Y 2015 Earnings Call

Company Participants

- Chris Figee, Chief Financial Officer
- Jack Julicher, CIO Financial Markets

Other Participants

- Albert Ploegh, Analyst
- Cor Kluis, Analyst
- Jan Willem Knoll, Analyst
- Marcus Rivaldi, Analyst
- Matthias De Wit, Analyst
- Steven Haywood, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, welcome to the ASR Annual Results 2015 call. At this time, all participants are in a listen-only mode. Today's call will be hosted by Mr. Chris Figee, CFO and Mr. Jack Julicher, CIO. The call will start with presentations by the two hosts, followed by Q&A session.

At this time, I would now like to hand the call over to Mr. Chris Figee, CFO. Go ahead please, sir.

Chris Figee {BIO 18815839 <GO>}

Good afternoon, ladies and gentlemen, welcome to the ASR Annual Results Presentation. I am here joined by Jack Julicher. As is customary, Jack who heads up our Financial Markets and Asset Management business, and myself, CFO, will guide you through the results of ASR over 2015.

Before we start, I'd like to make two points of order. As you may be aware, the Ministry of Finance, our shareholder, has made a decision on the privatization process of ASR, which has been endorsed by Parliament. That process is ongoing, and we have agreed not to at this point comment on that very process. There will be a time and a place for that, but today is not the time or the place. So, we cannot and will not give any comments on that very process.

And secondly, you understand, in the light of that process, we cannot and will not give any forward-looking statements.

So again there, we'll be very strict in our answers in the Q&A, and we hope and trust you understand that. So my final forward-looking statement for the day is that I will make no forward-looking statements in this call.

Having said that, I'd like to start with the presentation and walk you through the numbers.

My lawyer suggests me to read to you Page Number 2, but I leave that to you to do it in your own time. Let's move to Page Number 3 where you find the key messages on the ASR results. The operating result of the group increased to 521 million from last year, up about 25% from last year. The operating ROE of the group was 13.9%. Net result increased to a little over 600 million, up from 423 last year.

The difference between the two, you may or may not recall is, first of all, capital gains and fair value changes, and secondly, incidentals and one-offs that do not relate to the insurance business and the fact that the IFRS results exceeds the operating results is a reflection of significant capital gains and fair value changes we realized and we achieved during the year. But, both measures are up significantly to very healthy sort of levels.

The group's solvency estimated at 185 post-dividends, I will talk a lot more about it in the course of presentation. We apply a certainty or uncertainty bandwidth around 10 percentage points, plus or minus around that; we will elaborate much more than in the presentation.

Solvency after dividends was 185. For comparison purposes, it was 190 before dividends. End of year, 190 before dividends, 185 after dividends. And Solvency I, we will miss a little from Solvency I, but we go out on a bang with Solvency I level of 305%.

Premiums, roughly stable. And, non-life stable at 2.4 million [ph], and life segment stable at 1.8 billion where this year the significant pension buy-out we closed last year as part of last year's new production was reflected in the gross written premiums of the life business this year.

Operating expenses up to 575 million, primarily because we acquired new cost bases, the bulk of the increase in cost was due to acquisitions, which is acquiring new businesses that will (inaudible) existing cost base. The remainder of the cost increase can be explained by one-off projects mostly from strategic or regulatory measures.

Finally, what makes me most proud is start up in the pace of our balance sheet and portfolio optimization. We made a series of acquisitions during the year and we optimized our balance sheet. If you actually look from a distance our numbers, I'm proud of what I call the triangle between high ROE and operating ROE about 14%, Solvency II of 185 and double leverage back to 102.

So to me it's a combination of high ROE and high solvency and low double leverage that make ASR standout, that makes me, as a CFO, very proud and very pleased with the results that we actually achieved in the last year.

Now let's turn to Page 4 when we go into the operating result development. Here you can see the difference between the IFRS profit and the operating results in 2014 to 2015. Now again let me stress, our operating result is a very clean and neat result. It is actually the result in the insurance business, excellent capital gains. It is not a profit before trouble, it is not a profit before misery. Now all the insurance effects are in there, but we take out incidentals that do not relate to our core business and we take out fair value changes and capital gains because we believe this number is the best reflection of the underlying delivery we achieved in 2015.

As you can see in this chart, our 2015 before-tax IFRS profit of 780, we take out 371 of capital gains and fair value changes. The bulk of it compared to last year is actually a large capital gain realized in H1. We rebalanced the equity portfolio. If you may recall, the value of the portfolio drifted upwards. We put back in line with our strategic investment policy and doing that, we may raise the capital gain. So the bulk of the increase versus last year is a capital gain on the equities portfolio.

Then, we take our incidentals. Last year, it was a write-off of the VOBA which is found not be core for the Insurance Business. This year, the biggest incidental actually is a 91 million depreciation to our provision for our real estate development business. On top of that, there are social plan [ph] costs and spends on M&A and also to the projects. A remainder 521 really is in the earnings that are core for the Insurance Group. So you can see operating results up 104 million versus last year.

The key figures summarized again on page five. You can see the operating results and the operating ROE and that results in a net ROE. The operating result of 521 translates into an operating ROE of 13.9. And here, we applied a simple statutory tax rate of 25%. The detailed calculations are found in the appendix. So, operating ROE of 13.9 ex-capital gains and net income ROE of 17.2 including capital gains. Two numbers that we are quite proud of, represent a very strong delivery in 2015.

Dividends at 170 million, up 22% in last year agreed upon with our shareholder, taking into account, taking into our mind the operating result level and operating result improvements. And finally, the Solvency II; according to the standard model, which I will elaborate more on late in this -- in the discussion. Solvency II 185 midpoint estimate and for certainty purposes, it's more modeling-related bandwidth of plus or minus 10%. ASR is known for its strategy to contain costs on a regular.

Page six shows you the continued containment of the underlying cost base. On the left hand side, you can see the gradual decline in our cost base from 614 in 2011 to 519 today or 575 including one-offs. The bulk of the cost increase was effect of the acquired new businesses. We made a number of acquisitions and we added FTEs and cost base to the group. If you strip for that, what remains is a small increase that can fully be explained by incidentals and one-offs, M&A projects, strategic projects and some additional spending on regulatory developments. We have got the underlying cost (inaudible) ongoing, which is best reflected if you look at the FTEs. The FTEs that would keep on being reduced, productivity keeps on increasing. Even this year, if you split out acquisitions, the amount of people dropped by 200 people -- 200 FTEs in a group, whilst overall profit and premium levels stayed the same, a signal of continuous gradual improvement in productivity.

Now, I will dive into and go into the returns by the different business lines. Before that we felt it was good to give you on page seven, the overview how does the results stack up between the various business lines both on an operating basis or on a net basis. And on this chart you can see out of 521 in 2015, breaks down into a non-life profit; life profit; small segments and holding and other eliminations. Here you can see the difference between operating result and net result because the left hand chart does not contain real estate development, we consider that non-operating, whereas the right hand chart does contains the real estate development.

And secondly, you can see on the life side, the difference between operating result and the net result, which is the capital gain that we basically realized in the Life business segment. But again you can see how do the combines together stack up and how the total profit of 521 or 601 being buildup.

Let me talk you through the businesses. First going to non-life; the absolute profit in non-life this year amount to 169 million. We are very proud of that number. It's a significant positive and large number. We are a significant and profitable non-life operator with a stable and predictable and high operating profits in non-life. Previous roughly stable reflecting an increase in health, small decline in disability and increase in P&C. And disability last year in 2014, we understood that our market share increased by the declining market that our market share increased. In 2015, we cannot say, yes at this point in time because our market's figure is not available but we are pretty comfortable with the numbers that we produced.

In P&C, our total volume went up. Our premium levels went up, whilst writing a 98% combined ratio in the combination of a small increase in premiums, whilst maintaining a 98 combined to us is very satisfactory. The Group combined ratio was stable at 95%, which you can see on this page. If you zoom in on disability, our combined ratio improved to 89%. As a matter of fact, our disability business excluding the (inaudible) effect, we've had a combined ratio below 100 since 2010. If you look at individual quarters about 8 or 12 quarters, our combined ratio has been safely below the numbers that you're seeing here. So it's a continuously profitable business.

Our P&C combined ratio was up from 95 to 98. Two reasons; One is we're actually priced around 98, there is a long term combined ratio that we price our products -- will have price our products more.

Secondly, in 2015 there were a number of storms, especially the storm at the end of August was quite -- the hail storm of course cause some damages. Effectively the five storms together in last year represent about one in five event -- one in five year event. We had number of fires. We had a number of small reserve releases, if you add that all up, the whole complex of storms, large fires and reverse releases pushed up our claims ratio by 0.5% if I analyze [ph] last year's figures and take into account the exceptional storms, the exceptional fires plus the benefit from a new reserve methodology together my combined was pushed up by almost 0.5%.

If you look back at the P&C business, in the last 9 out of 11 quarters, the claims ratio was below 65%. So to us we run a very healthy P&C business with continued lower claims ratios, the occasional spike from storms or large fires, but sustainably below 100. So we're very pleased with the achievement what we realized last year. In health, the combined ratio of 95.5, predominantly due to some positive results on the health equalization system.

In summary, in a non-life business, an absolute profit 169, up from 155 saw a very solid absolute number. Secondly, we're able to run the P&C business at a combined of 98 and still grow volumes and we're able to keep, we have been able to keep our market share in disability historically stable to up with combined of sustainably low last year's below 89, below 90%. So very satisfactory and strong performance in the non-life space.

If you move into our life business, you can see the operating result in life up from 349 to 434. The increase mainly explained by two factors; one, last year in 2014, we (inaudible) to a provision to compensate customers for surrender of value to lower payouts in the past that compensation of provision did not recur. So there was a one-off negative in 2014 that not reoccur in 2015.

And secondly, you may note, we run an accounting system called Shadow accounting, where the life results -- were the results of fixed income securities are tied to the life liabilities actually are reflected in our balance sheet and only capital gains out of those added to the investment margin. Last year, we realized some capital gains in the life business in this match [ph] book in our accounting methodology even amortized over the life time of securities that also led to increase in the life results.

So our matching portfolio added sustainability to the 2015 results. That increase explains the operating result increase.

We have been relatively restrained in writing new business. You can see new production down from 140 to 92, that is to a large extent deliberate because we feel in the current interest rate environment there is no point in changing large amount of volumes, so we're holding back on new business volumes.

Last year, we had an APE, a large pension buyout. This year, there was one similar type of contract that is in the numbers, but of a much smaller magnitude last year.

Premiums up, that is because the buyout of last year was in the premiums of this year. And finally, operating costs are up, but that's mainly because we acquired businesses, we acquired cost basis land in the life business, we acquired AXENT, we acquired De

Eendragt. Those businesses are accounted for in the life segment, and so that explains the bulk of the cost increase.

But in summary, life result up significantly, partially because of a non-recurrence of a negative last year, partially because of capital gains reserve amortized over the lifetime of the book related to the matching portfolio. And secondly, very much pricing-oriented, value-oriented pricing holds us back on new business that is delivered.

Let me talk about the strategic acquisitions. We made a number of acquisitions, and I'm turning to Page 10 at this point in time. We made a number of acquisitions last year, and it's important to show, to talk to how they actually hold together, have a consistency between those acquisitions.

In the top left of Page 10, you can see De Eendragt, AXENT, and Nivo. The De Eendragt is a pension operation, AUM of 1.8 billion. AXENT is a funeral business, AUM of 1.7 billion. And Nivo is a funeral business that we acquired using buy-out technology [ph]. Together, this represents a significant increase in scale and volume of the life and pensions field, but with a balanced mortality and longevity book.

As a matter of fact, the mortality-oriented assets from AXENT and Nivo exceed the longevity-oriented assets. So we do out scale for the business, but we do it in a very balanced and measured way.

On the bottom page, you can see a BNG [ph] asset management. We acquired the asset management function as a bulk (inaudible). We believe the pension market has actually developed in the last year towards more asset management markets and we see it's good to position ourselves in that field and to add a professional asset management, a third-party asset management firm to our group to build the existing asset management skills.

And there you can see a little arrow; the asset management skills that we have will help or have helped us to support declines on De Eendragt. Secondly, we acquire two distribution businesses, Van Kampen and Dutch ID, also called Boval, those are service providers, that serve as different intermediaries in the country, Van Kampen in the P&C space and Boval in disability space. Those add to our distribution skills. They do two things; they add basic fees; it's a fee-based business, so they have made money in their own right. Secondly, they helped us put our ear to the ground and be much closer to the actual field, intermediary field in disability and P&C. Our ears to the ground, and we hear every tremble through those acquisitions. So together, you can see the consistency between the various acquisitions.

Well, on the right hand side, we do discontinue operations; we sold SOS International. We are not the best owner of emergency center -- emergency call center. That sale was announced relatively recently and the sale of real estate development that we announced is ongoing. That process is ongoing at this point in time. So you can see how we strengthened scale and volume in non-life and life. It is a very measured fashion and we add distribution skills to our non-life areas, so we can actually run our factory, but add volumes there. And finally, we strengthened our asset management business through the acquisition of BNG.

Let us turn to the non-insurance activities and I would ask you to read page 11 and 12 more and simultaneously. I hope and trust you can. We have a number of segments -- sub-segments. In this field, we opened up four more segments other into categories; one, Banking and Asset Management, Segment Distribution, Holding Other and Segment Real Estate Development. Banking and Asset Management is a crucial group. The operating results increased from 7 million to 12 million in the year. On the bank, by the way, it runs about 2% of our capital base; has a core Tier 1 ratio of about 20%; savings, solid savings bank; savings deposits increased by 14% to 1.1 billion.

The group originated about 1.4 billion in mortgages and the total mortgage portfolio is now at 6.5 billion in size. If you look at the newly added mortgages, about 60% was LAC and of the remainder, 20% is loan-to-value of less than 85%. So we continue to write very conservative and prudent level of mortgages.

In Distribution Services, we added some Van Kampen and Boval. The effect of this acquisition was small because they came in during the year, Boval as late as November, and we reclassified the SOS International as discontinued, which is posted clearly on page number 12.

In the holding, the operating result improved from negative 102 to negative 93. These are the holding costs, pension expenses and number of other costs. What's particularly important, some small increase in operational expenses may be due to specific projects around regulatory issues, M&A and also around Solvency II implementation. But to compensate, we had a lower cost from our pension business -- from our pension expenses in the book.

Finally, in real estate development, we broke down the real estate business into a run-off business and a discontinued business. We have a business in run-off where we have ongoing commitments to build (inaudible) prudently which we will and certainly will live up to, but we provided for those host [ph] of businesses to make sure we're as conservative and as prudent as we can. Total provisions about 173 million are now cumulative on a NPV basis.

So with that, we have provided for the business really significantly. And, the remainder is up for sale and the sales process is ongoing, and we've further marked down the values of those assets to realizable sale value. And the right-hand column of Page 12 gives the total [ph].

So in summary, we broke up -- we opened up non-insurance business into a number of segments. Two are core and are continued. There you see an increase in operating results, a gradual decrease in holding costs, and a careful and very prudent revision on the real estate development side, both for the run-off piece and for the discontinued piece.

With that, I'm closing off the presentation on the business [ph]developments, we talked about life, non-life, and non-insurance. And I'd like to hand over to Jack to talk about the investment portfolio.

Jack Julicher {BIO 5943222 <GO>}

Thank you, Chris. Let me turn to Slide Number 13 and we see an overview of the investment portfolio. Last year's economic environment was characterized by upcoming [ph]optimism around economic recovery, extremely low interest rates, and uncertainty about growth in China.

Despite the increase of interest rates after historic lows at the end of the first quarter, the investment portfolio showed a satisfactory and solid performance with all asset categories outperforming the benchmarks.

The composition of the portfolio remained unchanged and investment results delivered a stable contribution to the performance and strong capital position of the group.

Total investment income amounted to 1.25 billion [ph], of which about 350 million can be attributed to indirect investment income. And the direct or running yield including releases of these provisioned shadow accounting was 3.2%, which is well above the average level of the guarantees on the life products.

The strategic asset allocation is based on partial internal ECAP model, which is more granulated than standard model and is fully compliant with Solvency II requirements. In terms of investment portfolio increased, as a consequence of the acquisition of funeral insurer AXENT and pension insurer, De Eendragt. The reasons for the satisfactory performance are as follows. In the first place, in the second quarter equities were sold and capital gains were realized. Secondly, the movement from liquid assets, less liquid assets like residential mortgages have been continued. And thirdly, additional investments were made in corporate bonds and lower Tier II bonds.

And in the fourth place, we took advantage of the weakening of the euro against dollar by taking a tax composition in dollar denominated credits. So to summarize, the asset base remained resilient and robust showed a good performance and contributed to the strong capital position of ASR.

Let me turn to the next slide, slide number 14 with an overview of the fixed income portfolio. The value of the fixed income portfolio went up by 2%, an increase of 2.5 billion of the fixed income portfolio related to the acquisition of AXENT and De Eendragt was for the most part compensated by a drop in value of the derivatives portfolio and the overvalue impact of the net increase of interest rates.

The high quality of the portfolio is reflected in the rating distribution as was presented on the previous sheet. 70% of the fixed -- of the bond portfolio is invested in Dutch and German government bonds and only 5% is below investment grade are not rated [ph]. And the share of AAA increased due to the upgrade of the Netherlands from the AA to

AAA stage. And the exposure to new peripheral countries have been reduced in the second quarter due to the uncertainty around price [ph].

Last year, the volatility adjustment has been introduced under Solvency II. As you know, the volatility adjustment is an additional stress that is added to the Solvency II discount rate and is derived from a reference portfolio of an average insurance company. Compared to the volatility adjustment reference portfolio, our fixed income portfolio is over rated AAA sovereign, over rated financial corporate and over weighted EU peripheral government bonds and financials. Given this deviation in a flight to safety scenario when spreads widen, the VA spreads widens more than the spreads on our fixed income asset base and the consequence of that is that our own funds go up and that has a positive impact on the Solvency II ratio.

We are surprised. In the current low interest rate environment, dilemma is whether to hedge the interest rate risk in the regulatory environment including UFR or to hedge based on economic environment excluding the ultimate forward rate. ASR decided to immunize the SCR ratio from rates movement based on the curve including UFR and (inaudible) commission is that the SCR ratio, excluding UFR does not drop below 100%. As a consequence of this policy, the interest rate hedge was reduced by shifting to payer swaps absorption and that resulted in a lower value of the derivatives portfolio together with the overall increase of interest rates.

In order to protect the running yields from dropping too quickly, the control shift from liquid assets to less liquid assets was continued and that is illustrated by a net increase of the residential mortgage portfolio with 1 billion [ph] and an increase of the cost portfolio is 1.2 billion. The risk return profile of the financial portfolio improved. Within the financial portfolio, the share of lower Tier II bonds and senior bonds has been increased at a cost of Tier 1 bond. And Tier 1 bonds -- the T1 portfolio is 1% of the total fixed income portfolio.

Let's turn to the mortgage portfolio. The residential mortgage portfolio remains of a solid credit quality. About 90% of the portfolio has loan to foreclosure value lower than 100% or its NHG guaranteed. Under Solvency II residential mortgages are classified under counterparty risk. And the average charge is between 5% and 7% and due to the tightening spreads, the market value of the mortgage portfolio went up to 240 million and the decision of the supervisor not to grant a beneficial treatment to NHG guaranteed mortgages have no impact, as these mortgages were not treated differently from non-guaranteed mortgages. The conclusion is that the risk return profile of the fixed income portfolio and the mortgage portfolio remain solid and showed further improvement. Controlled shift to less liquid assets have been continued to protect our yields and even realizing the SCR ratio including VOBA has been given priority.

That brings me to slide number 15 with the equities portfolio and the real estate portfolio. During the first quarter, the available budget for equity risk, which is one of the components of market risk went down, as a consequence of the drop of interest rate to the lowest level ever. And in such an extreme rate environment, the boundary condition of SCR excluding UFR became perspective and the consequence was that we sold 500 million of equities to remain within the risk tolerance levels and realize the cap gain of 150 million.

As interest rates recovered, we started to re-invest in equities and real estate funds in the completely de-risk portfolios of AXENT and Eendragt. And including unrealized value changes during the year and additional net investment in other insurance companies, the equity portfolio increased with 700 million to 2.7 billion.

We continued the policy of downward protection of the less liquid private [ph] equity portfolio by a put option hedge and the amount hedged was about 700 million. The equity portfolio showed a strong performance and that was mainly attributable to the 5% participation. We have applied the transitional rule that defines in 22%, downward shock instead of 39% downward shock. We have applied that for the equities held as of the end of 2050. Furthermore, in accordance with Solvency II regulation, the look-through principle has been applied for participations in investment funds.

So let's move to the real estate portfolio, the real estate exposure has been reduced, as sales participation in the Dutch Prime Retail Fund and the Dutch Core Residential Funds to fully pension fund one Dutch Insurance company and one Japanese bank resulted in a decrease of the portfolio with 369 million. In addition, properties with the market value (inaudible). Those acquisitions rural and retail premises and our own office building amounted to 170 million [ph].

Indirect investment income from real estate amounted to 145 billion [ph] mainly attributable to realizations of rural real estate and residential real estate and exposure to commercial offices, where vacancy rates went up remains limited. And almost 50% of this portfolio consists of own use properties. The performance of all real estate categories was better than the IGD benchmark. The portfolio remains of high quality and that is driven by our dynamic acquisition and the investment policy. Vacancy rates for retail and residential remained low. And impairments on the properties that were leased to the defaulted retail store (inaudible) were 15 million.

As Chris explained, asset management is an important non-insurance segment. Managing portfolios on the basis of the characteristics of liabilities has been one of our cost skills [ph] for long time. We have built a track record in management of real estate funds for third-parties and we attracted funds from institutional investors and ASR manages funds on behalf of policyholders and separated accounts. The total assets under management amounted to 44 billion [ph].

During the last year, we invested in our asset management skills to be able to offer to institutional clients and to the ASR general banking fund to the ASR APS [ph], an integrated fiduciary management proposition and the acquisition of BNG Asset Management with a specialized asset management team thoroughly seen as supportive to this strategy.

In summary, the real estate exposure has been reduced and we reinvested in equities and equities showed strong performance and the performance of real estate was as well.

That brings me to the overall conclusions. First, the asset base remained of high quality and proved to be resilient and the performance contributed to the strong capital position.

Secondly, the controlled movement to the less liquid assets has been continued to protect the running yield. And thirdly, real estate exposure has been reduced and reinvestments in equities regained to the re-risking of the acquired portfolios of AXENT and Eendragt.

We continued to invest in our asset management skills to be able to offer the ASR NPS and institutional clients and integrated proposition.

That brings me to the end of the presentation of the investment portfolio. Chris, I want to hand over to you.

Chris Figee {BIO 18815839 <GO>}

Jack, thank you. Ladies and gentlemen, let's turn to page 16 on Solvency and Balance Sheet management. It's my understanding that this day and age most investors look at insurance capital, the way Winnie the Pooh looks at honey, with lots of interest and lots of excitement. As I was spending a considerable amount of time on Solvency II and really further boosted our disclosure in these fields.

I'm going to talk about the level of solvency, the level of SCR. I'm going to talk about the movements in our solvency ratio and I'm going to talk about the sensitivity of our solvency ratio. And my conclusion is over the past year, we've achieved a lot of progress and our approach and numbers consistent. You will find (inaudible) we find over the past year consistency between the level of solvency, the sensitivity of solvency and the management letter by which we'd actually operate.

So bear with me, while as we walk through these detailed pages. Page 17, some people call me old-fashioned, but I'd like to look at book values over multi-year periods. The development book values, own fund over a multi-year period of time often get a good indicator of underlying trends.

On this page, page number 17, you can see the IFRS equity, the Solvency II own Funds, and ECAP own funds. A little note on the latter, we have an ECAP model, it's an internal model, but we have not applied that model for regulatory purposes. We have not applied the model for approval of Solvency II. We've only use it so far to steer our own asset allocation. The main difference between the SCR an ECAP is in our own model, we model risk factors differently, we model correlations differently and model our tax even differently.

Shortly speaking, rule of thumb, there is a 20 points difference between the two. That varies over time, but historically has always been around 20 points. This year our SCR last year to this year went up by 15 points, ECAP went up by 20 points, the difference mainly is -- taxes, the LAC DT, we will talk about it later. In the SCR, we provide from mark down on the LAC DT. And ECAP we are not, because the SCR will tells us, there is no such thing as fiscal unity as in fact in practice that is. So the ECAP model does contain the reality fiscal union but the SCR does not.

But again back to this page, all numbers go up, when you include hybrids or exclude hybrids, so we look at the numbers, we see growth in IFRS equity, SCR owned farms and ECAP owned farms. That to me is a good signal of the underlying trend of the business. If we then zoom in on our Solvency II SCR calculation, please turn to page 18. -- has the SCR according to the standard model, you can see the own funds and the required capital the numerator and the denominator. In the own funds the unrestricted Tier 1, common equity retained earnings is about 84% of own funds.

So, not only in our view, do we have a large amount of capital, you also have a high quality of capital, 84% of on this Tier 1. As a matter of fact, if you do the numbers Tier 1 of SCR, you get an SCR ratio of about almost 160%. So the Tier 1 capital alone represented by about 160% of our SCR. That is not a target we don't manage by that it's something I'd like have a look at closing to about the quality of the capital. We have significant headroom available Tier 1 headroom, basically Tier 1 is defined as 20% of total available capital that's the max.

So if you take 20% of total available capital minus what we have, the Tier 1 headroom is -- billion in Tier 2 we have headroom of 656 and Tier 2 headroom you calculate that is about 50% of the SCR 50% of the required capital. Given that numbers you get to 656 available headroom for Tier 2. We had one security reclassified our grandfathered Tier 1 that the old perpetual that was issued in 2008 to 2009. The remainder was classified as Tier 2 and we did not grow into a larger -- to regulate whether issued -- classified as grandfathered.

We treated the new securities the one to issue in the last two years all as Tier 2.

So again available own funds 6.1 billion, required capital, 2.3 billion in market risk, 2.4 billion in insurance risk. I'm very pleased with the fact that the insurance capital still exceeds the market risk, we are insurance company, the market risk is an important element of our business. And important contribute the P&L, but the insurance risk still exceeds the market risk. We are underwriters and you can see the other elements, I'd like to point to the diversification benefits, 1.6 billion diversification benefit. That's due to the fact that we are, even if we're only active in one country, are well-diversified business. We have roughly speaking over the years a 50-50 like non-life mix. It changes over time due to large one off contracts, it changes over time the acquisitions. But when you look at -- take a bird's eye view, we're a 50-50 life, non-life business. And that diversification benefits shows up in our capital.

Zooming in market risk, the main factor in market is extrap [ph] risk followed by equities and real estate, the main risk factor in insurance is longevity risk followed by lapses. But again if the longevity risk diversifies away neatly with mortality risk, which then shows up in a 1.6 diversification benefit.

So overall, a solvency ratio of 185% after dividends, 190% before dividends. That we were pleased with. And for those of you who would like to tick boxes on treatment of various measures. Yes, we do you use the volatility gesture. We do not use matching adjustments, we have limited use of grandfathering only 200 million of securities grandfathered as Tier 1.

And we did apply the conditional rule for equities and we'll talk about it in a minute. All in all believe it's a prudent way, conservative way, to estimate and to calculate your Solvency II. And again, the 185 is a certain bandwidth, we're finalizing the numbers in beginning of this year from 2016, SCR is the official number. There's some work to be done on interpretation with delegated acts. And for security purposes, we apply a plus or minus 10% bandwidth around the number. But even with that 175 to 195 standards formula is a very robust and healthy (inaudible) solvency.

Let me turn to the next page, page 19. This is something we're proud of. You can see on this page, our management ladder. You can see on this page the Solvency II development and ROE. The management ladder on the left hand side, is how we manage our capital base. 100% is the SCR, below 100, you're effectively out of business or at least have difficulty maintaining your license. 120 is our official risk appetite, which means if our Solvency II would drop below 120, we immediately go into recovery mode. Recovery mode means cut spending, fire people, stop new production, get back to 120 as quickly as you can.

It's a formal trigger level, 140 as we defined the cash dividend level. That means at 140% SCR, Solvency II standard formula, we'd still be able to pay cash dividends. If we had a small drop below 140, we might be able to pay dividends, but today we use 140 and we have used 140 as a trigger for cash dividends. 160 is the level that we manage on, above 160 what we call the comfort zone.

As we are above 160, you can invest in your business, you can grow the business, you can make occasional acquisition and pay dividends and are able to absorb potential negatives. So the 160 plus range is where we feel comfortable in managing the business. In the right hand side, you can see the ROE and you can see the ROE work of the business from 8.9% all the way to 13.9% this year on an operating basis. So our operating ROE has been increasing, whilst our Solvency II also has been increasing jointly that makes to us a very strong performance over the past years. Now how that solvency developed over time?

Page 20 shows the bridge between the 170 last year and 185 this year. Please remember, last year we estimated Solvency is [ph] 175 that was before dividends, take out dividends paid -- payout, you get to 170. After that the organic growth of 9%, by organic growth we specifically defined this year as basically the performance of the business from the work unwind of the Solvency curve plus new business initiatives. So the fact that we assume that the investments made to recurrence in the Solvency II curve, which is swap, plus VA, minus (inaudible) margin ultimately moving towards UFR. So the organic growth assumes the investments return to Solvency II curve, plus underwriting profits, plus new business minus new business trends.

Then the market developments are any returns you make over and above that, so the returns we make over and above Solvency II curve. The first is 9%; the second is 16%. Now one could argue given the fact that we deliberately strategically have run to re-risk a healthy investment book that part of the market movements should be part of the organic business, right? If you run a healthy book, if you run a risk bearing book, you would expect in the long run to outperform the Solvency II curve.

For the sake of clarity and simplicity, we decide to not to make a split between these numbers between the 16%. Here is what the business performed over and above Solvency II and we can leave anyone guess, how are we allocated? For simplicity purposes, we've got the operating return, which is the S II curve and the rest will be equities on top of that.

Then there was a contribution from hybrids and acquisitions and it's 11%. We issued a 500 million hybrid this year. So anyone with the calculator can figure out what the net contribution was -- or net investment was in acquisitions, maybe 500 minus what it takes to finish up to the 11% number. In business developments, basic was the implication or calculation of the results from review over longevity and mortality factors, LAC [ph] factors and profit sharing, so business developments, we've talked about 10% over solvency.

Then there is a block of what we call methodology changes. To many of us I'd say, methodology change in Solvency II are a bit like the Eurovision Song Contest. I mean, you read already part of it, but you stay ablate to watch the outcome. However, in this presentation, I will deal by density number to show you what we've actually done in this field for full transparency purposes. We marked down our LAC DT assumption to 50% recoverability. We applied some additional rule for equities. We implemented full-fledged look through. And finally, we reviewed the cost allocation in Life.

Net-net each methodology changes to grab about 14% of Solvency. Finally, because of this other, basically application of the difference curve in our liabilities. We had a IAS19 pension liability, so we applied the proper curve of the Solvency II curves and there was a dividend that we paid out.

So together, this explains the work from the 170 last year to 135 this year. Organic growth at nine, market development at 16, hybrid and acquisitions at 11, so total significant organic increase of the business and then with this year, we really looks carefully at all our liabilities, we kicked the tires of our Solvency calculations and strengthened where we exactly was you or useful and try to be as prudent and conservative as possible.

Now let me talk to you some of those, but transitional measure, we applied the transitional measure (inaudible) which effectively means, that for a certain class of equities, eligible equities, you can reduce the downward shock, the shock of this year's Solvency II was 39%, we applied 22% over time, over the -- in last year. This over and out in seven years. So it added 15 points to our Solvency base, but that will roll out over time. We applied for look through approach; basically the look through approach stipulates that if you invest in investments find, we should look at the underlying lines for specific risks in those investment funds.

Currency risk, spreads our equities risk then we applied to look through very thoroughly and very diligently on the individual investment funds, that maybe specify and deep dive on the various risk factors. That took about seven points of our Solvency. Then LAC DT, the Loss Absorbing Capacity of Deferred Taxes. This is a highly debated topic in the insurance industry these days. We decided for prudency purposes to take a very conservative approach. We've used a 50% recoverability after tax factor.

Now let me explain how this works. One, in Solvency II, you observe a shock, solvency II, a shock based systems or stress based systems. If you suffer losses in such a shock, you should be able to recover some of the losses through taxes, losses are tax deductible. The question is, can you recover the tax deductibility in full or in part. In order to recover such tax loss for the tax deductibility, you either have a deferred tax liability, you have current year profits and it got future profits, four components have been marked on this slide.

And have a debate, how big and how happily could you weigh component four.. Could you issue that post shock, your earnings will recover sufficiently so in a tax loss carry forward, you can actually recover tax benefits from this one-off loss. One thing that we took in mind is that, if you depend very heavily on components four, the LAC DT could actually act as an amplifier. For example, if I have a great year, I make great profits, have a great perspective of future profits, my liability goes up, because I make great profits; I've got more tax loss carry forward.

Simultaneously, you have had a very bad year, I make low profits, my outlook goes down and ever my liability goes down. So if you apply this factor naively, your LAC DT acts as an amplifier. It helps solvency on the way up, but hurt solvency on the way down, considerably. What we did with last with last year, to be very conservative approach to this model, to this method, we felt we don't want to have an amplifier, now certainly it is a very complicated movement [ph] field, we don't want to be too aggressive.

So effectively, we went through all those four components, we took compounds two and three and a small portion of components four where we applied very much haircuts and prudential measures that ended relatively towards that little over 50% and now we marked it down to 50%. So now we've assumed the 50% tax recoverability sector from LAC DT. That's a significant portion of our capital, but we felt that at this point in time, it's a most appropriate and most considerable thing to do to make sure that we're really prudent and well reserved in this field. The one thing to look out for is a detailed deferred tax liability. But this year, we took a taxable profits and a small portion of components four to end up at a 50% tax recoverability.

Then page 23, expenses and technical provisions. The delicate tax stipulate that insurers should take into account the costs that are made to service policies in the future. Now, in our country the live books inevitably are in decline. The live books are all following one-off but there is no growth in the life business. So over time the volume, the scale of the books, content-wise, are expected to decline. This poses a challenge for your cost base, because how well we serve life insurance policies in the future. What does it mean for fixed and variable costs and that has -- bears a relevance when you forecast the cost base going forward. What we did with last year, we reviewed our cost allocation methodology and we decided that its proper and proved conservative to assume that a fixed cost portion stays fixed stays on for longer.

So as you can see in this page, we actually assumed on life, the fixed cost base stays stable per policy, the fixed cost share and pension doubles and the fixed cost share in funeral triples. So it actually model out as if the fixed cost portion in a per policy base actually increases over time. We almost model that we hardly variablize our cost base. At this point, we saw that's the most appropriate and prudent perspective you can take in molding out your cost base and then molding out your liabilities.

Furthermore, we have not included cost per policy synergies from the recent acquisitions. We think they first need to materialize before we actually can take them out and project them into the future. So again, here we (inaudible) a very conservative and prudent approach took policy to cost allocation.

Finally, the volatility adjuster. You can see on this page, the relative position of ASR towards the VA reference portfolio. Jack already talked about it. Overweight AAA's, underweight low-rated securities or overweight govies [ph], overweight corporates and underweight financials, effectively saying we are protected by the VA in a flight to quality safe haven scenario because with overweight AAA governments, overweight corporates and underweight financials and underweight peripherals. So for us to volatility adjust is not something we try to manage, not something we mimic, but the organic design of the asset portfolio has a side effect that the VA helps is what we needed most namely in a flight to quality scenario.

This brings me down to the sensitivities on page 26. You can see the management ladder, on the left hand side, you can see an horizontal line with different sensitivities. And it crosses at 185. So 185 does not show on the page, but if you extend the lines, you can see there is a cross-point 185, is where we are post dividends. As you can see the sensitivities. If the UFR would be lowered by 100 basis points, we estimate we lose 17 point of SCR, so unmanageable amount. So last year we would have lost 70 percentage points SCR if the UFR would have been declined by 100 basis points. As you can see, on the equity side, we would have lost 5%, (inaudible) would have been 9%, we have lost 5% if the equity markets drop by 20% and so on and so forth. You can see the beneficial effect of the VA. If the credit spreads generally widen the VA works for us, actually a widening effect supports us because the VA does its work by widening more new [ph] VA and widening for our own asset portfolio. You can see the interest rates sensitivity [ph] as well.

Finally, on the right hand side, we've depicted the modeling bandwidth plus or minus 10%, what's in there? It's a final interpretation and finalizations to Delegated Acts and some of the analysis that we're doing, for example, refinement of the LAC DT. We've taken a very conservative approach, refinement of the cost exceptions especially for those businesses not yet integrated. It has to do with the implication on blocking our way visibility, but also with very technical things like applying, the VA in determining the risk margin or spread risk models in segregated hands.

Now, I will not bore you with further details, but there's a whole range of built-ins and bigger things we need to work through. Safely to say that use a band with a plus or minus 10% around those numbers. But even if you applied that was the 185 with effectively 175 to 195 still a very solid number, a very safe in our management lanes. Okay, all numbers as per December last year.

Finally, balance sheet management, operational remittance the page 26 show the amount of capital remitted to the Group. Operational remittance up 200-245 and incidental remittance is up as well. Operational remittance is a remittance for holding expenses, into expenses and what have you.

Incidental remittance work for M&A, holding cash, it's a one-off remittances. You can see a solid increase in remittances, and you could actually figure own numbers and relate for example the remittance level to do operating profit last year, or you can relate to remittance level to the organic capital creation and you can all see that is inline and pretty (inaudible).

If you look at the underlying businesses, we manage our Group on a segment level on life and non-life. In aggregate, all segments are able to remit capital in the future. So integral basis, the life segment meets the target SCR and the non-life segment meets the target SCR and ECAP. So all segments underneath meets the targets required to submit for capital to the holding. At least they met it at the end of last year but let me make sure I stated correctly. So in this field, we have remitted capital to the holding, we have had no (inaudible) to remit capital to the holding and our operating entities across segment level are all sufficiently capitalized. So that the end of last year, we could have remitted even more to the holding.

Brings me to the financial risk indicators, page 27, they remain at a very strong level, leverage 25.1% is almost exactly we wanted to be. We aimed at 25%, so in line exactly where we want leverage to be. We guide -- we hoped to achieve below 30%, we achieved 25% last year. Interest cover headline 14.6 times last year. On operating base, we ended last year with 9.8 times interest cover holding rating BBB+ and we managed to bring down double leverage from 121 to 102 as per the end of last year. So very safe and sound balance sheet from our perspective.

That then brings me to the final chart of this presentation. If I look back at 2015 what we realize, we had a number of objectives. One to further improve and differentiate on the financial performance. We believe with the delivery of 521 million operating profit, 13.9% operating ROE that objective was met, a solid outstanding operational and financial performance. And we enhanced financial disclosure both in segments and hopefully you agree with me and is around also in Solvency II. We strengthened the competitive position of the Group. Continued organic reduction on FTEs and workforce; continued increase in productivity and a series of operating improvements and changes in the business, which you can see a few examples on this -- on this page.

We further optimize our balance sheet. We enhanced capital management. Solvency II standard formula very strong midpoint estimate 185 after dividends; ECAP at about 205 after dividends and our balance sheet is further optimized with leverage, interest cover and double leverage all in last year in very safe and effective territories.

And finally, last year we strengthened the business portfolio of the Group. We added scale in life and pensions, whilst maintaining the risk balance. We added volumes and scale in distribution and services. We strengthened third party asset management and the run-up to an APF as the business model; and we divested business where we're not the most effective owner.

With that, I'd like to conclude this presentation and leave the room for questions-and-answers.

Questions And Answers

Operator

Thank you, Chairman. Ladies and gentlemen, we're starting the question-and-answer session now. (Operator Instructions) Our first question is from Mr. Cor Kluis from the Rabobank. Go ahead please.

Q - Cor Kluis {BIO 3515446 <GO>}

Good afternoon, Cor Kluis, Rabobank. I've got a few questions. First of all about interest rate sensitivity on Solvency II. You mentioned that if interest rates rise or decline by 100 basis points I think both scenario it will be 5% positive for your Solvency II ratio and so that's not the key thing of course. Could you also indicate what is the effect would be on the Solvency II ratio excluding your ultimate forward rates like you have been disclosing on the new Solvency I regime. And also on the interest rate hedge, which you mentioned that you reduce the interest rate hedge in 2015, when was that exactly and how is the current situation? And second question about exposure, could you indicate what your exposure is on the asset side towards NHG and towards the CoCos, probably small, but you could at least give some indication on that?

And then last question is about your remittances, the remittances, operational remittances at least were up -- is around EUR245 million. It's around 7.5% of your SCR, you mentioned in the past that the SCR growth of the year would be around 12% to 18%. How do we have to relate that it will be made less or to be also to take the normal operational part of the normal remittances? These are my questions.

A - Chris Figee {BIO 18815839 <GO>}

Cor, it's Chris, I'll ask this question to Jack. Jack will go into details on the hedging program. One point on Solvency II ex-UFR, we do not disclose SCR to ex-UFR. We believe at this point in time, the UFR is such an integral part of Solvency II. An estimate, it make sense to estimate the sensitivities. You can see them on the page, we feel sensitivity what happened to the UFR is marked down. Estimating Solvency II ex-UFR is a pretty hazardous exercise. Because it depends on what curve you issued, in or (inaudible) margin, what you do in extending the curve for those areas where there are no market developments, it's in the constant zero, constant spot, constant forward.

So in terms of the world, ex-UFR, it's not something we feel it's appropriate to disclose. So we do disclose as if we can UFR, and in terms of rate sensitivity, I think Jack can talk about the effect that you mentioned.

A - Jack Julicher {BIO 5943222 <GO>}

Yeah. With respect to let's say the sensitivity in an upward and downward interest scenario, those plus 5, what is important to understand that the -- firstly, the competitive profile of the asset is focused strongly competitive [ph] profile of the liabilities. And that has an impact on the own funds. And then secondly, there is also an impact through the required capital, because also the required capital is interest sensitive. So for example, when you look to longevity risk, there is interest sensitivity. And then you have all those impacts and all those effects, then yeah, in totality, the peculiar impact is that in both scenarios there is a plus in the sensitivity.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay.

A - Jack Julicher {BIO 5943222 <GO>}

Yeah. And then concerning your question on exposure to NHG and CoCo. What I can say with respect to NHG is that we are underweighted in NHG. In NHG sector it is possible that you can say the way that our portfolio is about half of the weighted indexes that we apply and CoCo exposure is limited. Yeah, it's around 50 million, 60 million.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay.

A - Chris Figee {BIO 18815839 <GO>}

Okay. Cor, it's Chris again. On the remittances, last year, did we mention some number, but that was about capital generation, nothing is capital remittance. So if you strip the two to capital remittances here operationally it was 245 and historically, the last year we had a policy where we remitted if and when needed, so whatever was the bill to be paid, and expense to be paid, hybrid cost we paid, we remitted. So we remitted from an, if and when needed basis, that number we realized last year was 245.

In terms of the capital that we generated last year, on page 20, the organic growth is 9%, the market developments were 16%, together that was 25%. We can debate to what extent the market movements are natural, the numbers we've mentioned last year were basically all the inclusive to include organic growth and the series of set of capital of market movements. So the answer to your question is, compared to 1% to 1.5% in two months and the operational remittances, apples and oranges. The one is actual remittance, the other is capital generated and when you compare that; take page 20 and compare to the 9% and the 16%, and you can see, we're still in line with that payment that we made last year.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Wonderful and good disclosure. Thanks.

A - Chris Figee {BIO 18815839 <GO>}

Okay. Thank you.

Operator

The next question is from Matthias De Wit from KBC. Go ahead please.

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

Yes. Good afternoon. Also number of questions from my side, could you first of all on Solvency II, provide the breakdown in the movement in the full year Solvency II ratio, but also maybe in H2 and an even Q4, breakdown between market movements also M&A, it's relevant, I think, organic capital generation, so more for the second half in Q4? So that's my first question.

Secondly is regarding the ECAP and possible application of internal method, internal model. Do you have any plans to apply now that some of your peers have approved internal models or is it not on the agenda?

And then maybe a last question on the cost assumptions. What are you exactly assuming now, is it rising unit costs versus flat unit cost previously? Is that the correct understanding and your ability to cut the fixed cost is presumably also linked to the pace of the run-off of the individual book. So could you provide any indication or updates on how fast it will run-off? And in this respect, I also wondered you guided for doubling of fixed cost per policy in the pension business, but I thought this was more treated as a growing concern like not really as a run-off book. So do you see this as the run-off and could you also provide some insights into the pace of the run-off of the, presumably the DB pension book? Thank you.

A - Chris Figee {BIO 18815839 <GO>}

Right, Matthias. Thank you. In answering your questions, I'll be very careful not to make any forward-looking statements. You can only reflect what we did in the past. So, bear with me, Matthias, in my answers. In terms of development of Solvency over time by quarter, it obviously is less relevant, I think it's my estimate that the organic growth is roughly equally spread quarter by quarter. The market movements as well, although the bulk of the great markets were in the first half of the year, second half of the more challenging markets. The exact split, I don't know, but roughly speaking, I think it will be little over half within the first half of the year, less, the other portion is second half of the year.

That methodology changes, all occurred in Q4. So if you had looked at the Solvency in Q4 headline, you would see that we didn't add that much Solvency in Q4 because that we did all the work on the methodology changes. So from our perspective, if I look back at last year, looking at on a quarter-by-quarter basis is less relevant, because the methodology changes peaked [ph] in one certain season but --

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

But if you just look at the Q4 movement and you strip out the methodology changes, could you provide any indication of what's -- for the movement, maybe directionally --

A - Chris Figee {BIO 18815839 <GO>}

Well, I would say take the organic growth divided by four and marked developments, if I make rough estimates over last year, I would take 65% that was in H1, 35% in H2 and you can divide by month, that's roughly what I need -- what I estimate looking back.

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

And with the volatility now in Q1, like the first month, January and first week, any update on the sensitive -- based on sensitivity you could provide?

A - Chris Figee {BIO 18815839 <GO>}

Just you will understand, I can only refer you to page 25. There are sensitivities and they will allow you and here you can make your own estimate at this point in time.

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

Okay.

A - Chris Figee {BIO 18815839 <GO>}

In terms of the impact of the acquisitions again, we issued a 500 million hybrid. If you look at the 11% growth and roughly a 3 billion capital base, you can easily back-out the acquisitions. But that effectively is net, net cash out toward capital contribution and/or diversification benefits, the net capital effective accretion is sometimes it's cash out, sometimes it's a capital injection, for this we acquired for very little cash out or it is mitigated by capital relief by diversification, but if you take 500 million minus 11% times of capital base you get a pretty good feel for the net effect of the acquisitions, which is about 45% of Solvency that we spend effectively across all dues to get on acquisitions.

On the ECAP model, again, I need to be very careful with any forward looking statements, but historically we have not applied for an internal model. So up to the last minute of last year, we have not applied for an internal model and we would like or use this kind of model.

In terms of the cost situation, affected what you assume is that the fixed cost base grows to the variable cost, if the fixed cost proportion grows. In life, the book has declined and it's fair to assume but if there is no new business in this country even books tend to be, we then have to get with what can we expect within industry. So there we work on a fixed cost per policy assumption.

In the pension market, we had witnessed in the past a shift from DB to DC, from DB products to DC and Asset Management products, which means that the DB book has declined, but the asset management book has actually grown, the DC book has grown considerably.

Going forward, we'd assume that the fixed cost portion on a per policy basis actually stays -- actually goes up which effectively means the cost per policy in this modeling is assumed to go up over time; that might be mitigated if we indeed deliver on further privatization, outsourcing of cost.

In the last year, we've outsourced our pension business to Infosys; we have outsourced private licenses to LeanApps/Keylane. If we continue to deliver on that, that would further support this fixed viable cost assumption. In the past we saw that at the end of last year, proving to assume at this point in time, actually an increased fixed portion of the traditional Life and Pensions business.

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

Okay. Thank you.

Operator

The next question is from Jan Willem Knoll from ABN Amro. Go ahead please. Mr. Knoll, you can open your line now and ask your question.

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

Yeah. Sorry about that. I was on mute. Good afternoon and thanks for taking questions. On Solvency II, first on the LAC DT, you've marked down to 50% recoverability. Mostly it's guided for by the regulator or was this your own decision and if this was your own decision, the scenarios possible where you would increase your recoverability percentage again. Because it looks to me, if looks for an argument to mark the LAC DT down and you obviously found one.

And then on available capital, what do you regard as an optimal capital composition as you've significant Tier 2 capacity. Are you planning to use this any time soon and what sort of your current core Tier 1 or your Tier 1 capital as a percentage of total available capital is roughly 80%. Is that to you an optimal percentage or could it be 70%? So some clarity on that would be helpful.

And then on non-life, you've reported again a very strong combined ratio. Would any prior year reserve releases in the numbers we should be aware of and more generically what are the pricing claims trends in the different business lines, so some color there would be very helpful?

And more specifically on visibility, do you see any benefit from the economic recovery in your claims trends. The claims trends have been moving down nicely, so some insights there would be helpful as well? Thanks.

A - Chris Figee {BIO 18815839 <GO>}

Yeah, Jan. Thank you. It is four questions in one. On LAC DT, you asked whether we kind of solve [ph] to lower the LAC DT, well, let me tell you, there are very few insurance companies who solve for lower Solvency DT days. We've actually worked very hard on the LAC DT, there are a couple of components that guidance that the regulator has sent out in the industry is that be very careful in using component four. So component 1, 2 and 3 are hard. The DTL is a tangible thing. Our profits last year and this year is the tangible thing. Component 4, profits after a shock, is a weak component, yeah, substantiating, underpinning your LAC DT.

Secondly that was more or less translated in if you cannot and should not assume that after a shock you can re-capitalize and use the earnings on the pro forma to be received recapitalization as a substantiation of your LAC DT. With that in mind, we went through our LAC DT and calculated it. Roughly speaking, we do not have a deferred tax assets on our live balance sheet at this point in time. But we used the tax in previous years and a small portion from the earnings post shock in future years.

As a matter fact, and what we did in component 4, we took our own multi-year budget, you marked it down after a shock and marked it down (inaudible) -- after shock, we have to de-risk the business, after a shock if there is too much risk margins are open. Margins are less and we have to assume that actually we applied a haircut to that to be conservative. And then we translated operating earnings into fiscal earnings. Now that turns into an excel [ph] model of 500,000 lines, if they actually get to a number. But applying that gave us a very conservative LAC DT approach. We didn't solve [ph] for 50%, but we rounded down to 50%, because we saw at this point in time that would be a right thing to do to be conservative and prudent around it.

Had we had last year the deferred tax liability that would have made life a lot easier. I cannot at this point speculate on future scenarios, I think that's not appropriate for this call, that's what I leave it with that.

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

So just may I jump in on that. Sort of, has been soft guidance from the regulator on component 4. And you have, let's say, interpreted that in a quite conservative way, in my own words, and that's how you got to this well, rounded sort of 50% number?

A - Chris Figee {BIO 18815839 <GO>}

Yeah. That's a good way of summarizing it, yes. In terms of capital, yes, we are -- have a conservative capital base we have headroom in Tier 1 and Tier 2. How do we think, how we thought about in the last year. We issued a Tier 2 instrument last year. We had Tier 2 remain in capital. At this point, and we look at -- we have looked at our capital in relationship to the return on capital. So the number that we have fell into our comfort zone. And we realized an ROE about 13.9%. Together, we feel very comfortable with that. And we've looked at the capital adding that we had also from a safety valve perspective. If and when needed we could have raised additional capital as a safety valve, if something happens.

So, we ended last year comfortable with the buildup of the capital, knowing that there is headroom available, but also knowing that the capital, we have to be yield sufficient ROE. So we can talk about the various scenarios. Looking back, we are comfortable with the conservative build up and the headroom that we have, the safety valve it produces and the significant ROE.

In terms of non-life, we had a small reserve released last year basically from changing our reserve base and methodology that added about 1 percentage points to the combined ratio, it supported the core by one point.

But again, we also had a number of storms, you may remember the August storms which we see much more significant in the past. So we have number of large fires, so from our perspective, the three one-offs is increased hail and storm activity in the summer making this effectively a slightly exceptional year. We had large claims and combined and conventional (inaudible) together that pushed up, actually upwards combined by 0.5 percentage point.

In terms of pricing, at the end of last year, we have witnessed an improvement in pricing, especially in the motor field. We have observed players in the market increasing their prices a bit and that's something we watch and that's a market development that we prefer to see. So last year we've witnessed some margin support at the end of the year. And in terms of, especially the motor markets. I will not disclose our competitive strategy here in detail, but something we actually like to see.

In disability we have delivered -- the funny thing is, you asked a question, did you see economic developments feed into your combined ratio? Actually, we have not, but also we never saw a downturn developments into our disability combined ratio. If you look back at the past, the combined ratio in our disability business has proven to be relatively inelastic versus general trends in the economy. There is always a factor, but the way we've priced claims and the way we managed claims has enabled us to have a more absolute return inelastic combined than you would expect.

So, yes, the numbers there may have been some support from the economy, but again if you look back, the fluctuations in the economy in the past have not correlated well with the combined ratio, because we've been below 100 for the last five years since 2010. So from my perspective, if I look back at our business the way we run the business makes it relatively inelastic for economic developments.

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

Okay. Very clear. Thanks a lot.

Operator

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

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Thank you for taking my questions. First of all many thanks for the presentation on Solvency II. I've got a question on two slides, number 20 and number 26 basically. On slide 26, where you have talked about your operational remittance and already some remarks were made on difference with the operational capital generation. If I look at the operational capital generation comments, which more links then to slide 20 and the components of organic growth and the market movements, and basically also you're operating result concept.

I know that last one is on a pre-tax basis, but does -- that do you believe basically that your operational result, if we, as analysts look at that one over 2015 and compare that with the operational capital generation that you are quite closely linked and that as a result we can, for example, look at the 245 million, let's say, the remittance and linked it little bit to the operational result that we get a reasonable feeling for what payout ratio or remittances ratio has been? That's my first question.

And my second question is on slide 20. If I look at the organic growth in the market developments, I understand your comments that maybe part of the 16 points is also somewhat organic related as well. Is there basically also already some form of relief of -- the release maybe of some beneficial books in there versus purely, let's say, of 2015 really organic generation of the insurance business so to speak? Thank you.

A - Chris Figee {BIO 18815839 <GO>}

Albert, thank you. On the first question, the link between remittance capital generation and operating profit. In the last years, yes they were linked but not one-on-one. The biggest gap between the two is release from the shadow accounting provision. Our shadow accounting methodology says fixed income investments backing life liabilities are linked to these liabilities. So any market movements in those assets are reflected in the provisions on our balance sheet. That's the accounting methodology, right. If you realize a capital gain by, for example, treating those securities and optimizing your hedge. That capital gain is added to a capital gains reserve and amortized over time. That thus feed into your operating profits, right.

However, the capital gains Solvency II is a market value balance sheet, so the capital gains is already reflected in your Solvency II balance sheet. So the operating profit does not lead one-to-one or has not led one-to-one in terms of operating profit is capital release, because part of the operating profit is a capital gain, which was already in the Solvency II figure, right. So you cannot transit EUR1 operating profit in life is not one euro capital generation. What you can do, if you look at the numbers that we've provided, the operating profit for the last year was 521, take out taxes, you get to 390.

And you could actually compared the organic growth, 9% over 3 billion cost base to the 390 after-tax operating profit. And you get the fair -- you will get a fair view, how over the last year the operating profit translate into capital generation. If you then compare the remittance to it, you can see the consistency between operating profits and the organic capital growth and the capital remittance. But in order to make this full translation, we have to take out the contribution from capital gains reserve shadow accounting in life to get to the operating profits. That can make one forward-looking statement, at some point in the future we will disclose more about this. But this is may not be the day to we go into that.

Yeah, your other question was on the organic growth, in the numbers that were produced less, indeed some portion will affect the business strain effect was in the organic growth, it's the unwind of the liabilities against Solv II growth including new business, then 9% includes net effect of the unwind of the life book, but also the increase in business, for example, the P&C business. It's my estimate that last year there was a small contribution in the 9 from the capital (inaudible) a small contribution from capital strength, okay, capital relief from running our books in last year.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. That's very helpful. Thank you.

A - Chris Figee {BIO 18815839 <GO>}

Yeah.

Operator

The next question is from Mr. William Hawkins from KBW. Go ahead please.

Q - William Hawkins {BIO 1822411 <GO>}

Hi. Thank you very much for taking my call, and thanks for the presentation. Could you help me again, Chris, on slide nine, your life segment, you've already mentioned this, but still getting a bit confused. Can you just be a bit clearer about the increase in the operating result from 349 to 434. You mentioned some rather big items, but I'm not quite sure what those numbers are and then what's going on an underlying basis? And then also if you can just maybe help me, if I take that slide and have the operating expenses back to the operating result, your revenue is something like EUR650 million last year. Is there any chance if you give a hint of how that will break down between investment margin fees and technical result?

And then secondly, the 170 million dividend that you are paying, would you consider that kind of a normal dividend, as part of normal capital management processes or are you still sort of in what you would consider abnormal circumstances and given your ownership structure. And around that how did you exactly arrive 170 million, so just as a range, why wasn't it 150 or 200 for the sake of argument?

A - Chris Figee {BIO 18815839 <GO>}

Okay, William, its Chris. Thanks. On the life side, turning into page nine, the operating result increased 349 to 434. And the most important component was the non-recurrence of a provision we made last year. That number is around 40 million relate to 2014. Second element was additional costs or basically reserve release to funds effectively project cost and pension spending about 10 million to 12 million. The remainder is other, plus the increase contributed to (inaudible) from the capital gain reserve. So 40 million in non-recurrence of the pension [ph] provisions, 12 million of a release of the provision made in 2014 released into 2015 that we used to spend on regulatory projects, the remainder by and large, the increased contribution from the capital gains reserve.

Q - William Hawkins {BIO 1822411 <GO>}

I may be -- excuse me, passing it [ph]. I may be getting confused, but this time last year there was a 93 million VOBA charge is that outside the operating result of life?

A - Chris Figee {BIO 18815839 <GO>}

Yes, outside, that does not feed into at all, yes.

Q - William Hawkins {BIO 1822411 <GO>}

Thanks.

A - Chris Figee {BIO 18815839 <GO>}

Okay. In the investment margin, if we continue to talk about the underlying increase, but the investment margin therefore is an important factor that increase the life results, right. The underlying increase in the -- is basically due to the higher amortization of realized gains and lower cost assumptions. So basically claims on the shadow accounting and disruptions that portion really is the increase in the investment margin of the business. So how you should see that the delta between 349 and 454, a significant portion is really an increase in the investment margin from the capital gains as well as from the shadow accounting release [ph].

As far as the dividend, the 170 million was determined between us and the shareholder. In that we took into account the level of operating profit, the growth in the profit, and at this point in time what all I can say about it, it was carefully considered by all new parties to reflect the underlying trends in the business and at the end of this magical calculation this was the number that came out. There will be a time and a place in which we will give more clarity on our future dividend policy, but again that this is not the time and place. So the 170 was agreed between us and the shareholder taking into account the developments in the business.

Q - William Hawkins {BIO 1822411 <GO>}

That's helpful for now. Thank you.

A - Chris Figee {BIO 18815839 <GO>}

Yeah.

Operator

The next question is from Marcus Rivaldi from Twelve Capital. Go ahead please.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Good afternoon, everybody. I've got questions. Chris, first could you -- you can help out is on the seasonality and the holding and the other line. I think at half year that's 61, I think full year on 93, what's more -- fiscal half-year run rate please?

And secondly on the real estate development, I can look my note that you took a charge back in 2013 of just over 100 million on this portfolio, and you're taking off the charge today. Could you give a sense of why you're comfortable maybe per se it's done now whether there's more to come there?

The third question from me is on, again the Solvency II chart, the business developments negative 10 points. Is that a normal sort of level of just we should expect to see, and does it sort of really relate to, you think you had embedded value terms and assumption changes on the business?

And then just a final one. Again, you've been pretty active in buying businesses, you bought few more business, I mean, how has that helped you in terms of the -- pretty help you support the diversification credit and those deals, are you done there as well or do you think there is more, I know you'd might -- this might be a forward-looking statement, I'm just trying to think maybe -- if you look at that -- if you're looking backwards the size and shape of the group, are you happy with the diversification of (Technical Difficulty) maybe could it be improved? Thanks.

A - Chris Figee {BIO 18815839 <GO>}

Right, Marcus. You had couple of questions into one. Let me first comment on the real estate development business. The past years, we've made significant contributions to the provisions for that business. We felt that we're comfortable with the provisioning that we made. We look at this business from a couple of perspectives, we do look at the work in progress and guarantees that's what we call the total exposure and we run worst-case scenarios and with that in mind, we provisioned -- we provided for the business in careful agreement with the auditor.

It's a level of provision that at this point we feel comfortable and we feel we can actually substantiate.

I can't make any statements on the future, but at the end of last year, we felt comfortable that we did significant portion of that business where we provided for on an NPV basis, the figure was 173 million, those are the facts, well, come back to you in the holding cost there, some looking at that it needs to be done. In terms of the business developments we have characterized that in the past years' one-offs, so it was a one-off lapse update, was a one-off profit-sharing update and a one-off mortality and longevity update.

So last year we have classified this as a one-off deduction from our Solvency, where we wanted to make sure by the end of the year, last year we were rock solid in all our assumptions.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

So we would expect to see that sort of movement, you think, as (inaudible), but this is a one-off financial? Okay.

A - Chris Figee {BIO 18815839 <GO>}

We were -- last year, we have actually taken a one-off perspective and make sure at the end of the year we are rock solid. In terms of diversification benefit, we're very pleased with the diversification of our business. Now, I can't see anything about potential future acquisitions as you are aware, but we were very pleased with the acquisition that we made and the strategy that we pursued was that upscale in life and non-life whilst maintaining mortality and longevity. Secondly, our distribution skills to support what intrinsically is a very good underwriting machine. That's something how we looked at the acquisitions last year and it's all I can say at this point as you understand that.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Okay.

A - Chris Figee {BIO 18815839 <GO>}

In terms of holding expenses, I think what you see in the holding expenses, fluctuations in the operating expenses in the holdings tend to run relatively stable over time and where you can see fluctuation is pension charges that runs through the year. Sometimes because of interest rate developments, there are changes of one-off costs, for example, the implementation of Solvency II or for example, have an eight projects, strategic projects if you were and then on eight projects we did more in the first half year and less in the second half year, the heavy ones were done in the first half year, so it's where you can see those cost emerged.

Secondly, in the second half of the year, we issued another hybrid Tier 2 instrument, whose expense actually run through the holding. So various factors play a role, but the underlying operating expenses, the cost of running head office, the Board, all its communication et cetera running relatively steadily over time. But this final number get amplified by projects, by pension costs and by the hybrid expenses that sort of add to the holding cost base after September.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Okay. So one that comes one quickly off and you mentioned about the running yield on your life booked ups, which is over 3%, where you were investing new money today, please?

A - Chris Figee {BIO 18815839 <GO>}

Jack?

A - Jack Julicher {BIO 5943222 <GO>}

Yeah. What I mentioned was that running yield of 3.2% and that it was well above the -- let's say, the guarantees on the life products. We had it reinvested on the basis of our strategic asset allocation, so a general investment policy. That means in general you can say, when you look to the composition of the investment portfolio as it is, what still important is that we in the past always, yeah, we invested based on the composition of the investment portfolio. So that is what I can say about it. For the future it's -- I'm not in a position that I can comment on that.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

You may say where roughly were you investing at the end of 2015, I mean [ph]?

A - Jack Julicher {BIO 5943222 <GO>}

Yeah, where we are investing is that the majority, of course, in fixed income instruments. That's the majority, because we have a matchbook about 16% to 18% in mortgages and a small part in equities and also a small share in real estate.

A - Chris Figee {BIO 18815839 <GO>}

Markets, I think, at the end of last year, as Jack said we invested into credits, into mortgages, into real estate and equities. If you look at the direct yields of those instruments, it is hard work to stay above 2%. But I think that the end of last year, we are still able to stay above 2% in new money direct yields. But as you're aware, is it hard these days to find these instruments.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Thank you very much.

Operator

Next question is from Steven Haywood from HSBC. Go ahead please.

Q - Steven Haywood {BIO 15743259 <GO>}

Hello, everyone. I just wonder, if you could answer couple of more questions on the investment portfolio as well. Do you have an estimate of rough kind of guide, what sort of duration -- average duration your fixed income portfolio is? And then could also relate that to the arbitration of your sort of life and pension liabilities. And then you've spoken about the running yield being higher than the guarantee average, if you can provide us with the average guarantee on your life and pension plans that would be very helpful? Thank you.

A - Chris Figee {BIO 18815839 <GO>}

Yeah. To start with the first question, in last year the average yield was at the safe level of yield of 3.2 and the average guarantee level at 2.6. When you look to duration versus liabilities, yeah, we have a matchbook a long-term matchbook and then you look to last year duration levels were around 16 liability side and 14 at asset side.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Perfect. Thank you.

A - Chris Figee {BIO 18815839 <GO>}

But it is important to take into consideration also the complexity, because this only look into liabilities is not a indicating -- really the -- let's say, the interest (inaudible).

Operator

We have no further questions, sir.

A - Chris Figee {BIO 18815839 <GO>}

Forget. What if there are no further questions that leaves me to close of this call. As I'd say from ASR perspective, we are proud and pleased of what we've achieved, and I guess a triangle of ROE, Solvency II and balance sheet strength is something that we think has showed this group is able to deliver, has delivered in 2015.

We're very pleased the step up in pace of strategic activity that we've achieved in 2015. So with that we were very pleased with the results, I hope we've given you further insight into Solvency II, especially the methodology guided and it was sometimes boring and complicated. Sorry about that, but that's just given for all of us. But hopefully, we'll give you more disclosure, more clarity on how Solvency works, how we deployed it and how we try to be as prudent as possible.

I'd like to thank you for your questions, especially for your understanding of what we can and cannot answer at this point in time. I would like to thank you for your understanding and the discipline, way you've asked your questions. And so one moving forward-looking statement I can make. I guess, we'll see -- I hope we see each other in the future. Thank you very much for your time and I wish you all a fantastic day. Thanks so much. Bye-bye.

Operator

Ladies and gentlemen, this concludes this telephone conference on behalf of ASR. Thank you for attending. You can disconnect your line now.