Q3 2015 Earnings Call

Company Participants

- Delfin Rueda, CFO
- Doug Caldwell, CRO
- Lard Friese, CEO

Other Participants

- Ashik Musaddi, Analyst
- Cor Kluis, Analyst
- Fahad Changazi, Analyst
- Farooq Hanif, Analyst
- Farquhar Murray, Analyst
- Gordon Aitken, Analyst
- Guillaume Horvath, Analyst
- Matthias De Wit, Analyst
- William Elderkin, Analyst
- William Hawkins, Analyst

Presentation

Operator

(Operator Instructions) Before handing this conference call over to Mr. Lard Friese, Chief Executive 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 statement speaks only as of the date they are made and NN Group assumes no obligation to publicly update or revises 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.

And now over to Mr. Friese. Good morning, sir.

Lard Friese {BIO 17008174 <GO>}

Well. Good afternoon to you. So good afternoon to everyone and welcome on this conference call to discuss NN Group's results for the Third Quarter 2015.

I will begin today's presentation by looking at the highlights of the Third Quarter results and the progress we have made to deliver on our strategic targets. Then Delfin Rueda, our Chief Financial Officer, will talk you through the financial details of the Third Quarter results at a Group level and for the individual operating segments.

Then I will conclude the presentation with a wrap up, after which we will open the call up for Q&A. And as customary, we also have our Chief Risk Officer, Doug Caldwell, with us here to answer your questions. So let's go to slide number 3, the 3Q highlights.

NN Group is reporting a solid set of results for the Third Quarter of 2015. The operating result of the ongoing business was up 43% on the Third Quarter of last year, at EUR392m. This result was supported by a private equity dividend in Netherlands Life as well as a good performance in Insurance Europe and Japan. And further cost reductions in the Netherlands.

On the other hand, our Dutch non-life business was hit by large weather-related and fire claims and lower results on prior accident years. And the results at our asset management business are somewhat lagging behind as challenging market conditions have impacted third-party flows.

The net result was impacted by negative hedge results in the Japan closed block annuity business following the high volatility on the global markets in the Third Quarter. The net operating return on equity of the ongoing business of NN Group was 12.2% for the Third Quarter of 2015, reflecting the improved profitability.

Our IGD ratio increased in the Third Quarter to 322%, mainly driven by the tightening of sovereign credit spreads in the Third Quarter net result. And our cash capital at the holding company has remained stable at EUR1.6b.

Let's move to slide number 4. On this slide let me run through the three financial targets for NN Group as a whole.

Firstly, since 2013 we have reduced our cost base in the Netherlands by a total of EUR201m. We have therefore achieved our original cost reduction target of EUR200 million earlier than planned. However, improving efficiency will remain a focus area, especially in the Netherlands.

Secondly, we aim to realize an annual growth rate of the operating result before tax of the ongoing business of 5% to 7% on average in the medium term. The operating result before tax of the ongoing business for the first nine months of 2015, of EUR1.184b, represents a 43% increase compared with the same period last year.

This growth rate obviously reflects the particularly high results to date this year, which were supported by some large favorable items. Given that this is a medium-term target, we intend to measure our average growth rate over a longer period.

Lastly, we aim to increase the net operating return on equity of the ongoing business in the medium term, measured against the pro forma 7.1% for 2013. The net operating return on equity of the ongoing business for the first nine months of 2015 was 12%.

So let's move to the next slide, slide number 5. Aligned with the three targets on the previous slide, we expect over time to generate free cash available to shareholders in a range around the net operating result of the ongoing business. In 2014 the free cash flow adjusted for the IPO related items was EUR450m, compared with the net operating result of EUR806m.

The free cash flow at the holding company in the first nine months of this year was just over EUR1b, which included a total of almost EUR1.2 billion of dividends up-streamed by our subsidiaries. This compares with a net operating result of the ongoing business for the same period of EUR960m.

As you can see, we are making progress. But please bear in mind that this is an over-time target and there can be volatility in both the operating results and dividend flow. Delfin Rueda, our Chief Financial Officer, will go into details of our free cash flow later in the presentation. So let's move to slide number 6.

One of the main objectives of our equity story is to return excess capital to our shareholders unless we can deploy that capital in other value-creating opportunities. We have been delivering on that promise since the IPO through share buybacks and dividend distributions.

In the first half of 2015 we already completed two share buybacks and paid a final dividend over 2014. In the Third Quarter of this year we distributed the 2015 interim dividend for a total amount of EUR156m, of which (EUR111m) in cash and the remainder in newly-issued shares. We repurchased 1.7 million shares from ING to neutralize the dilutive effect of the stock dividend.

Also, in September we participated in the third sell-down of NN Group shares by ING and repurchased 6 million ordinary shares for an aggregate amount of EUR150m. This transaction further reduced ING Group's stake in NN Group to 25.8% of the outstanding shares. Taking all these transactions together the total capital returned to shareholders since the IPO amounts to almost EUR850m.

So let's turn to slide number 7. This slide shows the three pillars of our capital framework and the key metrics that underpin our strong capital position.

The Solvency I capital ratio of our biggest unit, NN Life, increased to 299% at the end of the Third Quarter of this year mainly as a result of the tightening of sovereign credit spreads and lower interest rates. Please note that NN Life paid another EUR125 million dividend to NN Group in October this year and this is already reflected in its Solvency I ratio.

Our holding company cash capital is stable, at EUR1.6b, as the free cash flow that was generated in the current quarter, mainly in the form of dividends received from our subsidiaries, more or less offset the amounts returned to shareholders in the form of the 2015 interim dividend and the share buyback in September.

In terms of financial leverage our fixed cost coverage ratio went up to 13.2 times. The leverage ratio increased slightly, to 22.4%, while the gross financial leverage position remained stable, at EUR3.7b.

The IGD ratio increased to 322% at the end of the Third Quarter, driven by the tightening of sovereign credit spreads and the Third Quarter net result. The 2015 interim dividend to shareholders, of EUR156m, was already reflected in the IGD Solvency I ratio at the end of the Second Quarter of 2015.

And with that I will pass the microphone to our Chief Financial Officer, Delfin Rueda, who will take you through the financial details of the Third Quarter 2015 results.

Delfin Rueda {BIO 7032761 <GO>}

Thank you, Lard. Good afternoon, everyone. I will start with the consolidated results. NN Group's operating result of the ongoing business, which exclude the closed block valuable annuity business in Japan, was EUR392 million in the Third Quarter of 2015. This is up 43% on the Third Quarter in 2014.

As Lard mentioned earlier, this increase was supported by a large dividend received following the sale of a private equity investment in the Netherlands. Improved results at Insurance Europe and the segment other also contributed to the increase, offset by lower results of Netherlands non-life and asset management.

In the right-hand chart you can see that the net result for the Third Quarter decreased to EUR329m. This decrease was largely due to lower non-operating items and a negative hedge-related result of Japan closed block VA.

Before going through the individual operating segments please turn to Slide 10, which gives more detail on the cost savings in the Netherlands.

One of the financial targets we set last year at the time of our IPO was to achieve an absolute reduction of the administrative expenses in three segments, Netherlands life, Netherlands non-life and at corporate and holding entities. That savings, of EUR200 million by 2016, were to be measured against the 2013 cost base.

We have already achieved this overall cost-saving target. Cumulative cost savings to date are EUR201m, of which EUR142 million was realized in 2014 and an additional EUR59 million in the first nine months of the year.

To reiterate what Lard said earlier, we remain focused on improving efficiency. We intend to give an update on the evolution of our cost base at our capital markets day on November 19.

Let's now look at the individual segments, starting, as usual, with Netherlands life. On Slide 11 you can see the operating result of Netherlands life, which was EUR267 million in the Third Quarter of 2014 (sic; see Slide 11 "2015"), up compared with the same period last year.

There are several items driving this higher result. Firstly, the investment margin includes a EUR110 million private equity dividend, whereas, the same period last year included EUR20 million of private equity and fixed income fund dividends. As you can see in the far-right chart, the investment spread increased substantially, to 143 basis points in the current quarter.

The technical margin was also higher as the addition to the unit-linked guarantee provision following a decrease in interest rate was EUR7 million lower than in the Third Quarter last year. In addition, the current quarter includes a EUR6 million release from a provision from transferring liabilities to industry-wide pension funds.

On the other hand, fees and premium-based revenues decrease, reflecting the continuing run off of the individual life closed book. And administrative expenses increase compared with the Third Quarter of 2014.

However, please bear in mind that the Third Quarter of last year included the reallocation of expenses to the segment other. Excluding this reallocation, administrative expenses decrease by 1%.

I will now turn to Slide 12 for the results of Netherlands non-life. The operating result for Netherlands non-life went down to EUR24 million from EUR32 million in the Third Quarter of last year.

The current-quarter operating result was impacted by large weather-related and fire claims and lower results on prior accident years. This was partly compensated by a EUR17 million private equity dividend. Administrative expenses increased slightly due to higher project expenses.

Looking briefly at the two business lines within non-life we can see that the operating result in disability and accident was higher. This was driven by the private equity dividend already mentioned, which was partly offset by less favorable claims development.

The operating result in property and casualty continues to be under pressure. We saw several large fire claims again in the Third Quarter as well as lower results on prior accident years in the motor portfolio, as well as in the miscellaneous portfolio, which primarily comprises liability and legal aid cover.

We also had two severe summer storms in the Netherlands during the quarter and these led to higher claims in both the fire and motor portfolios. For non-life as a whole the combined ratio increased to 105.6%.

Please turn now to Slide 13 and the results of Insurance Europe. Insurance Europe reported a higher operating result compared with the same period last year, which included EUR12 million of write offs. Fees and premium-based revenues increased, reflecting higher traditional life insurance premium across the region, as well as higher fees on assets under management related to the pension business in several countries.

This was more than offset by a decline in investment margin due to lower interest rates under invested assets and a decrease in the technical margin.

The improvement in the cost/income ratio is the result of lower administrative expenses. New sales were lower, at EUR90m, due to product management actions to preserve margins in the low interest rate environment.

Moving now to Japan Life, on the next slide, the operating result of Japan Life was broadly stable, at EUR37 million for the Third Quarter of 2015. Please note that the operating result for the Third Quarter last year included a EUR6 million benefit in administrative expenses due to a change in pension liability.

Fees and premium-based revenues increase almost 13%, driven by continuous strong sales and larger in-force volumes. This was partly offset by a decrease in investment margin. The higher cost/income ratio is due to higher administrative expenses. Excluding the impact of the EUR6 million pension liability benefit last year the cost income would have improved.

New sales were EUR143m, down 4.2% from the Third Quarter of 2014 at constant currencies. This also reflects product management actions to preserve margins in the low interest rate environment.

I will turn now to Slide 15 and the asset management segment. Total assets under management decrease to EUR180 billion at the end of the Third Quarter of 2015, reflecting total net outflows of EUR3.2 billion as well as negative market performance of EUR1.3b. Assets under management are therefore back at the same level as at the end of September last year.

The operating result decreased to EUR34 million compared with the Third Quarter of 2014, as increased fees were more than offset by higher expenses. The increasing expenses continues to reflect higher staff-related cost following the strengthening of various investment and marketing teams, as well as higher market data cost due to the appreciation of the US dollar against the euro.

The segment other, which comprises the holding company, the reinsurance business and NN Bank is set out on Slide 16. The total operating result of the segment other improved from a loss of EUR33 million in the Third Quarter of 2014 to a loss of EUR23 million in the Third Quarter of 2015. Let me go through the various elements within this segment.

The better holding result was driven by lower holding expenses. I already mentioned the reallocation of expenses from the segment 'Netherlands life' to the segment other. That happens in the Third Quarter of 2014. Even excluding this reallocation holding expenses decrease by EUR8m.

At the reinsurance business the operating result was up due to better underwriting results. Finally, the operating result of NN Bank increased, reflecting a higher interest margin as the bank continues to grow its mortgage and savings activities. This was partly offset by higher administrative expenses, given the investments being made to support this growth.

I will now move to Slide 17 where we will cover our last segment, Japan closed block VA. Japan closed block VA reported a loss before tax of EUR64m. This reflects negative hedge-related results of EUR82 million following higher global market volatility in August and September.

To help you understand the comparison with last year please keep in mind that the result in the Third Quarter of 2014 included a reserve decrease of EUR63 million related to higher lapse assumptions.

The portfolio continues to run off. The lower account value caused by a decreasing number of policies is reflected in lower fees and premium-based revenues. The net amount at risk increased to EUR379 million versus EUR76 million at the end of the previous quarter, primarily as a result of equity markets' depreciation.

That completes the results of our operating segments. Now I would like to take you through the movement in the holding company cash capital during the Third Quarter of the year.

In the Third Quarter of 2015 free cash flow at the holding company was EUR343m, which is the sum of the three elements within the yellow box in the chart. As you can see, this was mainly driven by dividends of EUR332 million received from our subsidiaries.

The capital flows with shareholders, EUR306m, includes two items, the 2015 interim dividend of EUR156 million paid in September and the EUR150 million share buyback following our decision to participate in ING's sell down in September in order to return excess capital to our shareholders.

During the Third Quarter we also acquired the remaining 20% stake in the Polish pension fund from ING Bank Slaski for an amount of EUR31m. All together the cash capital position of the holding company remained stable during the Third Quarter of 2015, at EUR1.6b.

And with that I will pass you back to Lard.

Lard Friese {BIO 17008174 <GO>}

Yes. Thanks, Delfin. Let me wrap up by saying, on page number 20 -- o slide number 20, that we are pleased with another set of solid results for the Third Quarter of 2015.

Our capital position remains strong and this has allowed us to deliver on our equity story of returning excess capital to our shareholders unless we can deploy that capital in other value-creating opportunities. We continue to make good progress to achieve our strategic financial targets.

However, we are fully aware that there is still more work to do to further improve performance within the business and, in particular, to reduce the combined ratio of our Dutch non-life unit and to drive third-party inflows at our asset manager. Our entire management team is fully focused on this while never losing sight of our primary responsibility of delivering an excellent service to our customers.

And with that I would now like to open the call for your questions.

Questions And Answers

Operator

(Operator Instructions) In the interests of time we kindly ask each analyst to limit the number of questions to two and your questions will be answered in the order in which they are received.

(Operator Instructions) Cor Kluis, Rabobank.

Q - Cor Kluis {BIO 3515446 <GO>}

Good afternoon, Cor Kluis, Rabobank. I've got a few questions. First of all, about the cash flow, especially the cash up-streaming, which has been quite material year to date, can you give an idea of cash up-streaming we might expect for the Fourth Quarter? Can we still expect something, or was this mostly it?

And also on cash flow you up-streamed EUR332 million this quarter. You already highlighted there the EUR125 million in July. Can you give the amounts of the other areas where you up-streamed the capital from. And also related to that, of course, did you upstream capital from the reinsurance business at the US -- the Japanese reinsurance unit?

And second question is about the combined ratio, which, yes, continues to be somewhat elevated. Now there were prior-year effects from motor and legal aid you probably are not satisfied with the current results.

Can you give an idea what you are currently -- or what you have been doing to really structurally improve the non-life combined ratio towards the 97% going forward? Then, yes, when will we see the structural effects, positive effects, from that?

And my last question is about Solvency II. You didn?t -- at least I haven't seen any comments on that, maybe (in the) investor day. But is it still around the 200% so it's basically unchanged guidance? (Those) were my questions.

A - Lard Friese {BIO 17008174 <GO>}

Okay, Cor. Good afternoon and thank you for your questions. This is Lard. I'm going to ask Delfin to talk about the cash-flow and capital-related questions and let me first comment on your comments and questions around the non-life company.

Indeed, the Third Quarter of the non-life company was not a very successful quarter. We did mention that it included some large incidental items like weather-related claims and prior accident years, large fire claims. These things are sometimes, of course, difficult to predict.

But you can't predict them. They just happen. They're summer storms. But having said that, the -- we need to take, I think, a slightly longer perspective on how the development is -- has been of the non-life company. So let me go, actually, portfolio by portfolio.

The first one is the disability and accident business. If you take a year-to-date view on that you -- then you'll end up in a combined ratio of 96.5% for the first nine months of this year. So if you look back on where that portfolio came from, where that business came from, which was quite elevated in the last couple of years, I think we've got that under control. And now we are in a 96.5% combined ratio. So I think that's pretty healthy.

And please remember that disability and accident is a more long-tail business, supported by investment income. So break-even combined ratios would, indeed, -- would, in fact, be in excess of 100%. So anyway 96.5% for the first nine months of this year.

Then we go to the property and casualty side of the house. As I said, two main blocks of business, the motor portfolio and the fire portfolio. So let's first talk about the motor portfolio.

The combined ratio of the motor portfolio, which we flagged earlier on already, is something that we would pay attention to, has improved from 111% for the first nine months in 2014 to 108% now in the first nine months of 2015.

We've taken measures; stricter underwriting criteria; we terminated large car fleets; we did differentiated premium rate increases in 2015; and we took some measures on loss-making portfolios in the mandated broker channel.

Now, obviously, this -- it's nice to have some progress there. But that progress is something that we're still working on to improve further. And that is needed. So the next steps of measures will include premium adjustments based on risk reviews. But it has our full attention.

Then for the fire portfolio, which is the other piece of property and casualty, the combined ratio has deteriorated for the first nine months (207%) these nine months for this year versus 100% for the first nine months of last year.

Those were due to some large fire claims in the past few quarters. And obviously we've been reviewing these large fire claims. But we cannot discern a clear pattern. The causes are diverse. They are widely spread in terms of the geography, the types of buildings etc.

The measures that have been taken so far have been differentiated premium rate increases that we did in the course of this year. And we've increased the number of inspections to prevent, let's say, fraud and those kinds of things. The next steps are that we are also actively working on improving fire prevention etc.

So we recognize that there is improvement to be needed in getting the combined ratio in a better place. We're having -- we took quite some measures. I gave you, book by book, the kind of -- the comments that we make at this point in time. And for the remainder our focus will be on improving this business further to get it to the combined ratio target by 2019 of 97%.

And with that I'd like to hand over to Delfin Rueda for the capital-related questions.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Col, I think three questions still to be answered, the first one, what was paid in the Fourth Quarter in terms of dividends, cash flows to the holding company. Obviously, you, I think, mention it yourself. There is the EUR120 million dividends which have already been paid in October from NN Life.

You have to keep in mind. And we flagged that in the past, that generally speaking both for Japan Life and for Insurance Europe the majority of the dividends might come in the Second Quarter. So there could be some dividends or not on those areas. However, from the attached entities there is much more flexibility of having dividends on a regular basis.

In terms of the actual dividends received in the second -- in the Third Quarter of the year, EUR125 million was the dividend that we received from NN Life in July. Then the remaining is basically EUR65 million we received from NN Re mainly reflecting the run off of the Japan closed block VA. And the rest is spread between Netherlands non-life, asset management and our insurance subsidiary in Ireland.

The third question was about the Solvency II. And on that we obviously gave the guidance of the level around 200% at the end of last year. We -- it's early to provide more specific information in relation to Solvency II. There is only a few months now to come into place.

Our (basal) internal model has been we are in constructive discussion with the regulator and the capital generation that has occurred during the -- since the end of 2014 has been strong. That has improved our Solvency I ratio despite the fact of the EUR850 million of capital distributed to our shareholders.

And it's fair to say that also under Solvency II, although obviously at different levels, there has been some improvement over the last eight months. During the capital markets day on November 19 we obviously will cover in more detail with an update on Solvency II. Does that --?

Q - Cor Kluis {BIO 3515446 <GO>}

Okay, wonderful. It's very clear, thank you.

Operator

Ashik Musaddi, JP Morgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Good morning, Lard. Good morning, Delfin. Just a couple of questions. First of all, how should we think about Japan closed block VA, i.e., can you give us the capital -- solvency capital number that is there which we should expect to be released over the next five, six years? Because clearly you have been getting some dividend out already. So what is the remaining capital there? That's number one.

Secondly is how should we think about cash flows from Netherlands? Now, I think we need to differentiate between the fungibility, i.e., you have one -- your cash generation is moving up very fast because of markets getting better, spreads are tightening. So that is moving up very fast. But at the same time that may not be really fungible, okay, because you haven't realized those at the moment.

So how should we think about cash flows coming out of Netherlands? Should we continue to think about your old slide which you showed that it should -- over time it should be similar to that of IFRS operating profit? How should we think about that? Because clearly you're getting huge amount of cash flows out of Netherlands Life every quarter, which I think, if I'm not wrong, is more than what you're earning in NN Life. So any thoughts on these two questions would be great. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Ashik, thanks for this. So Delfin will take these questions.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Ashik I -- indeed, at the time of the IPO we said that NN Re in the Netherlands had approximately EUR900 million of available capital back in the Japan closed block VA.

Please, one thing to bear in mind is that dividends are paid by the legal entity, which includes other internal insurance in addition to the Japan closed block VA. Since the IPO NN Re has paid the EUR250 million dividends. So it's been a good level of repatriation of capital to the holding company.

The run-off portfolio is running according to plans and we still expect that NN Re will release capital, basically their own funds, maybe approximately EUR700 million by the end of 2019, plus or minus hedge results.

In terms of cash flow from the Netherlands I think, indeed, you're right when you point out that a significant part, actually, the largest part, of the capital generation in -- particularly in NN Life is related to market evolution. But also there has been a good contribution from operating activities there.

The reality is that despite the dividends that we have paid out from the Dutch entities the level of solvency has continued to improve under Solvency I. And obviously markets and conditions will decide how this will flow. But we do consider that structurally these entities have the capacity to have a regular flow of dividends to the holding company.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. But just to follow-up on that, what I'm trying to understand is how should we differentiate between the capital that is generated from markets and the capital that is generated from earnings and, say, capital released?

So how should we think about the dividend that comes out of NN Life, i.e., do you keep in mind -- when you release capital from NN Life do you really keep in mind that a lot of that capital generation is coming from markets, i.e., let's not touch that capital. And let's just take out the capital which is coming from earnings or regular capital release because of run off?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, I'm a simple person, Ashik. And I do consider that capital is capital. Obviously, we do understand what is the origin for the movements of capital (and no doubt) markets due to the characteristics of the Solvency regime that we are currently operating in the Netherlands and that in an amended form we will continue to operate within Europe based on Solvency II that volatility (has ceased).

So obviously when deciding the capital distribution we look at sensitivities, we look at what might happen under different scenarios, what is the level of the solvency at that point of time and what is the expected evolution of this solvency going forward. But I would say that in terms of the capital position of the entity I'm a little bit less concerned about the source of it.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, that's very clear. Thank you.

Operator

William Hawkins, KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. First of all, the PE dividends that are boosting your Dutch life results, can you just go first -- back to first principles and explain to me how that works? Because whilst they're very welcome for the shareholder I would have thought that this is reflecting investments that are largely intended to generate policyholder crediting rates.

And whilst you don?t have an official profit sharing I would have thought there's some kind of unofficial obligation to pass this money back to your customers. So is the EUR110 million in life basically a net figure from a really big gross figure? Or is this for some reason the shareholder genuinely benefiting from all of the gains that you're making on the PE portfolio? I'm just a bit confused there.

Then secondly, sorry, this is somewhat going back over Ashik's issues. But to what extent do you think your buybacks this year represent exceptional activity? Because we know your medium-term target of free cash flow versus net operating profit. But this year there's a remarkable -- it's basically ING that is driving your capital repatriation. You're doing buybacks to coincide with when they decide to sell shares.

And if one's cynical you could say that, actually, the amount you?ve repatriated so far is just close to what ING put in just before you IPO'd. Not that that's not very welcome. But I'm trying to get clear in my own mind what you think is going to be the sustainable picture that we look at once the ING unwind has occurred. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Thanks, William. Delfin, please.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, William, on the private equity you have to take into account that whenever -- this private equity of EUR127 million is basically the result of the disposal of one particular investment. So in the past the appreciation or the revaluations on this stake has been reflected in the line revaluations, a part of the non-operating result.

So at the time of the disposal that flows in our profit and loss accounts and in our management accounting as part of the investment margin. And that is -- have the opposite effect of a (deduction) in the same amount in the revaluation as part of the non-operating results.

So the EUR127 million is coming through the investment margin. You see the same amount deducted in the revaluations, obviously. The revaluations is less negative than that because there were also other revaluations in equity and real estate.

In terms of the capital repatriation and the buybacks I think, obviously, we are the ones who decide how much and in which form we gave back capital to our shareholders. And we have highlighted in the past that as long as we have the opportunity to do it, participating in the buybacks of ING, we thought that this was a very effective manner to pay back the surplus capital to shareholders.

So to the extent that we continue to believe that there is surplus capital we will decide accordingly in which form to give back this excess capital to shareholders, being in the form of share buybacks if other occasions come in the future or in any other form.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. And just to come back to your PE answer, which I think I followed, I suppose it still leaves open the question is there any risk that there's a negative true-up at some point in the future, because you only decide your crediting rates annually?

And I'm still -- whilst I understand the accounting answer you just gave, you've still effectively allocated all of the return on this PE portfolio to the shareholder, if I understand correctly. So I just wonder if there was going to be some kind of true-up at some point in the future when you give your customers the benefit of that return.

A - Delfin Rueda {BIO 7032761 <GO>}

No, let's say that generally speaking the investments in equity and, certainly, private equity they are more invested on behalf of the shareholders' equity of our capital.

In any event, the rules for profit sharing are determined at the level of NN Life according to the characteristics of this profit sharing and what is the actual profit of the Company at that point of time.

But there is no direct link between that dividend or which percentage of that will be paid for the profit sharing. As I said, basically, the equities, in particular, they are invested on behalf -- is the capital of the Company which invests in equity.

Q - William Hawkins {BIO 1822411 <GO>}

Okay, brilliant. Thank you very much guys.

Operator

Matthias De Wit, KBC Securities.

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

Yes. Good afternoon. Thanks for taking my questions. First one is on solvency. Again, if you could just update us on the remaining uncertainties around Solvency II, both on the standard formula and the internal model that would be welcome.

Also wondering whether any of these uncertainties could have a material impact on the guidance going forward, which is a level of around 200%. So that's the first question.

Secondly is on Dutch Life. There were a number of one-offs, including a private equity dividend also in the technical margin. If I strip them out both the investment margin and the technical margin are up on the underlying level of last year Q3. Just wonder if you could talk me through the main drivers here. So what's happening on the underlying level both in the investment margin and technical margin, please? Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Matthias, thank you very much. So first on your -- on the solvency question, Doug. And then on the margin for -- the investment margin and technical margin for NN Life, Delfin. So first over to you, Doug.

A - Doug Caldwell {BIO 17900909 <GO>}

Okay. Yes, I think when we look at the uncertainties that remain on standard model and partial internal model I think the one that affects both is probably tax. There are still some ongoing discussions on how the tax of the SCR will be treated.

And that is something that we remain in good discussions with the regulator on and at this point we -- that is as far as we know. We have the numbers and we've given the guidance based on what we are aware of to date.

Then the other main uncertainty is simply the partial internal model approval process, which we aim to complete as soon as possible. And we remain in constructive discussions with the regulator. But it's not complete yet.

A - Lard Friese {BIO 17008174 <GO>}

So Delfin, the margins?

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

And on the tax is it like -- could it materially impact if there's no tax relief on SCR, or is it more a small minor item for you guys?

A - Doug Caldwell {BIO 17900909 <GO>}

I think we can't give further guidance on (a) potential size. We have reflected in our guidance in the range of 200% our best understanding of how taxes should work under Solvency II. And if there is ever any further change then we will report that at that time.

A - Lard Friese {BIO 17008174 <GO>}

So with that, Delfin, over to the margins in NN Life.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. So in investment margin, indeed, we have seen some volatility on the investment margin particularly due to relatively large dividends coming from private equity due to disposals of stakes. We have obviously been active on trying to compensate the pressure on our book yield as investments come to maturity.

And during the Third Quarter of 2015 we have actually allocated approximately EUR1.2 billion to -- majority of it, as you know, being mortgages and a smaller amount in private loans and real estate. So this is one part of which, as you know, we are compensated (a decline).

Difficult to provide any precise guidance here. I think that the best I can say at this point of time is to repeat the guidance that we gave at the time of trying to stay around the level of (2013) investment margin over invested asset that was around 100 basis points or so.

In terms of the technical margin, this is more of a complicated topic. And if I try to simplify I would say that, obviously, we have seen a lot of volatility in this line during both 2014 but also in the first nine months of the year. If I try to normalize that again insisting that the volatility will assist, because every quarter we are basically highlighting some changes related to one aspect or another.

But I would say that something around EUR30m, EUR35 million per quarter should be kind of the normal trend. Although I must flag it as well that there is a trend for this margin to come down due to the run off of the individual life (closed) block as well as some pressure on mortality and morbidity profit. So I don't think I can be more precise than that. But again I insist there's going to be volatility in the quarters to come.

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

That's clear, thanks.

Operator

Farooq Hanif, Citigroup.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody, I don't have any solvency questions. But just on the significance of this agreement that you have in the Dutch business for the general pension fund at the APF with NN Investment Partners, is this basically -- could you just tell us roughly what this is? And is this basically a source of future flows for your asset management business rather than your insured pensions business?

Then lastly on your -- if you look at your distributions to date in terms of dividends and buybacks they're running at roughly 85% to 90% of your holding company cash (reserves). So you're giving most of it back. If I made the assumption that I don't see you necessarily participating in M&A in the short term is that a good guide for the kind of distribution you could make? Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Farooq, hi, this is Lard. So on the APF, this is APF, PPI. There is a number of vehicles that are created through legislation in the Netherlands in which you can organize pension systems -- pensions. And that can be done in various ways, shapes or form and the APF is a very new vehicle that can be set up.

And we are doing that because we are a pension player and we want to be able to provide in the pension space and in the pension market all solutions that can help our clients to run their pension schemes, whether it's in the form of insured solutions, whether it's in the form of unbundled solutions, whether it's in the form of record-keeping solutions etc. So this is -- and this is another one that we're setting up with NN IP, which is the asset manager to do this. So that's another vehicle for this.

In terms of the excess cash, Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, I think it's -- obviously, in the first nine months of the year we had a very high payout, you like, in terms of cash distribution to shareholders. But also from subsidiaries to the holding and we have always said that that will fluctuate over time.

The only thing I can refer back is to the same guidance that over time we do expect to have this cash holding -- cash capital at holding to be in the range of the operating result after tax with volatility up and down.

Then in terms of the criteria to distribute that to shareholders, obviously, that depends on where our solvency ratio starts (at any) point of time and then looking at the expected evolution in the short term. So I think hopefully we can become predictable for you in the sense of how we have acted so far and how we want to continue going forward on that sense.

Q - Farooq Hanif {BIO 4780978 <GO>}

So just to go back on that -- the two questions. So on cash, obviously, if your solvency was weak we wouldn't expect you to pay out. But if you're happy with solvency, if the internal model goes your way, if you're still generating cash then what you're basically saying, I guess, is that we wouldn't be crazy to assume a high payout of the free cash. Is that correct?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. Obviously, I think it's important to create some predictability in our ordinary dividend. That's why when we set our dividend policy we were very clear and specific; we said that as a guidance.

Obviously, a guidance doesn't restrict you from being outside of that range. But as a guidance we will try in order to be predictable to be in the ordinary dividend between this 40% and 50% of the operating result and then acting with extraordinary dividends, or cash buybacks, or in -- depending on what the level of excess capital is at any point of time.

Q - Farooq Hanif {BIO 4780978 <GO>}

And just I'll follow-up with IR on the general pension fund. But just -- so I'm familiar roughly with what the APF is. But would I be correct in thinking, look, it's a business opportunity. But it's not big in the short term?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. I think in terms of the APF, obviously, this is a combination of our pension administrator and then the asset management. And therefore we would expect some management fees there and, obviously, future will tell how much of a business opportunity that will constitute.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

William Elderkin, Goldman Sachs.

Q - William Elderkin {BIO 3349136 <GO>}

Thanks. Hi, everybody, one follow-up first of all. In your answer to an earlier question you said a normalized investment margin for the Dutch Life business of around 100 bps with invested assets there about EUR60b. Is that effectively talking to EUR600 million a year thereabouts? The reason for just checking is I thought that the margin was more 105 bps to 110 basis points. I just want to check I've understood you correctly.

Then three quick ones. Firstly, can you just give us -- remind us what the Group tax rate guidance is? It seems to have been rather low so far this year.

Second, on the Japanese Life business should we expect that negative investment margin to persist just given where the reinvestment rates are?

Thirdly, on the Polish business the earnings there quarter on quarter seem to have stabilized, given various things that's been going on in the background. Is that now a reliable run rate from which to work going forward?

Then the last one was on the Dutch non-life combined ratio. Would you be able to give us the percentage-point components of prior-year release and the effect of all the storms and so forth in the Third Quarter?

A - Lard Friese {BIO 17008174 <GO>}

Are they all for Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. So (inaudible) the -- sorry, I think I had the microphone switched off so I will start again answering the question then. A lot of questions, the first one is the normalized investment margin. And I think we don't need to confuse the investment income from the investment margin (of) investment margin itself.

In terms of the tax rate, obviously, as there has been a lot of profits coming from equities, from stakes where we own more than 5%, most of it, these are tax exempt and as a consequence the effective tax rate is low. And that is the main reason to explain the effective tax rate. Also keep in mind that under IFRS we normalize the effective tax rate taking into account the expectations of the tax rate for the full year.

In terms of Japan Life the question was negative investment rate going forward. Indeed, when you look -- in order to think about Japan Life you need to consider that the majority of the profit is coming from our fee; and premium-based revenue.

The low interest rate has put a lot of pressure within the investment return there and therefore you have to understand the profitability combined between the investment income, the fees, as well as the technical margin. But indeed the negative investment margin is likely to continue.

I think I'm missing one or two questions. The Polish pension reform, if the current quarter is a reliable rate going forward. And I would say so. In terms of the combined ratio of non-life, amount of prior accident years, I think it's around EUR4 million to EUR5 million negative impact in the quarter related to previous accident years.

In terms of storms and others I think for the storms was EUR6 million and I think fires was around EUR5m. So is -- obviously, we're not pleased with the performance on non-life. But also it's fair to recognize that there has been a combination of many negative factors affecting this quarter and certainly this is not a normalized quarter.

Q - William Elderkin {BIO 3349136 <GO>}

Thank you. Can I just check one point, just on that Dutch investment margin thing? I just want to check I'm thinking about the same things you are.

When you refer to that 100 basis point investment margin are you relating that investment margin line we see in the Dutch Life P&L to the overall Dutch Life general account assets of about EUR6b? Are those the numbers you had in mind when you made that statement?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, I think it's fine. I think that the EUR600 million with the 100 basis point you can take it as -- obviously, it's going to be different. But this is what we said by the time of the IPO and this is the guidance that I -- we maintain.

Q - William Elderkin {BIO 3349136 <GO>}

Okay. Thank you.

Operator

Gordon Aitken, RBC.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thank you, just one question, please. Can you just comment on the competitive landscape in the Dutch market on the life side? On one hand you might think competition might be decreasing, given a couple of the large players might not want to put on any more risk onto their balance sheets. On the other hand we heard from Legal & General today saying they are likely to be doing a buyout in the coming months in the Dutch market. Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Gordon, if you look at the competitive landscape in the life insurance business in the Netherlands let me give you some comments. So the first one is the -- on the individual side it's all about term life and about some direct annuities. However, the underlying need for long-term savings, which used to be catered for in the form of individual life insurance policies, is of course still there and that is being taken care of in -- by NN Bank.

So we are still active in the space of long-term savings, this time not in the form of individual life insurance contracts. But in the form of savings through long-term savings bank annuities etc. through NN Bank. So that's I think on the individual side where we see competition. But where we're active and we're very well positioned with our brand in the retail market.

Then if you go to the pension business, the pension business there is a couple of dimensions there. The first one is we are large, we are very well positioned, we have not only solutions in the insured -- for insured defined benefit type of pensions. But also especially for defined contribution pensions, record-keeping services through our AZL subsidiary, a range of funds in asset management and services and LDI driven investment etc.

So we have a lot of angles and a lot of rods in the pond, if you will, when it comes to the pension space and we're very well positioned in a strong market-leading position there.

We believe that the underlying theme for the future is really in having more individual involvement of people in their own pension build up. So this means more a defined contribution drive that we see happening, of course, spurred also by the low rate environment and by longevity assumptions, which make quotes for defined benefits -- traditional defined benefit plans very expensive.

And as a result our clients also want to adapt their pension arrangements more towards defined contribution. And we're helping them doing that with a full range of products and services there.

Now, when it comes to the buyout market, the buyout market is an opportunity still. It's an opportunity where smaller pension funds want to find a new home for their liabilities, small and medium-sized pension funds. We do play in that market. We are active in the RP's that come through. However, we have very clear and disciplined return requirements on the capital that we employ and the risk that we take on our books.

So we are active. We are one of the few players that can -- I think can write this business. But we maintain disciplined in our pricing methodologies and will only transact successfully if we can help the client. But also make sure that we maintain appropriate compensation for our capital employed.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thank you. Let's come back on that buyout space then. You're obviously not writing much business there. Of the three options, which of it is? Is it a case that no pension plans are coming to the market, or is it, secondly, that there are some coming. But they're sinking themselves into industry funds? Or is it a case that they are coming to the market and they're going to competitors?

And also if you can comment on is the buyout market quite seasonal. So in the UK it would be an awful lot of business coming in the Fourth Quarter. Is that the same in the Dutch market? Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Well first on the seasonality, often times -- I'm not saying this is a rule of thumb that I'm giving you, Gordon. It's not a rock solid, put in stone etc.. But usually it's that these buyout arrangements, or also large pension contract renewals, by the way, they usually happen at the date of the beginning of the year. So at January 1. So that's usually the date in which this happens.

So the -- but the process to get there. So the RFBs, the negotiations and all that are all processes that happen, of course, way in advance of that. So -- because these are quite elaborate. So that's one thing I'd like to say.

The second is we see a number of things happening. First of all, we see SME companies but also larger companies changing their pension schemes from defined benefit to hybrids or to defined contribution, where they often time also make a split between the accrued build up in the past and the accruals that you will see for the new vintages moving forward.

So this is something that happens with our clients. But also of course with clients of our competitors. And we try and fight and convince also clients (with) our competitors to join us and our service and our product offering. So that's what we do. That's basically a replacement of existing stock in the market and existing plans in the market with their new vintages because we're in a quite mature place.

Now, there's also new business coming to the market from pension funds that decide not to do it in a pension fund standalone format any longer. But want to go -- to get their liabilities on the balance sheets of insurance companies. And that's what, of course, is new, because they move from non-insured or own insured solutions today to insured solutions with insurance companies in the future. And that of course is a new business that you can put (that you can) compete for.

So this -- and finally there's a debate going on right now, a quite fierce debate in the Netherlands, where there are -- it's called the National Pension Debate where there's new regulation being discussed actively in various stages. And we just have to wait and see how that comes through the parliamentary system. I do expect, however, that the underlying trend is that you will see more the push for defined contribution also in the future.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thank you very much.

Operator

Farquhar Murray, Autonomous.

Q - Farquhar Murray {BIO 15345435 <GO>}

Afternoon, gentlemen, just really one question from me on solvency capital. If we just look at your Solvency I ratio as a kind of guidance point, obviously, that's improved materially quarter on quarter and you've cited the impact of narrowing spreads on sovereign.

Am I right in thinking that that would have followed through into the Solvency II movement quarter on quarter, i.e., presumably Solvency II would have also gone up quarter on quarter? Is that right?

A - Lard Friese {BIO 17008174 <GO>}

Delfin will take this question, Farquhar.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Farquhar is right that over the last nine months of the year there has been some improvement on the Solvency II ratios under the standard formula. The internal model has also followed a similar pattern, although over that period of time there has always been some realignments in the model itself which obviously will not come to an end until it is approved by the regulator. But under the standard formula, yes, it's right.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. And I appreciate there's still some outstanding uncertainties. But I presume we must have some headroom over 200% then by now.

A - Delfin Rueda {BIO 7032761 <GO>}

Well I think November 19 is the date on which we might provide further color instead of speculating now about (whether) the level could be around 200%.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thanks very much.

Operator

Fahad Changazi, Nomura.

Q - Fahad Changazi {BIO 15216120 <GO>}

Hi there, just a quick question on investment management, if you don't mind. It was supposed to be one of the bright spots at the time of the IPO. And we're seeing down flows again.

Now, I appreciate it's a function of the market as well. But could you give some color prospectively on what you see as flows developing, whether you're fully invested now in the teams you wanted, (whether) you've got all the funds in place, some color on mandates etc.?

And also just a very quick follow-up on the Dutch buyout market, given we've touched upon that. Have you seen more business opportunities or any impact on pricing from competitive behavior, given, for example, Delta Lloyds (flows) related to Solvency II? Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Fahad. So first on the buyouts, as I said, these are lumpy processes. Therefore, we have seen over the last years pricing levels improving. We were able to transact on a big buyout in the beginning of the year for, I think, to the tune of EUR420 million roughly. So we were able to transact. And as I said we are playing in that space. But we play in that space with discipline and that's what we maintain to do.

When it comes to asset management let me start by saying that there's a market context here that we need to understand first, which is that the Third Quarter of 2015 was difficult for the asset management -- active asset management industry in general on the back of what we've seen, which is an increased global market volatility, a decline in the oil prices, concerns about China etc. and that has resulted in outflows of assets.

You may have seen also media reports quoting that seven of the world's largest fund managers saw their assets drop as well in the Third Quarter of 2015. So we've not been immune to that development either. So if you look at the net outflows let us break that down.

The net outflows there was -- the decrease of the AUMs were net outflows of EUR3.2 billion and negative market performance of EUR1.3b. And in the net outflows we need to of course look at proprietary versus third party.

The proprietary net outflows is EUR1 billion and this reflected, among other things, the shift in general account assets from fixed income assets to higher-yielding assets such as mortgages and real estate, as well as some run-off elements in our business. So that is basically something that is self-driven, if you will.

In the other affiliated business we had EUR0.5 billion of net outflows. This is mainly related to the lower assets under management at the Japan closed block VA due to the portfolio run off that we had seen, of course.

Then there is a -- then what remains is a net outflow in third party of EUR1.7 billion and this is mainly related to the institutional equity and fixed income funds as well as retail clients de-risking their portfolios. So -- but we aim to continue to leverage our established strengths to gain new business in what we think are sizeable markets.

So yes, we want to increase commercial traction. We are re-positioning some of our flagship equity strategies into some higher active risk profiles and we're expanding our suite of products. And at the same time we also invest in investment teams and marketing teams and that's what you can see coming through in the higher staff-related expenses which have been visible in the last few quarters.

But having said that, of course, we aim for more commercial traction against a not easy market backdrop. But we aim for, of course, more commercial traction and, obviously, we'll keep a sharp eye in that context on the costs -- cost evolution moving forward.

Q - Fahad Changazi {BIO 15216120 <GO>}

Okay. (So foregoing) next year, notwithstanding what happens with markets, we're still expecting very good flows to come through asset management?

A - Lard Friese {BIO 17008174 <GO>}

Obviously, we're aiming for increasing commercial traction. But -- and as we progress we will report any outcome of that in the coming year of quarters.

Q - Fahad Changazi {BIO 15216120 <GO>}

Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes. Well I think we have a next question coming through.

Operator

(Guillame Horvath), Exane BNP Paribas.

Q - Guillaume Horvath

Yes, hello, thank you for taking my question. It's basically about UFR. So as you know, (AYOPA) has said that it would probably review the methodology under which it calculates UFR after 2016. So basically my question is going to be pretty simple.

Is this worrying to you? And are you planning to give more details about the Solvency II sensitivity to UFR during your capital markets day? Or is it too much to ask? Thanks very much.

A - Lard Friese {BIO 17008174 <GO>}

Okay, Guillaume, thank you very much for your question. Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, of course, there's been a lot of discussions and speculation about the UFR and I think AYOPA has made clear that they will review the level at which the UFR is established and that they will do that over the next year, consulting market participants and then, obviously, any potential change could only occur after 2017 onwards.

We need, of course, all not to forget that the UFR (pertains) to be a very long-term level of interest rates and not something to be looked at with very short timeframe. In any event, as many other aspects, these are inputs that we have to follow depending on how things evolve.

Your question was if we were concerned. We're not particularly concerned and, indeed, during the capital markets day this will be something that, obviously, we will talk about. But I don't think it's very helpful to highlight UFR in particular as one specific element where there are so many forming part of the overall Solvency II regulatory framework.

Q - Guillaume Horvath

Okay, good. Thanks.

Operator

Ashik Musaddi, JP Morgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, hi, thank you, just a couple of follow-up questions. Is it possible to get your NN Life back book running yield? That's number one.

And secondly, in the Dutch buyout market I just want to understand how does it work? When you take on the assets are those assets majority invested in corporate bonds, or do you think about equal split between sovereign and other sort of bonds?

Because clearly in UK the (phenomena that) works is basically when generally companies take bulk annuities they put everything into corporate bonds. Now insurers are talking about putting into direct investment infrastructure. So it's a very (high risky) element. So what do you do when you take a big bulk annuity deal in Netherlands? Yes. That would be great, thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thanks, Ashik. I'll -- the Dutch buyout market, the assets etc.. So, Doug, can you comment on that? Then the running yield I think it's something that Delfin will thereafter, Ashik.

A - Doug Caldwell {BIO 17900909 <GO>}

Okay. I think we have a general method where we look to invest in any pension asset, any pension liabilities that we have, whether they be regular or whether they be from the buyout. We have an asset allocation that we generally (turn) to that, of course, is adjusted based on markets at the time.

It clearly involves some government bonds, because we have -- those are very long dated. So it helps match some of the interest rate risk. But these are also very illiquid liabilities. So we also do not -- we also believe we should be capturing some of that illiquidity spread.

You've seen us investing more in mortgages recently because we find those have been attractive. We also look at -- we do look at corporate bonds. We look at the asset universe that's available to us and try to get a good overall -- the best overall risk return over a long period.

Q - Ashik Musaddi {BIO 15847584 <GO>}

But is it more skewed towards high riskier assets, or is it partly split between lower risk like sovereign and others?

A - Doug Caldwell {BIO 17900909 <GO>}

No. I think you've seen -- I think you've seen our balance sheet. We had a significant number of highly-rated sovereigns (multiple speakers).

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. But that's the back book. What I'm trying to understand is what the new book at the moment, because clearly there is a chase for yield going on because it's tough to make a spread at the moment with a lot of sovereign bonds. So --?

A - Doug Caldwell {BIO 17900909 <GO>}

Well we -- I think when we look at a buyout deal, for instance, we will look at what assets we can buy. I think in order to match the interest rate risk you have to include a decent portion of sovereigns. But not completely.

And the other thing I think is important from our perspective is we generally manage the overall balance sheet together more than segmented for every single deal that we do.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, that's very clear. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Delfin, the back book.

Q - Ashik Musaddi {BIO 15847584 <GO>}

And just one part on the running yield on your back book for Dutch Life.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Ashik. So the book yield on our fixed income investment portfolio in Netherlands Life was 3.7% in the Third Quarter.

Q - Ashik Musaddi {BIO 15847584 <GO>}

3.7% in Third Quarter, you mean, this (must be stable), right? We are talking about running yield. So nothing to do with market fluctuation and all.

A - Delfin Rueda {BIO 7032761 <GO>}

But obviously there is assets that comes to maturity or renewal and then there is new assets being added on. And as you can imagine the newer investment yields are significantly lower than 3.7%.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. That's clear. Okay. Thanks a lot for this.

Operator

(Operator Instructions) Mr. Friese, no more questions.

A - Lard Friese {BIO 17008174 <GO>}

Yes. So for everybody on the call I would like to thank you all for your attention and for your questions. So let me wrap up by saying that we are pleased with another set of solid results for the Third Quarter of 2015.

Our capital position remains strong and this has allowed us to deliver on our equity story of returning excess capital to our shareholders unless we can deploy that capital in other value-created opportunities.

We continue to make good progress to achieve our strategic financial targets. However, we are fully aware that there is still more work to do to further improve performance within the business and, in particular, to reduce the combined ratio of our Dutch non-life unit and to drive third-party inflows at our asset manager.

Our entire management team is fully focused on this while never losing sight of our primary responsibility of delivering an excellent service to our customers. With that, thank you very much and have a good day.