Acquisition of Vivat NV by NN Group NV

Company Participants

- Delfin Rueda, 'Chief Financial Officer'
- Lard Friese, 'Chief Executive Officer'

Other Participants

- Analyst
- Ashik Musaddi
- Bart Jooris
- Farquhar Murray
- Jason Kalamboussis
- Matthias de Wit
- Robin van den Broek

Presentation

Operator

Good day, ladies and gentlemen. Before handing this conference call over to Mr.Lard Friese, CEO 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 statements not involving historical facts. Actual results may differ materially from those projected in any forward-looking statements.

Any forward-looking statements speak only as to 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 constitute an offer to sell or a solicitation of an offer to buy any securities. Good afternoon, Mr.Friese, over to you.

Lard Friese {BIO 17008174 <GO>}

Yes. Thank you, Lize. Good afternoon, everyone and thank you for dialing in on this call. My name is Lard Friese, I'm CEO of NN Group and I'm joined by Delfin Rueda, our Chief Financial Officer; as well as Jan-Hendrik Erasmus, our Chief Risk Officer.

We issued a press release this morning announcing that NN Group and Athora have reached an agreement with on buying on the acquisition of the activities of VIVAT Under this agreement, Athora will initially acquire 100% of shares of VIVAT, after which NN Group will acquire the VIVAT Non-life business from Athora for a consideration of EUR 416 million. In addition, we will acquire the inter-company loans that the VIVAT Holding Company granted to VIVAT Non-life for EUR 150 million. On the following slides, I will outline why we believe that this is a compelling opportunity for NN Group, our shareholders and other stakeholders. So let's turn to Slide .

2. We believe that scale and diversification are essential to be able to deliver an attractive and sustainable customer proposition in the long term. Therefore, combining the VIVAT Non-life activities with a Non-life business of NN Group is a logical step, both from a strategic perspective and from a financial perspective. Strategically, this transaction further strengthens our position in the Non-life market in the Netherlands, adding almost 5% market share, mainly in the Property and Casualty segment.

This additional scale will enhance our risk selection and underwriting capabilities. Financially the acquisition will lead to both expense and capital synergies resulting in an increase in free cash flow cash of approximately EUR 50 million by 2022. We will finance the acquisition using existing cash resources, while maintaining a strong balance sheet. Please also note that this transaction does not affect the share buyback program, which will continue as planned.

We have a proven track record of successfully integrating companies and extracting the synergy benefits. Given that this is a new market transaction, with a business that we know and understand, we're confident that we can and will execute successfully. Acquisition of the VIVAT Non-life business by NN Group is subject to closing of the acquisition of VIVAT by Athora. In addition the acquisition of the VIVAT Non-life business from Athora is subject to the customary offer conditions, which include antitrust and thus Central Bank approvals.

We expect to close the transaction in the first quarter of 2020. At closing, we will enter into a service agreement with Athora to ensure a smooth transition during the migration period of 2 years. Let's turn to Slide .3.

The combination of VIVAT and NN Non-life activities will create a leading player in the Deutsche non-life market, adding scale mainly in the Motor and Fire portfolios, as well as in disability in accident. As I've already said, this additional scale will allow us to further improve underwriting and realize cost efficiencies. Furthermore, the combined company will be in a stronger position to invest in digital capabilities and innovation and to offer attractive products to our customers. In terms of distribution, we're adding another channel for the bank insurance agreement with the Volksbank, and we can also leverage on the digital and direct capabilities of VIVAT With that, I will hand you over to Delfin Rueda.

Delfin, over to you.

Delfin Rueda {BIO 7032761 <GO>}

Thank you, Lard, and good afternoon, everyone. The financial highlights of the transactions are shown on the Slide 4. Our capital position remains strong after the transaction.

The pro-forma impact on our Solvency II ratio is around 6 percentage points. Let me walk you through the various element in the Solvency II movement. Firstly the transaction price for the Non-life business of EUR 416 million is deducted from Own Funds. When we include the Own Funds and SCR as reported by VIVAT Non-life at the end of 2018.

Thirdly, the capital synergies reflect the expected diversification benefit in the SCR Over time, we foresee some further capital synergies following the expected legal merger and application of the NN Group partial internal model. Lastly, we will have some assumptions alignments, mainly relating to P&C reserving. As Lard already mentioned, the additional scale is expected to lead to pre-tax cost synergies of around EUR 40 million per annum by 2022, driven for example by removing overlap in the complimentary portfolios, IT and oversight functions. We expect the incremental free cash flow to grow to EUR 50 million per annum by 2022.

We also anticipate that the IFRS operating result will be roughly in line with the free cash flow over time. There could be a temporary negative operating result contribution in 2020, reflecting the impact of various day-one alignments, as well as some portfolio churns and pruning. Following this, we expect profits to grow driven by the realization of cost synergies, operational improvements such as insurance and claim ratio of the optimization and the impact of shifting to higher yielding assets. The return on investment of this acquisition is expected to exceed our cost of capital.

This is consistent with our equity story of deploying capital in value creating opportunities. Please note, that we have also agreed to acquire the Tier 2 loans that the VIVAT Holding Company granted to VIVAT Non-life or an amount of EUR 150 million. The coupons of these loans will provide an additional cash flow of around EUR 10 million per annum. I will now, pass you back to Lard for the warp up.

Lard Friese {BIO 17008174 <GO>}

Yes. Thank you, Delfin. Let's go to Slide .5.

We believe that this transaction is both strategically and financially compelling. The creation of a larger, stronger, more efficient in dynamic business will be beneficial for our customers. We will be better placed to offer attractive and relevant customer propositions and further enhance our customer experience. The transaction is expected to deliver a double-digit return on investment and after the acquisition the balance sheet remains strong.

We can and will successfully execute on this transaction and deliver the benefits. We've shown that we can integrate a business and extract synergies, and therefore we are confident in our ability to do the same with this one. This transaction reinforces our ambition to be a company that matters to all our stakeholders. And I would now like to open the call for your questions so.

Liz, over to you. (Question And Answer)

Operator

Thank you very much. Ladies and gentlemen, we will start the question-and-answer session now. (Operator Instructions) The first question is from Mr.Ashik Musaddi, JP Morgan.

Your line is open. Please go ahead, sir.

Ashik Musaddi {BIO 15847584 <GO>}

This is Ashik here. I just have a couple of questions.

First of all, after this P&C deal. Can you just give us some clarity as to what is your M&A appetite for the Dutch business? I mean are you still okay to do asset management deals, Life deals and P&Cs? Any thoughts on that given that you're now pretty big in Life for the pretty big Non-life? Second question is, can you just give us some clarity as to what happens on the dividend and buyback for coming years? I mean is this deal accretive to the dividend from coming years, which is like 2020-21. So when shall we see that accretion? And how should we think about buyback for in coming years from this one? Because you have, like, used up around $600 million cash? And the last one is, is there a possibility as to what assumptions you are using with respect to combined ratio for this acquisition? Thank you.

Lard Friese {BIO 17008174 <GO>}

Yes, thank you Ashik.

So I will do the first one and then -- can you Delfin take the other two questions. So the first one, to be honest the Ashik, we've just announced this transaction this morning, we work today to work with media and investors to communicate this. And the next step that we're going to do. After today is to work on the closing and that's going to be a focus for this and we hope to close as we said in the press release, in the first quarter of next year.

We have a thriving platform in the Netherlands, as you rightly point out, in both after the Delta Lloyd acquisition and when this transaction is closed, we have indeed market leading positions in many areas. So we're very pleased with that. And I'd like to leave it with that. Then when it comes to the other two questions, Delfin?

Delfin Rueda {BIO 7032761 <GO>}

Yes.

Thanks Lard. And Ashik, thanks for your two questions. The way I see this acquisition is not more not less than another proof of our application of our capital management policy and our strategy, the same way that we have stated it over time. This is a transaction that provides a good return on our surplus capital with a return of double-digits, and as a consequence the capital policy including our dividend policy, we stay unchanged.

We will evaluate when we have surplus capital and how we will deploy that through the ordinary dividend but also with share buybacks, if the case were to be that -- that important to say that based on our financial flexibility today, we can do the acquisition, funding it from our own cash at holding. And the current share buyback is stay intact. So we plan to execute as planned with 500 million share buyback expected to be completed by the end of February. And if anything -- of course, we do especially with the increase of the free cash flows that we have estimated at around $50 million per annum, that with increase of course the available free cash flow generation and with that the dividend going forward.

In terms of the combined ratio, as you can imagine with significant cost savings, the main benefit on the combined ratio will be the reduction of the cost ratio. But, also we have prudently -- but gradually included some improvements on the underwriting as well.

Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thanks a lot.

Operator

The next question is from Mr.Matthias de Wit, Kempen. Your line is open. Please go ahead, sir.

Matthias de Wit {BIO 15856815 <GO>}

Yes.

Good afternoon and thank you for taking the question. Can you just to come back on the cost synergies. Can you provide maybe a bit more color maybe on the breakdown between underwriting and cost on the one hand? Also maybe on the phasing of the cost synergy, is there anything you can say on that? And then secondly on disability, there has been a regulatory change, which will -- which means that it will become mandatory to take out disability insurance to self-employed. Just wonder, if you consider that major positive or whether that could drive growth going forward of the business? And then lastly, is there anything you can say on how profitable VIVAT Non-life business is today? Yes, in last year there was a result release, there was also the storm impact, it's difficult to see how profitable it is at this point in time.

Thank you.

Lard Friese {BIO 17008174 <GO>}

Yes. Thank you, Matthias for your questions. I will do the first two and then hand over to Delfin for the third question.

So on the cost synergies, the synergies that we see in this business are synergies around that technology. So migration for portfolio to target systems. Obviously, removal of overlaps in portfolios and in some roles that have overlaps, so those are some areas, there's multiple areas where we see the ability after we've done obviously good due diligence for protocol synergy. On the other point about the self-employed and what you're referring to is a headline agreement that has been struck in the Netherlands on the overall pension system in Netherlands.

And is part and parcel of that, the position of the self-employed at whether or not they should have a mandatory with an opt-out disability insurance and taking -- that area is an area, which still needs it's headline, that is headline agreement is still by the way an agreement that needs to devoted upon by the members of trade unions. And the second thing is, that it's a headline agreement. So there's a lot of details missing at this point, and there is very difficult to gauge what that particular element would mean at this point. So, then we go to the third question, Delfin.

Delfin Rueda {BIO 7032761 <GO>}

Yes, Matthias. Well there is some public available information of VIVAT Non-life. I think for the 2018 annual report as you see a net profit of EUR 9 million. I think it's fair to say that the overall profitability is limited at this point of time and that there is room for further improvement of the underwriting result.

The way we have of course assumed, how this evolve in order to assess a valuation and assess the impact on NN Group going forward, is that we expect in the short-term probably the first year after acquisition still some negative impact on the operating results, due not only for proven assumption in terms of the underwriting, but also in terms of potentially some resurfaced strengthening. Looking at also the fact that under IFRS is day one balance sheet, you need to recognize the net present value of future profits of the Disability and Accident business. And that's going to have some reduction on the profitability of the company. So overall, we expect some prudent improvement of the underwriting going forward and very significant cost savings.

The reduction on the cost of insurance as well and some other small things, which will drive these improved profitability on the range of the EUR 50 million as from 2022 onwards.

Matthias de Wit {BIO 15856815 <GO>}

Okay. Thank you.

Operator

(Operator Instructions).

The next question is from Mr.Bart Jooris, Degroof Petercam. Your line is open. Please go ahead, sir.

Bart Jooris {BIO 3470300 <GO>}

Yes.

Good afternoon. Thank you for taking my questions. I have basically three. Could you give us an idea of an estimate of the integration costs you foresee? Then on the other hand you can talk about cost synergies, but you also have new distribution channels, that you see revenue synergies there and you have an idea how high these would be? And then lastly given the limited profitability of the business at VIVAT, was there an improvement program foreseen already? And which guarantees do you have that will be continued in the year that's -- let's say a little bit more than half a year, that's still going on before the closure of the deal?

Lard Friese {BIO 17008174 <GO>}

Yes.

Thank you, Bart. The estimation of the integration costs and for question number three about the profitability, I'm going to ask Delfin to take care of that. Let me comment on the distribution channels. So, on the distribution channels that VIVAT Non-life is using, is mandated brokers, intermediaries.

So let's say independent broker, direct and of course the distribution agreement with Volksbank. So the bank which should be contain [ph]. And these channels are channels that we -- that of course NN Group also operates, but the Volksbank is obviously a new channel as we currently work with -- on the banking side with ING and with ABN AMRO So, we expect some revenue synergies, we expect to improve the abilities, drive profitability in the market by becoming larger, because we -- in this transaction we take out of course a competitor. And as a result, our strength in the distribution channels is also increasing in terms of our position that we have with our distributors.

There is -- on the revenue side also reinsurance optimization that Delfin already mentioned earlier. And we also need to be realistic, that could also be some partly offset by some cheering of existing customers. So if you -- those are kind of the comments that we can give on the revenue synergies as we thought about that. So with that, I would like to hand over to the Delfin for your other two questions.

Delfin Rueda {BIO 7032761 <GO>}

Which were the integrating cost. So Bart, I think it is early to be very precise about that. I think the restructuring cost we expect to be consistent with our own experience and with precedent transaction of similar size, this is of course in market transaction and there will be some restructuring cost as it has happened also in previous transactions like Delta Lloyd. In terms of the -- if the company has an improvement, if NN has had a -- has an improvement program, I think that when you look at how the profitability of the company has evolved over the last years, there has been a very mark improvement of profitability.

And I think that they have done a very good job on the position they have started with. And I do expect -- we do expect that it will continue over 2019 and going forward.

Bart Jooris {BIO 3470300 <GO>}

Did you get any guarantees on that or vote of confidence?

Lard Friese {BIO 17008174 <GO>}

Maybe, I can add -- maybe I can add Bart that we have a target of 97% or below for our combined ratio. And if I look -- as Delfin was saying actually, if I look at the improvement that we're seeing in the last five quarters.

We've seen absent of the large storm, right, that we had in the first quarter last year. And I know that this is part and parcel of our business, but if you want to track whether your measures are taken effect, you need to take that little bit out of the way to see the underlying improvement. We're now seeing five quarters in the row of combined ratios below 100% and also with an improvement track there. So you've launched that program in the Capital Markets Day of 2017.

We at that time said that we needed 24 months for measures to emerge. We are gradually seeing that this emerge -- so the recipe that we're basically applying for our own business, is something that Delfin rightly said, is something that we also aim to apply to the the acquisition once we close it. And this has to do with expense reductions, this has to do with improvements on let's say re-pricing risk, also on a case-by-case basis on and especially as some new risks. Looking at have we really got the right underwriting conditions in place.

And there are also sometimes co-products, if we believe that certain risks, that cannot be managed through the life cycle in a profitable manner. And though that recipe will also be applied to that business to ensure that we also bring that business to a better place in terms of profitability.

Bart Jooris {BIO 3470300 <GO>}

Yes. I appreciate that.

But my question was more about what was going on at VIVAT during the time that still will pass before let's say the end of the year that when you closed the deal. Because looking at results of 2018, there could be still some improvement be made over 2019. We have any agreement with them that they will not just, let's say stay as is for the coming time?

Delfin Rueda {BIO 7032761 <GO>}

Yes, Bart. As I said before, we have seen that system management has improved the profitability of the business, as you know, gradually.

And that they are as you know doing the right thing. So, we do expect that for the rest of the year 2019 or until the date at the transaction is completed. That they will continue with the resisting initiatives and perform on that way. If your question is it from a legal point of view, contractually point of view, we have a particular agreement of how this is going to evolve.

The answer is no.

Bart Jooris {BIO 3470300 <GO>}

Okay. Thank you very much.

Operator

The next question is from Mr.Farquhar Murray, Autonomous.

Your line is open. Please go ahead, sir.

Farquhar Murray {BIO 15345435 <GO>}

Good morning, gentlemen. Just three questions, if I may.

First, just in terms of the cost base that's coming across with regards to the EUR 40 million of synergies that you're achieving. I just wanted to frame that EUR 40 million. I just wondered if you could give us the cost base against which that's happening. Obviously we've got some of the non-life entity.

I just wanted know anything else in there? And then secondly, on the additional capital synergies that will come after the immediate closing. I just wondered if you could provide any kind of time frame around that perhaps some details as to where those are expected eventually come from? And then finally, just a little bit of follow-up on that question around kind of control over the business. Can I assume that management control of the Non-life business will occur in 1Q '20? And could I just get a little bit of detail around what the service agreement relates to in terms of which elements the business come under that part. If that's possible? Thanks.

Lard Friese {BIO 17008174 <GO>}

Yes. Farquhar, thanks for your questions. The first two one -- I'm going to ask Delfin to taking the first question, I will take myself.

Delfin Rueda {BIO 7032761 <GO>}

Yes.

The cost base for the Non-life always had -- VIVAT has had -- is administrative expenses of EUR 115 million, that was the administrative expenses basis as of the end of 2018. So, you could use that as a reference for the synergies that we expected to achieve the EUR 40 million. So, is approximately 35% of that amount. In terms of capital synergies, the majority of the capital synergies are obtained already at the day one due to the diversification.

Mainly the diversification benefits that happened at group level, as the Non-life business diversified very well, away from our majority life exposure that we have at the group. The additional benefits that will come following the legal merger and a way we use the partial internal model of NN into the activities of VIVAT, this will be more limited and it will happen once we agree with DMV our regulator, and I will do that in due course. But the majority of the capital synergies are already reflected as of day one and presented in the Slide 4 that we have showed before.

Lard Friese {BIO 17008174 <GO>}

Yes.

And on your third question Farquhar. Control over the business at the time of closing, so when we closed the transaction. We aim to do that in the first quarter of 2020, but obviously we are -- depending on the timing of which regulatory approvals come in. Then when it comes to the service agreement, we are entering indeed with Athora that time on the service agreement and the reason for that is that VIVAT Group is a group, which has a holding -- services are provided by the holding for let's say the asset management and Life company in the one hand and then the Non-life business on the other hand.

What we then need to do, is we of course then after closing when we take control, we go over the business, we and Athora need to work together to ensure that continuity of services can be provided as we are disentangling that business and making sure that we can take out the non-life fees and subsequently integrate that non-life fees into NN Group. There is a time period that we need for that and in that period we need services and those services obviously are all -- have all been agreed with Athora at that particular point in time to take effect in this, and that's what this service agreement entails.

Farquhar Murray {BIO 15345435 <GO>}

Okay. Just a follow up on that.

And you're going to use the full 2 years for the asset management kind of transfer then? Because it seems quite a long phase that other one?

Lard Friese {BIO 17008174 <GO>}

No. Let me say, we don't -- the asset management and life remains with Athora. So, there's nothing that we -- we have no -- let's say this is -- this pertains solely to the Non-life company, that this transaction for us is in scope. What is not in scope, not in scope is life and asset management, asset management also grows with the product.

Farquhar Murray {BIO 15345435 <GO>}

All right. Thanks a lot.

Operator

The next question is from Mr.Robin van den Broek from Mediobanca. Your line is open.

Please go ahead, sir.

Robin van den Broek {BIO 17002948 <GO>}

The regulatory approval attached, it is given that the profile of the VIVAT file, I guess the regulator has already been looking at what's going on. So can you maybe comment a little bit into what extent this has been blueprinted already? And maybe you can share the level of comfort you have on antitrust matters with regards to AFM Thank you.

Lard Friese {BIO 17008174 <GO>}

Yes.

So first some of the -- Robin, good afternoon. Let me take these questions. Obviously, we maintain a good relation and professional relations with our regulator on an ongoing basis. And obviously, but we need to apply for declaration of no objections, et cetera.

And that's a process, which takes time, it's something that we have experienced and as you know, and we just need to work with the regulator through this. And I cannot speculate any particular outcome of the timing of that, but we expect to close the transaction in the first quarter 2020. When it comes to the antitrust question you had. We foresee no issues on antitrust.

Robin van den Broek {BIO 17002948 <GO>}

Okay. That's very clear. Thank you.

Operator

The next question is from Mr.Jason Kalamboussis, KBC Your line is open.

Please go ahead, sir.

Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Hi two quick questions. The one is in the Netherlands now you have loan position basically non-life.

Would you expect to be able to achieve, that means you're still in a fragmented market. But now you will be by far having a leading market, -- market share. So if you could give us any idea and highlight how you can leverage this position and by when? That would be great. The second thing is for the combined ratio, I mean as you said it on you're trending very well.

Now of course maybe some or at least I had expectations that maybe something, your target could be reviewed earlier. Now with the transaction is probably too much to ask, but do you find that we will have for example once you close the transaction, review and again renewal of targets or maybe not. So basically something that could come in the second quarter of 2020. Is that a reasonable expectation? And the last quick one is, when I look just at the presentation, you had the 2% market share loss in a certain way looking at the Delta Lloyd presentation on the presentation today on how you present your market share.

Now of course there are some businesses that you are happy to let go, some overlap of the clients. Is it something you could quantify on this transaction?

Lard Friese {BIO 17008174 <GO>}

Jason, thank you very much. You're breaking up a little bit in the last question. So can you please repeat that please the third one?

Jason Kalamboussis {BIO 4811408 <GO>}

Yes.

In the last, if I look at presentation you had for Delta Lloyd, you were showing a market share of I think 23% -- 24%. Now you say your market share is 21%. So that is understandable because maybe you had an overlap with some Delta Lloyd clients, probably there are some business that you -- you shared as part of the merger. So basically there is some attrition.

So I was wondering if it's something that you would -- if you could give any comments on what you would expect with the transaction today with VIVAT?

Lard Friese {BIO 17008174 <GO>}

Yes. I understand your question now Jason. Thank you very much. So let's first -- let's take them all three.

The first one. Yes, we've said that this transaction has 5%, roughly to the current market share that we have and indeed to become a market leader in Non-life. And obviously with that, we have a large position in the Netherlands the market leader -- leadership position. And we aim to use that additional scale to help drive profitability and drive synergies out of the platform that we have, which is a thriving platform.

Certainly after this acquisition. We have targets that we have set ourselves, 97% combined ratio or below. And if you take a step back that those targets are in place already as you rightly point out. And let's take a step back we expect, but we actually aim to achieve.

What we aim to achieve, is that we aim to build a structurally sound, well run, profitable large Non-life company. And we aim to do that by using our scale to drive efficiencies and improve the expense ratio. Number two, use this scale with all the data analytics and underwriting inputs that we get to improve the underwriting capability that we have. We also want to use that scale to attract people, to move to new technology, which allows us to far quickly than in the past far more quickly and responsive in the past, re-price and a response to changing market dynamics.

And as a result, what we aim to build is a capability that structurally is a sound and well run Non-life company with currently a target of 97% or below. We are making progress in the many measures that we are implementing, we are aiming to also after this acquisition put the similar medicine if you will to just to strengthen the profitability of the business as a whole. We are making progress, there's a lot more work to be done to obtain our objective of 90%, 97% or below but the ultimate objective is sound well-run profitable, large Non-life business leveraging the scale that we have. If we then go to the point, I think I covered basically the two first questions you had.

And the third one has to do with, yes, some -- we said that could be some churn as you improve -- as you take some measures, et cetera, we've done that also in the last acquisition that we did. If you apply measures to improve the profitability of your business, we've also called product lines to certain products we stopped. When we may see market shares that have a slight shrinkage that could happen. But the point here is not, that we're going to market share, we're going to profitability as a priority.

And I think that needs to be taken into account.

Jason Kalamboussis {BIO 4811408 <GO>}

Yes, just to come back -- just a quick follow up on the churn point. Are there specific areas that you can identify and that you can see at this stage? Or it is more something that will come naturally after integration takes place?

Lard Friese {BIO 17008174 <GO>}

This is a very -- the process that we're going through also in our current business, where we do a lot of profitability improvement actions, underwriting improvement actions premium changes and all that. We aim to do that very thoughtfully.

So, there is not a one size answer for this. We deliberately prioritize profitability over market share, that's I think an important message to give. The second one is that as a result of that, obviously you try to balance and you want to make sure for instance if you look at car insurance, that you don't do a re-pricing across the book, so that your good drivers for instance are being chased away from you. Going to competition and you're left with a relatively poor overall profile.

So, you need to do it very thoughtfully and that's what we do. But if at the end, all the actions combined, in the end would lead to some attrition, the objective is profitability, not market share.

Jason Kalamboussis {BIO 4811408 <GO>}

Fantastic. Thank you very much.

Operator

(Operator Instructions) The next question is from (inaudible) Young, Morgan Stanley. Your line is open. Please go ahead.

Analyst

Hello.

Thank you for the chance. And just to ask two questions please. First one is to clarify that the return on investments that investment does that includes 150 of the internal loan? And do you plan actually to remove that internal loan after the deal is closed? So that's question one. And then second one is apart from this EUR 150 million internal loan VIVAT Non-life apparently, if you look at their disclosure, they still have some other related party transactions with the other part of the VIVAT Holdings.

I've just wanted you to please confirm that actually all this -- the cost -- the change of control wouldn't kind of pose significant risk in terms of whatever the related party transactions with the rest of VIVAT holding? Thank you.

Lard Friese {BIO 17008174 <GO>}

Yes. Thanks, Philly[ph] for your question. So, can I -- Delfin?

Delfin Rueda {BIO 7032761 <GO>}

Yes, Philly[ph] on the return on investment ,you can see it from different perspectives.

Either you see, that cash out flow is relating to the price consideration EUR 416 million. You can see thus including their EUR 150 million internal loans, because this doesn't -- also on cash out flow. Either way you would have different cash flows over the years, but to have an idea, it will be there EUR 50 million coming, if you take only the element of the cash or EUR 60 million, including the proceeds derived from the interest of the intercompany loan. We do not plan and therefore in both cases as you get into our return on investment, that way we always look at it in a very simple way is what is the amount of cash outflows and what are the inflows that are expected to come in.

And that is what comes with our return on investment of double-digit. You -- second part of your first question related to, if we have intention to cancel this intercompany loan? And the answer is. no. We also have also a Tier 2 loans with our other subsidiaries.

And this is a very efficient way in order to capitalize the subsidiaries. So the intention is to maintain this loan going forward. Just to make sure that there is no confusion there, let me say that there are no other loans or commitments. So the intercompany transactions are something within the group, which does not relate to third-party.

And of course those will be clear in the normal course of business.

Analyst

Thank you. And my second question was about whether the change of control will change it of the -- affecting any of the related party transactions?

Lard Friese {BIO 17008174 <GO>}

No. I was not aware of any change of control.

I don't know in the other party transactions that you are referring for example to our distribution agreement with Volksbank. But also here there is no change of control that will interrupt the distribution agreement.

Analyst

Okay. Thank you.

Operator

Mr.Friese, there are no further questions. Please continue.

Lard Friese {BIO 17008174 <GO>}

Thank you, Lize. Thank you all for being available today at this call.

And thank you for your questions. Before we end the call, let me just sum up by saying that we are pleased to announce the acquisition of VIVAT Non-life today. We think the acquisition is both strategically and financially compelling and will benefit all our stakeholders. I wish you all a very good remainder of this day and for later on a very nice weekend.

Thank you very much.

Operator

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

And have a very nice weekend.