Q1 2016 Earnings Call

Company Participants

- Delfin Rueda Arroyo, Chief Financial Officer & Director
- Doug Caldwell, Chief Risk Officer
- Eilard Friese, Chairman & Chief Executive Officer

Other Participants

- Ashik Musaddi, Analyst
- Farquhar C. Murray, Analyst
- Matthias de Wit, Analyst
- Michael van Wegen, Analyst
- Nadine van der Meulen, Analyst
- Steven A. Haywood, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. This is the operator speaking. Welcome to NN Group's Analyst Conference Call on its First Quarter 2016 Results. The telephone lines will be in listen-only mode during the company's presentation. The lines will then be open for a question-and-answer session. Before handing this conference call over to Mr. Lard Friese, Chief Executive Officer of NN Group. Let me first give the following statement on behalf of the company.

Today's comments may include forward-looking statements, such as statements regarding future developments in NN Group's business, expectations for its future financial performance and any statements not involving historical fact. Actual results may differ materially from those projected in any forward-looking statements.

Any forward-looking statements speak only as of the date they are made and NN Group assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. Furthermore, nothing in today's comments constitutes an offer to sell or a solicitation of an offer to buy any securities.

Good morning, Mr. Friese, over to you.

Eilard Friese

Yes. Good morning, everyone, and thank you for being on the call. I will start off today's presentation by looking at the highlights of the first quarter results, as well as discussing how we are progressing in terms of the strategic priorities that we set ourselves at the time of the IPO.

Delfin Rueda, our Chief Financial Officer, will then talk you through the financial details of the results at group level and for the individual operating segments, as well as our capital position. And I will conclude the presentation with a wrap up, after which, we will open the call for Q&A. We also, as customary, have Doug Caldwell here, our Chief Risk Officer, who will help to answer your questions.

Let me now move to slide number three, with some highlights. NN Group's operating result for the first quarter of 2016 was €305 million, which was broadly stable on the same quarter in 2015. The operating performance of the individual segments showed in next picture, which Delfin will elaborate on later.

But let me summarize now by saying that we saw continued strong investment performance at Netherlands Life and improved results at NN Bank. And this was offset by lower results at Netherlands Non-Life, Insurance Europe and Asset Management.

Our continuing efforts to drive efficiency realized a further reduction in administrative expenses in Netherlands in the first quarter of 2016. Our capital position remains strong, despite the volatile market conditions in the first few months of the year. NN Group Solvency II ratio was 241%, and free cash flow to the holding was €403 million in the first quarter of 2016. Delfin will talk in more detail about our capital position in his part of the presentation.

Shortly after quarter end on April 14, ING completed its divestment of NN Group with the sale of its remaining stake. This transaction marked the completion of our journey to become a stand-alone company. And finally, I'm pleased to announce today a share buyback program for up to €500 million to be executed during the coming 12 months.

Let's turn to slide four. A critical component of our stand-alone future is the creation of our own identity and our brand. We have clearly articulated our purpose, which is to help people to secure their financial futures, and we have defined our values which are; we care, we are clear, and we commit. These values are commitments not only to our customers, but to all our stakeholders. The values are embedded in our key processes and they guide the actions of all our employees throughout the entire organization.

We've spent the past year rebranding our businesses to NN or Nationale-Nederlanden. And while it takes time for a new name to become an established brand, we've already seen an increase in our brand awareness in most countries since the new name was introduced.

Sponsorships give us the opportunity to engage our clients in our NN brand. One of our sponsorship areas is sport, with running as the main theme. Running reflects our values and our aim to contribute to people's general health and financial well-being. Sponsored running events so far this year included the Rotterdam Marathon, the City-Pier-City Run in The Hague, as well as the Urban Trails in Belgium, and the International Alexander the Great Marathon in Greece. We will be sponsoring a total of 46 running events this year in Europe and Japan, involving more than 300,000 participants.

On the following slides, I will talk about developments in the various businesses. Slide number five. In the Netherlands, our strategy is centered around providing digital, personal and relevant services with the aim of enhancing customer experience, and let me give you some examples.

Based on our knowledge of a customer, we can proactively offer services or products that we believe will fit their needs. We call this, next best actions. Last year, we included 150,000 of these next best actions in our customer conversations, and we are on track to reach 0.5 million this year. The result is higher satisfaction, lower customer losses, and increased sales. We followed a similar strategy in pensions, where our new online service pension assistance provides personalized pension information to customers and non-customers alike.

In non-life, we have recently piloted our Smart Home product that was initiated by our innovation lab and allows home owners to keep an eye on their houses and also receive advice on burglary prevention.

We also launched a segmented online campaign for motor insurance offering prospects – a range of propositions based on price, brand and quality. The campaign is aimed at customers who are not only interested in low premiums, but also in a quality product. This is a good example of the ongoing measures we are taking to improve the results of the non-life business such as the better pricing of risk in the form of differentiated premium increases, lowering costs, as well as capturing selected growth opportunities. We continue to work hard to improve the combined ratio of the non-life business towards our target of 97% by 2018, and we expect these measures to yield results over time.

Finally, NN Bank is achieving healthy growth in both mortgages and customer savings, and is now one of the top five mortgage originators in the Netherlands. Overall, as well as our ongoing focus on cost and capital management, we continue to innovate and invest in enabling our Dutch businesses to provide excellent customer experiences, something we think is essential to the interest of all our stakeholders.

Let's turn to the next slide. The same is true outside of the Netherlands where we continue to innovate and develop customer propositions. For example, in the last quarter, we launched our online health product in Greece and our account protection product in Turkey. In Japan, we continue to see strong sales from the term and income protection products we launched in 2015.

We aim to serve our customers through multiple channels. And so, we continually look to expand and diversify our distribution network. Last week, we announced the acquisition of Notus Financial Advisors in Poland. This acquisition will further strengthen and diversify our distribution network in that country with over 350 of Notus' own agents as well as franchises giving access to 600 financial advisors.

Another distribution initiative is the paperless sales process for tied (07:47) agents in Spain, which has been very successful in increasing customer experience and reducing new business processing cost. We have recently launched similar digital solutions in Poland and in the Czech Republic, and we will be launching similar platforms in other European countries in the coming months.

Our asset management continues to develop and focus on investment propositions in which it has a competitive advantage, launching its first dedicated Green Bond fund this year and experiencing strong demand for its Dutch residential mortgage fund.

Now, let's move to the next slide. Slide number 7 shows our balance sheet metrics. And as I already mentioned, our capital position remains strong, with NN Group's Solvency II ratio at 241% and holding company cash capital at €2.1 billion at the end of the first quarter of 2016. We believe in disciplined capital management and are committed to our dividend policy which states that excess capital is expected to be returned to its shareholders in the most efficient way unless it can be used for value-creating corporate opportunities.

Let me remind you that so far since the IPO and including the proposed 2015 final dividend, we have returned a total of over €1.4 billion to our shareholders in the form of dividends and share buybacks. In addition, we have announced today that we will execute an open market share buyback program for a total amount of up to €500 million over the next 12 months. We intend to cancel all of the shares acquired under this program.

This share buyback program demonstrates our disciplined capital management, as well as our commitment to returning excess capital to our shareholders. At the same time, we believe it is essential to maintain a robust capital position and a financial flexibility to be able to pursue value-creating corporate opportunities.

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

Delfin Rueda Arroyo {BIO 7032761 <GO>}

Thank you, Lard. Good morning, everyone. NN Group reported a stable operating result of the ongoing business of €305 million in the first quarter of 2016. The operating result excludes the result of a Closed Block Variable Annuity business in Japan. As Lard already mentioned, the operating performance of the individual segments shows a mixed picture. We saw higher results on Netherlands Life, driven by higher dividends, as well as improved results on NN Bank. On the other hand, Insurance Europe results were impacted by regulatory pressures, lower interest rates and equity market depreciation.

The non-life business was hit by an unfavorable claims experience in disability and accident. And the asset manager reported lower fees on lower average assets under management. The decrease in the net result that you can see in the right-hand chart can be explained by the fact that the first quarter last year included a capital gain on the sale of a large public equity investment. While the current quarter reflects a negative result for Japan Closed Block VA due to higher market volatility. I will cover this last point later in the presentation.

Before going through individual operating segments, please turn to slide 10, which gives more details on the cost savings in The Netherlands. As we announced last year, we have set ourselves a new cost base target in The Netherlands. We aim to reduce the annual administrative expenses of Netherlands Life, Netherlands Non-life and the holding entities to €700 million by the end of 2018. This is a reduction of almost 15% compared with the annual cost base at the end of the third quarter of 2015, when we set this new expense target.

The expense reduction program is on track. In the first quarter 2016, we realized €11 million of additional cost savings, which brings the cost base in the Netherlands down to €792 million on a last 12 month basis.

Please note that the progress in realizing cost savings may not be linear from quarter-to-quarter due to project-related expenses, regulatory pressures, and the need to invest in our businesses. Improving efficiency in The Netherlands remains our priority, and we will continue to implement a range of initiatives to achieve our target cost savings.

Let's now look at the first quarter performance of each individual segment, starting as usual with Netherlands Life on slide 11. The operating result of Netherlands Life increased to €177 million in the first quarter of 2016, from €152 million a year earlier. In line with the long-term trend we have previously flagged, fees and premium-based revenues were down, due to lower margins in the pension business, as well as individual closed book run-off. This was more than offset by a higher investment margin and higher technical margin.

The current quarter investment margin includes an exceptional dividend of €30 million from an indirect (13:13) stake in ING Life Korea and private equity dividends of €29 million. The higher technical margin was supported by a higher mortality result. The current quarter also reflects a €25 million addition to the unit-linked guarantee provision due to the decrease in interest rates. Finally, as already seen on the previous slide, administrative expenses decreased compared with the first quarter of 2015, supported by lower staff cost.

I will now turn to slide 12 for the results of Netherlands Non-life. The operating result for Netherlands Non-life decreased to €9 million, from €24 million for the first quarter of 2015. This was due to lower results in disability and accident. The combined ratio increased to 104%. As mentioned in previous quarters, the results of non-life activities are volatile by nature, as claim incidents and severity can fluctuate in any quarter.

Let's look at the two business lines within NN Non-life separately. The first quarter operating result in disability and accident decreased to €11 million from €28 million in the first quarter of 2015. This was largely caused by unfavorable claims experienced in the individual disability portfolio in the first two months of the year. In addition, the first quarter of 2015 included a €9 million positive impact from an IBNR update related to better expected recovery experienced in the group income protection portfolio. The disability and accident combined ratio was 103%, compared with 93% in the first quarter of 2015.

The first quarter operating result in Property & Casualty improved to a loss of €2 million from a loss of €5 million in the first quarter of 2015. This improvement reflects a higher operating result in the Fire portfolio due to fewer, larger and weather-related claims in the current quarter. The operating result in the motor and miscellaneous portfolios decreased due to the impact of claims from prior accident years. The P&C combined ratio improved to 105% from 106% in the first quarter of 2015.

Let's now have a look to the results of Insurance Europe. Insurance Europe reported a lower operating result, at €34 million for the first quarter of 2016. That compares with €40 million for the same quarter in 2015. This reflects a lower investment margin due to lower investment rates, as well as lower invested volumes.

In addition, the current quarter includes a $4 million provision related to the terrorist attacks in Belgium. Let me also remind you of the tax on assets of insurance companies that became effective in Poland as of February 2016. The impact of this tax, which is reported under administrative expenses, is estimated to be around €5 million on a full-year basis. The cost/income ratio increased on lower income in combination with higher administrative expenses.

Moving now to Japan Life on slide 14. The operating result of Japan Life was €67 million in the first quarter of 2016, down from €72 million in the first quarter of 2015. The investment margin decreased due to lower interest rates on reinvested assets, while DAC amortization and trail commissions were higher due to higher premium income and higher surrenders. These were partly offset by higher fees and premium-based revenues, driven by larger in-force volumes. The cost income ratio improved as a result of the higher income.

I will turn now to slide 15 and the asset management segment. Total assets under management increased to €190 billion at the end of the first quarter of 2016 compared with €187 billion at the end of the fourth quarter of 2015. The increase reflects a positive market impact of €6 billion, partly offset by net outflows of €3 billion, mainly in other affiliated and third-party assets. The operating results decreased to €29 million in the first quarter of 2016 from €36 million in the same period last year.

Fees were down on lower average assets under management in the quarter as well as due to a shift to lower margin assets. Expenses went down, reflecting lower volume driven fixed service fees as well as lower staff expenses. The cost/income ratio is higher, mainly reflecting the lower income.

The segment Other, which comprises the holding company, their insurance business and NN Bank is set out on slide 16. The total operating result of the segment Other improved from a loss of €20 million in the first quarter of 2015 to a loss of €11 million in the first quarter of 2016. This segment mainly comprises the three elements shown in the graph in this slide.

Let me go through this individually. The improved holding result was mainly driven by lower cost. The result of NN Bank increased to €30 million in the first quarter of this year from €4 million in the same quarter last year. This increase reflects a higher interest margin and a lower addition to loan loss provisions, partly offset by higher administrative expenses as we continue to make investments to support the bank's growth. Finally, other insurance business, the operating result remained relatively stable at €3 million.

I will now move on to slide 17 to cover our last segment, Japan Closed Block VA. The Japan Closed Block VA segment reported a loss before tax of €69 million, down from a positive result of €16 million in the first quarter of 2015. This negative result was mainly due to a hedge-related loss of €66 million due to the impact of higher global market volatility in the quarter. As we have mentioned before, this hedge results tend to fluctuate from quarter-to-quarter and have a negative bias in volatile markets.

As a reminder, the first few months of 2016 saw the highest realized volatility for Japanese equities in the financial crisis in 2008 and 2009. Even in this changeable market, the hedge program that we have in place has remained effective. The first quarter of this year also reflects a €16 million increase in technical provisions following a refinement in lapse assumptions, as well as lower fees and premium-based revenues due to the lower account value as the portfolio continues to run off.

That completes the results of our operating segments. On the following slides, I will take you through the free cash flow and capital position.

On slide 18, you can see the movement in the holding company cash capital during the first quarter of 2016. This increased from almost €2 billion at yearend 2015 to €2.1 billion at the end of March 2016, and this is despite the €250 million share buyback in January 2016.

The free cash flow during the quarter was €403 million, which included dividends of €390 million received from several subsidiaries, of which €150 million from NN Life and €107 million from NN Non-life.

And finally, on slide 19, let's look at the developments in NN Group's Solvency II ratio. On this slide, we show the movement of NN Group's Solvency II ratio, the Own Funds and the SCR over the first quarter of 2016. The left-hand side of the chart first shows the impact of the designation of NN Group as a financial conglomerate, meaning that we exclude NN Bank from both Own Funds and the Solvency Capital Requirement from the 1st of January 2016. This had a positive impact of 6 percentage points and means that NN Group's Solvency II ratio was 245% at the end of the fourth quarter of 2015 on a pro forma basis.

The Solvency II ratio reduced to 241% at the end of the first quarter mainly due to the impact of the €250 million share buyback that we executed as part of the ING sell-down in January. As you can see, in the middle of the chart, there were a number of offsetting impacts, and I will talk you through each of these, starting with the 2 percentage points positive impact of the operating return of the Solvency II entities. This column includes the expected investment spreads over the Solvency II discount rate. The release of the risk margin and the impact of new business, partly offset by the unwind of the UFR. Any operating variances from the development of our portfolio versus underlying assumptions is also included here.

For all these items together, Own Funds increased by approximately €200 million in the first quarter. The main component of this number is the expected investment spreads. However, this quarter, it also includes benefits of approximately €100 million relating to the transfers from the separate account to the general account of Netherlands Life which typically happen in the first quarter of the year. The Solvency Capital Requirement increased due to the shift to higher-yielding assets, partly offset by the runoff of the Japan Closed Block VA.

The next column shows that market variances had a negative impact on the Solvency II ratio of 6 percentage points, reflecting the drop in interest rates, leading to a higher SCR which was only partly offset by an increase in own funds. The total impact of the movement of creditor spreads over the quarter was positive which was partly offset by the negative impact of equity market performance. These movements were more or less in line with the sensitivities we disclosed with our fourth quarter 2015 results. There were no material model changes in the first quarter of 2016.

The movement of non-life Solvency II entities in the next column mainly reflects the performance of Japan Life in the quarter, net of the change in non-available own funds. The result of Asset Management is currently only reflected once a year after approval of the annual accounts in the second quarter.

The column level Other shows a positive impact of 2 percentage points on the Solvency II ratio in the quarter. It includes the impact of using transition as in Belgium and in Spain, for which we received regulatory approval in the first quarter of the year and the change of both non-available own funds for the Solvency II entities and non-eligible own funds.

Finally, in the last column, you can see that the €250 million share buyback in January had an impact of 4 percentage points to the ratio.

With that I will pass you back to Eilard for the wrap up.

Eilard Friese

Thank you, Delfin. The operating result for the first quarter of 2016 remained broadly stable on last year, even in the challenging environment of low rates and volatile markets. However, I think it's fair to say that there are several areas that still need more work. We remain committed to further improving performance within the business and in particular at the Non-life and Asset Management units. And at the same time, we will continue to increase efficiency by reducing the cost base in line with our target.

Our capital position is robust and held up well despite the volatile market conditions in the first few months of the year. This strong capital position in combination with a healthy holding company cash capital allows us to embark on our first open market share buyback program for an amount up to €500 million during the coming 12 months. This demonstrates our disciplined capital management as well as our commitment to returning excess capital to shareholders while maintaining a robust capital position and the financial flexibility to be able to pursue value-creating corporate opportunities.

I would now like to open the call for your questions and can I kindly request you to limit the number of your questions to two per person so that everybody gets a chance to speak. And of course, feel free to come back with a second round of questions if they have not yet been dealt with.

So with that operator, I'll ask you to open for questions.

Q&A

Operator

Thank you, Mr. Friese. Ladies and gentlemen, we will now start the question-and-answer session. The first question is from Mr. William Hawkins from KBW. Please go ahead, sir.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. I think you know guys the capital management message is great, but there are concerns about your operating performance. So my two questions are your underlying life invested margin, if I strip out the dividends, seems to be below 95 basis points which is way off your 105 basis point targets and seems quite materially weaker than the underlying performance last year. Can you talk about that a little bit? Are there any negatives that sort of mitigates the highlighted qualities that you've given us? And what is the risks to the outlook for your Dutch Life investment margin?

And then secondly on slide 19, annualizing the operating capital generation seems to come up with the figure that is visibly lower than your basic guidance of the free cash flow. I think most people are expecting the net operating results to be either side of €1 billion. Annualizing this figure on slide 19 would be significantly lower than that and even worse if I strip out the €100 million exceptional that Delfin just referred to. So at least on the Solvency II basis, it doesn't look like your capital generation is anything close to the guidance you've been giving us on an IFRS basis. So could you try and say something to sort of bridge the gap between those two figures? Thank you.

A - Eilard Friese

Yeah. Thank you, William. Delfin, I think it's – can you take them?

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yes, William. Thank you very much. The guidance that we provided with investment margin for NN Life was always very carefully and cautious because we said that we were aiming as a consequence of the lower interest rates to invest prudently into higher yielding assets and that with that we were intending to compensate the pressure on the IFRS investment return related to this decrease. And what we said is that we were aiming to be around the same level as it happens in 2013. And that was, I think if I recall, more around the 100 basis points, about 105. But nevertheless, every quarter has a slightly different impact and you will see fluctuations on a quarterly basis.

Also, we like it or not, the volatile returns coming from equity, private equity, real estate is also a part of our investment margin. And as a consequence that's going to drive that investment return up and down from one quarter to another. So I would not normalize that much the investment return as you suggested.

Then the question about the capital generation is tricky and complicated one. But I will try to, if not give you a very precise guidance on the run rate, at least to help you on how to think about it.

First, let me remind everyone that the guidance that we provided was the free cash flow generation to be in the range of the operating result after tax of the ongoing business and that we have always said it is an over time target. And we emphasize this again and again that from one period to another, there's going to be deviations from that.

Nevertheless, I clearly understand they needed to have some understanding on the kind of normal run rate. So indeed, another probably point of caution that I will make here is that the movement in the market, particular interest rates, have quite an impact into what is the capital generation that happens the following quarters. So in Q1, the decrease in interest rates has obviously – have some negative impact in our solvency ratio, but also has increased the UFR drag that will be coming in the next quarters.

So that means that, every quarter, if you were to normalize the situation based on that quarter, that annual rate, or run rate, assuming everything stays the same as that quarter, changes from one quarter to another. And that can be significant, as we have seen with the decrease of interest rates, is the impact of that will be lower in the quarter to come. In any event, were I were to look at the first quarter, you have around €200 million from market – from operating return, of which indeed €100 million is something that happened in the first quarter because of the movement of the separate account to the general account. And that's something that typically happens every first quarter. So, you should take that into account, from that amount in the quarter.

So you take, let's say, the €200 million in the first quarter and maybe, as I said before, with all the caveat, normalizing the first quarter of €100 million, I guess you'll get around €500 million coming from the Solvency II entities. But again, I'm saying that already, we have seen that due to the decrease in interest rates, there is a further drag of the UFR that will decrease that figure. And that, again, will change quarter-per-quarter.

On top of that, you need to add, of course, the capital generated from the non-Solvency II entities. And this, we have given some guidance that, for investment partners, the capital generation is expected to be around the net profit of the entity. And then, from Japan Life, it is slightly more complicated, but you could take both together, maybe, to be around €150 million or so. There is some contribution, as well, coming from the pension funds that will come over that period of time.

So, I hope that maybe I gave a very long explanation, but hopefully help you understand how to think more about the run rate going forward.

Q - William Hawkins {BIO 1822411 <GO>}

It does. May I just come back? That was very clear. Thank you. But it does still lead to the concern that what you just had summarized is, €500 million plus €150 million, is €650 million of capital generation, which barely covers your ordinary dividend, let alone the buyback as well. So, still have that concern in my mind from that.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yeah. Well, I guess, that I mean you could add also pension funds. Maybe that's around €40 million a year. But in any event, keep in mind that we come from a very strong solvency position and that, when we talk about the generation of free cash flow to the holding, and we also mentioned that in the last presentation of results with Q4, is that a part of the cash flow in some instance, from some legal entities, might come from the return or the decrease in the surplus capital in these entities. So, in terms of the cash flows or dividends from the subsidiaries to the holding company, you have to take into account both things, the capital generation in that period of time, as well as what is the starting position, in terms of solvency of those entities.

Q - William Hawkins {BIO 1822411 <GO>}

Great. I'll leave it there. Thanks for your time, Delfin.

Operator

The next question is from Mr. Ashik Musaddi from JPMorgan. Please go ahead, sir.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Good morning, Delfin. Good morning, Lard. So just couple of question. I mean, what – how should we think about P&C and Asset Management? You have some targets with respect to combined ratio and with respect to some growth in Asset Management. Do you still believe that we should stick with that target, or are those targets looking a bit tough now? So, that's the first one.

Secondly is, can I get some sense about the slide number 19? Again, this operating return, the SCR increase of €31 million, what is driving the SCR increase here? Because, if I understand correctly, I mean, a large part of your business is kind of running off, or wherever you're going is very, very capital light. So, why is your SCR going up on an underlying basis? So that would be good. Thank you.

A - Eilard Friese

Okay. Ashik, thank you very much for your questions. I will first start with the combined ratio and Asset Management questions, and then Delfin will take the point around the SCR. On non-life, the non-life combined ratio target of 97% or below by the end of 2018 is still something that we are committed towards. If you look at the – let's say, if you take a step back, we saw in the first quarter of this year, in the first two months, individual disability claims with higher inflows and lower outflows, and that was basically driving the results of this quarter while P&C slightly improved. So, if you take a step back, I would say that, over the years, we have seen the disability and accident business providing good returns. At this point in time, we don't – I can't predict the future, obviously, on this, but it's not an area of major concern to us.

The key thing here is the property and casualty side, where last year we saw, for the first nine months, quite some large buyers in Fire, that's the first nine months. We haven't seen them for a while, at least not in the same amount as we had last year. So we – and also including a number of management actions we've seen that actually also this quarter, the Fire results have improved. Then what remains is the motor book, and that's where we do have a concern. We have a number of management actions that we're putting in place there, but there's a market context here as well.

So, if you look at the overall car insurance market in The Netherlands, I think that the profitability is under pressure, of that segment, and that is something that we, of course, doing our bit to improve, which is a combination of differentiated pricing, actions that we take, so ongoing rate adjustments. And as we said before, we terminated the large (39:05) and all of these contracts, stage one (39:08) have been done. They're still giving some negative run-off results here and there, but this actually will take some time to become fully visible. We improve the fraud detection claims, the fraud detection, et cetera. So we continue to have a number of things in place to improve that. So that's how I would like to end the discussion on the combined ratio for this moment.

For the entire non-life company, I'd like to add that it's basically three main things that we're doing. One is improving the expense reduction by – improving the expense ratio by driving expense reductions as part of the €700 million target that we have. Secondly, improving the underwriting results by a number of measures that I just mentioned and more. And then there is some selective growth opportunity that we see. For instance, in the group disability side and for instance in home and fire insurance in Belgium, which is also represented in this line.

If we then go to your question regarding Asset Management, with Asset Management, I'd like to start out by saying that there is a backdrop, a market backdrop on active – on the active management industry where you saw certainly due to the volatility at the beginning of the year quite some institutional investors move their assets away from risk into a lower risk products or even risk-off in – as a whole. And we're seeing the entire industry reflected – this entire industry, the asset management industry. And also, we are not immune to that, and we saw that happening as well.

We launched in the fourth quarter last year, a program, as we mentioned last time called focus, simplify and optimize. And what we do there is a set of initiatives that are being implemented to address these challenges. Focus on products in selected growth areas like income, multi-asset, emerging markets and private debt. Simplifying the product range, so we have about 40 funds that are being reviewed for potential closure or merger into – to create more scale and lowering expenses and simplifying the footprint – let's say the overall platform. And then focusing the distribution network to increase the effectiveness, especially designed at specific plant and distribution groups, and making sure that we emphasize the strategies that we are winning relative to competition. We have some cost control as well in place there, and that is coming through in this year, but also, next year to the full effect. So that's the way we address the Asset Management side of the business.

Now, with those two questions answered, I think we go to Delfin on the SCR movement.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yes. I think – so the solvency capital requirement increased by €31 million. That mainly reflects, firstly, the higher volume of invested assets. So when you look at the total investments, it has increased by around €4.7 billion, and if you exclude the amount of cash, the increase is €3.7 billion. In addition to that, there is certain shift from a more – a less capital-intensive investment assets to higher-yielding assets and that is partially compensated due to the decrease of the Japan Closed Block VA, but basically reflects the higher invested assets (42:17) for the most part.

I don't know, Doug, if you have anything to add to that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

No. And just one thing is higher invested asset, is it because of some growth in Dutch Life business or is it just like mark to marking of assets?

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yeah. It's just the movement. The majority of it is the move of mark to market, and then, obviously, some new investments. But the valuation of the assets has increased as well.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thank you.

Operator

The next question is from Ms. Nadine van der Meulen from Morgan Stanley. Please go ahead.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Good morning. With regard to M&A, you said it is essential to keep capital position very robust and to have flexibility to pursue value-creative opportunities. Does it mean that this is getting increasingly likely? I just have the feeling that your language around M&A is changing a little bit. Maybe if you can elaborate on your appetite.

And then the second question is on the €390 million dividend. I believe you said €150 million from NN Life and €107 million from NN Non-life. Can you specify where the rest was coming from? Thank you very much.

A - Eilard Friese

So, Nadine, thank you very much for your questions. So, Delfin will take the dividend question. I will comment first on M&A. Nothing has changed in this respect since the IPO. We've always said that our dividend statement and our priorities are on improving the earnings and driving cash generation in the platform that we have, and that's what we do. And then when we generate cash, we make that available as a base case to our shareholders unless there is a value creating corporate opportunity that we can invest in. We said it at that time few years ago, we say it today. So in that sense nothing changed, and that's all. So if you look at what we've done so far, we, I think, have demonstrated again today also with the buyback announcement that we take our dividend statement very seriously. And at the same time, we do want to keep a robust capital position which we feel is only appropriate and prudent, and at the same time, maintain some financial flexibility.

So, with that, I'd like to hand over to Delfin for your dividend question.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yes, Nadine. As you can see in the – only page in the appendix is that we have a good dividend upstream. So you can see there that you brought (44:51) from NN Life €160 million. This €150 million as dividend and the other €10 million is related to the coupon on the subordinated bonds that are owned by NN Group. Then NN Non-life is €107 million. From Europe, there is €6 million this quarter that's coming from Poland; NN Re is €75 million and the other is coming, the €41 million is coming from our insurance company in Ireland.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Thank you.

Operator

The next question is from Mr. Farquhar Murray from Autonomous. Please go ahead, sir.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Morning, gentlemen. Just two questions, if I may. Firstly, just a follow-on on slide 19. My questions really relate to the scope and specifically how we take kind of slide 19 from kind of Solvency II type scope to group. Specifically, could you just clarify how the holding expenses, NN Bank and the Japan SPVA book are being captured? I think NN Bank is obviously outside the scope of slide 19. I think SPVA is actually in slide 19, a big part of that SCR movement, but I'm slightly less clear on the holding. So, really, just a sense of how we're go from slide 19 through to the group without missing anything would be very useful.

And then just on – kind of second question is really just a slightly forward-looking question. Can you give a sense of the incremental drag from the UFR that you expect to emerge Q-on-Q which is that interest rate is down presuming that has a slight impact? And also, actually, as you're kind of slightly re-risking the book, should we expect any kind of offsetting improvement in the kind of excess return will be coming through as well? Thanks.

A - Eilard Friese

Okay, Farquhar. Delfin, I think it will be good if you start with this.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yes, Farquhar. So, the holding expenses are part of the bucket other. NN Bank is not included at all on the slide 19, so starting this quarter because Solvency II numbers now exclude NN Bank because of the denomination as a financial conglomerate as it is already the case for our competitors in the Netherlands. And the Japan Closed Block VA is captured within the operating return.

In terms of incremental drag from UFR in the coming quarters, that it is probably around a €100 million on an annual basis. So it would be around €25 million in the quarter. But keep in mind that also this is also compensated by also an increased release of the risk margin also due to the decrease in the interest rates.

And I'm not sure if I have answered all your questions or you have something else? And yes, there was something on the movement in the excess return. Is that, obviously, also when the interest rates change, there is also the expected return is impacted somehow.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay. Thanks very much indeed.

Operator

The next question is coming from Mr. Matthias de Wit from KBC Securities. Please go ahead, sir.

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

Good morning. Two questions, please. First on the fees and premium-based revenues in Dutch life. You stated that the decline is due to lower margins in your pension business. Is there anything you could share on the profitability of your Dutch Group life business, both for back-book and on the renewals in the new production? So maybe there is also something you could say in terms of pre-tax margin on the reserves in group relative to individual life.

And then secondly, on your capital position and cash position. You continue to operate with a lot of excess capital, which is kind of diluting returns. And so, I just wondered if there is any room to execute that €500 million buyback program more rapidly than the 12 months you mentioned. And also wondered whether you would be looking or you might look at additional returns on top of that €500 million buyback, considering that your holding cash is €1 billion ahead of your – the midpoint of the target. That's it. Thank you.

A - Eilard Friese

Thanks, Matthias. This is Lard. I will take the second question and Delfin will take your question on – then after me maybe the question on the NN Life fees and premium-based revenues.

Well, as I've said, we are committed to our equity story to improve earnings, to generate cash, and to make that cash available for distribution to shareholders unless we can invest it in value-creating opportunities. Let me remind you that, in 2015 we have returned €850 million in the form of buybacks and dividends, combination of both. And if you look at 2016, may I remind you that we had €250 million in January. We have, next week on the agenda at the AGM, the approval for €341 million dividend.

We've launched a buyback this morning of €500 million to be executed in the next 12 months. And then there is of course an interim dividend, which we of course still need to decide on, but there's also something. So if you add that all up, I would argue that, we demonstrate that we are taking our equity story and our dividend statement seriously and that we also aim for capital returns that are sustainable over time, over a longer period of time.

We find it important to maintain, as I said earlier, a robust capital position to deal with market volatility and market uncertainties and such. And yes, we also want to maintain some financial flexibility to invest in value-creating opportunities. So, we think that – we do hope that the actions that we have demonstrated in the last two years are demonstration of our commitment to our equity story.

With that, I think I'd like to hand over to Delfin, for your point around Netherlands Life.

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Okay, Matthias. I think that when thinking about the fees and premium-based revenues of NN Life, there are obviously two trends there. I mean, there is the trend of the individual life business of which the book is (52:01). And as a consequence, as it decreases, the fees and premium-based revenues there keeps decreasing, and we have flagged that in the past.

And also, no surprise that, for group pensions, as the trend is – continuous trend is moving from defined benefit to defined contribution, the margins there decrease. And as a matter of fact, the margins in some of the defined contribution products in the PPI arena, basically, are not reflected in – only in Netherlands Life, because it's a small contribution there, but is in the increase of assets under management and fees for asset management going forward. So, that is the two trends explaining the profitability.

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

And could you maybe share how important individual closed block is, in terms your Dutch life earnings?

A - Delfin Rueda Arroyo {BIO 7032761 <GO>}

Yeah. Let's say that approximately 70% of the operating result relates to the pension business.

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

Okay. Thanks.

Operator

The next question is from Mr. Michael van Wegen from Bank of America. Please go ahead, sir.

Q - Michael van Wegen {BIO 6435238 <GO>}

Yeah. Hi. Morning, guys. One quick follow-up, unfortunately on slide 19 again. The €31 million increase in the SCR, in one of the earlier questions, you explained that that's a combination of growth in SCR because of re-risking, growing the assets, but also, there's a component that is driven by the fair value change in the investment portfolio. Can you separate the two to get a better feel for what the underlying development in the SCR is? Thank you.

A - Eilard Friese

Yes. So Doug, I think you wanted to add.

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah. I think – I think, just to clarify a bit, I think the change due to interest rates and the higher balance sheet comes under market variances and it's nice (54:06). I think primarily the focus, as Delfin said, is on the fact that we do have – we do continue to move away from government bonds into some corporate bonds, into some mortgages. And these were the types of assets, as we've been communicating for a long time in Netherlands Life, that has some incremental capital that we need to hold.

We think the returns are good against that, and of course there is a – it's one quarter. So the VA book runs off, but it runs off one quarter at a time. So I think these two, in this particular quarter, resulted in a slight increase, but that should fluctuate as long as we're kind of adding additional risky assets, that should fluctuate close to zero for the – I would think.

Q - Michael van Wegen {BIO 6435238 <GO>}

Okay. So, normalized level, in your view, would be around zero?

A - Doug Caldwell {BIO 17900909 <GO>}

I don't have exactly a number to give an exact forecast, but I think you're going to see both of those things continuing over the coming quarters.

Q - Michael van Wegen {BIO 6435238 <GO>}

Okay. Thank you.

Operator

The next question is coming from Mr. Steven Haywood from HSBC. Please go ahead, sir.

Q - Steven A. Haywood {BIO 15743259 <GO>}

Hi. Good morning, everybody. I wonder if you could provide us with a bit of an update on what's going on with the unit-linked cases, particularly the outcome of a couple of the KiFiD cases, and whether NN is going to (55:26) one of the courts, whether it's going to appeal against the individual case, and when it's likely to hear back from the other cases that are currently going on at the courts?

And then the second question is, I wonder if you can comment about the potential review that DNB is doing into the motor market, particularly about the competitive level (55:45) of the motor market? Thank you.

A - Eilard Friese

I will take the first question, Steven, although I think, can you – your second question is on the DNB review of the motor market, is that what we understood you to say, or the mark-to -market, I don't...

Q - Steven A. Haywood {BIO 15743259 <GO>}

Yes. Yes. Sorry, that was on the motor market, yes. Sorry about that.

A - Eilard Friese

Okay. The motor market. Okay. Thank you. So, let me take both. So first on the unit-linked file. As you know, we're helping customers. Our priority is to help customers with an outreach program that we have, and that we work on everyday very hard to ensure that we reach every customer and that we assess with them, whether they are still satisfied with the product that they have, and if not, that we will help them to take opportunity of the many options that we give to change the product, so that it gets – that fits their appropriate need.

At the same time, we are confronted in the entire industry. By the way, we're not alone in this. Confronted with some legal proceedings and also proceedings against us on individual cases at the KiFiD. Recently – that's what you're referring to, the KiFiD in the individual case – came to a conclusion and ruled in favor of the plaintiff in that particular case. First of all, it's an individual case, so each claim needs to be assessed on its own merits. And therefore, no generic conclusions can be drawn from a ruling in the first instance by the KiFiD in this individual case.

More importantly, we believe that the information obligations assumed by the KiFiDs, do not meet the criteria that were set out in the ruling of the European Court of Justice of 2015 in April. In our opinion, these information obligations cannot be reconciled with the conscious choices made by the Dutch legislature at the time, and those were widely endorsed by society. Therefore, we have appealed the KiFiD ruling that was rendered recently on an individual case, in first instance.

Now, that's where that stands. By the way, there are also other rulings that are being rendered in the market. Also, I think this is – all these proceedings are in first instance, so I think it will take some time before the legal clarity, if you will, or clear path, will start to establish itself. We really think that will take time. So we'll just have to await that.

When it comes to timing of when the appeal on this individual case of the KiFiD is going to be ruled upon, we don't know; we simply don't know. Usually these things take time, but we don't know what the exact timeframe will be.

When it comes to the comments of DNB, well, on the motor, the car insurance market, well, as I mentioned earlier, there is indeed a market backdrop in The Netherlands that needs to be recognized, and that is that the car insurance market in The Netherlands is, let's say, seeing quite some profitability pressures. We are not immune to that, as you know, from our own numbers. And we have a range of management actions that we are putting in place to ensure that we improve the overall picture of our motor book against that difficult market backdrop. So expense reductions, differentiated pricing, et cetera, and all the things that I've listed before and more to ensure that we improve the profile of that motor insurance business.

With that, I think next questions.

Q - Steven A. Haywood {BIO 15743259 <GO>}

Thank you.

Operator

There is a follow-up question coming from Mr. William Hawkins from KBW. Please go ahead, sir.

Q - William Hawkins {BIO 1822411 <GO>}

Hi. Thanks. Sorry to drag the call up. Just very briefly. On the disability book again, I'm worried that when we see actual versus estimate running ahead that it is a harbinger for a reserve review. But I think you said when you were giving your formal remarks that those issues were specifically in the first two months; and therefore, implicitly marches back to normal. And so, we shouldn't be worried about this on a forward-looking basis. Can you just confirm that was what you said and that was your intention to say that?

A - Eilard Friese

On the disability book – let me be clear, William, here. On the disability book, the first two months of the year we saw these claims coming in. These were on this year's premiums, these were not claims of past years or something like that. So, this is on this year's premiums.

So bottom line, at this point in time, the disability book has demonstrated over the last – I think for a longer period already, quite a substantial profitability profile, which is pretty good. And this is first two months of this year we saw on existing – on this year premiums, we saw some additional claims. That's how you have to look at it.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. So the implication is that third month was just normal.

A - Eilard Friese

Yeah. The implication is, in the third month we indeed saw a normal pattern.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. Thank you.

A - Eilard Friese

Thank you.

Operator

There are no further questions. Please continue. Sir, you may continue.

A - Eilard Friese

Okay. If there's no further questions then let me conclude this call by saying that, while the first quarter operating result was broadly stable on last year, we are fully aware there's still more work to do to further improve the performance of our businesses, and we are committed to doing so.

Given our strong capital position and healthy holding company cash capital, we have today announced an open market share buyback program, and this demonstrates our disciplined capital management as well as our commitment to returning excess capital to shareholders, while maintaining a robust capital position and the financial flexibility to be able to pursue value-creating corporate opportunities.

I want to thank you all to be on the call today with us. (1:01:52) I want to thank you for your questions, and I wish you a good day.

Operator

This concludes the NN Group conference all. You may now disconnect your line. Thank you.