Delfin for the Japan discussion. Well, first I'd like to mention that the disability and accident business is reporting a 95% combined ratio this quarter, which we believe is a very decent ratio for that business. Indeed, over the last half-year, we've seen some negative claim developments in the individual business. We've seen some group income people had on average staying sick longer than expected. Obviously, we're monitoring these things with -- very closely and we're taking continuous action to ensure that we maintain a good profitability level also moving forward, but I would say the 95% is a decent combined ratio for this business.

With that, I would like to hand over to you, Delfin for the Japan discussion.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, thank you, Albert for your questions. On Japan Life, more than the quarter in terms of technical margin being very low, I think is more than the first quarter of last year it was extremely positive, extremely high. We highlighted that at that point of time, as we do expect basically to see a marginal positive, the technical margin on the quarter is coming from Japan Life. As you can see under IFRS, we basically show the profits coming mainly from the fees and premium based revenues, with the technical margin being -- and investment margin being a very low contribution.

In terms of the cost, what we have seen is investments in order to facilitate our commercial effort, also the joint venture with Sumitomo. That has come very nicely in terms of increase of sales and in increased value of new business and also some investments to take care of additional regulatory requirements. But overall, investments in order to support as you know, the business and the increased value in-force.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay.

Operator

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

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning, everybody. A couple of quick questions, I hope. With your cost savings being increased, has your restructuring charges increased as well. I know you gave guidance of about 1.5 times the actual cost savings. But if they are on the same program and the programs just appear more efficient, are the restructuring charges at the same level or have they actually increased? And second question, on the non-life performance, you gave an underlying combined ratio of 98.6%. How many quarters do you think there will be before you get to the sort of 97% target? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yeah, thanks, Steven. Let me take the non-life question and then I'm going to ask Delfin to comment on the restructuring charges. So first of all, non-life. Indeed, so if you take out the impact of the storm, here at 98.6% this quarter for the total non-life business, now we have launched a program and explained that program on the Capital Markets Day on how we wish to structurally improve the profitability of this segment and to get to the 97% or below combined ratio over time and we've taken a range -- we're taking a range of measures, right? It's cost reductions, it's claims management efficiencies, it's recalling non-profitable products, it is price increases, it is assessing risk and making sure that we re-price risk et cetera.

So we're doing those in a very granular way and we said that the entire program will take time. It will take, we said 12 to 24 months before that, all these effects emerge and before these effects are coming through. Now the good news is, we're seeing already in some pockets, we're seeing these effects already giving encouraging evidence for instance, one example, on the NN fire book, we've installed the task force to go through the fire business, risk by risk and what we're seeing now for five quarters in a row is a positive contribution in that -- as a result of these measures. So yes, there can be some volatility, obviously and large fires can always be there, but we see that already improving quite a bit and we were and are now doing exactly the same practice on the Delta Lloyd fire book. So these are all kinds of the things that we're doing to improve it over time.

And with that, I'd like to hand over to Delfin for the restructuring discussion.

A - Delfin Rueda {BIO 7032761 <GO>}

Hi Steven. So as the cost savings increase, yes, you're right, there are some additional restructuring charges that will be included. So far, the guidance that we have provided for restructuring expenses being around 1.5 times the savings, I think it's a good guidance. Up to this point of time, actually we are a bit below. So we are at 1.3 times. However, this is also related to the nature of some of the savings that we have incurred that did not require investments themselves and maybe it's a good opportunity to remind everyone that both the evolution of the expenses quarter per quarter, as well as when do we incur in these special items restructuring expenses, there will be some volatility from one quarter to another. So it's not going to be linear.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, thanks very much.

Operator

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

Q - Bart Jooris {BIO 3470300 <GO>}

Yes, hi. Most of my questions have been answered, so some follow-ups here. You report next to the storm damage, some large fire claims also in Netherlands Non-life. Is that keeping -- is that then something we've seen already in then previous quarters on the Delta Lloyd portfolio? Could you give us some more information on that? And then again coming in at the savings, the raising of the estimate of the savings, you said 200 million for this year. Could you give us an idea of the evolution you expect for 2019 and 2020 on timing? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yeah, thanks Bart. So I will take both questions. So first on the savings, as we said, we are ahead. We're very happy to report today that we have already reached the initial guidance that we gave of having half of the 350 million done by the end of this year, which is 175 million and we're there already this quarter, so that's encouraging. And as a result of that, we have given new guidance that we're guiding to 400 million, a raise from 350 million to 400 million, of which at least half will be done this year as of the timing and yeah, the remainder therefore will come through in 2019 and 2020. Then?

Q - Bart Jooris {BIO 3470300 <GO>}

Is that back-end loaded completely?

A - Lard Friese {BIO 17008174 <GO>}

Well, we -- it's not linear obviously, this will -- over quarters, well, it's not a straight line, right? So it's over the quarters, you will see some, some changes quarter-by-quarter, but the direction of travel is pretty clear. At least half of that number done by the end of this year, the 400 million and the remaining in the next two years.

Then on the fire claims, yeah, we reported some large fire claims. Just also pertaining to the previous answer that I gave, this is in the Delta Lloyd fire book. So we've seen in the NN fire book in the past also large fire claims and by the way, that's the nature, right. You will always have some large fire claims coming through now and then as part of it, but the more structural direction of travel is obviously that we aim to improve the overall profitability also of that segment. And if you exclude the storm over the last five quarters, the NN portfolio has delivered a positive contribution and we're applying the same measures that we took on the NN portfolio also to Delta Lloyd portfolio. That is the color that I can give on that.

Q - Bart Jooris {BIO 3470300 <GO>}

Okay, thank you.

Operator

The next question is from Mr. Jason Kalamboussis, KBC. Go ahead please.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, hi there. Three quick questions for me. The one is on the natcats that you had. Would you consider to change your reinsurance arrangements and if so, in which direction? The second question was around the cost. You said that the new cost efficiency that you announced are a bit everywhere. But if I was just to look I think at your percentages, there is -- the majority seems to be in Belgium, and a little bit in Non-life, if you could confirm that, that would be great. And the third thing is, if I look at the combined ratio, so just the P&C one, it was 112.4, if we exclude natcats it seems that is around 100.6%. When do you think that you're going to sustainably move below the 100 mark?Should we expect that in Q2 or further out in the year?

A - Lard Friese {BIO 17008174 <GO>}

Yeah. Thanks, Jason. So let me talk about the last question on the combined ratio and then I would like Jan-Hendrik to discuss the reinsurance arrangements and I'd like Delfin to give -- to discuss the pie chart composition of the expenses et cetera. So first on the combined ratio, I think I've said it in an earlier -- I answered an earlier question as well, that we believe we need 12 -- at the Capital Markets Day on November 30, we said that we need 12 to 24 months for a range of measures to come through, to get to the -- to contribute to the 97% or lower combined ratio. And again on the D&A business, we are at 95% at this point. So on the natcats?

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

Yeah, thank you, Lard. Hello Jason. Thank you for your question. We look at reinsurance very much to optimize risk and returns. You have to look at the cost and the benefit. Of course, we change our program every year based on market pricing and also our own claims in natcats claims and things. At the moment, we have a combination of three different types of reinsurance in place. The first one is natcat per event cover. We also have some per risk reinsurance and then we have an aggregate policy in place. The nice thing about the aggregate cover for this year is that, if we were to have another storm of the same magnitude, the impact would be a lot lower. So yeah, we are actively managing that and we will certainly have a look at the pricing in the market next year and our own risk appetite.

A - Lard Friese {BIO 17008174 <GO>}

So Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Jason, on the cost savings, we announced at the capital markets, the cost savings, and this is a three years program and also is based on the evolution of the absolute amount of operating results. So that means that apart from the cost savings that we have to compensate any inflation, any investments that we want to, you know or we are required to do in order to keep growing. I'm saying that in order to say that it is not possible to do a perfect as you know estimate of how these administrative expenses are going to evolve over time up to the end of 2020.

But in general, as you see in slide five of the presentation, what has been the saving so far with substantial savings already been done at NN Life and Non-life, but also the level of corporate holding. And going forward with new savings, most -- all of the units will benefit. The one with a lower extent is the corporate holding and that also relates to some re-allocation of the expenses, transfer of expenses charges from head office to the unit, that was performed this quarter. But in general, we can see, if you like, some more modest upgrade on the savings for Netherlands Life and Belgium and the more substantial ones for non-life and asset management.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you very much. If I may have just a follow-up, are you -- on the reinsurance side, are you basically happy with the outcome on how your reinsurance program worked on these storms?

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

With the reinsurance program worked according to plan, yeah, so there were no surprises there. Of course, are you asking whether we are happy that we had such a big 89 million impact from the storm? Of course, we would have preferred not to have the storm, but part of insurance is that it is a long-term game, so you really have to look at the results over a much longer period of time to see whether it will in the end be profitable.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Okay, fair enough. Thank you very much.

Operator

The next question is from Mr. Benoit Petrarque, Kepler Cheuvreux Go ahead please.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, good morning guys. Two questions on my side. First one will be on the impact of the cost reduction on the own funds capital generation. It has been pretty limited so far, so you have been -- reported figures around the 300 million every quarter. What can -- do you expect actually cost cutting to flow a little bit more in the capital generation on the own fund side going forward? I'm asking because I see still on the asset management and banking unit for example, still relatively limited amount of cost synergies being I guess -- well, implemented also on non-life you're still -- be cost cutting in the pipeline. So can we expect a bit more cost reduction basically flowing into the operating capital generation? That will be the first question.

And then may be just on if you could come back on the share buyback, assuming no M&As, what will be the main figure for the decision? What will be the main thing you are looking at in terms of taking the decision? Will that be holding cash, moving towards a certain level Solvency II ratio, PIM approval on the Delta Lloyd models or just markets. Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Benoit. So let me take the second question first, and then I'm asking Delfin to give some color on the first question. As you know, we have -- we take a holistic view when it comes to our capital. We look at very many components and dashboards that we have to assess the capital evolution and to arrive to a view whether the capital that we have is beyond our ambition and if it's beyond our ambition and we cannot deploy it in a value accretive way, then it will go back to stockholders and we will take that decision at the time that we deem that appropriate. And most importantly, you always need to be disciplined or rational in the way you think about these things. So that's what we aim to do. With that Delfin, the question on the costs.

A - Delfin Rueda {BIO 7032761 <GO>}

Thanks, Benoit. Yes -- the -- particularly the units that you have mentioned, asset management, banking for the majority of the business of Non life, the benefits in terms of capital generation comes at the time of realizing the cost savings themselves, so what has already been saved has improved their capital generation. The operating capital generation from these units and in the future, as there is further progress, the cost savings and the additional profits coming from these entities will contribute to the capital generation. It becomes more complex when we look at how the cost savings and the restructuring expenses affect the life business, the long tail business, as at any point of time, we need to do our reassessment of the future expenses including restructuring expenses, so on the one hand restructuring expenses impact negatively when you incur them, but also when you anticipate them that is going to be incurred and on that sense, I would be expecting only a modest impact on the capitalization of these expenses -- expense savings going forward.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yeah. Great, thank you very much.

Operator

(Operator Instructions) And the next question is from Mr. Arjan van Veen, UBS. Go ahead please.

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

Steven asked the question I had on Non-life. So no more questions from me. Thanks.

Operator

And the next question is from Mr. Ashik Musaddi, JP Morgan. Go ahead please.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you. Just one simple question I have, actually two. So if I look at the Dutch market basically, most of the insurance, I mean if I look at Vivat, and if I look at ASR, Aegon as well as you guys, everyone is trying to do asset re-risking and everyone has big plans. I mean, I think we are talking and like someone is talking about 5 billion asset re-risking, someone is talking about 3 billion, 2 billion and clearly, you have some plans as well. So how should I think about the appetite that is -- or the availability in the market of these illiquid assets? So it would be good if you can get some color, because based on my understanding, everyone is trying to go towards mortgage market, but obviously mortgage would have a finite market, it would not be like easy to do 15 billion in a year. So how should we think about that, how much time will it take if market wants to do that 15 billion, 20 billion over say, next how many years will it take? So that would be the first question I have.

The second one is, I remember that Delta Lloyd used to have some interest rate exposure because they used to hedge the Solvency II ratio rather than hedging cash flows. Is that position is still open, i.e. if interest rate actually go up, will there be economic benefits on Delta Lloyd cash flows or is it you have closed that position? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yeah, thanks Ashik. So Jan-Hendrik, over to you.

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

Yeah, thank you, Ashik for these questions. On the first one, it's a good observation, obviously I can't comment on what other companies are doing. But if I look at what we see in the market, there is certainly more demand for high yielding illiquid assets than there is supply, which is also why we are doing this in a very rational and disciplined way, and not putting a timeline or forcing ourselves to stick to a timeline because we don't want just put money where you're somehow chasing yield and then not getting it at the right price. We are of course looking broader than mortgages and we still have some residual appetite for mortgages and you should also remember that we generate a lot of the mortgage book ourselves, so that flow will continue and that is something we continue to rely on. When we look beyond mortgages, of course, we look at emerging market debt, we look at property, some development property, we have quite a variety of other illiquid assets that we consider, but all of these things take time, and the most important thing for us is that we invest in a rational and disciplined way after considering the risk.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, but how should I think about the supply in the market, is there -- I mean, is there any particular number like for example, annual mortgage supply, actually 5 billion, clearly, we don't have any clue about EM debt and all those could be erratic, but at least, we should have a bit of clarity about how much annual supply of mortgages is there, in assuming the status quo, which is banks are still away from that and insurance is taking most of it, so.

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

Yeah. Again on the annual figure for the supply of mortgages, it depends a lot on the property market, right and how that flows into Netherlands and that will vary quarter to quarter. I think some new statistics came out last week, which will show you the aggregate supply of mortgages again.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Last week, it came out.

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

Or this week, I'm not sure. I saw --

Q - Ashik Musaddi {BIO 15847584 <GO>}

Oh, okay, sure. Thank you.

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

This week, this week.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, thanks. Have a --

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

On the second question, may be to cover the Delta Lloyd interest rate exposure, we have been gradually moving away from pure hedge of the ratio, that is out of line with what we normally do. We have said in the past that we aim to match asset and liability cash flows, where markets are deep and liquid and where it makes sense to do that. So we continue to look at the duration and convexity, we don't force ourselves to mechanically match every cash flow because we think it doesn't make sense, given the liquidity that we -- or the lack of liquidity, frankly, at the long end that we see, but we are also not pursuing a pure solvency II sort of hedge, if I put it like that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, but somewhere, it's in the middle. So if rates will actually go up, it will still be a bit economical benefit as well rather than just a number related benefit.

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

Yes and you can see from our sensitivities then, if rates go up, that we will benefit also in our Solvency II ratio, that we have disclosed, yeah.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. That's very clear, thank you.

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

Thank you.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Thanks and sorry for prolonging this call so much, but I was just wondering why you're not worried about the massive shrinkage in pension volumes and the renewals in Q1? Is it because it's temporary, is it because you actually don't want that business, just wondering what's going on. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

That's very simple, Farooq. This is Lard. The -- we're not worried at all because here's the situation. This every -- we have a large book of existing pension contracts, a lot of clients, by the way, that are with us for a very long time already. So the -- basically the vintage if you will, so these books have -- these contracts have durations, right, so it -- on average five years, but some contracts are three years, some contracts are seven years and therefore, they come up for renewal. And in one year, you may have more existing contracts that you already have in your books that are up for renewal that particular year and then as you have been able to renew them, because they can also go to another provider, but as you have been able to renew them, then you report it, like -- well, like the market practices in your APE numbers.

Now, it happens to be that, by the way, most of these renewables are taking place as of the first of the calendar year, so that's why you see it mainly in the first quarter. Now this particular year 2018 is a year in which, the nature of the existing stock of group pension contracts, there are just less pension contracts this vintage up for renewal than there were last year for instance. So nothing to do with our appetite to want to have pension clients or stuff like that. To the contrary, if you look at our market share in the pension market over the last period has actually increased.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. That's clear. Thank you very much.

Operator

Next question is from Mr. Darius Satkauskas, KBW. Go ahead. please.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, it's actually William at KBW. My main question is for the conference call is about why I can't ask a question using my phone, but that's probably a technical problem. Trying to be quick, sorry to dragging the call out. Delfin, right at the beginning, you confirmed, I think that Delta Lloyd had a positive impact on the Dutch Life result. Can you just confirm that, that is before allowing for any expense savings that were attributable to the transaction? Would you require the expense savings for that statement to be true?

Secondly, the Non-life business has the large losses this year interfered with the short-term outlook for paying dividends to the center or are you still able to maintain the normal 100 million or so, just based on balance sheet strength. And then lastly, your free cash flow was visibly lower than net operating profits this quarter, particularly if we allow for the net operating profits were distressed. Again, I know that there's quarterly volatility and we shouldn't just judge one quarter. But is this sort of fair to assume that to the extent that there still seems to be quite a structural gap relative to your statements, that, that gap is going to be filled by upstreaming the excess capital out of Dutch Life and therefore presumably it's contingent on your Solvency at legal mergers, that will be occurring next year. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes, so William, happy to hear that the technical issues are over for your phone, so you can ask your questions. So I'm more than happy to take them. So I'm going to handover to Delfin, but please note for the free cash flow statement, that's -- we always said it's the free cash flow, our guidance has always been that our free cash flow generation is over time, in a range around the net operating result of the ongoing business. But anyway, so, Delfin, over to you.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, thank you, William. On your first question, the answer is yes. I can confirm that it was a positive contribution before and after the expense savings that applied to Delta Lloyd life in the quarter. On your last question on the free cash flow building, what Lard has already said, we have to see also the seasonality of some of the dividends that we pay out over the year and again, emphasizing that this free cash flow statement is around our mid-term target and indeed, we can still confirm that it is valid. So one cannot look at one single quarter in isolation.

There was a question on --

A - Lard Friese {BIO 17008174 <GO>}

How did the storm interfere?

A - Delfin Rueda {BIO 7032761 <GO>}

Well, obviously the quarter has had a very negative impact on the results of the Non-life business and as a consequence on their, the surplus capital as well. We have the fortune of accounting with very different business units, very well diversified from one area to another and sometimes we have more dividends coming from one unit then therefore another. So it's fair to say that dividend capacity from the Non-life business has reduced after an 89 million impact of the storm. You're right on that.

Q - William Hawkins {BIO 1822411 <GO>}

That's lovely. Great to get through. Thanks guys.

Operator

There are no further questions. Mr. Friese, back to you please.

A - Lard Friese {BIO 17008174 <GO>}

Yeah, then I would like to -- thank you, operator. Well, thank you all for being on the call this morning and thank you all for your time and for your questions. Before we end the call, let me conclude by saying that I'm pleased with the progress that we are making to integrate Delta Lloyd into NN Group. The cost savings already realized are well ahead of our envisaged schedule, and we have announced today that we are raising our cost reduction guidance to EUR400 million by 2020. Our businesses continue to focus on driving performance and improving efficiency in order to achieve their medium term targets. There's still a lot of work to do, but we are committed to delivering on our strategic priorities and create long-term value for all our stakeholders. I wish you all a pleasant day.

Operator

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