Q3 2019 Earnings Call

Company Participants

- David Knibbe, CEO
- Delfin Rueda, Chief Financial Officer

Other Participants

- Ashik Musaddi, Analyst
- Bart Jooris, Analyst
- Benoit Petrarque, Analyst
- Colm Kelly, Analyst
- Cor Kluis, Analyst
- Fulin Liang, Analyst
- Henry Heathfield, Analyst
- Jason Kalamboussis, Analyst
- Matthias De Wit, Analyst
- Robin van den Broek, Analyst
- Steven Haywood, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. This is the Operator speaking. Welcome to NN Group's Analyst Conference Call on the Third Quarter 2019 Results. The telephone lines will be in listen-only mode during the Company's presentation. The lines will then be opened for a question-and-answer session.

Before handing this conference call over to Mr. David Knibbe, 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 statement not involving a historical fact. Actual results may differ materially from those projected in any forward-looking statement.

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. Knibbe, over to you.

David Knibbe {BIO 17996037 <GO>}

Yes, thank you, and good morning everyone, and welcome to this conference call. It is my pleasure to present the third quarter 2019 results of NN Group for the first time as CEO of this Company. Before we start, let me just say it's a privilege to lead NN Group into the next phase of its journey, working together with talented people, who are focused on providing excellent products and services to our customers, and creating long-term value for our stakeholders.

We will continue to build on the current solid foundations of our Company, including our execution strength, robust balance sheet, and strong capital generation. I've been spending a lot of time talking to various stakeholders in order to get their feedback and I will continue this in the coming months. We will present an update of the NN Group's strategic and financial developments at our Capital Markets Day in 2020, which is scheduled for 24th of June. I hope many of you will be able to attend this event.

I am joined today by Delfin Rueda, our CFO; and Jan-Hendrik Erasmus, our CRO. This is of course the last quarterly call, that Jan-Hendrik will attend as CRO, following his decision to leave NN at the end of the year. I would like to take this opportunity to extend my thanks to him, for his contribution to the company and I wish him all the best in his new role.

So, let me kick off today's presentation by looking at the highlights and the business developments in the past quarter, starting on Slide 3. We are today, reporting a strong set of results for the third quarter of 2019, with most segments posting a higher operating result compared with last year. The Non-life business, for example, has been successfully implementing a range of measures over the past two years, including repricing and stricter underwriting.

This has contributed to the improvement of the combined ratio to 94.2% for this quarter. Similarly, Insurance Europe, Japan Life and Banking all showed an improved performance with each segment reporting results growth compared with the year ago.

The results at Netherlands Life reflects lower private equity and special dividends while the reinsurance business continues to experience higher claims. Delfin will discuss the financial results of each segment later in this presentation.

We continually strive to increase the efficiency of the organization. In the third quarter, we reduced the expenses of the units in scope of the integration by a further EUR17 million. More details of these expense savings are given on Slide 5. One of our main priorities is to maintain a strong balance sheet. This is reflected in a Solvency II ratio of 217% and a holding company cash capital position of EUR1.9 billion.

In terms of commercial performance, we saw increased new sales at Netherlands Life on the back of higher volume of group pension contracts as well as at Insurance Europe where we are driving sales of protection and pension products. Overall, net sales are down on last year due to lower sales at Japan Life following the new tax rules for COLI products. As a consequence, we are adapting our product portfolio in Japan, improving sales support and training our sales force to address the negative effect of the new tax rules.

Turning to Slide 4; our ambition is to be a company that truly matters in the lives of our stakeholders. This means offering personal and relevant products and services to our customers. This also means being a good corporate citizen and playing our part in enabling sustainable progress.

For example, our asset manager NN IP integrates ESG factors throughout the investment process for two-thirds of its strategy and has been awarded the Top A plus score by the organization UN Principles for Responsible Investment.

On the previous slide, I already talked about the commercial momentum at insurance units. Looking at the other businesses, NN IP attracted net inflows of third-party assets in the third quarter despite the challenging environment. And the volume of mortgages originated by NN Bank reached a record level of EUR2 billion in the past quarter. The majority of these mortgages were then transferred to other Group companies for their investment portfolios and to NN IP's third-party Dutch Residential Mortgage Fund.

Earlier this year, we announced the intended acquisition of VIVAT Non-life. We are currently working through the regulatory approval process and making preparation for the integration of this business, so that we can get started immediately when the transaction closes, which we expect to happen during the first quarter of 2020.

Let's move to Slide 5. As you are aware, we aim to reduce the expense base for the business units in the scope of integration by EUR400 million by the end of 2020. We are making good progress towards reaching the target with additional cost savings of EUR17 million in the third quarter of 2019, bringing total cost reductions to EUR323 million compared with the 2016 full-year expense base.

Having said that, and as we mentioned in the past, expense reductions will not be linear and some units may see expense increases in the coming quarters to support growth and make necessary investments.

With that, I will hand you over to Delfin Rueda, who will take you through the details of the financial performance, free cash flow, and the capital position of the Group.

Delfin Rueda {BIO 7032761 <GO>}

Thank you, David, and good morning, everyone. As usual, let me start with NN Group's operating result for the third quarter of 2019 of EUR453 million, which you can see in the left hand chart. The slight decrease compared with last year reflects lower private equity and special dividends at Netherlands Life and a lower result at the reinsurance business. But this was largely offset by higher results at Netherlands Non-Life, Insurance Europe, Japan Life and Banking.

The third quarter net result in the right-hand chart was EUR515 million, down from EUR788 million in the same quarter last year. The main reasons for this were the lower gains on the sale of government bonds, and lower market and other impacts. This was partly offset by positive revaluations on derivatives used for hedging purposes, because of the lower interest rates, as well as positive revaluations on real estate and private equity.

Moving on to the next slide, I will take you through the operating performance of the individual segments. Starting on the left, the operating result of Netherlands Life was down on the third quarter last year. This was almost entirely due to the fact that the third quarter of 2018 included total private equity and special dividends of EUR48 million versus just EUR16 million of special dividends in the current quarter.

As David already mentioned, the Non-life business posted another good result this quarter with a combined ratio of 94.2% compared with 97.1% in the third quarter last year. The higher results at Disability & Accident were mainly driven by favorable claims development in the Group income portfolio. The portfolio on Casualty results were slightly down on last year as the improved underwriting result was offset by lower other income.

The third chart shows the higher operating result of Insurance Europe compared with a year ago. This was caused by several factors, including higher investment income in Belgium, the growth of the protection portfolio and higher performance fees in the pension business in Slovakia. This was partly offset by lower pension funds in Romania, following the pension reforms in that country that were introduced at the start of this year.

Finally, on this slide, the operating result at Japan Life increased 2% from the third quarter 2018 if you exclude currency effects. This reflects a higher technical margin, driven by favorable mortality results as well as lower DAC amortization and trade commissions, partly offset by lower fees and premium-based revenues. Sales were negatively impacted by the new tax rules for COLI products which has led to lower new business premiums, but also to an increased persistency of the in-force portfolio.

The other segments are shown on Slide 9. The operating result of Asset Management was stable at EUR43 million as lower fees were offset by a decrease of administrative expenses. Total assets under management increased to EUR287 billion compared with EUR268 billion at the end of the second quarter of 2019, driven by positive market performance as well as net inflow of assets.

The segment Banking reported a higher operating result compared with last year. This increase resulted from higher fees and other income, which includes a EUR6 million non-recurrent benefit this quarter, relating to the evaluation premium on mortgage sales, as a result of lower interest rate. Operating expenses were also up, supporting the increase in mortgage origination that David mentioned earlier, and reflecting higher project expenses.

Finally, the segment Other, which includes the holding company and the reinsurance business reported a loss of EUR12 million this quarter versus a loss of EUR6 million in the third quarter last year. The results of the reinsurance business were down, as last year included EUR8 million of positive hedge related results on the variable annuity Europe portfolio, while these are now reported below the line as a non-operating item since the beginning of this year. The current quarter also reflects unfavorable claims experience. This was partly compensated by lower holding expenses.

Let's move on to the free cash flow on Slide 10. The cash position at the holding company was EUR1.9 billion at the end of the third quarter of 2019, down from EUR2.2 billion at the end of the second quarter of 2019. The free cash flow during the third quarter was EUR224 million, mainly driven by EUR285 million dividends received from subsidiaries. This was offset by capital flows to shareholders at EUR487 million, representing the cash part of the 2019 interim dividend and shares repurchased in the third quarter under the share buyback programs.

On Slide 11, the last slide in my section, I'll take you through the developments in NN Group's solvency position. Despite the challenging macroeconomic environment, NN Group Solvency II ratio increased 7 percentage points in the third quarter to 217%. As you can see in the chart, the main driver of this increase was operating capital generation, which added 5 percentage points to the ratio. Another 1 percentage point came from the market variance.

This reflects lower interest rates which led to both higher own funds and higher SCR, and a negative impact on the solvency ratio, while other factors such as real estate revaluation and credit spread movements contributed positively to the ratio.

And with that, I will now pass you back to David for the wrap up. Thank you.

David Knibbe {BIO 17996037 <GO>}

Thank you, Delfin. NN Group has today reported a strong set of results for the third quarter of 2019 with most segments showing an improved performance and further cost reductions achieved across the organization. Our capital position remains strong with the holding company cash capital of EUR1.9 billion and a Solvency II ratio of 217%.

Finally, we announced this morning, our decision to change to semi-annual reporting as from 2020. We feel that this reporting frequency better suits the long-term nature of our business. And with that, I will pass the call back to the operator to start the Q&A session and remind you that Jan-Hendrik Erasmus is also with us to answer your questions.

Questions And Answers

Operator

Thank you, Mr. Knibbe. Ladies and gentlemen, we will now start the question-and-answer session. [Operator Instructions] The first question is from Mr. Cor Kluis, ABN AMRO. Go ahead please, sir.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning, Cor Kluis, ABN AMRO. I've got a couple of questions. First of all about the Solvency II road forward on Slide 11. There is a 1 percentage points from the category, Other. Could you elaborate a little bit on where that's coming from? Had there been any model changes or some risk actions to enhance the Solvency there?

Other question is about the upstreaming. We've seen that in Non-life, there was no upstreaming in the second quarter. I think year-to-date, you now made EUR208 million [ph] net operating profit in Non-Life, and only upstream EUR35 million. Is there a certain reason for that maybe related to VIVAT Non-life business acquisition or could you elaborate on that related to the upstreaming?

And asset management has been a little bit higher than the net operating profit every quarter, you upstream EUR44 million in asset management while the net operating profit is only EUR30 million now for three quarters and also last year and you upstream clearly more than the net operating profit. Could you also elaborate on that upstreaming from asset management?

And my last question is about the Capital Markets Day, the share buyback which is currently going on is probably already finalized somewhat earlier than the Capital Markets Day. How do you look to announcing share buybacks you've seen (inaudible) company that does some regular share buyback for a year or might there be a gap if you might do another share buyback that you would take -- pick up in Markets Day in June next year as a moment to announce something like that? That's all my questions.

A - David Knibbe {BIO 17996037 <GO>}

Okay, thank you, Cor and good morning. Let me answer the question on the share buyback and then I'll give the other two questions on the Solvency II ratio and the upstreaming to Delfin.

As you know, we announced a share buyback program of EUR500 million, which will end in the first quarter of next year. So any future decision on capital returns will take then at an appropriate time. Of course, we need to take into -- many things into account at that point, including our current and future capital generation, regulatory uncertainties and other factors.

Of course, a decision like that will always be subject to -- that we want to maintain a very robust capital position and remain overall financial flexibility. At the same time, as you know, we have return since the IPO, EUR4.1 billion of capital to shareholders, including the current share buyback, which is also a proof that we are very serious about our commitments to return excess capital to shareholders. So we will remain rational and disciplined also in this area.

Then for the other two questions, let me pass it onto Delfin.

A - Delfin Rueda {BIO 7032761 <GO>}

Many good morning, Cor. Thanks for your questions. On the first one, on the Solvency II ratio, there is not too much excitement this quarter in the bucket Other. So this reflects some small increases in own funds and small decreases in SCR. One of the items that impacted is the change as it happens from one quarter to another on the non-available own-funds that increase somewhat reflecting the local profits in Japan, which increased their core capital, but there is also an element of so called non-core capital that it is deducted as part of the known available home funds, but apart from that, no significant model and assumption changes coming through this quarter.

In terms of the dividends, I think that we should not read too much into one quarter showing lower dividends or higher dividends than another quarter, as these of course represent seasonalities, as the second quarter is the larger and also, as we have said in the past, we try to keep our balance distribution of dividends coming from the different segments, and we have seen different evolution of the dividends, while for NN Re, there is no expectation for a further releases of the capital associated to the Japan Closed Block VA, as the EUR900 million capital release has already been paid, other segments like Bank are further contributing.

You referred specifically to both Non-life and asset management and yes, in some cases we distribute more than the net profit, sometimes below. If you were to look at over time, Netherlands Non-Life has tended to pay higher that the net profit. As a matter of fact, last year the net profit was negative for Non-life and we have still paid more than EUR50 million of dividends. So, one should not read too much into change in the dividend patterns from one quarter to another.

Q - Cor Kluis {BIO 3515446 <GO>}

And maybe could you give us the Solvency II ratio of the Non-life business at the end of Q3?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. Cor, basically the combined ratio, it is close to our commercial capital target. We basically disclose typically the Netherlands Life and not, as you know, the different ratios. But it is because of the dividends that we mentioned in the past, we tend also as the profitability for Non-life tends to be positive, we managed the entity with a bit more tight level of solvency.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay, thank you very much.

Operator

Next question is from Mr. Ashik Musaddi, JP Morgan. Go ahead please.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, good morning Delfin, just -- good morning Delfin and David. A couple of questions, one is the combined ratio in Netherlands, I mean it has been tracking really well over past three quarters, now clearly it is reflecting the work you have done on the combined ratio. But how confident you are that these kind of levels can be maintained in the future as well?

Because clearly, I mean 94.7% which I think you did this quarter is far better than sub-97% or sub-98% you're guiding for in the long run. So that is important and then you're getting VIVAT as well. So will VIVAT be moved to the similar combined ratio or where do you see that going forward? That would be the first question.

Secondly is, any thoughts on the EIOPA review for especially about the debate around last liquid point and what the view on DNB has on that. Now the reason why we are a bit confused here is basically when we spoke to DNB in past, DNB has always said that we do look at numbers ex-UFR as well. Now when we look at the EIOPA consultation paper, it feels like ex-UFR or ex-volatility adjusted UFR, that that solvency ratios will be sub 100%, which puts the divided, buyback et cetera at risk.

What's the discussion going on with DNB, can you give us any indication as to what your number is ex-UFR, because that's something -- a key focus of investors at the moment. And that's really protecting investors to get new money in the stock. So, any thoughts on that question would be great. And thirdly is around the technical margin in the Dutch Life. It was lower again in this quarter.

You have missed that number for last three quarters. What's going in the technical margin in the Dutch Life business? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you, Ashik. Let me take the question on the combined ratio for Non-Life. And then the EIOPA and the technical margin, Delfin will answer. On the Non-life business, yes we're happy to see the progress with -- as you know, we took many measures in this business. Our guidance, however, hasn't changed. So we continue to have our guidance of over the medium term a combined ratio of 97 or below. And we're happy to see the number now in 94.

Also, as we've said in the past, there is always some volatility is possible. We've seen there could potentially be fires. We've seen weather-related -- some volatility in weather related claims, and in some of the other portfolios. At the same time, we continue to take measures on this portfolio, including expense reductions, pricing measures and also underwriting improvements that we still feel in order to try and offset some of the volatility.

Now with regards to VIVAT, we are on track with the preparation of the integration of VIVAT, so we still expect to announce the closing of the transaction in the first quarter of 2020. After that, the integration will start and then over time, we will move the VIVAT products to the NN standards. And again, there, we do expect some benefit on the expense side and potentially also on the underwriting side.

So in short, we haven't changed our guidance volatility, it will always be possible in the Non-Life, but we continue to make sure that we improve our ratio to make sure that we meet the guidance that we have given. Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Thank you, Ashik, for your questions. So the first question on EIOPA review 2020 certainly is something that brings the attention of many stakeholders and certainly ourselves. Maybe just to keep things a bit into perspective in terms of the process ongoing what currently is in place, as I'm sure you are aware is a consolidation paper that EIOPA has issued and feedback to that paper will be due before the 15th of January. After that, EIOPA will take some time to present their opinion to the European Commission mid next year.

Then the European Commission need to present -- to submit a legislative proposal to the European Parliament and only then, the process within the European Parliament and European Council will come you know to -- after some consolidations to a final agreement regarding the directives. So it is a very long process that we've seen it already when EIOPA -- when the Solvency II framework was established. Therefore the timing of which -- of any changes is still uncertain, and it might go -- it will take quite a few years or maybe we're talking of 2023 or 2024.

You are right from that perspective that there has been a bit of noise about how -- and this is a question that we receive regularly in terms of how our main regulator in the Netherlands look at our solvency and you won't be surprised to hear from me that they look at it in a holistic view, as you know analyzing all the different aspects, solvency, what is the risk profile, what are the sensitivities, what is the expected capital generation and based on that we made a recommendation of paying dividends.

As you've seen, very stable dividends have been paid from Netherlands Life of EUR185 million now per quarter plus EUR15 million coming through the interest on the hybrid debt. So approximately EUR200 million per quarter and we see no indication that this is at risk as - also the solvency of Netherlands Life is 211%. So it is quite strong.

In terms of the technical -- in terms of the technical margin for Life, you have seen as we have announced already and anticipated, downward trend in the technical margin, this is due to the ran-off of individual Life portfolio. So that's something like you know they -- also they catch up. There are two elements; one the reduction of the portfolio and the other is, as you like, through IFRS, the catch up between the difference on the assumptions for longevity versus what are the assumptions of longevity that are being used for Solvency capital.

So part of this decrease on the technical margin is not happening in Solvency II capital generation, as these are already taking into account this longevity assumption. But indeed, under IFRS, we see now the technical margin being more around the EUR40 million, with a downward trend.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Good, that's very clear, and just a couple of follow-ups. So, on combined ratio, is it fair to say that structurally you are already at 97% or you would say there is more time required for structurally to get there. And I hope I'll review the -- any numbers you would give on sensitivity on the last liquid point move to 30 year [ph] in case you could? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you. So, on the combined ratio, as I said, currently and obviously in this quarter we are below 97%. But as I said, there is always volatility possible in the portfolio. Also keep in mind that if we close the VIVAT deal in the first quarter, we will start on boarding the VIVAT portfolio, which we still need to see exactly how this portfolio will behave going forward, and it will take time also to convert that to the NN portfolio and the NN standards, so no news on that front.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, that's clear. Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, on the last liquid point, I think you know the EIOPA consolidation paper, it gives even -- I believe five options you know of different ways of looking into it. Solvency II is a framework that needs to be understood as a package as one can criticize each of the different elements in isolation. But you know when you look at everything together, there is framework that makes sense, as a whole. And that, I think, is the way that it will be reviewed not only by EIOPA in their proposal, but later on within the European Commission and European Parliament in order to introduce changes.

So it is not very helpful to provide specific sensitivities to any of the five options that they are presented or not doing that in isolation to other factors within the Solvency II framework, in my opinion.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thank you.

Operator

The next question is from Mr. Matthias De Wit, Kempen. Go ahead, please.

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

Hi, good morning. My first question is on the capital generation of EUR0.3 billion in the operating return. How sustainable is that number, if rates stay where they are today? And I guess it does, but can you confirm if it already captured the full impact of the increased UFR drag? So that's question number one.

And then second question is on the asset management business. So first quarter with decent net inflows and also margins have increased following a long period of decline. Can you provide some color on what's -- yeah, what has triggered the inflection point and do you consider this sustainable like the current level of margins we've seen in the third quarter? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Okay, thank you. Delfin, question on capital generation?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. So we have indicated that the capital generation will fluctuate from some quarter -- from one quarter to another, so no doubt about that. To the second part of your question, indeed the date of course captures the full impact of the increase UFR drag. So it's based on the UFR at the end of June and as a consequence that UFR drag, as you know has increased versus the previous period. And of course as interest rates decreases that UFR drag will continue to increase as from -- since the end of September, we have seen, however, some recovery on the level of interest rates.

So indeed the contribution to the capital generation coming from this UFR drag, the same way that the release of the risk margin and the changes on the splits that has been quite substantial also over the last quarters, both for the sovereign bonds as well as for mortgages. All of them influence what is the movement on the own funds in the following quarter. That's why we've always been providing guidance more on the medium term in relevancy of how this is expected to evolve.

A - David Knibbe {BIO 17996037 <GO>}

Yes, then on the question on NN IP and asset management. So indeed, we were pleased to see that we had a net inflow of around EUR1 billion of third-party assets. At the same time, I think we also need to acknowledge that the macro environment for asset managers as I'm sure you know is still challenging. There is a continued shift to passive management. Of course, we've seen a decrease in low rates has helped the asset managers already.

So the overall environment for the asset manager will still remain to be challenging. At the same time NN IP is working hard to make sure that they continue to be a very efficient company by reducing expenses and building up capabilities, for example, in the space of multi-assets and in liquids and they will continue to focus on that, to try and offset some of the decreasing fees that we see happening in the market.

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

Okay, thank you.

Operator

The next question is from Mr. Albert Ploegh, ING Bank. Go ahead, please. Mr. Ploegh, your line is open, go ahead, please. Mr. Ploegh, please unmute your line.

A - David Knibbe {BIO 17996037 <GO>}

Perhaps we can take a next question, and then maybe -- and then later on Albert can come back.

Operator

The next question is from Mr. Benoit Petrarque, Kepler Cheuvreux. Go ahead, please.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, good morning. So, couple of questions on my side. The first one is on Japan Life, maybe you could give us a bit more guidance on where the sales are trending also in the coming quarters. Obviously it has been -- in the first quarter, you have been re-launching this product. So a bit of outlook will be helping.

Second one is on the investment margin in Netherlands Life. I know it's flat year-on-year if you exclude the one-offs, but we can expect more pressure obviously. So I was wondering where you are currently in terms of well, asset mix or do you see -- maybe your asset mix going forward, are you -- do you still have appetite for mortgages at current levels?

And also if you are -- maybe planning to still be a bit more aggressive on the cost cutting on that business, and just to manage expectation in terms of timing of potential additional distribution, so if I understand correctly, we will have to kind of wait June to get an update on that and we should not expect too much already in February in terms of updating on the buyback. Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Thank you, Benoit. Let me start with Japan Life and then the other two questions Delfin will answer. Yes, so, on Japan Life, as you know there was a tax reform implemented in Japan, which basically led to that in the full market, the sales of the COLI products came down significantly.

I think our business has been very active in developing three new products that were already approved. So, currently, we're in the process of improving our sales support, training our sales force to adapt to these changes. Again this is a market phenomenon, so we need to see how exactly the market will adapt to this certainly in the short term.

Longer term, we're convinced and we believe that our company is very well positioned to continue to serve the needs of SMEs in Japan. And also with these changes, we believe that we can have a sustainable COLI market also going forward.

Delfin, the investment margin of NN Life?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, thanks, Benoit. So as we -- as you know, the investment margin in Netherlands Life is under pressure because of the decrease, the runoff of individual Life portfolio as well as you know with low interest rates, the reinvestment yields are more and more difficult going forward.

What we have seen in terms of the investment split, we've seen that has been relatively stable between the 80 basis points, 85 basis points or if you were to exclude dividends of private equity and public equity, then it's more on the 65 basis points to 70 basis points and we have seen quite a relatively strong stability on the investment split excluding these more volatile dividends.

Maybe helpful to flag or repeat something that we have already mentioned in the past, which is that going forward, we expect significantly lower private equity dividends contributing to the IFRS investment margin and that is related to two factors, one, the volume of private equity in our portfolio is lower. So we have a bit more about EUR900 million in the past and it's been reduced due to some disposals too around EUR700 million, but more important to me than that is that the nature of the investments are different.

Before we have more mature companies that were paying dividends, and also in France when we had a majority stake, which came after some disposals through dividends. So going forward, we expect these capital gains to -- I mean the profit, the returns are still coming through, but more through the realized capital gains, so below the line and we have seen that. For example, this quarter, we have EUR26 million of revaluation reserves through private equity and this is how it's going to come going forward. So that, no doubt, also put some pressure within the investment margin.

In terms of the composition of the assets, we do continue investing in mortgages. For example, in this quarter, in the third quarter, it was slightly less than EUR800 million that Netherlands Life invested in mortgages and also there were some investments were made by Belgium as you know within the quarter. So we will continue this policy of gradual shift to higher yielding assets when the opportunities comes.

And in terms of cost cutting, which is the last element that you mentioned, of course, efficiencies is an important element. Netherlands Life has already made a lot of progress in the reduction of expenses. But this is something that will continue to progress. Maybe in relationship to the share buyback question, maybe David, you can take this one.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you, Delfin. So I think, yeah, as I mentioned before, so the current share buyback is ending at the end of or in the next -- first quarter of 2020. So I have no further guidance on that. It means that we will give an update at an appropriate time after that.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Okay, thank you very much.

A - David Knibbe {BIO 17996037 <GO>}

Thank you.

Operator

The next question is from Ms. Fulin Liang, Morgan Stanley. Go ahead please.

Q - Fulin Liang {BIO 21126177 <GO>}

Hello. I've got two questions please. So the first one is, in terms of the Insurance Europe, do you have any views on how quickly this block of business, this segment of business can grow in the next like 12 to 24 months, apparently because it's kind of growing relatively quickly within the group. That's the first one.

And then second one is, David, you just mentioned that you think that the COLI business is a still good proposition for NN to be in. Does that mean actually you think that the -- if the COLI -- if the business volume like just only 20% or 30% of previous is still a sustainable business model or still strategically meaningful for NN to stay in Japan.

And then the last one is regarding -- Delfin, you just mentioned about the PE dividend will be kind of -- the gains from it will be more from under the line. Will that change your capital generation? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you for these questions. Delfin will answer the question on Insurance Europe and the PE dividends. Let me come back on the COLI question immediately. So yes, indeed, volumes are lower. We are aiming to increase our sales volumes again in the COLI business. It's relatively new, the new products are there, but again, the sales support and training is currently ongoing.

So maybe good to know that there is more reforms ongoing in the Japanese market, just for example also a health reform that took place. So the market is really still adapting to the new environment and the new products. So we need to see how sales will evolve.

Of course, we'll continue to focus on seeing how we can increase our sales back to higher levels on COLI. But also good to mention, given your question, at the end of the day, we believe we're well positioned to service SME customers in general. So we'll continue to find ways to do that.

Delfin, on Insurance Europe?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Fulin, thanks for your questions. Insurance Europe, we have a guidance of mid-to-high single-digit growth, and we are not changing, as you know, the guidance. Of course, you know there are always you know things that goes better others that, you know, goes against us. We have seen good growth in protection products. So we see opportunity to further expand on that. But also we've seen some headwind related to the pension reforms in Romania and in Poland, that has been flagged several times.

In terms of the private equity dividends, I'm very glad that you raised this question Fulin, because of course, in terms of capital generation, we are expecting, you know the same contribution. It doesn't matter how you know are reported below or above the operating result line. So we do expect a significant capital generation. As a matter of fact, we've seen it, as you know from the last quarters, quite a significant revaluation on the private equity.

So we are -- now we've got a more diversified portfolio. So we've got more managers than we used to have. So it's less concentrated and we are very pleased with this portfolio.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you. That's very clear.

Operator

The next question is from Mr. Colm Kelly, UBS. Go ahead, please.

Q - Colm Kelly {BIO 19140684 <GO>}

Thank you very much. Two questions; first on the EIOPA review, so whilst we can debate on what may or may not happen, there's very little debate that the risk here has increased or in the capital position. So, can you talk about the contingencies that you have in place in preparation for a potential adverse scenario coming from that review, so ultimately, can you give some reassurance today to shareholders that even an adverse scenario with respect to the EIOPA review, can still see this company maintain robust capitalization such that the capital return profile that shareholders enjoy can be sustained. That's the first question.

And then secondly just on the subsidiary dividends. So you rightly point out the stability of the Netherlands Life dividend. That's giving some confidence around capitalization there and the regulatory outlook around the capitalization there, but if I look at the Insurance Europe subsidiary dividends for the nine-month year-on-year, it's down 40% and then in the context of this being 20% of the Group subsidiary dividends last year, I'm just wondering, can you give detail on what is driving that specifically. And then secondly is that something we should be sustainable in terms of a lower dividend from Insurance Europe going forward? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you for these questions. Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Colm. So two questions, if I can give firm assurance about something which is completely unknown, I'm not in that business. I don't know. What I know is that we are managing our business very diligently with strong risk appreciation. We have a strong culture of doing cash flow much in -- whenever it is possible, we maintain our risk interest sensitivities within very moderate levels,

Solvency is strong. Speculating about changes affecting the level of solvency which likely will come with higher capital generation going forward is very difficult to go through it. What I can say is that I feel very comfortable with the level of solvency on the way that we manage the business and that we are always taking all considerations into account. But it is, in my opinion, premature to start speculating about changes that might happen or might not happen or focusing on one single element within a combination of factors there.

Q - Colm Kelly {BIO 19140684 <GO>}

If I just follow up on that and thank you for that. Again, it's not so much to speculate, but rather to discuss the contingencies you have in place in there is an adverse outcome?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. So we have -- for many years, work on our recovery plans. You know now we have to work on our resolution plan. We have many different aspects. We have been looking in -- for quite a while you know possibilities of doing reinsurance of longevity. We have plenty of tools in our hand in order to react. But I think that the most important element to keep in mind is that we manage the business with perspective of risk profile and how we can develop surplus capital from our business units.

We have said in the past that we're not focusing so much on the IFRS profits. Of course is an important metric, but it is based on the risk that we take and having a mid-to-long-term view at how we manage that business. So I think that we've got all the contingencies necessary for the factors and the risk that we are aware of.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay, that's great. Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

In terms of dividends coming from subsidiaries, as I said before, I think is -- it's a question of looking at different contribution of dividends that we have had over the last years, a very strong level of dividends usually, sometimes even higher. As you know that the net profit coming from different segments.

So I don't think we need to read too much in particular period of the dividends. If you were to compare, which I think is what you were doing, what are the dividends of -- for example, this quarter for Europe versus the same quarter of last year, very much the difference is that the third quarter of last year, we distributed some additional dividends from one of our business units in order to repay some surplus capital that this is still there. And that occurs also from the past.

So units like Belgium or Spain have paid more dividends in the past that potentially are expected going forward, because the surplus capital was paid. But I think that the relevant aspect is to look at the diversification of dividends coming from different sources. We see that, I mentioned before NN Re decreases, but we have a Bank providing dividends on a very substantial basis.

Also Japan Life last year did not pay a dividend, this year is paying a dividend, and with the lower sales strength have a higher capacity. Nevertheless, we always look to find a stable payment of dividends according to our needs. This year, our cash capital at holding is very strong at EUR1.9 billion and we manage everything in a holistic way.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay, great. Thank you.

Operator

The next question is from Mr. Jason Kalamboussis, KBC. Go ahead please.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, hi, good morning gentlemen. A couple of things, one is I would like to come back a bit on the Non-life and the question that was asked earlier on your target. I mean if you look, the 94.4% was very good, but definitely the benefit of the D&A which was very low at 87 points whatever 9. P&C was at 97.7%.

So if we accept that you have seasonality on the feasibility side and you do get these very good quarters and if you focus and also that you have the help of reinsurance there. If we look at -- purely at the P&C at 97.7%, you're still above your target and I would like to have your thoughts on what we should be expecting, especially, that was a relatively benign quarter.

The other thing that I would like to come back is on the Non-life into that upstream. I mean as it stands, I mean clearly we should be looking at you know maybe it's on my numbers, but at roughly EUR100 million that could be coming in the fourth quarter.

In general, you evoke very often the seasonality, but is that the seasonality that can go from one year to the other one that means you smooth so much the volatility that's for example in Non-life, we could see a low level of dividend definitely in this year in preparation in a certain way from the volatility that could come as we integrate VIVAT?

And the other quick point to follow-up on the question, do you see the Asset Management, if I understood from your answer, you do not see the good asset management result as an inflection point yet because conditions remain very challenging. Please correct me if I'm wrong there. Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Thank you, Jason. Let's start with Non-life. Indeed, you are correct that the P&C combined ratio is still higher. It is trending down in a good way. In 2018, it was still above 100%. We saw in Q2, a combined ratio of 98.3% and now it's coming down to 97.7%. So it's clear that we have more work to do. So currently, we still have pricing measures implemented that haven't fully come into effect. Also we're looking at new measures and clearly, we still see room to improve our underwriting capabilities as well. So we'll continue to work on the P&C book.

But as you know there will always be some volatile in that book. We -- for example, we have seen the salvage foundation reported also that the number of large fire claims in the Netherlands, in the first six month has been increasing quite substantially. So, sometimes you do have market effects just playing in. And to a certain extent, the same in the D&A business, the D&A business we have, for example, seen in the past, an increase in stress related disability claims, sometimes also related to the state of the economy.

So we will continue to take measures in terms of pricing, underwriting, but also with the incorporation of VIVAT on making sure that we leverage the platform that we're building, and we're clearly not done. So we'll continue to work on improvement of the -- to make sure that we also get the P&C combined ratio below 97%.

Then on -- before we go to the Non-Life upstream, then on NN IP. It's very difficult to give guidance on that. Indeed, the market circumstances are what they are and the NN IP business unit is fighting their way through to try and offset some of the fee pressure that we've seen, again, good to see some net inflow on the third party business. What that means going forward for the business; we'll have to judge going forward. But it was a good quarter for NN IP. Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Jason on the Non-Life upstream dividends, maybe kind of repeating a bit what I said before, you need to see it in the whole context of the total dividends that we receive to the parent Company, what is the level of cash capital and just looking everything as a whole. I think that the best guidance I can still give for the dividends for Non-Life going forward is that net profit, but that's doesn't mean that you know every single year is going to be close to that figure.

As a matter of fact, if you were to look at what happens in 2016, '17 and certainly '19 where Non-Life has a negative result, we distributed much more in terms of dividends than net profit. And yes, you know 2019 might be a year that is not done in the same manner, but still the guidance going forward in terms of remittances capacity of Netherlands Non-life, the best guidance I can give is the net profit.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you. So, just as a follow-up on this one, a couple of quick remarks. So if I understand it well, at the end of the day, we should be not be looking necessarily at segments. We should be looking at the total amount and the segments; we can see seasonality between quarters with some patterns. But again, there can be yearly seasonality, if I understand it well.

We are looking just on the combined ratio, If the P&C is now trending towards 97%, it's fair to say that normally the D&A with some higher seasonality, it should be around the 93 mark, which basically give us an average of around 95%, Delfin was being -- stating very rounded numbers. So that means that at the end of the day, you are on a very nice trend where next year or the year after, we should be expecting, excluding VIVAT combined ratios that should be reaching the -- certainly the 96% or possibly below, is it a fair assumption or?

A - David Knibbe {BIO 17996037 <GO>}

Well, again the -- I mean if you look a bit at the history of the Dutch market, we've seen very short periods actually with low combined ratios. The Dutch market is very competitive. Motor plays a big role. So for me, it is really too early to draw any of these conclusions and we remain committed to our target of 97% and below given that other factors can come into play. And again also, we will be incorporating VIVAT, so we also need to see exactly how that portfolio will behave going forward. So for now we stick to our guidance.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Okay, fair enough.

A - Delfin Rueda {BIO 7032761 <GO>}

Yeah, maybe, Jason, on your question about -- well your question or your conclusion about the guidance per quarter, we don't give really guidance per quarter in terms of free cash flow. Our existing guidance that this should be -- expected to be in the range of the net operating result still applies. But this is our guidance that applies, as you know medium term.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Very good. Thank you very much, gentlemen.

Operator

The next question is from Mr. Robin van den Broek, Mediobanca. Go ahead please.

Q - Robin van den Broek {BIO 17002948 <GO>}

Yes, good morning everybody. Sorry to come back to the EIOPA consultation documents. I've spent some time scrolling through the 800 pages which take evolution rather than revolution. But in the UFR options, there is also an option included where the reported basically remains unchanged. But I think also includes a stipulation where there seems to be giving specific powers to the local regulator to test the Solvency II ratio at a 100% benchmark while moving the last liquid point to 50. And that stipulation seems to say that the local regulator can even stop capital return, if you are below that level.

And I appreciate what you said before on the Dutch regulator looking at capital from an economic perspective, but the Dutch Central Bank having such a strong foothold in regulation to do such a thing, isn't that worrying to you a little bit, because I think option two is probably the most likely outcome, where we stand.

And secondly, on the EIOPA consultation document. I think your regulator, the Dutch Central Bank in a meeting end of March, also indicated that if there would be changes to the UFR, there should be some offset coming from the liquidity mechanisms in the Solvency II framework, so the VA. But if you look at all the tables that are giving different options, seems to me that all the outcomes or basically all the outcomes, I think two of them are slightly positive, but most of them are an incremental negative to capital for the Dutch Life Insurance companies. So I was wondering if you still see potential for something positives coming out of the VA changes that are being proposed.

Then maybe a last question coming back on the own funds generation in the operating return bucket of EUR0.3 billion. I think in Q1 and Q2, you still had also offset from mortgage margins getting wider. I think going into Q4, you have an incremental headwinds coming in from UFR drag. But also your mortgage margin is tighter which will also be more of, sorry, my headset -- just battery died, so to change while I'm talking. But, so the mortgage margin also went tighter. So that presumably is an additional headwind for your capital generation in Q4. So I was just wondering if you could indicate the risk of that EUR0.3 billion moving down to EUR2.2 billion. Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Okay. Thank you, Robin. Let me pass these questions to Delfin.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. Thanks, Robin. I mean, we could and probably when we see each other we can talk a lot about you know the EIOPA consultation paper and the different scenarios, five options for the LLP, seven alternatives for the VA, different options. Yes, you're mentioning option number two. But there is also an option number one which is not to change.

At the end of the day, the way I interpret the consultation is in order and later on as you know the EIOPA doing a stress test or a test of different possibilities in order to quantify and see as you know what are potential impacts of different scenarios, more -- not more, not less than that.

So I would not speculate further or I would not -- because I don't really know, as you know how the -- what the conversation will bring us to, as there are so many factors and in relationship to -- because the reference that you made to the Dutch Regulator, I think it's different to any other regulator, which is the regulators look at it as a whole with some positives and some negatives, what would have some offsetting impact too early to tell, you know really.

Maybe on the operating capital generation, of course, every quarter we've got different elements going up and down. The spreads have been in some positive, some negatives. What we have seen so far in terms of the impact of the changes in the market up to today is quite neutral. So we see some elements that have helped us positively or negatively.

And as I keep saying, we need to get used to these changes in the operating capital generation on how the solvency moves up and down. So I don't see anything different going forward. And as a matter of fact, interest rates has gone up since the end of September. And that's an element that we will see, as you know, had been reflected as well by the year end, depending on how the level of interest rates and spreads and margins evolve. So there is already a note, volatility to talk about what are the situations at the end of the quarter and then to add also a weekly or bi-weekly or what's happen in between.

Q - Robin van den Broek {BIO 17002948 <GO>}

Okay, thank you very much. Maybe one more question on the Non-life upstream. Given the fact that you're doing VIVAT next year and I think that that unit is not particularly well capitalized, you probably need to restructure that with some costs. Doesn't it really make sense to retain a little bit more in your Dutch unit to anticipate in that?

A - Delfin Rueda {BIO 7032761 <GO>}

Yeah, I think is, I mean -- I suggest that we do expect until we complete the acquisition of VIVAT Non-life which is expected for next quarter. We did provide some guidance or what we expect being the impact by 2022 having an increase on operating result of EUR50 million -- additional free cash flow coming from VIVAT of EUR50 million, reduction of expenses, estimated to be around EUR40 million and we also flagged as you know that in the short term, there will be some restructuring expenses and cost and therefore, yes, that will have an impact on the operating result and in the overall capital generation for the segment Non-life. So that will come through, hopefully, as we expect. But it is too early to talk about it.

Q - Robin van den Broek {BIO 17002948 <GO>}

Okay, thank you very much.

Operator

The next question is from Mr. Henry Heathfield, Morningstar. Go ahead, please.

Q - Henry Heathfield {BIO 19760919 <GO>}

Morning. Thank you for taking my call. Just one question for you guys this morning. On the, and within the Netherlands Life, provisions for risk of policyholders, the outflows look to be a little bit elevated this quarter around 8.8%. I was wondering how -- if you could talk a little bit around how linked that is to the Asset Management Business and whether you are doing anything to bring those outflows down or expect those outflows to come down over time. Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you Henry. Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, I'm not familiar exactly with the percentage that you mentioned. But I mean really the trend is very clear. The Individual Life portfolio is in a continuous runoff. We expect it, within the next 10 years to reduce by half. So I don't know precisely the percentage that you quote. And of course, you know, as the volumes of assets decrease that is one of the elements that put some pressure on the assets under management for NN IP. That is one part of the overall technical account if you want.

Then the pension business, due to the renewals that is, you know, much more stable in terms of the assets under management that NN IP manage and in addition to that, of course, new assets coming through the defined contribution business, as you know, is also the majority part of that is also managed as you know from NN IP. But the provision for risk of policyholders, yes, you will continue seeing that decrease as part of the runoff of the Individual Life portfolio.

Q - Henry Heathfield {BIO 19760919 <GO>}

Thank you, Delfin.

Operator

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

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Good morning. Just two questions from me. There has been a few stated publicly companies that have been announcing that they might be willing to exit the CEE region. Can you tell us whether NN would be interested in reviewing additional assets and expanding further in the CEE region, as well?

And also a question for David. Is there anything that you would be considering doing or thinking about that is different to what Lard was doing with NN in the past? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Thank you. Thank you, Steven. Yeah, in terms of expanding into CEE, I think, in general, we've always stated that and we've done this since the IPO team that I was also a part of that excess capital that we will return to shareholder unless we find a value-creating opportunity as you -- I'm sure you know, we've also returned EUR4.1 billion of capital to shareholders.

At the same time, if there is an opportunity to strengthen our business and create value, we will certainly look at it. But as in the past and that is certainly not a change versus what you're referring to -- as in the past, we will be very disciplined on this both financially but also non-financially in terms of strategic fit, culture of the potential company. So we'll continue to be very rational and disciplined in terms of our capital allocation. So on your question, so that means that that will not be a difference to what you're used to in the past.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. And if you can just -- is there anything -- your thought process or your management style that you think would be changing in the future more generally?

A - David Knibbe {BIO 17996037 <GO>}

Yeah, that's always a difficult one to forecast. I think a couple of things. First of all, I'm really enjoying the role. I've been going around visiting quite a few of the business units to getting reacquainted with them. I get a lot of energy from the people that I've met. I see a lot of good plans to further improve our service to customers. It's interesting you see this obviously in the Netherlands, but also then you fly all the way to Japan and you see a similar attitude and culture and the same applies, for example, to the Spanish unit that I recently visited.

So when I'm meeting all the companies and business units, it's clear that there is a strong NN culture. I really want to build also on the solid foundations that we have. We have a very robust balance sheet. We have strong capital generation. I think we've been very disciplined in capital allocation. And also we've shown some real execution strength in large programs that we have been doing and these are, I think, strong foundations of the company that we would really like to continue to build on.

Well, at the same time and this is not really related to a CEO change, markets are changing, customer behaviors are changing, technological opportunities arise, so we need to continue to transform our business model to make sure that we're relevant and we stay relevant for our customers and we continue to serve them and that includes, indeed, looking at growth opportunities, accelerating our transformation in order to create value for our -- for all of our stakeholders. But in broad terms, this is very much in line with everything we've been -- with the way we have been managing the company and you can count on that we will continue to be very rational and disciplined in our capital allocation decisions.

Q - Steven Haywood {BIO 15743259 <GO>}

Excellent. Thank you for your answer.

Operator

The next question is from Mr. Benoit Petrarque, Kepler Cheuvreux. Go ahead please.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, just a follow up on the debt, you have a senior debt maturing next year, I think it's EUR300 million, just wondering what is your plan in the current debt market, let's say low spreads and actually low interest rates. Are you planning to issue a new one or will that -- the term of that just mature?

A - David Knibbe {BIO 17996037 <GO>}

Thank you, Benoit. Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yeah thanks, Benoit. So no change on the previous guidance. I mean, (inaudible) if there is nothing changing, we will consider to not refinance the senior debt maturing next year, the EUR300 million that you referred to.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Okay, great. Thank you.q

Operator

The next question is from Mr. Bart Jooris, Degroof Petercam. Go ahead please.

Q - Bart Jooris {BIO 3470300 <GO>}

Yes, hi. Sorry to come back on the private equity issue. You said it will have no influence on the capital generation, but your dividend policy is however attributed to the net operating result and now those incomes will come in below deadline. Do you plan to compensate that for -- on any plan? What's your vision on this?

A - David Knibbe {BIO 17996037 <GO>}

Thank you Bart. Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. Thanks, Bart. The link between the free cash flows and the net operating result is, if I may say like it, a very convenient one because it just move from one environment, Solvency II that has different metrics in order to how you recognize own funds versus shareholders' equity and what is the movement from one stock period to the rest. We've seen that that link of course is not precise for each of the different segments, for example for Netherlands Life, we've always said that this free cash flow generation is expected to be somewhat higher than the net operating result, and for some other segments are -- it's somewhat below.

So you need to look at it not segment by segment and particularly because the price equity dividends are felt mainly in Netherlands Life. Netherlands Life is the one that the guidance was to be the operating capital generation somewhat higher than the net operating result. So no need to find anything to compensate. This is a medium-term guidance and we believe it is still applies.

Q - Bart Jooris {BIO 3470300 <GO>}

Yes. But that is on the dividend upstream from Netherlands Life. I'm talking about the dividend paid to your shareholders, which is based on the net operating profit?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. But the -- I understood. But the dividends that we paid to our shareholders, you know, come from the dividends that we received from our subsidiaries. And as you were referring to the private equity dividends, as they affect Netherlands Life, one could have implied that the dividend capacity of Netherlands Life was reviews and with such, you know, the payment of dividends from us to the shareholder.

But let's say that the payout ratio, which is the ordinary dividend, it is within the range of the 40% to 50%, no change there, but we also indicated that we can be out of that range because the most important element is the stability on the payment of the ordinary dividends. The free cash flow gives you the guidance of the capacity of the capital being generated that can either be employed for financing our internal growth or if, like in the case of the acquisition of VIVAT Non-life, to do an acquisition or to give it back to shareholders, as we have done it in the past you know through the share buybacks.

So the overall structure unchanged. That has not changed and certainly not by the way that we account for the private equity dividends being below or above the line. So no changes there.

Q - Bart Jooris {BIO 3470300 <GO>}

Okay, thank you very much.

Operator

There are no further questions. Back to you please Mr. Knibbe.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you. So let me wrap up by saying that NN Group has today reported a strong set of results, as well as, a solid balance sheet and capital position. Thank you very much all for joining the call today. Thanks for your excellent questions and I look forward to meeting many of you in person in the coming months. Have a pleasant day.