Q3 2016 Sales and Revenue Call

Company Participants

- Chris H. Figee, Chief Financial Officer
- Michel Hülters, Investor Relations Contact

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Bart Horsten, Analyst
- Benoît Pétrarque, Analyst
- Cor Kluis, Analyst
- Matthias de Wit, Analyst
- Steven Haywood, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the ASR Conference Call on the Q3 2016 Results. At this time, I would like to hand over the call to Mr. Michel Hülters, Head of Investor Relations at ASR. Please go ahead, sir.

Michel Hülters

Good morning, everybody. Welcome to our ASR's call on the third quarter Trading Update. With me is Chris Figee who is going to present the results and is available to answer all of your questions afterwards. But before I hand over the call to Chris, I would like to point your attention to the disclaimer that we have in this presentation and I would appreciate it, if you take a minute after the presentation to go through it.

And having said this, Chris, floor is yours.

Chris H. Figee {BIO 18815839 <GO>}

Very good Michel, thanks for hand me the mic. Ladies and gentlemen, good morning to you, welcome to the ASR press call on our first inaugural Trading Update for the third quarter of 2016. The numbers are all in the pack and the press release that you've seen, our own perspective is in a world where the unexpected and the unplanned is becoming the norm. It's going to be exceptional by delivering on expectations.

So on page 2, you can see the helpline (01:21) numbers, a premium level of €3.5 billion operating results year-to-date of €442 million result in the quarter of about €150 million operating profit and operating ROE of 14.6% year-to-date. So we believe, we're proud to present a fairly predictable, you might even say boring, yet predictable and rock solid profits in the quarter.

Operating results again at €442 million, €150 million in the quarter, effectively equal or stable to the average quarterly profit in the first two quarters of the year of €146 million. So our earnings power on a quarterly basis is actually stable and very robust in the year. Year-to-date combined ratio of 95.7% in the quarter, in the third quarter itself, the combined ratio of 94.4% again to our view underlining, our underwriting focus or our underwriting discipline. So, our view very clean and stable and sensible numbers, we'll give you some more feeding for these numbers in the course of the presentation, but it is kind of the headline.

As part of a Trading Update, we only formally present the operating result. We don't have an audit, audit IFRS figure, but if you wanted to estimate the IFRS number, take the operating number at about €100 million and change towards pre-tax or post-tax and you get a pretty clear indication of where the IFRS profits would have come out, had we published that number. So, fairly indication.

Let me walk you through the presentation. Let me walk you through the numbers. Start with a business update on page number 3, after we're running an insurance business and we believe the operating performance of the group, operating delivery is what's behind the operating results. First of all, good progress in one important strategic trust namely developing a fee-based capital light earnings business. We got a license for the general pension fund APF, what we call it Het nederlandse pensioenfonds.

We obtained our authorization to operate, signed up our initiating customer and we closed two acquisitions, two minor acquisitions, in the distribution space, SuperGarant, which is a specialist intermediary and disability, especially in the retail segment and Corins, which is a mid-market commercial lines underwriting brokerage business. They've been closed and thereby strengthening our distribution business. So in our strategic objective to build more fee-based capitalized earnings we made moves, we closed moves in terms of getting a license for the APF and closing two acquisitions.

Other strategic thrust has been to acquire smaller and mid-sized debt insurance companies. Last year, we acquired for example De Eendragt and AXENT. As the cost of this, we merged the various legal entities, so all the legal entities in our group have been merged into one, we now have two legal entities, ASR Life and ASR Non-life, except for the Health business, which is mandatorily separated. So integrating those legal entities causes a significant operational simplification and increases fungible capital of the group. So the completion of the legal mergers of the various Non-life entities was completed and we merged De Eendragt and AXENT and likely we'd like to point to the integration of AXENT, zoom in on the latter. We feel pretty proud of the integration performance that was delivered by the teams. The integration of AXENT, the (5:16) business was completed in the quarter. We converged about 2.4 million policies on our platform on October 1, actually on plan and ahead of the final due date to give you an order if you put amount of work done. We sent about 600,000 letters to clients and that are 185,000 letters to go, that will be done before the end of the year, 600,000 letters are out. Legal entity merged in terms of cost savings, we acquired roughly about 75 FTEs.

Today, honestly, they have less than 10 still working in this business the rest is all voluntarily and on a friendly basis left to combination, but we're running this 2.4 million additional policies with less than 10 additional FTEs. And the temporary scale up on FTE is due to the migration will also be scaled down quickly. So I've learned in my previous term the Life to work (6:16) auto boss, which was on time, on budget, on schedule. I think the auto boss qualification is very much in place when it comes to the AXENT integration. So we're proud of our integration skills. So before we go to the financials at the end it's all about running an insurance business and we're pleased with the progress in building fee-based business and delivering on the integration objectives that we sought out (6:41) for ourselves.

Let's move to page 4, premiums. Premiums increased during the year, €3.2 billion year-to-date to €3.5 billion year-to-date and in the quarter an increase by roughly €100 million. Actually a good performance in what is still a saturated market with the maintenance of our margins. In Life, the increase of premiums basically took place in the first half year, so no material movements in the third quarter. Our premiums increased due to the acquisition of NIVO, the funeral portfolio which is a next one on our list to integrate and to migrate. Growth defined contribution and it was the one larger buyout that we've included in this first half of the year, so there's no news in this quarter, but to certainly (7:32) the numbers year-to-date.

In Non-life, growth in disability, growth in P&C, I will elaborate more on that when we get to those segments. In P&C, growth in retail and also in the SME space both at very healthy margins. So we're able to keep up our volumes in what is still a saturated and fairly competitive market. So we're pleased with that, although of course, partially due to acquisitions and partly due to the integration of our buyout constructions in the Life business.

Page 4 talks about – or page 5 talks about our cost base, our operating expenses up from €379 million to €401 million, 6% up, but basically driven by the additional cost base of the acquired companies. So if you look, if you correctly board or acquired cost basis, our costs are effectively stable. In that, we absorbed increased cost for finalization of Solvency II implementation.

Some additional costs regarding IPO, although the IPO cost themselves are classified as non-operational as a standard, more way – more work done by people in the finance department, and I can speak from my experience. So we have absorbed that. Underlying, the cost reduction initiatives are on track and we're still on track to meet our longer-term – our medium-term cost targets. So cost up due to acquisitions, underlying performance in line with what we plan to do, what we want to want to achieve.

Operating results, let's move to page 6. On page 6, you can see the bridge and the buildup of the operating result of the group, where we believe the performance in the quarter was strong €442 million in the year, this year, €443 million in the year last year, a profit of €150 million in the quarter. If you compare the two numbers, you have to know that last year, our operating profit displayed a slightly different aberrant pattern, mostly due to timing differences that we're very specific to that very period, mostly in the pensions area.

(09:54) figure out that operating profit in Q3 last year was €163 million, in Q4 it was €78 million. So we think it's better to compare the profit in the quarter this year to the average quarterly profit of last year. That means you compare €150 million this quarter, so the average is €120 million last quarter, which means a fair comparison, our quarterly profit is up about 25%.

Again, we don't publish the IFRS results, but it would be safely above €500 million in the year, (10:27) pre-tax and post-tax and you get a pretty good feel for what the IFRS result, it would be due had we published it. But again, strong performance, and to compare apples-to-apples, compare to €115 million this quarter to the average of the last two quarters of last year.

Then into our – just before we go into the Life and Non-life, the smaller segments Distribution and Services and Banking and Asset Management. In Banking and Asset Management, you can see a decline in profits. That's basically because of two reasons. One was we're making investments to build a commercial asset management's operation. We acquired B&D Asset Management, the good news is asset that franchise is now fully integrated, actually starts to deliver on its commercial promise when it gets its first mandates. But their costs are ahead of revenues.

Secondly, we continue to invest in new real estate products, our real estate product pipeline. And finally, in the bank, our profit this year showed up in the financial result less in the operating results. So the total profit of the bank is actually stable, but it's in financial result rather than in operating results.

In Distribution, our earnings up from €5 million to €12 million, basically because of the acquired cost basis. And gradually, you will see (11:44) kick in during the year. I think this business is on track to become something like €20 million to €30 million operating profit fee contributor on a runway business. So on a full-year basis, Distribution segment is in line with our plans.

Let's move to a Non-life, page number 7. Premiums increased while the combined ratio remains stable at a level of 95.7%. As you can see on this page, continued strong combined operating ratios for all Non-lifelines, we present the numbers, including the (12:26) impact. So there's no disturbance in the numbers and no profit before trouble or what have you. These are the numbers as they are.

For P&C, this means a combined ratio of year-to-date of 98.7%. We showed (12:41) water damage you could subtract them if you want to, but 98.7% year-to-date and excluding that's substantially lower; health 97.2%, disability 89.8% to continue to run at below 90s. If you (12:59) during the quarter, disability during the quarter, we continued to run below 90%, so about 88.9% in the quarter.

For P&C, combined ratio in the quarter was 97.3%. And for health, quarterly combined ratio was also significantly below 1005. So the quarterly results without any storms, any reserve releases, clean numbers all ahead of our targets. In that we're also proud to show a growth in volumes about €68 million growth in P&C, while the combined ratio was still below our target, and growth of about €40 million in disability at a combined ratio still below 90%.

So we're very pleased with the combination of maintaining very attractive combined ratios year-to-date and during the quarter in combination with gradually accelerating growth in top line. Please note that this top line also allows us to further work on margins. You may see in the coming period that we'll use the positive marketing of volume momentum to further strengthen the margins, especially in the P&C book.

There are always lines and step lines where you find pricing could be better. This volume environment, the price environment enables us to – if you want to spend a bit of volume on further improving the margins in the P&C book. So it is very pleased with the Non-life performance and there's room for us to further squeeze and improve our combined ratios. And again, these numbers are clean numbers including the hale and water storm. And there is no meaningful reserve releases to it to speak of. So the numbers are what they are. Clean, possibly a bit dull, but at least, stable and predictive.

In Life, page number 8, you can see increased operating results, an increase in premiums. Again, premiums up due to the acquisition of (15:05) during the year, the buyout, increased volume in defined contribution, actually, we are moving and migrating (15:11) last year. We've moved these customers to either the asset management platform (15:16) contribution platform and then results up €35 million to €365 million to €400 million year-to-date. There are two ways to look at this. From an accounting perspective, there is an increase in result from amortization of our capital gains reserve and lower amortization of the swaptions costs. Think about a plus of around €30-million-odd of that magnitude. And there is about €20 million additional contribution from the acquisitions.

And a negative last year, we had about €10 million reserve release in the pension space that did not reoccur. So the plus in last year did not occur this year, which is a negative in the bridge. So from an accounting perspective, it's kind of plus €30 million, plus €20 million, minus €10 million (16:04), this way you get to roughly – and a slightly higher cost due to the integration of the AXENT business and due to the investment in spending (16:15) and migration of life, that will bridge from €365 million to €400 million.

If you take the organic perspective, (16:23) mortality, what have you, you have about €25 million of increased reserves on interest, cost and mortality, but plus €25 million – plus €15 million result on other and minus €5 million increase in an – decrease in a non-technical result, basically because of lower interest rates.

So, it depends on how you want to look at this from an accounting perspective or an actuarial perspective. I believe we should say that a €30-odd million (16:55) contribution from capital gains reserve, €20-odd million (17:00) contribution from acquisitions and there is a minus €10 million from a non-recurred reserve release and minus €5 million roughly from gradually a one-off increased cost base due to integration projects and into life migration projects.

Other point to note, you may not know that we're busy migrating policies to target platforms. We had a number of important and successful migrations during the quarter where some of the more complicated products of our internal book were migrated to our target platform with significant success. And we're also pleased that the investments in the migration skills start to work out.

Then, I guess the page you all been waiting for which is on Solvency II. I think it was one analyst – page 9. I think it was one analyst who said this morning who cares about profits when there is a solvency number. So, page number 9, there is Solvency II. Our number about 188% based on the standard formula, you could see your own funds of €6.3 billion, required capital €3.3 billion at the end of the third quarter.

During the quarter, a number of things happened. As you may recall, we reported half year results of 191% Solvency II number. What is the basically high-level bridge, 191%? We signed a mass lapse reinsurance contract. The contract is still – the actual solvency recognition is work in progress. Think about plus 3.5% contribution to the solvency this point in time. There is still some work to be done there. So, think about 191% plus 3.5%, then the decline in the Volatility Adjuster and the change in the reference portfolio, remember to the 85% (18:57), from 18 basis points to 10 basis points, including a change in the reference portfolio that took out about 10 points out of our solvency. So, think about 191% plus 3.5% minus 10%, that will give you to 184.5% as a kind of baseline number.

During the quarter, we increased our mortgage book a bit. We absorbed new mortality tables. Together there's another – cost us more or less 1.5% of solvency and the remainder, the delta is actually organic capital creation plus reflection of lower cost in our best estimate liabilities because of the integration of the funeral business.

Overall, we believe the development from 188% for the half – for this quarter from 191% if you take into account the March Dutch (19:50) contract, the 10 basis – the 10 points headwind from the VA increase in our mortgage book is all consistent with the capital generation that we strive for and that we have delivered in the first half year. So, we believe we're on track with a resilience solvency level and we have an organic capital creation as it's going to stable and is reflected in the existing number.

Please note, continued strong tiering. Tier 1 capital loan is about 84% of the own funds. Had we only have Tier 1 capital, 155% – 157% this year ratio and still significant headroom for additional restricted capital. We've got €1 billion Tier 1 ratio and well over €600 million of Tier 2 capital. But again the key message from us is a resilience level of solvency, able to absorb headwinds from Volatility Adjusters due to organic capital generation (20:50) in the group, in line with what we reported previously.

All our insurance entities after the legal mergers are well capitalized. I think about a number a bit north of 180% for all our insurance entities. So, able to obtain the capital if and when needed.

That brings me to the end of this short presentation. Page 10 continues from the result we set in principle and uneventful quarter. We jokingly say paper went to the office, sold the policy, paid a claim, created capital and went home again. So, a pretty clean solid (21:32) results in a sense that we produce lines result in line or better than our targets, able to absorb volatility in our Solvency II portfolio

We believe our results are founded in tangible operational improvements. We witness our operating ratios, our combined ratio has witnessed the inclusion of the acquisitions, witnessed the emerging contributions from BNG and witnessed the – and on time, on budget, on schedule integration of acquisitions.

So, we believe for the year, we are on track to meet or possibly even exceed our targets at least for the first three quarters of the year. We'd like to point that we've managed to grow our non-life premiums by about €75 million – €71 million, about 4%, whilst meet our combined ratio targets and we see there's room to further improve the quality of our book.

Our operating ROE at 14.6%. Our IFRS ROE and I think about a number just north of 19%, including capital gains on a high solvency at 188%. So, pleased with those results, as there are again clean results, not pro forma numbers or profit without misery. These are the numbers as they are and included with the – I think (22:46) strong results.

With that, I'd like to end this short presentation and short set of comments. Happy to take your questions.

Michel Hülters

Operator, we're happy to take any questions.

Q&A

Operator

The first question comes from Mr. Cor Kluis. Please go ahead.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning. Cor Kluis, ABN AMRO. I've got a few questions. First of all on the Solvency II ratio after the U.S. elections, can you give some indication what are these, because based on the sensitivity of the half-year results then and the rising interest rates is marginally negative, but the equity was positive again? So, should it be around the current level of 188%? That is my first question.

Second question is about the merger of legal entities in the quarter. Does that have any impact on your Solvency II ratio in this specific quarter?

And my last question is about, yeah, the normalized business. We've been reading of course that companies like (24:15) have been saying that the premiums on car insurance are rising by around 20 percentage points. We see your growth of non-life premiums. What's your take on that and can you explain what you see in the non-life insurance market, especially in the motor insurance market? Thank you.

A - Chris H. Figee {BIO 18815839 <GO>}

Okay. Very good. Cor, thanks. On your solvency, yeah, we thought about defining somewhere like solvency before Trump. I think that's not an official metric yet.

Q - Cor Kluis {BIO 3515446 <GO>}

Pro forma.

A - Chris H. Figee {BIO 18815839 <GO>}

Pro forma number, no. Hard to say, I guess the impacts we had on our solvency during – after the U.S. election was increasing interest rates, slightly increasing volatility just or slightly increasing equities. I think the net-net is a small negative. I think the increase in – yeah, we're long duration versus Solvency II curve as is. We don't do – cover prudential hedging using the (25:16). But we are slightly long duration, because we think the economic reality is little bit different, which means that if rates go up that will shave a bit of our solvency. At the same time, the increase in volatility will help us deviate and engraftment will help us in the equity and equity (25:33) will help us.

So, I don't have the number yet, but I think you have a small downward adjustment to your solvency because of our long duration position. If you think about a world with – in an ex-UFR environment or a low UFR environment, actually our solvency has gone up. So, almost some downward push on your headline solvency, but a significant strengthening of your economic solvency and ultimately for this industry, gradually rising interest rates is good.

On the legal merger, the legal mergers themselves did not affect the Solvency II ratio as is, but they increased the fungibility of capital. Basically when you merge those legal entities, there is a diversification benefit that was recognized at holding. That diversification benefit is now recognized in the legal entities. So, the S-II ratio at such doesn't change, but it crystallizes the diversification benefit and pushes it down into the also where if you can grab it and becomes actually something meaningful. So, that's the positive on that one.

On your third number, on the non-life premium development, yes, we're seeing premium increases not with the level Independer sees. Your Independer is a pure online player and is overrepresented in the some of the pure direct players. And we saw some of the pure direct competitors with severely underpricing business.

So, you see indeed price increase across the board in motor, most heavily when it comes to the pure direct players, because they were mostly behind. So, that will increase. There you see 10% to 14% increases are not abnormal. And the broker-based segment where we were active, we're also seeing some premium increases, but not to that extent simply because that business was less off in terms of its pricing than where the pure and direct players were.

But there is price support and that will gradually fit in. I mean that price increase as a fact happened during the year as the year progressed. So, you see that effect gradually going into your P&C premium levels, if the year progresses and 2017 actually starts.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Wonderful. Thank you very much.

Operator

The next question is from Mr. Matthias de Wit at KBCS. Please go ahead.

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

Yes. Good morning. I had few questions. The first one is on consolidation. Are you planning to participate in any large end-market M&A transactions and could you share your view on this topic please or would you rather remain focused on smaller deals that are like you have been in the past? So that's the first question.

The second is on the organic capital generation in the third quarter. Could you provide the number excluding the impact of the lower cost in the best estimates liabilities you refer to during the presentation? And it would also be helpful in this respect if you could provide some sensitivity around rising interest rates on the organic capital generation, because I guess that the number for the organic capital generation is based on the balance sheet at the end of the second quarter. So, it could be helpful if you could update us on that?

And lastly, could you provide an update on LAC DT? I guess your assumptions are quite conservative now that profits are relatively strong and that capital liquidity at the holdco is also good. So, yeah, and linked to that there is a DNB review ongoing on this topic. So, could this lead to any changes? Thanks.

A - Chris H. Figee {BIO 18815839 <GO>}

Very good. On the first question, on consolidation, Matthias, I'll give you our group policy and as a matter of policy, we only share our policy. We always look at consolidation opportunities in the market. That's what we're paid to do. That's your fiduciary responsibility. Whatever we do, we do it from a risk perspective, risk appetite and objective perspective and a third element of our policy that we've never comment on those. So I'll leave it with that. No comments on acquisitions positions (29:56) whatever whenever.

Secondly when it comes to organic capital generation, we guided the market at the IPO of a 9% annual capital generation as a guideline (30:11). We believe the third quarter was – proved to be in line with that – with that guidance.

I think personally when it comes to those numbers, there's less relevance in producing those bridges every quarter. I mean insurance is a long-term business. These numbers can and will fluctuate over time. So, we shouldn't get carried away, but I can assure (30:30) you that the cap – organic cap generation, based on our own reasonably conservative assumptions, actually do or kind of were maintained as per the guidance that we gave you in the year. So, consider that to be very stable and resilient.

Impact of rising interest rates, yeah, that's in principle good, although of course there's always an inter-play between stock and flow. If interest rates go up, the way we are (30:58) that will eat a bit into our stock, but improve a bit our flow. So, interesting, if interest rates move up by about 20 basis points to 30 basis points, a significant portion of debt will feed into the organic capital generation. It may reduce my market variance, it will be a small drive in market variance, it will increase my organic capital generation simply because we are far unwind (31:21) will be less and the way the industry models this, the run rate will go up.

So increasing interest rates generally pushes up organic cap generation. It's not a one-for-one, but very close to a one-for-one comparison. So, any 1 basis point higher government bond yields is very close to 1 basis point higher cap generation if all else are equal, right, especially the same.

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

But in Q3, you were like – that number is based on the balance sheet at the end of Q2 I guess?

A - Chris H. Figee {BIO 18815839 <GO>}

Exactly. Exactly.

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

Yeah. Yeah. So, with rates now rising, it's fair to assume that you could do a bit better than your 9% guidance on a yearly basis or...?

A - Chris H. Figee {BIO 18815839 <GO>}

It really helps. It depends on how frequently do you update your model, but definitely underlying it helps. Yes.

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

Okay.

A - Chris H. Figee {BIO 18815839 <GO>}

And on LAC DT, I think our LAC DT for the group is 53%. So, we round all the legal entities to either 25%, 50% or 75% and they take the weighted average of that. So, it's just above 50%. We feel very comfortable with that. I think the DNB review could be ongoing, but I don't – it's not in my place to comment on any regulatory reviews.

I think we feel very comfortable with our LAC DT. I think our next step is to further underpin our substantiality (32:53) the LAC DT by moving the DTLs into our life balance sheet. There are a number of assets where we have deferred tax liabilities, which are held by real estate entity.

So, we're working on getting these assets which are held indirectly by the life business having them help directly by the life business. So that the DTL on those assets can actually (33:17) and directly support your LAC DT. Let's finish that project before we give a further update. But we think at this point in time, the 55% of the 50-odd percent is pretty well equity (33:26) supported.

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

Okay. Thanks a lot, Chris.

Operator

The next question comes from Mr. Musaddi from JPMorgan. Go ahead, sir.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Good morning, Chris. Just a couple of questions. First of all, the swaption-related earnings, can you just explain a bit more on what this is? I mean is it going to stay here? Is it going to increase in next year? Is it going to decrease in next year? So, again, just I'm trying to understand what this is related to and what will be the moving parts going forward with respect to the €30 million that you flagged. So, that's number one.

Secondly, with respect to your capital generation, just going back to Matthias' point, I don't know I just wanted to check one thing. So, at the IPO (34:16) you flagged, you guided for 9% capital generation. Post the massive decline in interest rate at first half, you said capital generation will be 9% and now rates are going up, you're saying capital generation could nudge up higher. So, what are we missing here? Is it that your downside protected on falling interest rate and you have full exposure to upside on rising interest rates, any thoughts on that? What are we missing here? So, that's what I'm saying – that's my second question. Thank you.

A - Chris H. Figee {BIO 18815839 <GO>}

On the swaptions, basically with the €30-odd million is the result when we call a shadow accounting methodology, where basically if you record a gain on fixed income and derivatives that are invested against our life liabilities, that capital gain is moved to a capital gains reserve and amortized over time according to the lifetime of the corresponding liability. So, the €30 million is actually an amortization of a gain over a multi-year period.

So, think about this contribution from capital gains to be pretty resilient and stable for the coming years. Eventually amortization will run out, but the liability that has been put against are pretty long. So, think about this capital gain to reach our lower amortization cost of swaptions to be linked to maturity of the liabilities. So, that's something that's going to stay here for some time. Not till the end of our lives, but you know the liabilities in the life book and they (35:56) have pretty long duration. So this is going to be here to say.

Q - Ashik Musaddi {BIO 15847584 <GO>}

And, sorry, sir, just one more thing, just a follow-up on that, sir. So, is it based on where interest rates are at the moment? And so, because, see, this year the issue is this year the interest rates has been amazingly volatile up, down, up, down. So how should we think about this number for next year? Should it be going up? Should it be going down? Based on my assumption, if it is linked to interest rates, it should be going up next year.

A - Chris H. Figee {BIO 18815839 <GO>}

If you realize a gain, a capital gain on an instrument or a derivative, right, that capital gain is booked into a capital gain reserve, which is amortized over time. And to be very specific, the capital gain on the fixed income bond is amortized. It's a corresponding insurance liability. The capital gain on the swap is amortized over the lifetime of the derivative instruments. So, if you realize a capital gain, this adds to capital gains reservedly (36:50). That's the principle of shadow accounting, right.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Going forward, it would be great if we can get a bit of color about what you're realizing, sir. At least, we can know what is the stock of capital gain that will be covering the shadow accounting in earnings. So, yeah, because it's very difficult to forecast just on that base – without that basis. So, just a request. Thank you.

A - Chris H. Figee {BIO 18815839 <GO>}

That's something – some we will share more on this full year disclosure, which is (37:23) quarterly result. But if you think about a capital gains reserve at this point in time that started with fully (37:32). It's over €3 billion, the realized capital gains is around €3 billion plus at this point in time.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you.

A - Chris H. Figee {BIO 18815839 <GO>}

In terms of capital generation, look, the way this thing works and it's a bit of a – it all honestly a quirk in the way the industry thinks about this. You take your asset mix, you multiply by an investment spread over the discount curves, you've got a discount curve in your solvency, treat it as if you define the spreads. So, you multiply the asset mix by a spread and you add operating results from your – insurance business do it. You take out costs and then you've got your organic capital generation. And you take up – that's what the business generates, then you add the release of capital from your book, SCR risk margin release and you subtract UFR unwind, that's roughly how the industry has defined the organic capital generation.

When interest rates move up or down, if they move down, right, that increase is the UFR unwind and it generally puts some pressure on the excess spreads that you make over the discount curve. So, during the first half year, of course there was – when rates fell, we believe that 9% was actually a feasible number and we still believe that 9% can be realized.

But if interest rates go down, there is pressure on that number. If interest rates goes up, that number tends to be supported. You just don't keep on adjusting your number every week, every day on changing interest rates. So, firmly, we do this once, twice a year, beginning of the year and the second half of the year. At that point also, we recalculate the UFR drag to up to be online or be at market where the UFR drag is.

So, in the first half year, we took into account some of the increased UFR drag where we said at the half year numbers. I know some of players in the industry only do it once a year and maintain the UFR as per 1st of Jan. We do it twice a year. So, the number we produce in this quarter actually is still consistent with the 9% guidance that we gave where we have based ourselves on the balance sheet as per 30th of June and at the 1st of Jan, we'll recalculate the number. So, underlying this, 9% is stable with some downward pressure in the first half and actually some products – if interest rates continue to move like this, support going forward.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's clear. Thank you.

Operator

The next question comes from Mr. Steven Haywood from HSBC. Go ahead, sir.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning, Chris and Michel. Thank you for taking my questions. In terms of Q4, what kind of seasonality do you usually see in Q4? I'm assuming there's a small pickup in claims in certain business lines due to winter impact. But considering you're so far ahead of sort of the run rate at the nine months stage in terms of earnings and also when you're operating ROE. I just want to see what kind of potential negative or seasonality there might be in the Q4. And then, I noted in your holding and other business line, in the third quarter, it's reduced from €20 million last year to €15 million this year. Is there any specific thing here? I guess, there might be some removal of project cost of Solvency II cost. So if you could let me know what is specific here that'd be great.

And I just wanted to confirm on your shadow accounting, you've got realized gains reserve of over €3 billion. And I kind of assume that will be amortized over 15, 20, 25 years even maybe longer years. If interest rates go up, you probably won't be realizing anymore, and therefore, that realized gains probably won't move much in the future. Am I correct on this? Thanks.

A - Michel Hülters

Okay. First question – Steven, thank you. Steven, on the seasonality, limited seasonalities in the fourth quarter, interestingly, we used to have in the fourth quarter, the receipt of any benefits from the health equalization system. And those are with premiums that will happen in the third quarter. So in the third quarter and this quarter, already we took in the operating results, the receipts from the health equalization system, previous years, and the provision for future pricing setting.

(42:20) no health seasonality this year that was already moved into the third quarter. Typically, there could be storms in the fourth quarter, but history tells us that these storms used to be in August this year (42:30) June. So I think there is not so much of – part of it is nearly behind us. So I think the storms, it's by definition unpredictable. But historically, they happen more in Q3 rather than Q4. So except for U.S. election in Italy referenda, I can't see any seasonal patterns in Q4 happening. So there's nothing on the cards that I am at this point aware of. No seasonal that we at this point should take into account.

On the holding costs, mainly, it's lower pension charges. We had lower pension charges in this year that's reflected the lower holding costs expenditure. In terms of the capital gains reserve, please note, to make the story whole, we have a realization or a reevaluation reserve that is unrealized and part is realized. So the realized portion is (43:26) unrealized, with the delta and market values. If you trade in instruments, reserves go from unrealized into realized, right?

So there's an overflow in these two buckets. Will it go up, will it go down? It depends on where do you trade securities, where do you trade bonds, where you trade derivatives. Now as a matter of policy, we don't trade them, really, we do not trade these things to manage that reserve. We only trade securities to optimize our investment position, to optimize our hedging position.

And the capital gains reserve is a byproduct from that. So will it move a lot? I don't know. I don't think so personally, obviously, because we're pretty comfortable with our current hedging position to amortize overtime, to amortize a little bit less than 25 to 30 years is probably a bit shorter. But again, if rates go up or rates go down and you change investments, there might be additions or subtractions from that reserve.

For us (44:30) it's going to be relatively stable, except if you have very wild swings of interest rate moves (42:37) then there might be new realizations. But that really is a byproduct from the way we hedge our book. And I'd like to think about like this. In a maxed book, we don't write a lot of new policies. If rates go up, my direct investment yield goes up. But there may be some drag on my capital gains, which are – and rates go down, the opposite happens. So effectively, the combination of your direct investment, your coupons and your interest rate receipts, plus amortization of capital gains, actually makes for a pretty stable number. And they complement each other, communicating vessels if you wish.

But think about the substantive unrealized revaluations or – and substantive realized capital gains reserve that were amortized. 20 to 30 years is probably on the longer end, but it depends on the instruments and the Life obligation was backing it. Is it helpful, Steven?

Q - Steven Haywood {BIO 15743259 <GO>}

Yeah. That's absolutely brilliant. And if I could just follow up on the health equalization reserve, what sort of impact did you see in the third quarter from this?

A - Michel Hülters

Net-net, we have as a matter of policy, what we receive, we give back to customers.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay.

A - Michel Hülters

What we received was given back to. And sometimes, there is a small difference between it, a small net positive as a reward for our capital, but basically, by and large, at a group level the impact is actually very limited.

Q - Steven Haywood {BIO 15743259 <GO>}

Yeah. Thanks very much.

Operator

The next question is from Mr. de Wit, KBCS. Go ahead, sir.

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

Yes. Thanks for taking my follow-up questions. On the Solvency II ratio, could you provide some indication about the legal entities, where we are following the merger of the Life and Non-life entities. And in this respect, is there anything you could share about how we should think about remittances for the second half of the year. So you monetized – or you can monetize the diversification benefits, so could you upstream that to the HoldCo?

Secondly, you referred to Solvency II implementation costs during the presentation. Do they include any costs linked to the fine-tuning of your ECAP model or to the development of an internal model? Or do you stick with your standard formula approach for the time being?

And then thirdly, on the (47:04) portfolio, what were the most important changes during the quarter? I remember you plan to re-risk a bit following the de-risking at the end of Q2. So what happened and what are your plans going forward please? Thanks.

A - Michel Hülters

Hey, Mathias. On Solvency II and legal entities, we merged our legal entities. So we have two core legal entities, (47:37) which means that we dissolved effectively AXENT, (47:40) and AXENT were merged into (47:43) into one. Again, that didn't really boost solvency as such that boosted fungible capital. Think of a number north of €100 million of diversification benefit (48:00) pushed through, crystallizing those legal entities.

The Solvency II standard formula number of those entities per quarter both above 180%. So very strong solvencies. So there is no link, no – as far as we understand, no limitations, no blockage as to the remittance of cash to the holding. Now one perspective when it comes to cash at holding as a matter of policy as long as the operating entities exceed the cost of capital and create value, I don't need to hold lots of cash at the holding. I think there is a element of excuse the word hoarding cash (48:41) out there where people (48:45) holding is worth more than a euro at the OpCo.

As long as we deliver an operating ROE, mind you, that a full ROE, even operating ROE, a 14-point-something-percent, then I think there's value to have the capital at the ops service. Secondly, please note we're in one jurisdiction, with one regulator, sort of no equivalent rules or issues to transfer money across borders.

Secondly, the board of ASR, the executive board is also the executive board of the ops service. So I can see some of my colleagues moving cash back to holding, moving it from one country to the other country, to have it all in one jurisdiction. Or if you have different statutory boards, there might be a way to discipline boards by upstreaming capital.

In our situation, if I were to discipline, if my left hand were to discipline my right hand because my left hand is the holding and the right hand would be the OpCo, that would be fairly sign of schizophrenia. So we believe, because we run both the holding and we run the operating companies, there's less need to upstream every single euro to the holding as long as the business delivers its cost of capital.

So we've given a group cash target, which we are on track to deliver. And secondly, as long as the OpCos are sufficiently capitalized, as long as remittance is actually acceptable and happens and takes place on a seamless way, I am comfortable to generate value, generate profit and keep the cash in the OpCo. So (50:19) target level, we'll get there. And for us, I'm happy to make money in the business.

When it comes to Solvency II implementation costs, some spend on ECAP optimization. The most actually spend on model validation, on data quality, and on installing or creating the ability to deliver quarterly QRTs to our supervisor in a very short time period. So, yes, as always, work could be done on the ECAP, but (50:52) makes it all the models are fully validated that the data quality always in place. That's very useful for whatever you want to do if you ever want to move to a different type of model, internal model, you have to go through it anyway. So that's in principle money well spent.

And for the rest, it's about streamlining the reporting process, but the – because the amount of reporting requirements from Solvency II every quarter is pretty onerous and it has to be sped up as well. So it's also investing in what I would say speeding up the delivery of a lot of documents every quarter to our supervisor. And that whole process needs to be automatized, needs to be put in place. That's where most of the spend is.

On your final question (51:36) we added some more exposure to our mortgage book. We added some exposure in equities during the quarter. But it doesn't move the needle as such. We re-risked a bit after Brexit. We felt spreads and risk rewards is completely out of line. So that's when we took some re-risking in the third quarter (52:03) increase in the mortgage book and that's kind of where it is.

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

All right. Very good. Thanks a lot.

Operator

The next question is from (52:11) UBS. Go ahead, sir.

Yes. Thank you. Two questions if I may. Firstly, on Solvency management action, so on the mass lapse at the half year, you said the impact would be roughly 5%, you're saying it's 3.5% now, but (52:30) come on there, so just double-checking that. Other than LAC DT, which you referred to, is there other sort of any major things you can do management action-wise to improve Solvency. And I assume that despite your comments about internal models just now, you're not really -that's not already on the agenda on a medium-term basis?

The second question is on the life insurance business. It's 80% of your profit yet you give very little disclosure around that in the quarterly and also the first disclosure on that is the half year. So I'm just asking if you can give may a bit more color there on the underlying life insurance margin?

And also request as per one of the previous questions that if you could think about giving a more regular update on life insurance margin, because at the moment, we only get it once per year and it's obviously key driver of future earnings? Thank you.

A - Michel Hülters

Very good. All right. On Solvency and management actions, indeed, we – at first half year, we said the Solvency II is now 191%. There is a mass lapse contract pending, pro forma was (53:39) the final calculations, the finalization of the contract was about 3.5%, and there's some work to be done to finalize. But this is the order of magnitude where it will come out. So we feel more comfortable when we finalize the Solvency impact to share something about it. But, there is still some work to be done.

In terms of LAC DT asset, we are working on moving deferred tax liabilities into our Life legal entity. As (54:08) stay away from what I say, assumptions-based solvency as much as possible, but based on solvency on tangible elements like a tangible deferred tax liability that is identifiable with an investment entity. So in terms of management action, we believe the best management action is to make money. So think about Solvency II management actions to improve our combined ratio, to improve our investment assets, and do a great organic (54:37) we believe the best way is to manage your solvency at this point.

In terms of life exposure, yeah, we've heard you, we've heard others as well. We'll take it into account in the full year results. I can give you the results in the Life business are in line with the life insurance margin that we guided towards IPO to 3.4%, 3.5%. What we're seeing today is actually in line with that number, but that's something (54:59) we'll develop more clearly in the full year result. But we've heard you on this item.

Q - Operator

Okay. Perfect. Thank you.

The next question is from Mr. Horsten, Kempen & Co. Please go ahead.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes, good morning. Bart Horsten. I have a few questions remaining. One is on your first APF customer, congratulations on that. And I was wondering, has it changed the capital you have to allocate to this contract, I understood it was an existing contract of (55:33) and that it now moved to the APF. So how are the dynamics in terms of allocated capital to contract and can we expect more deals like this or could you give a bit more color on the pipeline?

And my second question is more on some clarification. If I look on a quarterly basis to your operating result in Non-life, I see report on in Q3 €37 million and in Q2 it was €30 million. And I would have expected having a very low combined ratio in Q3 compared to Q2 that the Q3 number would be somewhat higher. So what am I missing here, was it something in Q2 in terms of investment gains or anything else? Thank you.

A - Chris H. Figee {BIO 18815839 <GO>}

Okay. Thanks. Bart, on the APF, yes, (56:18) has signed up, if they move that will release some capital. But again, yes, in principle moving a customer from ADB contracts to an APF releases capital. So that in principle good is a strategy for us to see if we can migrate larger clients to the APF. One contract itself will not change our capital (56:41). We got €3.3 billion of required capital in one new contract will not change our SCR itself. So but in principle you're right, if you move customers from DB to APF, that will release capital.

Actually I'm even more interested in getting new customers signed up to the group at all on the capital light basis, so.

Q - Bart Horsten {BIO 2390919 <GO>}

Sure.

A - Chris H. Figee {BIO 18815839 <GO>}

Our first effort is to get new customers signed up, so that sales effort going on to engage with pension funds to get into the APF and in the same time, we offer this to the customers especially those with expiring DB contracts that have to look at either absorbing significant premium increase, then the APF becomes a very attractive alternative.

Q - Bart Horsten {BIO 2390919 <GO>}

Yeah.

A - Chris H. Figee {BIO 18815839 <GO>}

When it comes to the €37 million profit in Non-life, I guess what you're saying is in the first half of the second quarter, it was €30 million, but you did absorb the hailstorm. So how does that work? Well, there are two things to play. One is in the second quarter – in the third quarter, the direct investment income on P&C was a bit lower, simply because nearly short-end of the interest rate curve is still in the pressure and kept declining. So there's lower direct investment income. Secondly, in the first half, as you may recall, we had a hail and water storm. And we had a small reserve release because the way we account for mandatory agents.

And to be very specific, in mandatory agents or (58:06) in Dutch. We used to have a methodology where the premiums were only calculated in part and claims came in in full. So actually we understated the profitability of those mandatory agents, but fully taking as contrary claimed (58:20) and we take in account the pro rata amount of the premium received. We amended that to give a better view on the profitability of that product, appear to be a (58:30) small one-off reserve release. Actually not that big, but the completion of lower direct investment income plus a one-off in the first half year by moving to a more representative and a more appropriate reserving model, especially in the world market (58:45) and mandatory agents area, supported Non-life products in the second quarter.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you. Maybe if I may, one follow-up on this APF required capital. Could you give an indication, let's say, if under the old contracts your required capital would be 100%. What would be the required capital under the APF contracts in terms of percentage relative to the 100%?

A - Chris H. Figee {BIO 18815839 <GO>}

I don't know but hardware is something very (59:11) less than 25%.

Q - Bart Horsten {BIO 2390919 <GO>}

Less than 25%.

A - Chris H. Figee {BIO 18815839 <GO>}

I haven't done the numbers, but I think it's very low, I mean, (59:17) operational risk, that's probably related that.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you very much.

Operator

The next question is from Mr. Ploegh from ING. Please go ahead sir.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes, good morning all. I'd like to come back to some answers given on the organic capital generation. It feels to me that basically that your asset class spread assumptions are quite conservative and that you basically are overearning on what you assume in your organic capital definition. And in the Solvency II roll forward basically the overearning part goes into the buckets, I guess of market developments, where we basically put no value to when looking at that ASR, because basically the 9% still is around €300 million cap generation. So in reality that's not higher, so are you not being too conservative. And I understand you will not review those kind of policies in the third quarter, but this is something you might contemplate with the full year results to maybe review your excess spread assumptions? Thank you.

A - Chris H. Figee {BIO 18815839 <GO>}

Albert. I fully concur. I think the spreads we gave are relatively conservative especially when you compare with some – what happened (01:00:36) industry, that means there's overflow in the markets variance brackets. Now I can be very cynical like to give the value that's kind of what the analysts are supposed to do, but let's be fair. We are looking at our spreads. I think the quarterly Trading Update is not the right time or the place to make those amendments, but we are reviewing this spreads in light of what actually is actual in our investment portfolio.

So, at some point, we'll probably do in the first, in the full year results. I want to make sure that in the 9% guidance that we gave is based on those conservative spreads. I don't want to – I'm not in a position, I don't want to be making my target by changing the model. Now, we make the target within the model and then we may change our spreads. And I agree that today there is capital generation and the market variance bucket that people attach no multiple to. I wish people would, but that's anyone's choice to do so. But for us, it's something we will report back to you on the full year basis. I think the nine months

Trading Update is not a time to do that. But please note that the 9% is within the existing modeling assumptions.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you. And that sounded as very clear answer.

Operator

The next question is from Mr. Pétrarque from Kepler Cheuvreux. Please go ahead, sir.

Q - Benoît Pétrarque

Yes, good morning, everyone. First question is on the sensitivity to increasing interest rates. I think in H1, you've shown a negative sensitivity, slightly negative. Are you planning to change your hedging policy, looking at what is happening on the market now, are you kind of still keep the hedging and change there. And then second question will be on the Non-life. We have been talking about stronger volumes and margin improvement potential, how much improvement of combined ratio are you looking for potentially, looking at potential re-pricing? Thank you.

A - Chris H. Figee {BIO 18815839 <GO>}

Okay, very good Benoît. On hedging policy, we believe, we produced in the first half over a half year numbers our interest rates and delivery. We believe in the concept of discipline. So, I don't think we'll not be changing our policy based on what we're seeing in the market. I see interest rates go up back in those – this is a scenario where the whole thing collapses and interest (01:03:03) go down again. So we believe very strong in maintaining our policy in a sense that there's no point in hedging against a curve that implies a UFR that you will not make.

So we have hedging policy as we said, where we take into account the solvency curve, but we also take into account other levels of UFRs that we deem to be more economic. The one thing we do and we are doing is reducing the swap spread exposure. Please note that the swap spread has widened in the last years that has been beneficial to most insurance companies because liabilities and discounts, swaps and your investment are parked in government bonds. So that's something where we feel the swap spread exposure could be – that gain could be locked in if you wish. That's something that's on our mind that we're working on. But in principle a directional exposure to curves interest rate as such we believe in maintaining a very disciplined approach across the cycle that has helped us in the past and we will stick to that.

In terms of Non-life, where do you want the combined ratio to be? Well, yeah, as low as possible I'd say within what's reasonable to our customers. I think we've given you targets in equities where we stick with those and we'll try to outperform those targets. So far we've been able to be successful in outperforming the target combined ratios and achieving volume growth that to me is as close to Nirvana as you can get being a P&C operator. So that's what we tend to do. I think at this point we'll focus on – I think there's room for margin improvement, but at the end of the day there's always room to if margins are like this, then it becomes attractive to grow a bit more in volume. But again we stick to our margin over volume policy. And we're pleased where we are.

Q - Benoît Pétrarque

Great. Thank you very much.

Operator

Next question is from Mr. Musaddi from JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, Chris. Sorry for a follow up on this shadow accounting again. I'm just trying to understand the bit – that bit a bit better. So you mentioned that it is nothing to do with – I mean see, ultimately what matters is you have a matched book so your yields are more or spreads are more or less locked. Now, if you realize the capital gain, okay ultimately, your current earnings will go down, but then your shadow accounting will help you to make up for those earnings.

So I don't see what is the net economic gain here from IFRS perspective? So why is this a positive delta in your earnings is what I'm trying to understand like €30 million is a positive delta, I – ultimately it should go down and then come back again, so that's first part. Just to on a simple example on this would be in my view the way I'm thinking is, let's say you have a bond at the beginning of the year and there is interest rate collapse, so you sold it, realize all the capital gains, put it into shadow accounting. Now, next day, bond yield go back to the same old rate. So ultimately you will be sitting on an unrealized loss. So shouldn't that unrealized loss be compensated by that that shadow accounting net-net zero benefit on IFRS? So what are we missing here? So any thoughts on that would be good – sorry it's a complex topic, so I just wanted a bit of clarity. Thank you. Thanks.

A - Chris H. Figee {BIO 18815839 <GO>}

Ashik, very good. Thank you. On the shadow account, I think your first point in the long run that's true. I mean the rates and our yields are more or less communicating vessels, although there may be timing differences in the way a lower coupon works out and the way that capital gain works out. So in principle, in the long run that's actually, that's actually true. Although in the short-term, that maybe different than maybe positive development spend (01:07:01).

So at this point in time, I can see a continued contribution from shadow accounting reserve for these capital gains releases into our P&L, also because for example if you sell a bond, realize the gain, and then move into mortgages, right. The mortgage will deliver a higher spread. So it's not that, it's not completely one for one. If you sold the bond and buy another one, if you've sold the bond and moved to mortgages, there are other FX playing through. So our policy is to keep the direct investment income as high as possible, but for example increasing our mortgage exposure by investing in real estate. So that pushes, that kind of supports the direct investment income. And then there is the realization from the capital gain if you buy or sell, buy or sell the bond.

So in a like-for-like transaction that's actually true, but if you sell a bond and move into mortgages, there's some additional effect of, you know, like say higher coupons. So that it – there's an interplay on the investment mix as well. The combination of that gives us comfort, given where we are and what we know about the capital gains reserve and the projection and the level of our coupons and our investment income that there is a substantive contribution to our P&L for the foreseeable future, if rates stay where they are. If rates go up, then of course that only affects the unrealized portion of the capital gains reserves, and only if you have realized those, it moves into the capital gains reserve.

So please, and if you have a €3 billion capital gains reserve, plus unrealized capital gains reserve of a similar magnitude, it takes a bit of time before you actually move into a very negative contribution from the capital gains reserve. So yes in principle you're fine, you're right. If rates go up, the opposite happens and again you have a significant chunk of unrealized capital gains before we hit the realized capital gains. But again noting this, I think it is just a point in time where we spend probably like an education session which we did was the syndicate analyst when we IPOed. I'm explaining how shadow accounting, how shadow accounting works. But in principle Ashik your comment is fine, except in reality there's an investment mix changing coupons that place through it, changing your investment in company. Secondly, there's also a significant unrealized capital gains here on our balance sheet.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very clear, just one thing. Can you just give us some high level thought on the timing difference, how does it work, we have coupon would be say a 30-year your shadow accounting would be 20-year or any sort of that or too early for that?

A - Chris H. Figee {BIO 18815839 <GO>}

Ashik, good question, shall we take it offline because I'm afraid we're...

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, sure, no worries, that's fine. We'll take it offline, later on.

A - Chris H. Figee {BIO 18815839 <GO>}

(01:09:59) do this.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, yeah, sure, sure. No worries, thank you. Thanks. Thanks for the explanation.

Operator

Sir, there are no further questions. Please continue.

A - Chris H. Figee {BIO 18815839 <GO>}

If there no further questions, I'd like to thank you for being in our call. Thanks for a very detailed and well thought through questions, I think any mess I left behind is actually where they are, and we've performed according to plan slightly better than planned. In terms of management actions, nothing beats capital accretion than making money. I think that's what this company is all about. To our point of view, a solid quarter, a clean set of numbers, no management actions, the numbers rather than just selling profitable policies and reducing our cost. So we're profitable, and we're pleased with the results and the operating ROE. I hope you are too. And any questions in the follow-up you know where you'd able to find us. And then I'd like to thank you for your time and your questions.