Y 2021 Earnings Call

Company Participants

- Bernhard Kaufmann, Chief Risk Officer
- David Knibbe, Chief Executive Officer
- Delfin Rueda, Chief Financial Officer

Other Participants

- Andrew Baker, Analyst
- Benoit Petrarque, Analyst
- Farooq Hanif, Analyst
- Farquhar Murray, Analyst
- Fulin Liang, Analyst
- Michael Huttner, Analyst
- Nasib Ahmed, 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 Second Half Year 2021 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 are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those projected in any forward-looking statement. Such forward-looking statements may include future developments in NN Group's business, expectations for the future financial performance, and any other statement not involving a historical fact.

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 or an offer to buy any securities. References made to the legal information on the last page of the presentation.

Good morning, Mr. Kleber over to you.

David Knibbe {BIO 17996037 <GO>}

Yes, good morning, everyone, and welcome to our conference call to discuss NN Group's results for the second half of 2021. I am joined today by Delfin Rueda, our Chief Finance Officer; and Bernhard Kaufmann, our Chief Risk Officer.

I will start off this presentation by looking at a strategic development in the past year, as well as the financial highlights. Delfin will then talk in more detail about our capital position and the financial results of the Group. After wrapping up the presentation, we will open up the call for Q&A.

So let's start on Slide 3. We have made good progress in 2021 in further implementing our strategy of creating long-term value for all our stakeholders. We track this not only in financial terms, but also by aiming to achieve our ambitious targets for customer experience, employee engagement and contribution to society.

Our customers are the starting point of everything we do, so it is essential that they are satisfied with our products and services we provide. We measure customer satisfaction based on net promoter scores and aim for all 11 insurance business units to score above the market average by 2023. We still have a lot of work to do to reach this target, but we are happy to see an improvement in the second half of the year with five business units now scoring above market average, I'll refer to 3 units score on par.

The brokers and advisors that we work with also play a crucial role in servicing our customers. We therefore continually build our relationship with these partners, for example, by improving our service and digital capabilities. And this is reflected in high satisfaction scores and we focus on improving this further going forward.

Our employees have been working from home for most of the past two years, and we're proud to see that despite the pandemic, they have remained highly engaged and committed to delivering excellent customer service. At an end, we provide an inclusive and open working environment that allows our employees to thrive.

We also have a responsibility to contribute to society as a whole. This includes playing our role in fighting climate change, and then has the ambition to achieve net zero greenhouse gas emissions, across the entire business by 2050. The biggest impact we can make is by investing our assets responsibly, and last year we announced interim targets for 2025 and 2030 to reduce emissions of the investment portfolio.

We also see an increasing demand from customers for sustainable solutions such as mortgages originated on or above new label that encourage the purchase or renovation of an energy efficient home. We believe that if we take good care of customers, employees and society, this allows us to sustainably grow NN and deliver solid long-term returns for our shareholders.

And that brings me to the financial results. The highlights of the second half of 2021 are shown on Slide 4. NN Group has reported a solid set of results for the second half of 2021 with strong commercial and financial performance across the Group. Operating capital generation grew significantly to EUR804 million in the second half of the year and all business segments contributed to this increase. The Non-life business in particular posted strong underwriting results. Another driver was the higher investment return as a result of our changes in the asset portfolio and higher equity and real estate valuations.

We saw continuing strong commercial momentum with sales up 15% excluding currency effects compared with the second half of 2020 and value of new business up 29%. Events such as the pandemic over the last two years and the floods in July last year are creating a higher awareness of risk and vulnerability, leading to an increased demand for protection products and contributing to the higher sales in Europe and Japan. Delfin will talk about the financial results in more detail later in the presentation.

The strong capital generation supports our robust balance sheet and capital position. The solvency ratio was 213% and the holding company cash capital was EUR2 billion at the end of 2021. In the coming months, we expect to receive the proceeds from the sale of our asset manager, and we will also pay the consideration for the acquisition of the MetLife businesses in Poland and Greece as well as redeeming the maturing senior debt. This allows us to deliver substantial capital returns to shareholders.

In line with our dividend policy that aims for a progressive dividend per share, we are announcing today a proposed final dividend per share of $1.56, bringing the full year dividend per share to EUR2.49. This is an increase of 7% on the 2020 dividend per share. We are also announcing a total share buyback of EUR1 billion. I will talk more about this later -- on a later slide.

Let's now move to Slide 5. Our strategy is based on organic growth and all business units capitalized on their growth drivers in 2021. Netherlands Life is capturing growth opportunities in the Dutch pension market with a strong increase in defined contribution assets. We also expect the Dutch pension reforms to accelerate the pension buyout market. An example of this is the Henkel pension fund buyout in July last year, bringing EUR125 million of assets.

As the number one player in the Dutch Non-life market, we are in a unique position to benefit from our scale in terms of efficiency and underwriting. The acquisition of VIVAT Non-life has brought additional scale and synergy benefits. The integration of VIVAT is almost complete and envisioned EUR40 million of cost savings have been realized one year ahead of plan.

When integrating activities, you normally expect some loss of business as overlapping products and services are rationalized. In the case of VIVAT we have actually seen a positive development in the portfolio and margins.

And hence international activities in Europe and Japan are expected to deliver strong growth on the back of focus on protection products, a diversified distribution footprint and digital capabilities. This is driving higher sales across the region in Europe. Sales in Japan increased significantly, reflecting a strong market recovery from low sales in 2020 and some normalization is expected this year. Value of new business in the international units grew strongly over the year.

The Dutch housing market is experiencing strong growth with house prices rising steeply and there is fierce competition among mortgage providers. Despite this, NN Bank originated a record volume of high quality mortgages at good margins for its own balance sheet and for the investment portfolio of the group insurance companies.

Finally, the asset manager saw a healthy inflow third-party mandates in 2021, which is a testament to the professionalism of our NNIP colleagues during the turbulent period after the announcement of the strategic review and subsequent divestments to Goldman Sachs.

Our strong results and robust capital position allow us to deliver substantial capital returns to shareholders as set out on Slide 6. We have reported operating capital generation or OCG for 2021 of almost EUR1.6 billion, which includes EUR135 million relating to the asset management business that will be sold in the coming months.

We target OCG in 2023 of EUR1.5 billion. Since we set this target, we have announced the sale of the asset management business as well as the acquisition of MetLife Poland and Greece and Heinenoord in The Netherlands. Following completion of all these transactions, we expect to have excess capital. At the same time, we have kept our capital generation target of EUR1.5 billion, given the contribution from the acquired businesses as well as the strong performance across the Group supported by organic growth drivers. And looking further ahead, these growth drivers will give us confidence that we will realize a mid single-digit annual growth of operating capital generation in the long-term.

Our approach to capital deployment is clear. We are committed to delivering on our dividend policy of a progressive dividend per share and an annual share buyback of at least EUR250 million.

Any additional excess capital will be returned to shareholders over time unless used for value-creating opportunities. Today, we are announcing a proposed final dividend of EUR1.56 which will be tabled at the AGM on the 19th of May for shareholders to approve. This represents a 7% increase in the total dividend per share for 2021 compared to 2020.

We assess excess capital based on the three pillars of our capital management policy. So solvency, leverage and cash capital. We have a robust solvency ratio and a comfortable level of leverage position. And we expect our cash capital at the holding following the completion of the portfolio and transactions in the coming months to exceed our cash capital target range. We are therefore also announcing a total share buyback of EUR1 billion, of which EUR250 million program is expected to commence on the 1st of March and an additional program of EUR750 million will start once the sale of NNIP has been completed.

And with that, I will pass you over to Delfin.

Delfin Rueda {BIO 7032761 <GO>}

Thank you, David, and good morning, everyone. Let me start as usual with the movement in NN Group solvency ratio. Our solvency ratio remains strong at 213% at the end of 2021 compared with 209% at the end of June.

Let me take you through the main items impacting the ratio in the second half of the year. Firstly, operating capital generation added 9 percentage points. I will talk more about the drivers of operating capital generation by segment later. The impact from markets was positive, reflecting positive real estate revaluation and changes in interest rates and credit spreads, adding 6 percentage points to the ratio.

There are several items that lowered the ratio this period. The first one is the category Other, which includes the impact of model and assumption changes. The second one is M&A, as a result of the acquisition of Dutch broker and service provider Heinenoord, and a small positive impact from the sale of the Bulgarian business. And lastly, the capital flows to shareholders in the form of the proposed 2021 final dividend. Note that the share buyback of EUR1 billion that has been announced today will be deducted in the first half of 2022.

Let's now turn to Slide 9, which shows the solvency ratio development on a full year basis. The solvency ratio was 210% at the start of 2021. Looking at the movements during the year, operating capital generation was strong in 2021, contributing 18 percentage points to the ratio. In addition, we experienced favorable market impacts adding 14 percentage points to the ratio, mainly driven by the positive impact of spread tightening and real estate revaluations, and to a lesser extent also changes in interest rates. These are partially offset by the category Other, which reduced the ratio by 11 percentage points. This includes changes to our asset portfolio and model and assumption changes.

We actively manage our investments. In accordance with our strategy, we reduced our exposure to government bonds and invested in illiquid asset classes such as mortgages, loans and real estate. We took a more opportunistic approach with regards to, for example, equity where we reduced our exposure at the end of 2021. In addition, I suspected the ratio was lowered by the impact of the UFR reduction from 375% to 360% at the beginning of 2021 and the M&A transactions, as previously mentioned. Capital flows to shareholders in 2021 amounted to a total of EUR1 billion, which reduced the ratio by 10 percentage points.

Let's now discuss the operating capital generation in more detail on Slide 10. Operating capital generation in the second half of 2021 was EUR804 million compared with EUR450 million in the same period of 2020 with almost all segments contributing to the higher result. One of the drivers of this increase was the positive impact of changes in the asset portfolio and higher equity and real estate valuations, as well as the lower net negative impact of the UFR drag and risk margin release as a result of higher interest rates and lower UFR. This was partially offset by the negative impact of lower credit spreads. Note that these drivers mainly come through in the capital generation of the Netherlands Life.

The Non-life underwriting results in both P&C and Disability & Accident were higher, despite the impact from the July floods in The Netherlands and Belgium. We also saw some P&C frequency [ph] benefits as a result of COVID-19. The higher contribution from banking, reflects capital generation calculated under the new methodology that was introduced in 2021. As you probably remember, the former methodology used was based on dividends remitted to the holding, which was nil in 2020. On a comparable basis, the capital generation of the Bank in the second half of 2020 would have been EUR37 million. These positive movements were partly offset by lower capital generation of the segment Other, mainly reflecting lower results at the reinsurance business. A breakdown of operating capital generation by source can be found in the appendix to this presentation.

The next slide shows the movement in the cash capital position at the holding. This slide shows two graphs. The upper chart presents the movement in cash capital in the second half of 2021 and the lower chart the full year movement.

Let me start with the second half year. Holding company cash capital was EUR2 billion at the end of December 2021 compared with EUR1.5 billion at the end of June. Total remittances received from subsidiaries amounted to EUR856 million, bringing free cash flow to EUR693 million. As usual, details of the remittances upstream by each segment can be found in the appendix of this presentation.

The main cash outflow in the second half of the year was the payment of the 2021 interim dividend in September of EUR160 million as well as the shares repurchased under the buyback program of EUR384 million. We also paid EUR358 million for acquisitions, mainly related to Heinenoord. In November last year, we issued EUR600 million of senior notes, which you can see as an increase in debt and loans in the chart. Please note that the proceeds of this debt issue will be used to repay the existing senior notes that mature in March of this year. So, this increase is temporary.

Looking now at the full year chart, we received over EUR1.8 billion of remittances from subsidiaries, resulting in just under EUR1.5 billion of free cash flow in 2021. We returned almost EUR1 billion to shareholders.

Moving on to the next slide, I will take you through the IFRS financial results of the Group. Starting on the left, NN Group's operating result decreased to EUR917 million from EUR963 million in the second half of 2020, due to a lower technical margin at Netherlands Life, higher claims in the reinsurance business, higher operating expenses at banking and the approximately EUR50 million negative impact from the floods in July. This was partly compensated by higher underwriting results on Netherlands Non-life, higher fees at asset management.

On a full year basis, the operating result increased to just over EUR2 billion as most of the segments reported higher results. On the right hand side, you can see a large increase in the net result for both the second half and full year. This increase included the realization of large capital gains on the sale of public entities and government bonds, as well as positive revaluations on real estate and private equity.

I will now take you through the operating performance of the individual segments on Slide 13. Starting as usual with Netherlands Life, which reported an operating result of EUR466 million versus EUR500 million in the second half of 2020. This reflects a lower technical margin as the second half of 2020 benefited from positive non-recurring items. This was partly compensated by a higher investment margin, which included EUR54 million of private equity and special dividends.

The second half of 2021 also benefited from higher fees and premium-based revenues. The operating result of Netherlands Non-life increased to EUR125 million. This reflects higher underwriting results in Property & Casualty, in particular in the Motor and Miscellaneous portfolios, which included frequency benefits as a result of COVID-19.

On the other hand, the five portfolio was impacted by the July floods in The Netherlands and Belgium. The result for D&A also improved despite a negative impact from COVID in the individual disability portfolio. Investment income was also higher driven by private equity dividends and changes in the asset portfolio. The combined ratio was 95.1% versus 95.7% in the second half of 2020.

Insurance Europe's operating result was broadly stable at EUR154 million in the second half of 2021. This reflects higher life and pension fees across the region, offset by higher administrative expenses reflecting the investment in various growth initiatives as well as a lower technical margin and higher DAC amortization and trail commissions.

The operating result of Japan Life was EUR107 million which is an increase of 9% excluding currency effects. We still see low surrenders reflecting the increased persistency in the portfolio and this led to lower DAC amortization and trail commissions.

Asset Management's operating result increased to EUR91 million, reflecting fees or higher average assets under management and a more favorable asset mix. This was partly offset by higher expenses. The operating result of Banking decreased to EUR55 million in the second half of 2021 due to higher project costs as well as expenses supporting an increase in mortgage origination. Finally, the operating result of the segment Other was minus EUR81 million, reflecting the lower operating result of the reinsurance business as well as lower holding result.

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

David Knibbe {BIO 17996037 <GO>}

Yes, thank you, Delfin. Looking back at 2021, I think we can conclude that we achieved many things in the past year. First and foremost, amidst the ongoing challenges of the pandemic, all our colleagues continue to show immense dedication to providing excellent service to our customers, while still working from home. We have made additional commitments to play our role in fighting climate change by announcing interim targets to reduce emissions of our investment portfolio and of our own operations. We have also joined the Net Zero Insurance Alliance to support the transition of our underwriting portfolio to net zero by 2015.

With the acquisitions of MetLife in Poland and Greece and Heinenoord in The Netherlands, we seize the opportunity to acquire attractive businesses and growth markets. And as a result of critically assessing our portfolio of businesses, we decided to divest the activities in Bulgaria and sell the asset management business to Goldman Sachs. We believe that these businesses will thrive and grow under the new ownership.

In terms of financial results, NN Group is reporting an operating result of EUR2 billion for 2021 and an operating capital generation of almost EUR1.6 billion, as we built on the organic growth drivers that support the strategy of the Group. One of the pillars of our strategy is to maintain a robust balance sheet and capital position and this allows us to deliver on our commitment of attractive returns to our shareholders. Today, we are announcing a proposed dividend per share of EUR2.49, up 7% on 2020 and a total share buyback of EUR1 billion.

Before we open up the call for your questions, let me remind you that this is the last set of results that Delfin is presenting as our CFO, and is therefore also your last opportunity to ask him lots of questions, including the ones that you always wanted to ask but never did. And with that, I'll open -- I'll ask the operator to open the call for Q&A.

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. Andrew Baker, Citi. Go ahead, please.

Q - Andrew Baker {BIO 20402705 <GO>}

Great. Thanks, guys, and thanks for taking my questions. The first one is just on the OCG of EUR1.6 billion for the year. Obviously, there's some ins and outs of COVID markets M&A. So I would just be interested in what you see as the normalized base for full year '21 as we think about sort of 2022 and 2023?

And then the second one is on the EUR1 billion buyback. So obviously there two components, so the EUR250 million current buyback, and then the EUR750 million following the NNIP disposal. So I'm just wondering as I look at your sort of cash and capital positions on an ongoing basis both [ph] are very healthy. So I'm just curious why you didn't explicitly increase the recurring buyback portion going forward? So those are the two questions. Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Okay, thank you. Thank you, Andrew. Let me start with the OCG on 2021. Yeah, so indeed, so we had a very strong business performance across all the business segments. There were -- the OCG, of course, was very much supported by, let's say, new business contribution from the international business underwriting results for Non-life growth of mortgages successful investments that we have done. So we were pleased to see the outcome of the OCG.

Please keep in mind that, if you talk about '21 that part of the EUR135 million of NNIP will not be repeated in 2021 -- sorry in 2022 after closing of the transaction, which we expect in the first half of the year. And also P&C was extra favorable supported by COVID and still situation where economic activity due to lockdowns was a bit lower. And also to a lesser extent, I think bank benefited from a significant increase in house prices in the Dutch market, which we don't expect to be repeated.

But indeed overall, I think we're well on track to get to the EUR1.5 billion, also with all these factors in there, and there is clearly -- in the current business environment, there is clearly a positive momentum. I mean there will always be some volatility, but you can count on us to continue to drive the results of OCG.

A couple of words on the share buyback. So the share buyback and the dividend that we have announced is fully in line with our capital return policy, which is around progressive dividend minimum EUR250 share buyback and any additional capital also to return over time to shareholders unless we see value-creating opportunities. Now we had, by any account, a strong year in 2021 which is also reflected in our dividend and share buyback. So following the M&A that we did in 2021, we expect at closing of the transaction around EUR1 billion of extra proceeds coming out of the M&A, while obviously keeping our OCG targets. And with this share buyback, we also return a significant part of these proceeds of course subject to closing of the transaction. So from that point of view, this is all fully aligned with our -- the policy that we have and that's also how we will judge it for the next years.

Delfin, anything to add?

A - Delfin Rueda {BIO 7032761 <GO>}

Yeah. Maybe on your question of why EUR250 million is recurring and the rest is related to NNIP, we don't see it like this. We have decided on a total share buyback of EUR1 billion. So we're not making a distinction of one being recurring, not the rest. As you know, we have, as proven in 2021, a strong operating capital generation. We continue believing on the mid-term mid-single digit growth of OCG over time and that provides capacity for an increase regular share buyback. So don't make that distinction between one and the other, it's just one amount of share buyback of EUR1 billion.

Q - Andrew Baker {BIO 20402705 <GO>}

Right. Thank you.

Operator

The next question is from Mr. Farooq Hanif, JP Morgan. Go ahead please.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody, and thanks, Delfin, for all your help and communication over the years. So I have got a few questions for you. Just going back on OCG, you mentioned on the investment return some positives and negatives of re-risking, but then equity revaluation. We look at revaluations and lower credit spreads. Could you just talk about, how sustainable that number is because clearly what proportion of that increase was basically due to re-risking and what proportion was basically because of the market movements I guess is the question.

My second question is, can you talk a little bit more about the Heinenoord transaction and the ABN transaction, kind of what these are bridging to your -- to the plate in The Netherlands? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Thank you, Farooq. I might slightly disappoint you now because I will cover the Heinenoord and the ABN AMRO transaction and I will ask Bernhard to talk about the OCG and the investment returns. But I'm sure we'll hear more of Delfin on this call.

Heinenoord and the ABN AMRO transaction, yes, so both clearly strengthen our position. I think we are the market leader in Non-life, but we have also seen that service providers play an important role in the Dutch market around Non-live and actually become increasingly playing an important role. And in order to avoid that we would be as we call it fully be pushed back into the value chain, we felt it was important also to have a significant stake in that part of the value chain.

So there was a strategic consideration. There's also simple financial consideration. It's not a coincidence that the service providing market is consolidating and that private equity plays a big role in that, because you can make attractive returns. So in our view, it was attractive both strategically and to secure our leading position in the Non-life market as purely from a financial point of view.

ABN AMRO transaction, yes, so essentially what happened is, in ABN AMRO, we have a joint venture on the Non-life side and on the Life side 51% for NN and 49% ABN AMRO. So what we now did is we acquired the remaining part of the Life joint venture. Now this is a book that is like most Life books in the Netherlands, mostly in run-off. And it is very important in a run-off business, as I'm sure you know to have scale to be able to combine portfolios, so that you can address also the fixed cost that tend to be in these portfolios. On the NN Life side, we've been variabilizing our fixed cost, we have a lot of scale, we have good capabilities there, in the past we integrated RVS, we've integrated the Delta Lloyd books, and now we will be integrating the ABN AMRO book, and therefore creating more scale on the Life side being able to variabilize the cost, but also avoid that the ABN AMRO joint venture over time, the Life company itself becomes a sub-scaled business.

So from that point of view, I think it's a good transaction. I'm sure you've also seen that we were able to do it on attractive terms. And good to note that we combine it with an extension of five years for that Non-life cooperation, the joint venture on the Non-life side is running well. There is a lot of new business coming in. So we continue to also cooperate well with ABN AMRO on the Non-life side.

So all-in-all, it strengthens our position in the Non-life business through Heinenoord. It supports the closed book business operation that we have on the NN Life side and we'll continue to further grow on the P&C side with ABN AMRO because that's a cooperation we're very pleased.

Then on OCG, Bernhard?

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yeah. Hi, Farooq. On investment return, in the last year, we mainly achieved our ambition to add additional EUR200 million of OCG by our re-risking program that we announced in 2020. So in the investment return results for 2021, you see this, but you also see some positive impact from revaluation of our equity exposure and also our real estate exposure, that also contributed positively. And now how sustainable is this or how to make sense of this going forward, while there is of course a typical market volatility to take into account, we also are optimizing our portfolio, Delfin already pointed out, sold some equity end of last year. So there will be some changes in the portfolio mix going forward. But in general, we are continuing to shift to higher-yielding assets and investing in mortgages, loans, real estate, also in years to come. So that is also to take into account for an outlook of the OCG contribution from our investments.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you. Just returning on the investment return question. So I mean you've got re-risking on the one hand and some of the market volatility, but on the other hand, you've got the actual book on which you are earning the spread going forward. I mean is that really with re-risking and spread that number still to grow -- we tend them to grow?

A - David Knibbe {BIO 17996037 <GO>}

Yeah. So looking forward as we are shifting to higher yielding assets and the overall excess return or the spread we earn on our market value of the of the assets has increased and we are also expecting to increase it further.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

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

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Can I just say thank you very much to Delfin for helping me since 2014 although you've been in the company even longer than that, but obviously that's when we first met. Two questions from me. On the interest rate sensitivities at Solvency II, I see that the rising interest rates is split. So it's more negative Solvency II sensitivity for rising interest rates. What has happened in the second half and can you provide with an explanation to why rising interest rates is negative for your Solvency II ratio now?

And then secondly from me, specifically on Non-life business the OCG run rate missing out floods and COVID impacts, because you had obviously positive benefits and negative benefits depending on which sign of business. Were there any other notable items in 2021 that elevated

OCG above EUR300 million? Did you see any SCR releases or benefits coming through on the own funds? To be honest, it will be great if you could get a more detail on the OCG split each segment OCG by own funds development and SCR development for the full year? That would be very, very helpful. But just specifically on the Non-life for today, I would like greater details if you can? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Okay. Good morning, and thank you, Steven. Let's start with the Non-life question. Let me just try to give you an overall picture of the Non-life business; Delfin can then add to give a bit more detail on OCG for Non-life; and then Bernhard will cover the interest rate sensitivity question and how to sign has flipped there.

So, first of all, on Non-life. So clearly Non-life had a very good year. In second half, we had a 91% -- 95.1% combined ratio, for the full year 93.5%. So it's clearly a very strong year. And indeed this is despite the floods that we've seen and some of the long COVID cases in the D&A business. I was particularly pleased also to see that the net promoter scores, especially in the largest portfolios around SME have been improving, and VIVAT contributed. The policy and data migration has been done a year ahead of schedule, the expense savings as well. So we've seen a positive portfolio development therefore on the Non-life side.

In terms of other items, COVID is broadly -- we would say is broadly neutral. The impact, clearly there is a negative impact on the D&A side. We've seen what we call long COVID cases. So -- and this was especially cases that where people got sick in 2020 that turned out to be sick over a longer period. Some will now also move from the sickness portfolio to the disability portfolio. So there is that effect. Of course, in the second half of this year, we've seen the different impact, we saw elevated increases of people getting sick, but also very elevated outflow of cases. So a different dynamic probably also related to a different variance of COVID.

The P&C side, of course, was a bit the opposite, where results were supported. We didn't have a lot of large fires and also a bit of a lower intensity in the Dutch economy. So going forward, I think if the economy fully opens up that might put some upward pressure on P&C. We also see that there is a bit of the P&C, especially on the motor side and the retail side, the market is becoming a bit softer. The COVID impact, especially for the longer cases will still be there. At the same time, we have been increasing premiums. We have -- we see efficiencies on the expense side. We're improving our data and underwriting. Prevention isn't improving. So we keep -- as an outlook for the Non-life business, we keep a guidance between 94% and 96% of the combined ratio.

Delfin, would you like to add some more details on the OCG.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, of course. So thank you very much, Steven, for your kind words. So on the Non-life OCG in 2021, I mean, really there is no specially non-recurring item to mention. It is just that the results are particularly for Property & Casualty has been very good. And on your question on the SCR releases, during the second half, the effect of the increase of SCR due to new business and the run-off of the existing business has been sort of neutral. So overall, we have seen in the second half, an increase of around EUR200 million of the own funds and the SCR has stayed more or less stable at the same level, slightly up.

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yeah. Steven, on the interest rate sensitivity, yeah, well spotted, the sign flipped for the Solvency II sensitivity. What is the background, in the second half, we refined our partial internal model and the approach for interest rate risk. We now consider the interest rate sensitivity of the risk margin in our solvency capital requirements, and this change resulted then in a one-off increase in solvency capital requirements. And in the Solvency II metrics, this now leads to a lower sensitivity of the solvency capital requirement. So, the signs of own funds and SCR dependency on interest rates has not changed. If interest rates go down, own funds also still go up and SCR goes up and vice versa. So the direction of the individual travels has not changed. But simply, SCR changes are now less sensitive to interest rate changes and therefore the sign flipped. But this has no impact on our interest rate risk policy our ALM approach. So we keep matching our cash flows closely on an economic basis. And on an economic basis, we are also still slightly short positioned as we also see more interest rates rising. So there is no change in any of our ALM approaches.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Yeah, that's very helpful. Thanks very much. And best of luck, Delfin.

Operator

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

Q - Fulin Liang {BIO 21126177 <GO>}

Hi. Thank you for taking my questions. And I got two questions, actually one of them already been asked. But I just ask a follow-up question on the interest rate sensitivity. Because of the rising interest rate -- I understand that you're not changing the ALM approach, but because of the rising interest rates, your own funds will reduce and now the ratio also kind of reverse. Would you consider to reduce your interest rates hedge and just opportunistically taking advantage of the rising interest rates? Or are we going to continue to see this negative link to interest rates. I guess, that's the first question.

And second one is, so you have done a lot of work to optimize your -- kind of your business you -- through the ABN AMRO kind of restructure. Are there any other internal business optimization we should be expecting to see? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you. Thank you, Fulin. And let me start with the last question, and then Bernhard can follow-up on your follow-up question on the interest rate sensitivity.

No, I mean, we have -- we continue to assess our footprint, and I think we've shown that we're very rational and disciplined around judging whether we are the right owner of assets and business units or not. But the fact that we had a joint venture in a run-off situation was a special case and also a special opportunity. But we'll continue to monitor our portfolio, not just in the last year, but also going forward.

Bernard?

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yeah. Fulin, on the interest rate sensitivity, well, it is still very low. If you see 50 basis points parallel shift of the yield cut up and down, it's a few percentage points that we are sensitive in our solvency ratio. That means there is also room for tactical positioning, which we do in our -- optimization of our strategic asset allocation or portfolio adjustments. And therefore this is not really hindering us or limiting us in the way also to manage interest rates actively also in this environment.

Operator

Thank you. The next question is from Mr. Farquhar Murray, Autonomous. Go ahead, please.

Q - Farquhar Murray {BIO 15345435 <GO>}

Good morning, all, and thanks, Delfin. Of course, you for over the years have been very, very helpful indeed. Two questions, if I may. Firstly, on the buyback of EUR1 billion, you seem to be saying, don't read too much into the split of the EUR250 million versus the EUR750 million, I think a bit more as a total. Is the split then mainly really a reflection of cash flow timings or is the EUR250 million indeed just the minimum and the EUR750 million is the remainder? My broader question is really whether we should think of this is all and done with regards to the redeployment of capital from NNIP and to a degree of retaining some of it or whether we should really see where we are in a year's time?

And then secondly, just a point of detail on the cash position on Slide 11. Could you just elaborate what the EUR150 million figure classed as Other, what exactly is coming through that line is just a bit larger than I expected? Thanks.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Thank you, Farquhar. Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. Thank you very much, Farquhar. Indeed the EUR1 billion is -- you have to consider as a total. Yes, we basically said EUR250 million, we will start now, and the additional EUR750 after the completion of NNIP, because obviously, I mean, first, we are very confident that the transaction is going to close as expected within the next month. But it makes a big difference as NNIP contributes with 17 percentage points to solvency and it is close to EUR1.7 billion of cash. So that means that it is a big difference. So it just makes sense, start the transaction, once this has been completed. In any event, both the share buybacks are expected to complete as you want by March 2023. So you can see them as one share buyback program, but part of it is starting a bit later.

In terms of the other figure of EUR150 million, this basically includes the cost of the debt as well as the cost of the holding, and there are also some smaller items, particularly tax adjustments.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thanks, again.

Operator

The next question is from Mr. Michael Huttner, Berenberg. Go ahead, please.

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. Thank you very much. I had two questions. One is -- both basically more pleased. First one is, (inaudible) a bit more on the dividend. It's a wrong word to use, but consensus was EUR1.57, you've got EUR1.56, it will cost you nothing to round it EUR2 or whatever. And not EUR2 m but little bit EUR2.6 or something, EUR2.5. And is there anything to read here? Just what I'm sensing from the call, and this is why I asked the question in the kind of funny way, is that -- although the numbers are truly exceptional, the kind of holding us back and say, no, no, don't worry, none of this is kind of -- no, this benefit will go away or (inaudible) too much, NNIP has gone. And I just wondered what are you seeing that we are not seeing from these numbers that kind of pushes towards caution and this is why asking the dividend (inaudible) because then this cautious?

And the other question I had is a little bit more on the interest rates and maybe compared to inflation in the same way. So you've talked about interest rates and the solvency, and truly solvency is not economic. We have to look at something else. And I just wondered if we think in terms of economic, say interest rates do go up by 50 bps, how much do your earnings go up? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, Michael, thank you for your question. I think, why not more dividend or, yeah, I mean obviously consensus is important, but we are managing at the end of the day the company and in line with our own policies, and we launched in the beginning of 2020 a new capital return policy around progressive dividend, the dividend growth with 7%. I think that is a good number. And that fits well with the guidance that we have given on progressive, oppressive dividend, especially in the context of a good year. And you're right, it is a very good year, that we have. They're very good results and I think that's why, as we also said, we're on track to get to the EUR1.5 billion with all the changes. But in the current business environment, there is a positive momentum. So you can count on us to continue to -- you know, if we see opportunities to continue to drive our results further up.

On interest rate and inflation, Bernhard.

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yeah, Michael, you will be of course happy to hear that inflation risk is not really a concern for us. And well, in fact everyone in the financial industry is about coming higher interest rates with a healthy level of inflation, and also our Solvency II sensitivity is very limited.

Now, if interest rates rise, what is the OCG impact? We have disclosed last year in the investor deep dive on interest rates, the impact based on end of 2020. If you look at this number, well, it will be a bit lower for 50 basis points parallel shift, mainly because we are already at a higher interest rate level and you can also look at 2021, but our disclosed numbers for UFR drag and risk margin changes that gives you a flavor of higher interest rate impact coming from this, but it's also important to see this always in the context of the overall financial market change impact. So it's not only about interest rates, but also spreads and of course the other risky assets moving where we already had in the call in outlook, and of course with the respective volatility that have to be taken into account.

A - David Knibbe {BIO 17996037 <GO>}

Yeah.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you. Thank you very much.

A - David Knibbe {BIO 17996037 <GO>}

Yeah. Thank you, Bernhard. And I think, Michael, one small addition, I think you said something along the way, you're holding back, personally, I think if you're doing 7% and we do a total buyback of EUR1 billion, I think that also shows that we have a lot of confidence in the results of the company.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you.

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, gentlemen. And Delfin, all the best for your future endeavors of course also from my side. My question is, sorry, again about capital return. I think it's still not entirely clear whether this EUR750 million is a one-and-done kind of story. I think you have said quite clearly that you'll return excess capital over time, which I think suggests it's not a one-and-done.

If I look at my HoldCo cash bridge towards 2023 year-end, even if you would do another EUR1 billion of buyback next year, I think you still end up around EUR2 billion of HoldCo cash, assuming you're not doing deals. So can you just be a little bit more explicit that this is not a one-and-done kind of buyback?

And then in relation to the buyback, I think the 7% dividend growth you're showing today is basically a reflection of your mid-single digit free cash flow growth, and then the buyback of EUR250 million adds another 2 percentage points of dividend growth. Consensus is only modeling for 7% dividend growth going forward. But today, you're announcing a EUR1 billion of buyback. So I would assume that your DPS trajectory should accelerate on the back of this bigger buyback to the tune up of roughly 6 percentage points. Can you confirm that?

And then, secondly, on the unit-linked mis-selling and news flow we had last week did the press release, can you just give us your thoughts on how that could implicate the Dutch Life Insurance companies, in particular. I mean to me, it seems like it's sort of a reiteration of what the European Court of Justice has sort of said in 2015 that, yeah, this going beyond -- the insurance regulatory disclosure requirements whether you should go beyond that at the time you sold those policies should be weighed in the court judgments basically that that needs to be a consideration, but that was on the table I think already, so they've been of course already taken into account in their past verdict, so do you see a risk that verdicts will change in your negative basically? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Thank you, Robin. And let me start on the unit-linked, and then Delfin can cover the question around share buybacks and DPS in detail.

So for maybe to people that have been a bit less following this case, the question on the table was, was the right information provided to customers at the time of the sale of these policies, which was mostly in the 90's? So the Dutch Supreme Court now ruled to your points, indeed, Robin, in line with the European ruling several years ago I think in 2015. And this view that was now expressed aligns very well with our view. So therefore we haven't changed our position on this matter.

What will now happen is, is that the case from the Supreme Court is referred back to the Dutch Court of Appeal, where the legal case will continue. So this was again only an intermediary -- intermediate step, but it hasn't changed our position or our disclosures for that matter.

Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. Thank you very much, Robin. If with this EUR1 billion, if we are done with the distribution of excess capital to shareholders, of course, the answer is absolutely not. We have seen -- and I think the numbers that we have disclosed today is testament of the capacity of NN Group of generating on a sustainable basis growing levels of OCG. In 2021, we have EUR1.6 billion. We have confirmed again our views that OCG to grow mid-single digit over time. Free cash flow was EUR1.5 billion, coming from more than EUR1.8 billion of remittances.

And as David has explained, there is some positive momentum that we are seeing. In terms of markets with increase in interest rates, with the spreads, with the asset allocation that we have done, there is also some positive momentum there. So that means that just the organic capital generation will be sufficient to keep maintaining our healthy share buyback program going forward.

And then you're right, when looking at the level of -- beneath the Solvency with 213%, beneath our leverage that adjusted by the EUR600 million that we have refined, refinance is around 21%. And looking at the evolution -- on expected evolution of cash capital at holding, clearly there is more room to provide additional share buybacks in 2022 and onwards.

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

Thank you. And on the DPS trajectory considering higher buybacks?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. On that one, absolutely, you are also right. Our progressive dividend policy is aligned with the mid-term, long-term prospect of growth of OCG and that we said is mid single-digit, but absolutely as we buyback our shares, the capacity to grow the dividend per share adds a couple of percentage points to what would be the evolution of the dividend in absolute terms.

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

Thank you very much. That's extremely helpful. And again, Delfin, good luck in your future.

A - Delfin Rueda {BIO 7032761 <GO>}

Thank you.

Operator

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

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, good morning, and thank you, Delfin, for your very good communication over the past few years. Now a couple of questions on my side. And the first one is on this EUR1.5 billion OCG target. When are you going to update that? I'm asking because if you kind of look at the ex-NNIP level in H2, you get to EUR740 million, obviously you need to add MetLife Poland and Greece on the top. You said that the COVID impact is broadly neutral, and obviously you have also the impact of kind of higher rates so far this year, which is probably pushing it north of EUR1.5 billion. So I was trying to understand why we meet here, and are you just cautious into 2022 because of that kind of P&C normalizing faster than the G&A or is there something else? Or maybe, Delfin, you just give some room for (inaudible) to provide a new guidance later?

The second one will be on the remittances from The Netherlands. Netherlands Life is, I think, at 220% on Solvency II ratio. And obviously here, we've seen some good support from the lower UFR drag. So can we expect remittances to be going up a bit into 2022 or do you want to keep the similar level of 2021?

And then maybe the last one will be kind of, yeah, on the regulatory risk linked to the mortgages, do you have any discussion whatsoever with the DNB on a potential capital charge on mortgages. I'm asking because it would add-on on the banks, they are a bit cautious on the mortgage market and is there potential risk to get add-ons on your Solvency II models there? Thank you very much.

A - David Knibbe {BIO 17996037 <GO>}

Yeah. Thank you very much, Benoit. Well, first, quickly on the targets, well, we first need to make it. I mean the -- obviously we had EUR1.6 billion, but indeed if you correct for part of the NNIP and some ahead, we wouldn't end up at the EUR1.5 billion. So let's first make that target before we start talking about a new one. On mortgages, I can also cover that quickly. No, there is no discussion with DNB on extra charges related to Dutch mortgages.

Delfin, on the remittances?

A - Delfin Rueda {BIO 7032761 <GO>}

Yeah. So thanks, Benoit, also for your kind words. On remittance, indeed the momentum in NN Life is very positive because of the change in interest rates and the lower impact of the net of the UFR drag and the risk margin release that has potential increase, also via the acquisition of the ABN AMRO Life that increase the dividend capacity of NN Life of around EUR30 million. Once that linking also with the comment that David has made, we have always been very cautious, and it's not because of the incoming CFO, as you mentioned, but we've always been a bit prudent on the way of moving forward.

Netherlands Life is already providing EUR1,040 million of dividends plus the coupon on the subordinated debt. And this is actually a very healthy and very stable and predictable dividend. We always have said that we like to have this predictability and move gradually and orderly from that respect. But indeed with a stronger solvency at 219% and with some momentum on the OCG at NN Life, the dividend capacity increases, but I would not put in your model an increase of dividends yet.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Thank you, Delfin, and all the best.

A - Delfin Rueda {BIO 7032761 <GO>}

Thanks.

Operator

Ladies and gentlemen, we have time for one last question. And the next question is from Mr. Nasib Ahmed. Go ahead, please.

Q - Nasib Ahmed

Hi. Thanks for taking my question. Most of my questions have already been answered. Just two quick follow-ups. Just following up from the last answer on free cash flow generation. If I look at it as a proportion of OCG for 2021, I think it's at 19% [ph], and excluding asset management, it's pretty much in line with OCG. So I agree within that Netherlands Life would look more than (inaudible) other units from (inaudible). So just looking at payout ratio going forward, as a percentage of OCG, is that kind of the level that you would expect, or is that sort of in line with your guidance in and around OCG is that what we should expect?

And then secondly just on the solvency ratio, given the questions on the interest rate sensitivity, the interest rates are rising, you're kind of going down from the 213%, then you've got 10 points of the share buyback coming off, I agreed as positives from the NNIP sale of 17 points. And -- but offsetting that is probably the UFR run-off. Just in terms of comfort level, I know it's a really strong level, but what kind of comfort level are you happy with in terms of supporting the share buyback dividends and the UFR run-off? Thanks.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

So on Netherlands Life, we have always indicated that dividend capacity is a combination of what is your level of solvency, and what is the expected additional capital that you do expect. And as mentioned in -- to the answer to the question before, Netherlands Life is not only having a good level of solvency, but also there are some good momentum in terms of the investment return, because of the asset reallocation, but also because of the run-off of the portfolio. And the fact that the higher interest rates has a very significant positive impact on the UFR drag. On the solvency --

and the guidance has always been that over time, the free cash flow to be in the range of the OCG.

In terms of the Solvency II sensitivity to interest rates, as Bernhard has indicated it is quite low with the changes of 50 basis points that is only a few percentage points that impact the solvency with the corresponding contrary impact generally on the OCG generation going forward. So on that sense, I see no concern whatsoever in terms of the interest rate sensitivity for the continuation of the capital policy that we had indicated including the buyback, also other sensitivities for other market stocks [ph] are well within our tolerance levels.

Q - Nasib Ahmed

Thank you.

Operator

This was the last question.

A - David Knibbe {BIO 17996037 <GO>}

Okay. Well, then, let me close off. So, first of all, thank you very much for all your questions. Before we close the call, let me wrap up by saying that 2021 was an exciting year, and we made a lot of progress in achieving our ambition to create value for all our stakeholders. And also thank you very much for sharing your appreciation for Delfin which we all internally within and very much here. And have a good day.