Y 2016 Earnings Call

Company Participants

- Chris Figee, Chief Financial Officer
- Jos Baeten, Chief Executive Officer
- Michel Hulters, Head of Investor Relations

Other Participants

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

Presentation

Operator

Good day, ladies and gentlemen and welcome to the ASR Conference Call on the 2016 Annual Results. Today's conference is being recorded. At this time, I would like to turn the conference over to Michel Hulters, Head of Investor Relations at ASR. Please go ahead, sir.

Michel Hulters {BIO 19111905 <GO>}

Thank you, operator. Good afternoon and good morning to those of you listening in from the US. Thank you for joining this conference call on ASR full year 2016 results. Presenting today are Jos Baeten, CEO; and Chris Figee, CFO. Jos will start today's call with a summary of the full year results and he will also discuss some strategic highlights and business progress. Chris will then provide further detail on the financials and he will talk you through solvency and capital as well. Following these presentations, we'll have ample opportunity for Q&A, but please also have a look at the disclaimer in the back of the presentation for your -- to use [ph].

Having said that, Jos, you are on.

Jos Baeten {BIO 2036695 <GO>}

Thanks, Michel. Ladies and gentlemen, 2016 was, to our opinion, without doubt a successful year for ASR. Our strategy of value-over-volume delivered on its promises and we are proud to report a very strong set of financial results for 2016. Throughout the year, we have been able to keep our business momentum at a high level and our full year performance is in line or sometimes even better than our medium time -- medium-term targets. But make no mistake, these targets are challenging and it's hard work to get these results, and we will continue to work hard and that's a promise.

We will discuss our financial performance and strategic developments in more detail, but let me start off with an overview of some of our key metrics and those are on slide two. The highlights on this slide clearly show that our performance in 2016 has been strong on almost every key metric. Our Solvency II ratio is robust at 189. This is based on the standard formula, as you may know, and after deduction of the proposed dividends already, before dividend ratio by the way was 194.

Quality of our capital remains high as well with Tier 1 capital alone representing almost 160 of the SCR and then there was still plenty headroom to maneuver in both terms of Tier 1 over 1 billion and Tier 2 almost 700 million. Our operating result was up 11.5% to almost 600 million, and this yielded an operating return of more than 14% compared to our targets of up to 12%. The strong capital position combined with the business operating results and the return on equity above target showed strength of our franchise. This performance triangle is key in assessing how well we are doing. We are particularly proud on the combination of a solid return on equity, robust solvency and low leverage.

Then the operating expenses, those went down by 1% and this already includes the absorbed regular cost base of EUR13 million from the business that we acquired as well as IPO-related cost. The focus on continuous expense reduction delivers results. In our Non-life segment, we've been able to keep the combined ratio in the 95-ish range, ahead of target of 97. Please bear in mind that this combined ratio already includes significant claims from hail and water damages in the first half year of 2016.

We noticed recent comments in the industry on exposure to bodily injury claims. We have only limited exposure to this. With reserves amounting up to almost EUR400 million, i.e. less than two-third from our annual operating profit. We do not expect any adverse developments from this.

Our business generated more than EUR300 million organic capital in 2016. This is in line with the guidance we gave at our IPO and is still based on our original investment return assumptions. For your reference, in 2015, we generated EUR264 million of organic capital. When we also take into account the additional capital generated by excess investment returns and operational efficiencies, the total capital accretion amounted to EUR475 million. Chris, will come back to this later.

This last number is of course before dividend. Our strong solvency position enables us to remain entrepreneurial. As we have said, everything above 160 basis to be an entrepreneurial to pursue profitable growth and pay an attractive dividends to our shareholders.

Now talking about dividend, this is significantly up to driven by strong financial performance and confidence that we have in our business. We have decided to raise the dividends to EUR`187 million. This is up from the EUR170 million last year, and also exceeds the guidance at IPO of discretionary dividends for 2016 of EUR175 million.

Our strong solvency enabled us to also participate in the recent sell down from the Dutch State. We purchased 3 million shares in this transaction -- roughly 66 million. In doing so, we reached the limits of our current mandates to buy back shares. And as already said several times, at the upcoming Annual General Meeting, we will request a new market consistent mandates to buyback our shares. This may provide us the flexibility to participate in further sell downs by state.

So, let's now turn to our business portfolio, and show some strategic developments during the past year. In slide three, this is slide three. In 2016, we have also made considerable progress in executing our strategy and optimizing our business portfolio. I'm sure you're familiar with this matrix in which we plot our businesses and this slide highlights some important developments and achievements.

In the top left of this slide, in box A, are our businesses that provides stable cash flows and here we focus on organic growth.

Disability is a key product line in this segment, and a proposition that combines disability and health, the so called Doorgaan-proposition is gaining traction. An advantage from this combined offering is the increased retention levels of the profitable disability products. Both in disability and P&C, we were able to grow our premium levels. Market share data is not available yet, but we believe that we have been able to grow our market share significantly, whilst at the same time maintaining a very healthy combined ratio.

Our funeral business has successfully completed the integration of AXENT. This was executed very well ahead of schedule and we've been able to absorb the business with minimal additional headcount. When we acquired the business, headcount was 62 FTE and we now run the same portfolio with only 29 FTE.

Now it is integrated to actually, can achieve the cost benefits from the migration to our low-cost platform. Our funeral business will now turn into integrating NIVO, which was acquired at the beginning of last year. This should be done at the latest in the first quarter of 2018. Further on, we remain interested in funeral books. However, it may take some time before a book becomes available.

In the capital-light space that's in box C, at slide three, we have made further progress as well. We've acquired BNG Asset Management and the integration and acquisition in the meantime has been completed. So the business today is fully integrated in our own business.

Another example is the launch of the Dutch Mobility Office Fund. In December last year, we brought the office portfolio from NS to Dutch Railways. This portfolio comprised 15 offices and 9 offices were included in the newly found ASR Dutch Mobility Office Fund. In

February, we sold the other six offices. Clearly, we have strengthened our position in Asset Management and fee-income business as promised at our IPO. Thirdly in this segment C, we're also pleased to see organic growth in DC business. This has been accelerated over the last year. Assets under management in DC, more than tripled and sales doubled.

And finally, the acquisition of SuperGarant and Corins have been completed, and together with the existing distribution activities, we expect this to show further traction in 2017.

In box B, on the left angle down are the large service book -- service books that we manage. Maintaining a low cost base is crucial. We've expected declines in particular individual life portfolio, roughly 50% in the next 10 years, we are verbalizing the cost base, so that our cost key base with the declines of the book. We are on track in realizing a medium-term cost decrease.

Finally, box D. As you already know, we're also there to (Technical Difficulty) slide of the operating results. The operating results increased EUR62 million to EUR599 million. Lower earnings in the Non-life segment was more than offset by an increase of EUR110 million in our Life segment. While the combined ratio remain strong at 95.6% in 2016, exceeding the target of 97%, the operating results in Non-life was mainly impacted by the lower direct investment income, the hailstorms in June and lower contribution from the equalization system in health. The lower contribution was by the way EUR16 million -- 16.

The P&C business performed well, including the absorption of the hail and water damage claims, which impacted us by EUR25 million earlier in the year. The increase of EUR110 million earnings in Life is primarily related to the positive contribution of the acquired companies, EUR22 million and a higher investment related result on swaptions. The increased release of realized gains reserve compensated the lower direct investment income as you may notice.

The operating result of non-insurance activities showed a decline of EUR15 million, mainly due to higher interest expense in the holding of EUR17 millions. This is related to the issuance of the Tier two subordinated debt to EUR500 million in September of 2015. Acquisitions contributed to an increase of the operating results by EUR8 million in the Distribution and Services segments.

So, let's now turn to slide five. Not only the full year went well, also the quarter-by-quarter developments show the strengths of ASR. I'm especially proud of the quarter-on-quarter's combined ratio.

This is already the 12th consecutive quarter that are combined is below 100. This in combination, with the organic growth of our Non-life business shows that structural underwriting loss making Non-life business is not necessary to grow our top line.

On slide six, on cost, one of the key drivers of solid operating earnings and long-term value creation is our ongoing focus on cost discipline, which has become part of our culture and daily operations. In Non-Life, the expense ratio improved from 8.9 to 8.3. In Life, the expense ratio was also better 11.7 instead of the 12.3 of 2015. All-in-all, operating expenses decreased from 5.75 to 5.69, a decline of 1%. This picture by the way is actually somewhat distorted by the acquisitions we've done in 2015 and 2016.

On a like-for-like basis, that means including the full annual cost base of all of the acquisitions, the 2015 comparative cost level would have been EUR604 million and this will then result in a decline of 35 million. So we are able -- we have been able to absorb the full cost base of the acquired businesses. Measures taken to reduce our cost base are fully on track and on a target.

So let's now turn to the Non-life segment, which is on slide seven and let's have a closer look on this segment. In the Non-life segment, our underwriting expertise is market leading. All Non-life product lines showed combined ratios below 100 and we are proud of that. Even including the impact of hail and water damage claims, we've been able to keep the combined ratio in a 95-ish range better than the target of 97.

Also noteworthy is the favorable development in our expense ratio, as I already mentioned. Market developments towards more rational prices allowed us to both grow our top-line with an overall growth of 6% in the P&C and Disability business.

Operating result in the Non-life segment continues to be strong. The exceptional hail and damage -- hail and water damage led to a specific claim cost of 25 million after reinsurance. We also, by the way, experienced an increase in the number of large claims roughly 7 million relative to multi-year historic averages, which have been covered in part by reinsurance contracts, by the way.

Even after those, our P&C combined ratio has remained strong without unduly relying on reserve releases. The underwriting results of the Disability business improved. This is driven (Technical Difficulty) volumes reflecting the recovery of the economy in combination with the expertise in claims handling, prevention and reintegration.

Our Health insurance businesses reported lower earnings due to lower benefits in combination with higher claims estimation from the Dutch National Healthcare Institution. In addition, we also experienced higher dentist claims for supplementary health insurance. The total effect amounts to a decrease of 25 million, but still delivering at the IPO target of 99% combined ratio.

So now let's turn to our Life segment. That's on slide eight. As you may now, our Life segment comprises three major product lines: individual life, which is 40%; pensions, which is 50% in terms of reserves; and finally funeral insurance, which is 10%. Although, by the very nature of the product, we would expect funeral to increase gradually in the future.

Gross written premiums of the Life, total Life segment rose by 10% to more than 2 billion. The decrease in the individual life portfolio was more than offset by the growth in the funeral business, including the acquisition of AXENT and NIVO, and our pension business due to the acquisition of De Eendragt. The DC pension also contributed to the growth, including customers switching as a result of the commercial integration of Eendragt.

Single premiums in the Life segment increased by 162 million to 734 million. The increase includes the transfer from the funeral portfolio of NIVO and the pension contract for AstraZeneca. New business went up by 60 million to 152 million in 2016. Excluding NIVO, by the way, the underlying growth of the Life segment was 8 million. In the pension business, the shift from capital in terms of defined benefit products to capital-light products is making progress. We, as already mentioned, noticed a doubling of new business.

From an earnings perspective, and I'm on slide nine, the Life segment is a major contributor to the overall group earnings. The operating result rose by 110 million, driven by higher income from, first of all, the realized gains reserve, the shadow accounting from a higher contribution from acquired businesses as well and from a higher investment related to result on swaptions, whose gains also feed through our capital gains reserve.

We also benefited from some portfolio management decisions and Chris will discuss those later. Important to note, as the bar chart on the top shows, the lower direct investment income is offset by higher regular contribution from the realized gains reserve on the shadow accounting. This shows the stabilizing effect from the shadow accounting method under our interest rate hedging program.

Operating expenses in the Life business, including the additional costs of acquisitions, which by the way were 8 in the Life segment decreased by 2 million to 203 million. Due to the successful integration of the acquired businesses into ASR ICT platform, we were able to capture scale benefits. As a result, the cost premium ratio improved 6 -- 0.6 percentage points to 11.7.

During 2016, further steps were taken to achieve cost savings ambitions.

As discussed, this includes the migration of several product and system combinations into a new single platform. Overall, the Life segment delivers very good returns. The operating return on equity increased to 11.9, while the life insurance margin rose to 3.7 being 3.4 in 2015.

Turning to slide five to the various activities in non-insurance. These are performed broadly in line with expectations. In the Distribution and Services segment, we have acquired SuperGarant and Corins and we expect them to get away with the existing distribution entities of Van Kampen Groep and Dutch ID to gain further traction this year.

In the Banking and Asset Management segment, the acquisition and integration of BNG asset management has been completed and showed early success in winning an asset management mandate of 1.7 billion. The operating result of ASR Bank was lower than expected, reflecting actions to further improve the organization.

So now let's move to the comparison with our IPO targets. I believe in the past year, we have delivered the proof that we are executing our strategy diligently and consistently, without -- with our equity story. Our one quote in the reports we've seen this morning summarized it even better and the quote was ASR continues -- ASR continued undisturbed on its behalf of over-delivering on its IPO promises and we couldn't have said it in a better way. Our financial results are strong and profitable, and our balance sheet is robust.

As I mentioned in the beginning of the call, make no mistake, it is hard work to get these results and these targets are challenging in the Dutch insurance environment, and I'm confident that our ambition stems high in any fair comparison in the Dutch market.

And on slide 12 to finalize, year-on-year, we achieved better financial results, driven by strong business performance. And the steady increase of operating results has enabled us to also increase the returns to our shareholders. Over the past years, we have built a solid track record of paying dividends. The proposed cash dividend of EUR1.27 per share is an increase of 12% compared to last year. The return of cash to shareholders is also underpinned by our recent share buyback of 3 million shares in the sell down of the Dutch state.

This year, in 2017, a new dividend policy has become effective. The annual dividend will be based on a payout ratio of 45% to 55% of the net operating result attributable to shareholders, i.e., net of hybrid costs. We applied, by the way, as you know, a boundary condition based on our Solvency II position, where we would not consider to pay a cash dividend since the Solvency II ratio fall below 140. The proposed dividend of 187 million is fully in line with the new dividend policy.

And now for more financial detail and further information on our solvency position capital generation, I will hand over to Chris, he will continue to build momentum towards slide 22 and 23.

Chris Figee {BIO 18815839 <GO>}

Thank you, Jos. Over to the financial update and continuing on the momentum that characterizes our funds or (inaudible) for our Company. Moving to page -- turning to page 25, I'll take a few pages that I'll talk shortly about the few pages that I will elaborate more. Starting with the financial update, that is page number 14. As you can see the increase in operating results, whether we look at the IFRS results, which is up 4%, already operating result which is up 11.5%, we've seen an increase in results.

Details are in the appendices A to E, just a reminder on this page, the difference between operating result and IFRS result are the capital gains and incidentals. On the investment side with this year had a more normal year in terms of capital gains of around EUR170 million, which is kind of where we were in the long run in terms of capital gains. You might argue it's slightly lower than normal because we created a bit less in our land portfolio. And last year we had exceptionally high capital gains as we rebalanced our equities portfolio.

In terms of incidentals, last year we had a negative EUR93 million incidental relating to the provision for real estate development. This year we had a EUR100 million plus positive incidental from the finalization of the modernization of our pension scheme, will report of the previous unconditional inflation commitment. This elimination of inflation exposure led to a EUR100 million reduction of the defined benefit obligations, so plus.

Overall IFRS results are up about 4%, operating result up about 11.5%. Operating ROE this year at 14.1% similar to the 14.5% operating ROE we had last year. Actually the decline in the ROE was solely due to the higher base in the appendix. Appendix C you can see the ROE calculation, and the denominator in the ROE calculation moves up from 2.5 billion to 2.9 billion. So the small decline in ROE seem to decline because the denominator went up. Had we have the same denominator as last year, the ROE would have been 16%.

Moving on to the investment portfolio, page number 15. The portfolio increasing value to about EUR57 billion. Details are provided in the appendix H and I, there you can find breakdowns by asset class, and buy back asset classes. Couple of points to make. During the year, we made a set of tweaks to the portfolio to further optimize our return on capital, especially in the Solvency II context. And we basically continue to rotate out of equities and shifted to credits to mortgages and real estates.

In this move, the direct investment income of our book went actually up 3% despite lower interest rates. The direct yield -- the direct IFRS yield speaks about 2% to 3% -- 2.5%. If we include release from share of account in the capital gains reserve, the direct yield is still safely above 3% and it appears to stay there for the plan periods.

Highlighting mortgages and real estate, our mortgage book is now 18.6% of the total asset base. Gross mortgage production was EUR1.3 billion, the net increase EUR700 million mortgages. Our book is now at 50:50 splits between government guaranteed and non-government guaranteed, and we would like to point out about 75%, three quarters of our mortgage book either has a government guarantee or loan to value of below 75%.

Given this high quality nature, you will understand that the performance is good, that the book is developing very hopefully. The arrears numbers, mortgages in arrears, marketed arrears are less than 1.5% of the mortgage portfolio and the actual default or foreclosure costs are less than 1.5 basis point. So a very healthy solid mortgage book that we see quite a lot of client demand from institution investors wanting or desiring to invest in our mortgages and we're turning it into a mortgage product.

In terms of real estate, Jos already alluded to the fact that we acquired the office portfolio of the Dutch Railways, EUR275 million, effectively we warehouse these assets over the year-end. We bought them in December and they're on our balance sheet. In January, we saw EUR60 million of non-core assets, replaced EUR20 million already in funds or third-party clients. The remainder about EUR200 million will be part on our own book and part managed for third parties in a new funds.

So please note that EUR275 million office acquisition and real estate is actually a step towards another asset management, real estate asset management solution.

In real estate please note about 40% of our real estate portfolio is in land and people say they don't make that stuff anymore, so we're very pleased with our own land business.

The yield of the vacancies in our real estate portfolio is in 4.3%. For those of you with a more black perspective on the world and on our risks, the exposure to Italian banks is a EUR130 million all in fixed income. All in what we see is high quality institutions, exposure to Monte dei Paschi is EUR7 million only in a senior bond. So the amount of direct risks from some of the remainders of the crisis is very, very limited.

Finally, we made a number of changes in our liquidity portfolio to deal with swap spread exposure and to lock in our swap spreads, but we'll talk more about that when we get to page 25. Now let's first turn to page number 17, when we kick off the discussion on capital, key developments in cash and capital. This is one of the pages that I'll talk about very shortly, because just going through the numbers, Solvency II stand up over 189%, post the foreseeable dividend is to 194% pre-dividend compare that to 180% in our day one report, meant a total accretion of capital since the beginning of the year of 14 percentage points.

Organic capital accretion came out at 9% in line with the IPO guidance. During the year, we had number of comments and the suggestions to harmonize and update our definition. We'll talk about it later. Important to mention that the 9% is through the existing the old methodology. So we met our targets not by changing the model but by delivering on our goals.

Dividends at EUR127 per share, if you add back the cash dividend, if we add up the cash dividends of EUR187 million plus the 66 million shares we bought back or the value of shares we bought back. In January, the total cash return since IPO is EUR253 million or 8.7% of the IPO valuation. So we hope and trust that those who had confidence in our stock at IPO were duly rewarded.

Moving on to page 18, continue to build momentum on SCR developments. Some people call be old fashioned, but I found that I'd like to look a book value. In this chart, you can see IFRS equity book values indeed so we'll see eligible on funds. IFRS equity moved up from EUR4.2 billion to EUR4.4 billion, if we exclude the hybrids from 3.6 to 3.8. So an increase in book value as hybrids were up 6% over the year.

If you look at the equity base that we use for ROE calculation, which you can find the appendix moved up by 5% during the year. Eligible owned funds up to EUR6.3 billion, actually hybrids moved up by 4%. So if you take different book value licenses where it's Solvency owned funds, where as IFRS and actually hybrids or without realized capital gains, all by all means the book value of the group went up.

And we think in the long run, despite in the long run book values are good guidance for the development of any company. So we're pleased with the continuous accretion of funds of book value.

Page 19, it's group solvency figures. Page 19 depicts the own funds and the required capital, eligible own funds of EUR6.3 billion required capital of 3.3, divide one but the other we get 189% post dividend. So, we'll see couple of points mentioning worth on stock.

Tier 1 as I said 84% of total funds, Tier 1 ratio 158%. So a pretty solid construction of solvency, significant headroom available. We've noticed some discussion in the market around Tier 3 and Tier 3 capacity of tiering risks. Our DTA of the group is EUR11 million, which compares to the total growth headroom of EUR501 million for Tier 3 capital. So the net headroom in Tier 3 capital is EUR490 million, 501 minus 11. That means even if our DTA goes up, even if interest rates move to Tier 3 capacity or Tier 3 tiering is not at risk. Of course when you -- if you were to use the Tier 3 space, you can think about your ability observe any changes. But at this point in time, no tiering risk to the solvency of ASR.

In terms of eligible own funds, in the year, we observed a decline in volatility adjuster, which moved from 29 basis points in the beginning of the year to 18 for half year and 30 at the end of the year. So effectively, a drag or a headwind of around 9 points of solvency. So when you compare to 180 day-one to 194 pre-dividend, please note that is after absorption of a 9 point VA drag, so to speak. Just a little bit of color around the underlying accretive capacity of the group.

Double clicking or viewing in on the required capital in the Appendix, Appendix G, we've got a little more intelligence or data on the sources of the change in capital. If you go at market risk, our market risk is still 49% of the pre-diversification required capital, where we wanted to be. Remember, we are an insurance company of an investments fund, so we believe that market risk should hop around the 50%, could be a bit up, a bit below, but not too far off, and 50% is the number we feel pretty comfortable with.

Inside the market risk bucket, during the year, we lowered allocation or capital allocation to equities. We lowered capital allocation to currency risks and we increased capital allocation to spread risks and to leadership risk, that actually is a reflection of the portfolio (inaudible) and with a slight increased allocation to the long-term interest rate shock, which is a technical phenomenon as the curve changed during the year, the curve steepened during the year. The interest shock, the capital charge [ph] for a shock and solvency too went up. But by and large, out of equities, out of currencies into corporates, credits and into real estate, that's the delta behind the market risk number.

Other capital components, the life risk charge went down for the year. In the Life bucket, we had an increased charges for longevity, mainly which is a second order effect on the changing interest rates, offset by reduced lapse risk. Remember, our mass lapse insurance and due to lower cost risk, which is a benefit from the increasing integration of AXENT. So in Life, an increase in longevity more than offset by a decrease in lapse and cost charges, counterparty risk went up due to the allocation of mortgages and LACDT, a small support to capital from Delta and LACDT and we'll come to talk more about it later, and no doubt, in your questions.

So in summary, we look at the capital requirements. We had reductions in required capital, or an increase in availability of capital, if you wish. Through reduce charges for lapse risk cost equity, currency risk in LACDT and we allocated more required capital to spread risk, real estate risk, counterparty risk and our business P&C to some extent longevity risk. And please note, real estate reflected the 275 million effect of warehousing we did on real estates for their own office fund.

So in summary, looking at our numbers, we believe we've got a rock solid solvency number, strong tiering, no tiering risks and we are pleased with the level and the quality of our solvency. And again, from our perspective, well controlled massive developments in the underlying solvency components, where we continue to assess the sources and uses of capital to optimize our balance sheet and to provide good returns to all our shareholders.

Page 20, organic capital creation. Let's go into the delta of our solvency development. And for the half year, we'd like to break down the delta solvency in underlying components. Now, one word of caution here. Any breakdown in the delta solvency is judgmental by nature, right. The industry, insurance industry is still trying to find stable ground here. We aim to run at the forefront of capital disclosure and share how we think, but any bucketing of delta capital has an element of judgment to it.

But we'll follow on the approach we took last year by defining organic capital generation, organic capital creation in three buckets: operational, net release of capital and technical movements. And the remainder, the category other is called market and operational developments.

Let's start with the technical movements, work away from right to left. The box technical movements contains the UFR unwind and equity transitionals. The UFR unwind for the year was a 110 million or about 3.3% of SCR. Also it includes in this metric the equity conditional, the amortization of transitional rule for equities. After diversification, it's about 0.7 SCR points. So the total technical movement in techno drag is 4%.

Please note again, this has nothing to do with management skills or whatsoever. This purely is a technical shift between stock and between flow. It's almost like running up on a downward moving stairway on a running escalator. You have to run faster than the stairway to make progress. The annual drag from this point was about 4 percentage points in the last year.

Second bucket, net release of capital. This consumes or contains the release of SCR, the release of risk margin and investment in the new business. The resulting number here is 5.7%. Think about SCR minus new business and risk margin of equal size, so the 5.7 you can divide into two, half of it is the reason to risk margin and half of it is release of SCR minus new business divestments. The SCR release was tilted up a bit because the lapses on our nominal life has moved up a bit during the year.

In our country, people redeem or have redeemed their mortgages more than they used to do, so we used to run at unnatural unexpected lapses about 50 basis points a quarter that has moved up to 60 basis point a quarter and has been stable throughout the year. So some acceleration of release of capital through the redemption of mortgages, but again, pretty well sustainable, 5.7% in terms of net release of capital, 50-50 between risk margin release and SCR minus new business.

And then we've got the operational capital generation as compared to excess returns, technical result, the fees and then holding costs and hybrid cost. In total 7.2% of the one capital, with excess returns the largest component and the technical results exceeding the holding cost. So this gives an approach where our business generates about 7% of capital plus release of capital 6%, (inaudible) up partially by 4% technical drag in stock and flow. Measured in euros, it gives 301 million of organic capital creation or 9% of day-one solvency, which is in line with our guidance and expectations. The 301, you can break down into own funds and SCR charges, on average 230 million increase in own funds and 38 million in lower SCR charges.

The bucket other, market and operational developments, it's for a second year in a row, it's now a plus, so that we outperform, we add, what we have had for the last two years over and above the organic capital creation. In this bucket, you've got a number of pluses. You have excess returns over and above the assumption in the OCC. The cost benefits, lapse insurance, LACDT positives are a plus. Negatives would be the decline in the volatility adjuster, negatives would be increase, for example, allocation to interest rate and to real estate and finally, some modeling changes, but all modeling changes together has -- are basically canceled out.

So where does it leave us compared to the model, which we used at the beginning of the year, we have delivered on our guidance 9% 300 million capital creation, up from 264 last year. It was not an easy environment. Second important point to note, the operational capital generation exceeds to release, our book to business generates more than the release in the book. This is the way we manage our company. We are a book of business about capital generation, not just capital release. And in the way we manage our company, the fact of other was again a plus over and above the OCC.

To give you a little more color, we have moved to page 21. You can see the movements in numerator and denominator, the delta in all the funds and the delta in recorded capital. I will not spend too much time talking about, it's more for your perusal. But again, you can see about 230 million net increase in own funds and the 38 million benefits in required capital. If you multiply the 38 by the average solvency of 1.84 during the year, you get to the 301 OCC. Again, here it shows the operational capital generation, 242, is the largest component of what we deliver in terms of organic capital increase.

And finally, please note, market and operational developments, the required capital element that -- of that is only 2, so 2 million in required capital from market and operational developments, that is kind of actuarial speak for, there were no major net modeling changes to speak of. So it is a modeling changes and (inaudible) canceled out and did not lead to a massive increase of the required capital. So page 21 elaborates further on the organic capital generation.

Now, cap gen going forward, right. I would ask you can move to page 22, the definition going forward.

As said, interaction with investors and analysts, we've got lots of feedback on the way we calculate the OCC. We have been challenged if we're not too conservative, especially in the assessment in the long-term spreads.

We've conducted a fairly thorough analysis of with use of some external support and looked at UFR unwind's traditional spread assumptions and what have you. And with that, we've updated our models.

Again not with the purpose to meet our goals but with the purpose to be market consistent in our assessments of organic capital generation. After the assessment, we will do it better to move the transitional rule for equities like others do to the bucket marketing operational and we've adapted our spreads. Most notably, we moved up the spreads and mortgages, equities and real estate. We stratified bond spreads, we are different -- differentiated the core copies and noncore governments and also that's be true and responsible, liquidity does come at a price. We observe some industry participants imply zero spread for government bonds (inaudible) that is not realistic, government bonds do provide a drag compared to the solvency curves.

We estimate for the medium term, spreads on core sovereigns are minus 20 basis points. Using this, we get a refined number of EUR348 million for capital generation in 2016. So on a market consistent methodology, market position way of measurement we get to EUR348 million of capital. The Delta -- think of it like this, take the starting OCC of EUR301 million, add about 40 million from excess brands and deduct EUR15 million, one-five from the negative rack from government bonds and add EUR24 million on the full-year basis from the reclassification of transitional.

That will give you about EUR348 million to EUR350 million for the year. Going forward, we'll work with definition. The long-term investment margins are what they are, long-term investment margins. So we tend to -- intend to keep them stable from now on.

The one thing we will continue to assess is of course, the government bond spreads, the interest rates and swap curves move. At this point in time, it's fair to assume that there is drag of any one, any insurance company holding government's bonds, that is roughly the price for holding liquidity.

Page 23, an alternative view on capital accretion. As we said before, OCC, Organic Capital Creation issues one way to slice and dice your Delta and solvency. In reality of course, this is (inaudible) assumption, on assumptions you make on spreads.

We've shown you how we define it, what we fully transparent, but these missions make the number. The numbers can't be changed into number at the beginning of the year and number of the end of the year. Those are hard numbers or audited numbers. Anyways to give you full disclosure and we'd like to lead this pack here, we've also provided you with an alternative view on Solvency developments, namely resources and uses of SCR.

Again this is the number based on the figures, starting of the year, ending of the year, solvency. And if we include all the relevant elements, the sources of capital were EUR674 million and the uses of capital EUR386 million, out of which EUR241 million was returned return to capital providers, namely dividends EUR187 million and hybrids EUR54 million. So EUR674 million minus EUR386 million gives an accretion of the business EUR288 million and our total returns of capital providers (inaudible) is EUR241 million.

Why do we believe this model is important, because it reflects that we want our business. We strive to outperform the long-term investment margin. Excess returns don't show up OCC, they show up in the pocket of other. And the pocket of other made therefore sometimes have a structural component to it. So we strive to outperform the LTM that were mandate to do and that shows up of course in sources of capital.

Secondly, we were a life book that's effectively closed kind of grows to M&A. Post M&A we'll restructure the acquired business, we take out costs. When cost are out of and acquired business and taken out, that add solvency not through OCC but in the pocket of other namely to lower costs. For example, integration of AXENT and we expect integration of NIVO will lead to cost savings that will show up in the component of other, and actually it is a source of capital.

So we believe assumption change of business developments do contain something today, which were the heart of our business model, but cannot be captured in the OCC number. So this means where the capital accretion of the Group, bucketing sources use of funds is a good way of looking at how this business develops, how we run our shop and it was EUR288 million or EUR455 million pre-dividend. And as you remember, in January, we used our chunk of this, buying back 66 million shares.

So we think it's only fair to complement our Company traditional capital generation numbers with capital accretion sources and uses of funds.

I understand you're all are getting tired, so it's a few more slides to go hand there. It is almost like the game of cricket. So, once you understand the rules, you're ready for team, so two more pages to go.

Interest rates. As you can see in this page, the impact of interest rates on stock and flow. Interest rate sensitivity is limited, stable, not so much because we changed our hedging policy, but because the increase in interest rates in the last half year -- last month of the year and reduced the convexity of our business and the convexity change reduced interest rate sensitivity.

More importantly, it is actually a sensitivity of SCR to a lower UFR. On this page, you can see the solvency ratio about different levels of who you are. 189 is where we are today. 178 is used to be -- or 178 at 3.7, the number that's used to be contemplated by Europe and the number of other figures.

Please note the bottom end of 2.2. In our industry, everybody -- the participants, regulators are all struggling to define what is the long-term across the cycle of UFR, what's the right rate to use.

And there's a long debate whether 4.2 is actually relevant number to plug in as a UFR. Internally, we started picking out a few, then what if we've plugged-in the long-term investment yield that we're making today. And basically, you should not discount your long-term liabilities at the rate that's higher than you made today, because, then you'll eat up your insolvency or at the rate of (inaudible) because then you understate your solvency, i.e., what if we plugged in a UFR into the investment yields.

We knew that still have a solvency safely about 100%. The IFRS yield on our book is around 2.3%, 2.5%. So in today's market, the long term direct yield is probably somewhere between 2% and 2.5% as Capital Gains, of course, if rates move this thing moves up.

So what we did was, we plugged in a 2.2 UFR and asks ourselves the question, at that level, which is somewhere close to where the long-term direct yield is, we'd be still be safety about 100%. Because that means we could freely distribute cash or invest in future ventures. And again we found a solvency level after SCR shock, after tiering of 142%.

So that means, with this level, we could have responsible for financial management if you are confident on future distributions. We have developed a fairly advanced set of modeling technology to analyze and test this and play around with different numbers.

We will adjust if rates move, but for us a UFR that is linked to your investment yield, should give you a more economic value in the standard model. Although we understand that maybe you get to contradictory (inaudible) but in the economic view in a standard model is what we strive for. So we believe this is the way forward for the industry. So, it's not our formal policy, not an internal model, but the way to think about economic solvency.

Also in this page where it proves hand by (inaudible) demand, we have totaled of the impact of different UFR levels on capital generation.

As you can see, lower the UFR to the (inaudible) ambition level we'd reduce our solvency EBIT but also we can still save off the hurdles and also increase the annual flow, the annual capital generation. So, you can see that move between stock inflow and various solvency levels.

We need to say strategically, we wouldn't mind if the UFR will be lowered. And again, you can also see the impact of government bond spreads and a EUR7.7 billion core government bond book is spread in the OCC of 20 basis points. The cost of interest rates a EUR15 million throughout the year, that is the cost of -- the cost of liquidity.

Page 25, some final observation on LACDT and on swap spreads. The loss has been sat on LACDT. I got a lot of rules to be set on LACDT, a few points by us. Our regulators put us new guidance in February about how to think about LACDT and how to model it. Remember, last year this time around, we as a group markdown our LACDT considerably. Other prudence, other anticipation and we will deliver the dependence on future fiscal profits.

Before we developed the model during the year, we received feedback on a day one model and moved on. To the best of our abilities, a DB guidance, it is supposed to be implemented by June has been reflected in our models. Some points may require some further clarification, but our models appear to be fully in line. We do not expect any major negatives.

Actually, some points could be a small positive, depending on how we interpret some of the more complicated elements of the year of the guidance. For full year 2016, we've got our LACDT on the Life business at 60%, Non-life at 70%, basic health at 0%, supplementary health at 25%, which is in line with the model that we used and although, as far as we can see it's consistent with the DNB guidance. It has very limited use on component for and future fiscal profits and is robust against fiscal year 2015 historical fiscal years falling out of the equation.

So when it comes to the complex world of Solvency II in combination with those taxes, it's better to be lucky than to be smart. But we believe when you plan well, when you anticipate well, you increase the art of being lucky. So this development shows that in the industry in its first former year of Solvency II, things are still in discovery mode. From our perspective, LACDT has been implemented and very limited to no material downside.

On swap spread hedging, please note in Solvency II, your liabilities are discounted on the basis of swaps. Any assets comprise a larger investment are not swap related or at least priced on the basis of the government curve [ph], i.e., an almost 8 billion of government bond portfolio are liquidity book. In this space, the swap spread widening, which as we've seen in the last year has supported solvency across the industry. Also we have benefited from this. Given market developments, we have decided to lock in some of these benefits, whilst maintaining liquidity thresholds in our portfolio.

On a relative basis, you sell government bonds and increase swap exposure, and in total, we trade about 4 billion in transactions and effectively we sold long dated core government bonds, buying back short dated credits, short and medium term government bonds from France, Belgium, Spain and Ireland plus some of the receiver swaps, with this -- with the intent to lock in the swap spread benefit.

At this point and after few last weeks in January, we believe the swap spread exposure of the group has been halved. That means at least half of these swap spread benefit has been locked in and the swap spread exposure has been halved significantly. We think it's a way to be ahead of any changes in interest rates, ahead of any changes in swap spread developments.

So in summary, Solvency II is and will be a complicated world. It has market (inaudible) effects, tax effects, second order effects (inaudible). In our risk management, we aim to identify opportunities and threats early and anticipate. That means that our group is well prepared for any changes in LACDT and is well prepared for any changes in the world of swap spreads.

Finally page 26, the numbers, I will not repeat them to you anymore. We hope this presentation has shown you that our performance in 2016 has been strong on nearly every metric. We delivered on our promises and especially, we're proud of the combination of operating performance, a solid ROE or market consistent capital generation or capital allocation.

Very pleased with solvency levels, up to 189% standard model with no tiering risk, not just capital gains underpinned by strong technical result from our business, a combined ratio of 95% range and low financial and double leverage, which you'll find in the Appendix. And again, the increased dividend to EUR1.27 per share shows the confidence we have in ASR's operations and I wouldn't if I'd liked [ph] to share the good fortunes with our shareholders.

That conclude our presentation. Giving back the floor for questions.

Questions And Answers

Operator

Ladies and gentlemen, we will start the question-and-answer session now. (Operator Instructions) Your first question is coming from Mr. Cor Kluis, ABN AMRO. Go ahead please.

Q - Cor Kluis {BIO 3515446 <GO>}

Good afternoon. Cor Kluis, ABN. Few questions. So first of all on Disability insurance, the (inaudible) legislation, can you already give kind of any idea what impact might be on the premiums for 2017 and 2018 because last year, the Disability premium went up 4%, but this could be somewhat more material positive?

And second question is about the internal model. Could you give an idea what the impact would be, if you put your own internal model, much higher with the Solvency II ratio be then? And third question is about the AGM. I thought you asked for a share buyback request of maximum 10%. Why, given the shadow overhang and the possible for a strong capital position and cash flow? Why are you not asking for larger share buyback, yeah, possibility?

And last question is about -- it's more technical thing, the size of the realized capital gain reserve. What's the size at the end of 2016 of that figure? That were the questions.

A - Jos Baeten {BIO 2036695 <GO>}

Thanks, Cor. Let me start with the question on Disability. It is too early to give final guidance on how the season went, but for a first view on it is that a lot of smaller companies decided to return to the public system. So in terms of number of customers that returned to the public system, we've seen more go into that system than expected.

In terms of premium, so in terms of new business, we see a neutral effect until today. So probably we will not fully meet the expectation we had for the medium-term, but this was only the first year, and we think it may require a little bit more time to meet the top-line growth target. But those are only the first views on it because numbers are not final yet, and new business is still coming in.

And the main reason for that is that we have kept to be disciplined in our underwriting and premium. We could have done more if we had wanted, but we -- as we have done before set to the Disability management, you were allowed to do as lot as business as you want, as long as you stick to the underwriting principles. And we have seen a fairly disciplined market, but not everybody was as disciplined as the market in general. So some participants have been fairly aggressive and we've decided not to take part in the aggressive pricing. So that's that on Disability.

Then the question on why don't we ask for more than 10%. Well, in our view, we have every year an AGM, so we can every year ask for a new 10%. And in our view, there should be a balance between the year-on-year generated capital and the capital return. So from our point of view, given the developments in solvency uncertainty, where (inaudible) ends up with UFR, we have said, well, the total return of capital should be balanced with the capital generation. And then to our opinion, 10% should be sufficient on a year-on-year base.

A - Chris Figee {BIO 18815839 <GO>}

On your question Cor on the internal model where do we sent, well, we do not have an internal model, right. An internal model is a fully (inaudible). The closest thing we have is an ECAP model. The ratio of the ECAP model is 226%, but (inaudible) this is not a model, it's got the same rigorous validation process as the Solvency II standard model has.

On your question, will we move to the internal model? At this point we have no plan. Reason is we believe the regulator will always look at both models when it comes to distributing cash and capital to shareholders. And if I look at the banking sector, I'm not sure the banking sector will provide guidance, but we can see like an harmonization or internal movements and obviously internal model and standard models move toward each other.

Stepping into a model with a floor, and I find an internal model with a floor, it just becomes very expensive version of a standard model. So we believe at this point in time, it's not sure whether it's the best way to spend shareholder money to go through all the lengths in validating and approving the ECAP model, if the solvency is what is because we already are at pretty safe level.

You had a fourth question, and I can't even read my own handwriting. You -- what was your point again?

Q - Cor Kluis {BIO 3515446 <GO>}

The realized capital gain reserve?

A - Chris Figee {BIO 18815839 <GO>}

Realized capital gain reserve at the end of the year is about EUR3.6 billion, actually it was still a net addition to that reserve. And to give you some color, we believe that the release from that realized capital gains reserves. In the planned period, assuming rates stay relatively where they are, we'll be similar in the next three years is about last year. So, if I look at the amortization schedule, amortization pattern of that EUR3.6 billion. If rates stay roughly where they are today, the contribution of that will be same, but actually the planned period, as it was last year.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay, it's very clear. Thank you very much.

Operator

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

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes, thank you for taking my questions. I got basically a few on the capital generation. First one to be clear on the new methodology on slide 22, you mentioned the move to transitional equity rule to the operational variance in market bucket so to speak. So, first of all, I thought it was something like EUR45 million per annum and is then correct I think the EUR348 million that's printed on the slide of the new definition that it is -- they're not including that drag while the EUR301 million is included, so to have that at least clear.

The second question I have on the capital generation is little bit on the noncore sovereign bonds, with minus 20 basis points where I think on slide 24, you mentioned that basically has a drag of EUR50 million or so on the capital generation. But how to square that with the actions taken to basically locking in the spread, because on the -- like you also mentioned in your opening remarks. So is basically the starting point for 2017 already meaning that maybe that the EUR50 million drag is already reduced by 50%? And I'll leave it for now for that.

A - Chris Figee {BIO 18815839 <GO>}

Okay. Albert, on the transitional rule, in the movement from EUR301 million to EUR348 million with a plus of EUR23 million from the traditional rules that was moved out. So there was a negative in the EUR301 million that no longer occurred in EUR348 million, it was reduced during the year. Two effects, one is diversification kicked in, due to the portfolio developments, the impact of the traditional rule post diversification was a bit less.

And secondly, we sold some equities, reduced equities, part of the equity that we have been divested will subject to the transitional rule so that left amortize, if we've got that equities. So partially, it's technical. It's a diversification effects. Secondly, the equity base that was subject to traditional was lower.

In terms of noncore spreads, the EUR50 million drag is one going forward, it's actually a bit less than last year, I agree with that. Because the government portfolio -- government bond portfolio will decline. So we know EUR7.7 billion is the portfolio that we have where we are at today. That's a small decline.

And in terms of what the swap spread had to do, the swap spread has basically is not so much to look at the spreads, but looking, I would say the delta in these spreads. I mean, the spreads widened in the last years, the swap spreads, that supported our solvency levels, I mean you discount your liabilities at a higher rate than you discount your assets, and we wanted to lock in that benefit.

So that means the swap spreads reverse and the spread declines, you don't lose that benefit. So, the swaps spreads itself does not to do much on organic capital creation, but it protects -- it aims to protect the stock of solvency that we have.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay, very clear.

Operator

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

Q - Steven Haywood {BIO 15743259 <GO>}

Thanks very much for the presentation. Just a couple of questions, can you go back to your sort of core and noncore sovereigns. I know obviously, one is now minus 20 basis points, excess spread and other is plus 50 basis points. In reference to slide 36, can you define which bonds are core and which one are non-core?

And then secondly, when you talk about the UFR changes on slide 24, I just want to know your opinion about what you think is most appropriate to use whether you should use a direct yield or the total yield including gains, whether you do use the sort of 2.2% or whether you use over 3% as you're assumed UFR? Thank you.

A - Chris Figee {BIO 18815839 <GO>}

The core, we defined German government -- Dutch and German government bonds as core, all the remaining in Europe is actually noncore. So Dutch and German's are core, the rest is noncore. In terms of what is the right level to use, I mean look, the direct yields, which is coupons, dividends, rents, et cetera it's between 2% and 2.5% at shadow accounting release. The actual yield that we make on our portfolio is larger, we made last year EUR117 million capital gains. If you look at the average of the last three to four years, it is always been in EUR170 million to EUR200 million range of capital gains. So the actual yield one makes is over 3%.

So if you think about the fully economic view of our probably number over three is justifiable. However, capital gains fluctuated over time, we may have a bad year and their capital losses. So we saw it from a long-term prudent perspective, we'd like to work with direct deals. But we could understand that you could -- that is arguably, arguable that you could move it over to three including a fair amount of capital gains that's kind of adjustment goal that one can make. We believe in terms of being prudent and being fair to our policyholders, the direct yields we can observe and bearing defaults that will happen year-on-year on-year. So you can actually, you can bank on that.

But your point is valid, you could argue that the yield you make, the return you make is probably about 3%.

Q - Steven Haywood {BIO 15743259 <GO>}

That's great. Thanks very much.

Operator

The next question comes from Mr. (inaudible). Go ahead please.

Q - Unidentified Participant

When was -- I think you may have given this another color, when was the broad timing of when you did the swap spread lock in i.e. the EUR4 billion transaction? And more generally, has that increased your spread sensitivity the Belgium and France sovereign, I kind of presume it does. And actually, are you able to give the kind of sovereign spread sensitivity overall for the Group?

And then finally, can you give it any indication on how Solvency II is developed so far this year given we've seen because some quite significant sovereign moves overall? Thanks.

A - Chris Figee {BIO 18815839 <GO>}

(inaudible) thanks. In terms of when do we execute the swap spread change in step since September. It was actually done in Q3, Q4, maybe Q4 and the remainder actually in January, we said it was a series of trades. Also we started doing this by shooting 30-year bond futures, because the most efficient are liquidity we are doing it. So we thought, liquidity in the market was too limited at some point we owned two bigger share of that market.

So we moved to a peripheral spread swaps. It did expose, increase exposure to those to your noncore bonds, pay 36 you can see the holdings and France government bonds went up from EUR800 million to EUR1.4 billion and Belgium from EUR600 million specifically into EUR1.2 billion.

So, a increase of almost EUR800 million, EUR900 million in government bonds from Belgium and France. We still feel very comfortable holding those government bonds, especially if they have a mid-term maturity.

We do not get disclosed sovereign spreads, since it at least something to pick up and to think about going forward, There is no issue around it, we just haven't disclosed, we have not contracted that much. But you can see on page 36, it changes in the portfolio.

A - Jos Baeten {BIO 2036695 <GO>}

And on your last question, the development of solvency during the first six to seven weeks of the year, without giving any numbers we have seen a fairly stable development until now.

Q - Unidentified Participant

Okay, very good. Thanks very much, indeed.

Operator

The next question is coming from Mr. Matthias de Wit, KBC Securities. Go ahead please.

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

Yes, hi, good afternoon. I'd like to start with a small follow-up question on the equity transitional. Could you comment what the remaining benefits is to the Solvency II ratio at this point in time and how that benefit amortizes over time? Then secondly I had a question on the organic capital generation of EUR348 million for 2016. I guess it is based on the start of the year balance sheet or averages whereas there are some changes in mix rates in the meanwhile.

So just eager to get your comments on how that number could develop into 2017, so how we should think about capital generation in 2017? And then my last question is on LACDT. I noticed that the benefit to SCR increased to 586 from around 500 at end of H1. So what is exactly the key driver behind that increases within the life business where you moved from 50% to 60% and is there any conservatism less in your current approach or do you think it's currently it's fair, taken into account some regulatory risk that, that might remain? Thanks.

A - Chris Figee {BIO 18815839 <GO>}

Matias, on the acquisition, let me look at that, I don't have that number of top of my head. We'll look it up, we'll feed it back IR team back to you. In terms of the OCC that was we signed on the beginning of year, asset mix last year 2016, see just the beginning of the year, asset mix and for 2017 will be also used to beginning of the year asset mix.

In terms of where are we on that number, one thing we learned throughout 2016 is a number especially interested components, pretty sensitive to interested movements in 2016, which always reshapes long term view development and especially the UFR and Wind, of course, it's pretty volatile and sensitive to rate moves.

What I can say the business performance that underpins that is behind or underneath this OCC, we feel very comfortable with the performance of our business. I mean the year

2017 is only a couple of weeks old, but it has kicked off in the same notion as we ended last year.

So in terms of business wise, this company is still performing at the same level as we ended last year. Rates have stayed stable moved up a bit in the first half of the year, but we need to see how the development OCC is a number that is very young, vulnerable to interest rates, not so much of total solvency numbers, that built ourselves relatively stable but in the slicing and dicing the OCC has a rate volatility.

This could be, a headwind could be a tailwind. So we find it hard to give at this point a major guidance on this number, but it's safe to say that the business trading has gone up to a good start. The investment portfolio hasn't changed much during the year, sort of give you some clue going forward and we just need to see how rates develop. Just give you a feel for sensitivity for example, one point of combined ratio better or worse is about EUR5 million to EUR6 million in OCC. So when you go -- when you go and want to model this, that's kind of where the sensitivity is and the rest is really all about rate movements.

In terms of (inaudible) on P&C business remained stable, 75% there were no view yet of the famous component for, so no use future fiscal profits. On the 60% in life has very limited -- I think it's 58% of the 50% is DTLs and historical profits, no future profit. So it's a pretty stable solid number. The use of component for our future fiscal profits has been limited substantially by the D&B regulation or these you have to make pretty strong assumptions to substantiate significant users component for that something that we will look into a quite a bit of work and dialog in the industry to understand exactly how to interpret some of the rules.

Some points we may have interpreted conservatively. We believe the 60% is well supported, is a conservatism left in the number or realism left in the number. That's one thing for sure. I still think it's a responsible number. Downside risks to (inaudible) are limited from our point of view.

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

Okay, that's very clear. And if I could just follow up on the organic capital generation, also the bit of difficulties in analyzing how or in getting a sense of a sustainable recurring SER release because there were a lot of changes in the organic numbers. So is there anything you could say in that respect?

A - Chris Figee {BIO 18815839 <GO>}

I think on the SCR release, the number we've provided you for the full year was about 6%. If you look at the first half year, is about 3.5%. So the total release of capital first half year was 3.5 and 5.7 for the full year. The difference between the two is an increase in new business. You may see our numbers are P&C, while it has grown by 80 million, disability has grown by 20 odd million and the growth in our non-life business took place in the second half of the year.

So we believe something like a 6% release of capital is not a strange number, but the main driver, actually how much new business we write and again from H1 to H2, you can see an increase in volumes in what we see is profitable non-life business. So we were happy to spend some capital release in organic growth in our business. But I think the number we produced so far has been relatively stable and you could play going forward. The key driver here is amount of P&C and visibility, while we were more able to attract.

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

All right, very good. Thanks, Chris.

Operator

The next question is coming from Mr. Bart Horsten, Kempen & Co. Go ahead please.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes, good afternoon. I have a bit of a bad line, so hopefully you can hear me well enough. Also on capital generation, if I may. You gave us an indication I think in your guidance on -- for net operating life results of 75% to 80% translating into capital generation, generally within life is that bandwidth still valid or do you think that would move upwards as well? And I was wondering a little bit whether you will be revising (Technical Difficulty) payment. Is that a periodic schedule? So that's on that topic.

Second one, you said that your life insurance margin went up from 2.4 to 3.7. I recall that and during the IPO, you already stated that you expected the life insurance margin to go up. It went up higher than I had anticipated. Is that a level which is fair to assume going forward, do you see further improvements.

And my final question relates to the right buyback shares. I think the lock above the NL 5 will end at April 17 and your AGM, it will be in May, probably the NL 5 will sell down before your AGM. Do you have an opportunity to participate or where you can only do that after the AGM? Thank you.

A - Chris Figee {BIO 18815839 <GO>}

Thank you. On the Life Insurance business, the capital conversion ratio from the life to profit, and to cap generation, it is a bit lower than we thought, simply because the share of capital gains reserves, sort of accounting contributions in life business was higher than last year. So going forward, it's probably easy to model of the OCC number than to model of the life profit conversion figure, but the chunk of the share of capital gains release in life was higher than last year.

So, the conversion ratio, this year is in the lower end of the bandwidth that we provided, simply because there was larger capital base. I think going forward it's better to model of the actual number of folks you see. For the life insurance margin, it dropped to 3.7, it moved up faster and more that we guided to anticipated IPO (inaudible) be stable number, if I look at the life insurance business. I have no reason to doubt that this thing will change materially.

So the plateau where we are appears to be sustainable. In terms of assumptions, we tend to have Q3 as the assumptions quarter. So normally we have once a year when we update all our non-economic assumptions, cost assumptions, lapse assumptions tend to take place in Q3 with some overflow in Q4. And unless there is in the -- during the course of the year, a really striking phenomenon that you have to take into account, but normally, as most insurance companies, Q3 is assumption season in our actuarial family. So that can we -- tend to just happen.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay.

A - Chris Figee {BIO 18815839 <GO>}

And on your last question, do we still have room to maneuver if and when NL 5 would decide to further sell down before the next AGM and after the like period has ended. Well, the answer is as simple as clear. We've used our full capacity with the first buyback opportunity because we wanted to give a strong signal to the market. So if and when NL5 would decide to do refer to sell down before the next AGM, we will not have room to maneuver in terms of buying back shares and that there is -- not the limitation is not our capital position or the unwillingness to do so, but just we're just not allowed to do so.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you. Yeah.

A - Chris Figee {BIO 18815839 <GO>}

It is probably fair to say we do have the intention to participate in placings during the year as we've done in the past. The magnitude, the timing is out of our control, from -- our shareholder to decide, the magnitude depends on the time in hand, but it's our intention to support the sell down by the state as you know in the past.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you. And if I may, I just a -- one other question, I would like to ask and that's on your development of your DC business. It's moving quite okay and it triples in assets and it doubled. Could you tell us what the recent dynamics are? And is there also some capital release already shown in '16 from this move from DB to DC, if I assume that these were mainly existing clients which you have? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

The increase in our DC portfolio were mainly new customers. So we were happy with welcoming new customers, so that didn't lead to significant releases in the DB book. And the main driver behind that is our improved product and I think some of the other market participants decided not to be as active in this market as they were before. Today, we see three to four active pension insurance companies in the Netherlands, actively involved in new business. So I think the market becomes pretty small in terms of number of providers and that's helpful in acquiring new business.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you very much.

Operator

The next question is coming from Mr. Kunal Zaveri, JP Morgan. Go ahead, please.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Kunal, you're asking question? I'm not on your line. Hello. Can you hear me?

A - Jos Baeten {BIO 2036695 <GO>}

(multiple speakers)

Q - Ashik Musaddi {BIO 15847584 <GO>}

There's a bit of a confusion. This is Ashik Musaddi from JP Morgan. Just few questions. First of all, can you give us a bit of color about UFR drag because if I understand correctly and if I remember correctly, at first half, it was 2.2 points and at full year, it's 3. something, 3.5 points or something? So your capital UFR drag in second half went down compared to first half, whereas given what interest rates have done, it should have gone up materially UFR drag. So what's going on there? That's number one.

Secondly, going back to slide number 22, you are using some spread of core sovereign bonds of minus 20 basis points and non-core of 50 basis point. I mean, what's your thought process behind it because if I look on Bloomberg at the moment, I mean year-end spreads for, say Germany were 60 basis point minus, for France it was 40 basis point minus? So your core sovereign spread should be like minus 50 range as well as your non-core sovereign -- I mean if I look at, say France, Belgium, Austria, super national everything was negative and you are assuming 50 basis point positive. So what's the rationale behind using this because these are like market consistent data, which we can track up every day on Bloomberg? So that's the second one.

And third, like, can you give us some color about your Life earnings, which -- it is on slide number, say nine? There is something called an additional investment results. Now looking at the slide, it looks like it's roughly 60 million, which includes M&A as well. And in the previous slide, you mentioned M&A is 20 million. So that means additional investment income is 40 million. That's a big jump from 440 million to 480 million. What's driving that because majority of the asset allocation safety you've done is like in second half, so any thoughts on that would be great? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

On the -- in terms of the UFR grant, we do (inaudible) in every period from the beginning of the period interest rate and the ending of the period interest rates. So we look at the UFR contribution as for Jan 1st and the UFR contribution as on 31st of (inaudible) and that is the number we use in our analysis. So rates through the year had a re-shapes development.

So beginning of year, end of the year rates we put into our model. We used the constant zero model, which you may see other people doing in funny averaging method. We've used a constant (inaudible) model that we used in beginning of the year and end of the year solvency. That reflects where we believe the right way the UFR drag developments. It does front-load some of the UFR drag instead of averaging it over time, but we're using beginning of the year, end of the year numbers.

In terms of the long-term investment spreads, this is, as we had said, we slice and dice to slightly build up solvency over time. The number that's harvest is beginning of the year solvency, end of the year solvency. And then you've got the solvency accretion, which is a number that you can't argue with, adjusted delta is sold with the new achieved. OCC is a way of bucket again to what is a sustainable, replicable in the level of capitali generation and (inaudible).

Long-term investment margin are reasonably stable across the cycle and again, some of these numbers are a bit more optimistic. In real-estate, the direct investment yield is still 4.3%. I think in -- if you look at the numbers that comes out, 3.7% applying our spreads. On equity, we use 3% the actual return you make on equity is larger. So the spreads we make is actually a blend of direct income plus capital gains across the cycle where we believe in terms of core government bonds, there is a clear drag today on holding those. Other, they may yield better and again, in other categories, for example real-estate or equities, we still have a fair degree of conservatism.

Across the whole -- across all categories, we believe in the long run, this is a bankable set of indicators, especially if you take into account the capital appreciation of some of the other investments. Mortgages are 110, the actual spread is higher, the default cost is virtually nil and we also absorb those not completely in the numbers. The 110 is also really conservative. So across the numbers, we feel this is a sustainable, defendable, bankable number across the cycle.

In terms of the Life earnings page number nine, let me give you -- there's a shade -- sort of shaded bars, let me just give you the numbers that are in those bars. In 2015, the top number is 441. If you go down the F '16 for swaptions, 146 for shadow accounting release, 173 for investments and 107 for other. That fills that chart. If you to go to 2016, the slide 51, breakdown is 57, which is doing shadow account release from swaptions valuation, 65 from M&A and additional investment result, M&A and the acquired businesses. 212 for regular shadow accounting release and 105 from investment yields.

If you look at those numbers, investment result plus the regular release was at 319 last year, 317 this year, so pretty stable number. On top of that is additional results of M&A of 65 and a 67 contribution of earnings from capital amortization, the capital gains from the swaptions portfolio.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear, but that's what I was trying to get some clue about, this 65 million, the second bucket in 2016. I mean, if I look at slide number eight, for example, it mentioned that operating result from your acquisition was 22 million actually. By the way, this was same at first half as well. So I don't understand how this happened as well, and number at first half unchanged at second half as well.

So, I mean even if you say 22 million of acquisition benefit, that still means that additional investment result is like plus 43 million. That's quite a lot on the base of 440 million. I mean, what's driving that? Is it asset re-risking or is it some sort of capital gains, which may or may not disappear, any thoughts on that because, see, the only thing I'm trying to understand is this 40 million number sounds a bit large given the base of 400 million?

A - Jos Baeten {BIO 2036695 <GO>}

Even it makes out large on the base of 400 million, but on the basis of a 30 billion odd investment portfolio, we are actually talking about something like 10 basis points, 13 basis points of additional returns. So the 40 billion odd is the right number, 65 minus 22 gives 43. The 43 is a reflection of few things. Some increase in shadow accounting release. Secondly, you may recall in our half-year result post Brexit, we re-risked our portfolio a bit. We took advantage of widened spread at that point in time to take a bit more risk.

So in the second half of the year, we added more risk to our investment portfolio, partially by buying them. What we thought are underpriced UK loans. We allocated more to equities and to mortgages. So during the year, the re-risking paid off. I mean, the 40 million is a lot against 400 million. But again, the 30 billion odd investment portfolio, you're looking about 10 basis points to 15 basis points additional return. So that put things in perspective from our point of view.

Q - Ashik Musaddi {BIO 15847584 <GO>}

And sir, this is recurring for next, say, whatever is the life cycle of the business basically, it's not like a one-off something like that?

A - Jos Baeten {BIO 2036695 <GO>}

So we believe -- if I look at our mid-year plans, at least with the (inaudible), we can foresee this as a fairly sustainable number.

Q - Ashik Musaddi {BIO 15847584 <GO>}

And sir, just going back to UFR. I mean, so how should we think about UFR because if you take a mid -- I mean, starting and ending and in between interest rate remain zero, then is that the right way of reflecting the UFR drag or I don't know the answer as well, but just any -- because the thing is that, interest rates went down in the second half, second half interest rates were definitely much lower than first half, and your drag was actually lower. So I just got a little bit confused here.

A - Michel Hulters {BIO 19111905 <GO>}

Kunal, this is Michel. Can we take this offline and --

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, yeah. Sure, that's good. Thank you. Thanks a lot for your answers.

Operator

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

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

Thank you. Just a couple of follow-up questions. Firstly, it doesn't sound like the LACDT change you made will be in line with the new guidance is particularly material. So if you can give a bit of color on that? And secondly, you gave us a lot of very clear guidance or commentary around the buyback, but can you also make it maybe give a bit of color around, you did a couple of bolt-ons during 2016, what's the outlook for potentially more bolt-ons going forward? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

I think we're actually very pleased that the LACDT guidance, VNB was a -- I think that guidance was not material to us, there should be no material negative. There was a small positive, a couple of points that it added to our capital, but that was -- if you look at that way our capital developed, it's kind of offsets by warehousing of the real estate portfolio.

So net-net impact on our capital is limited. But again, and I guess our key messages here is, LACDT is not materially negative impact on our business, actually it's a small positive, more to come, who knows, that depends on how the market will interrupt the number, but it's certainly no negative on the -- on LACDT to us.

A - Chris Figee {BIO 18815839 <GO>}

And Arjan, on the bolt-ons, we are open for business, our solvency position is strong. We can continue to look for options. On the other hand, we have very strict investment criteria. And if we look at businesses is to acquire, they should at least meet our financial criteria. So we more often have set no to options over the last two years, than we said, yes.

If you take a look at slide three, where we show our portfolio, we would be willing to look at options in the non-life area if there would be a non-life book for sale, then we definitely would have a look at it as long as it comes at a right price. We're very interested in funeral business, because it hedges with our longevity and in the area of business and announcement opportunities, the fee business.

In terms of distribution we -- I think for a time being we are down, and we are particularly looking at business that can strengthen our assets under management, our fee business. And in sector B, we're in the middle of converting our own portfolios to a software as a service book.

We are halfway, and if that's done then we also would be in consolidating the Dutch life insurance business market, especially the smaller insurance company. So we are open for business. We have very strict valuation in terms of finance metrics, and we never comment on particular deals where we are looking in at the moment.

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

Okay, that's very clear. And thank you for your additional solvency disclosure, its market leading (inaudible) 24 is very helpful. Thank you.

Operator

The next question is coming from Mr. Matthias de Wit, KBC Securities. Go ahead please.

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

Thank you. Just some small follow-ups. On Solvency II you stated that part of the increase in the ratio in 2016 was linked to cost savings. Just wondering if that's positive alliances or is this more linked to changes to your cost assumptions? And then secondly on the risk margin release, just wondering if you could provide somewhat more color on the amortization pattern of that release, because I think it could be quite long in nature?

And then lastly on the Banking Asset Management, the numbers -- the operating results dropped quite significantly, but I guess it's mainly linked to startup costs, so -- and integration costs. So, could you confirm whether that's the case, and also going forward, what could we expect from this business line in 2017 and 2018? Thanks.

A - Chris Figee {BIO 18815839 <GO>}

Okay. On the cost savings, there really was integration of AXENT funeral business at Ardanta. And we are -- we believe, we're pretty convinced that I believe that we have the lowest cost operating in funeral business. Remember, in our Q3 call we said there were a number of FTEs that came in and number of FTEs were left. I think we do this with much, much less people from 60, 70 people to less than 30 people for the same portfolio, so that is reflected in the cost -- lower cost charges in your best estimate liabilities, so it provides a capital uplift.

In the solvency model that's your result, actually in the bucket and variances and others. So marked another that's where it shows up in terms of -- in the capital chart in the life business, in the Delta capital it shows up in the bucket variances and others. So in terms of stock its lower life capital charges in terms of flow, it shows in the bucket of other. Where in terms of the ramp up of the risk margin, let me -- because risk margin release is something that happens over a significant period of time. So, in the coming years we believe that that is still risk margin release to come. It is somewhat I think front loaded, so it's not an equal number over the entire period.

So the first years will be a bit higher than the latter years as the life -- individual life book runs off. So, the exact pattern is not something I cannot -- at hand here, but --

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

And I guess so for the UFR benefit is the other way around, I guess. So it starts high and gets lower over time or?

A - Chris Figee {BIO 18815839 <GO>}

So you get -- the UFR unwind, the UFR directly higher in the first periods and moves down over time. And the offsetting risk margin release is high and low over time, so there is a plus and a minus that are both higher in the early years.

In terms of Banking Asset Management segment, two things in place. In our bank, we'd rather be small bank and the profit of the bank this year was more a financial profit and operating profit they were more in the shape of capital gains on the fixed income book. So you can see the IFRS profit in the segment actually keeping up really well, but the operating profit lower.

And in terms of the business, we believe that asset management is a growth business but we made cost in terms of launching the offices fund. We made cost in terms of hiring people. We had integration costs of P&G without the full-year results kicking in. So there is really more cost preceding returns, it's the investments rather than underlying performance issue. We believe that if our funds kickoff and if our goals materialize, this will be -- so the profit contributed going forward.

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

Okay, very clear. Thanks, guys. Thanks a lot.

Operator

There is an additional question of Mr. (inaudible) Mediobanca. Go ahead please.

Q - Unidentified Participant

Yes, good afternoon. Just one question to clarify probably in answer given before, but the EUR348 million of capital generation, you've indicated that you're locking in some core spreads during H2 and then early 2017, does that effectively mean that half of that portfolio should be assigned a 50 bps excess were done rather than the minus 20 bps excess were done which is basically inflating that EUR348 million further or not?

A - Chris Figee {BIO 18815839 <GO>}

I'm not sure I understand your question. So, could you please elaborate?

Q - Unidentified Participant

Well, on the slide 25, you indicated EUR3.8 billion has moved from basically core to short-dated noncore severance. And I assume the EUR348 million you reported on the new framework takes into account the average mix of the portfolio in 2016. So the fact that the mix now is more towards noncore sovereign, although it is very short-term favor, but it's still noncore sovereign. Should we assume that there is an incremental excess return compared to the EUR348 million?

A - Chris Figee {BIO 18815839 <GO>}

Well, the EUR348 million actually is based on the beginning of the year portfolios, beginning of the year 2016. So compared to portfolio at the beginning of the year, you'll see a relative decline of core for the noncore. So it's actually the swap spread trade support the operating cap generation rather than diluted because the 348 was based on the Jan 1st portfolio, and now we have a portfolio that has more yield than the assets.

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

Okay, so your answer is yes, basically?

A - Jos Baeten {BIO 2036695 <GO>}

Yeah.

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

Okay. That's very clear. Thank you.

Operator

Mr. Chairman, there are no further questions. Please proceed.

A - Jos Baeten {BIO 2036695 <GO>}

Well, thanks for the time you took to listen to our story and hopefully, we were able to reflect on all your questions in a proper way. To close this call, again, we were very happy with the results we could present today. We delivered upon our promises. And as said in my introduction, it was hard work and we intend to keep on doing so to deliver at least in line with our promises also in 2017, and hope to see you all in person somewhere over the next period. Thanks, and have a good day.

Operator

Ladies and gentlemen, this will conclude the ASR conference call on the 2016 annual results. You may now disconnect your line. Thank you.