Q2 2015 Earnings Call

Company Participants

- Delfin Rueda
- Doug Caldwell
- Eilard Friese

Other Participants

- Archie van Riemsdijk
- Cor Kluis
- David T. Andrich
- Farooq Hanif
- Farquhar C. Murray
- Marcus P. Rivaldi
- Matthias de Wit
- Steven A. Haywood
- William H. Elderkin
- William Hawkins

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good – thank you for holding and good morning, and welcome to the NN Group Analyst Call. During the presentation, all lines will be in listen-only mode, and later, we will conduct a question-and-answer session.

Before handing this conference call over to Mr. Lard Friese, Chief Executive Officer of NN Group, let me first give the following statement on behalf of the company. Today's comments may include forward-looking statements, such as statements regarding future developments in NN Group's business, expectations for its future financial performance, and any statement not involving a historical fact.

Actual results may differ materially from those projected in any forward-looking statement. Any forward-looking statements speak only as of the date they are made, 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 solicitation of an offer to buy any securities.

And now, I would like to hand over the conference call to Mr. Lard Friese. Good morning, sir. Over to you.

Eilard Friese

Yeah. Good morning. Good morning, everyone, and welcome to this conference call to discuss NN Group's results for the second quarter of 2015. Very good to know we're hosting this call for the first time from our new head office in the Hague.

I will begin today's presentation by looking at the highlights of the second quarter results, the progress we have made to deliver on our strategic targets and other key developments in the past quarter. Delfin Rueda Arroyo, our Chief Financial Officer, will then talk you through the financial details of the second quarter results at group level and for the individual operating segments. I will then conclude the presentation with a wrap-up, after which we will open the call for Q&A. We also have our Chief Risk Officer, Doug Caldwell, here with us to answer your questions. So, let's dive in and go to the first slide, slide number three.

NN Group is reporting a very strong set of results for the second quarter of 2015. The operating results of the ongoing business was up 90% on the second quarter last year. This was supported by several favorable items in the Netherlands, including a large private equity dividend. But even excluding these items, we saw healthy performance in all of our operating units. We realized further cost savings in the Netherlands of €34 million in the second quarter, bringing the cumulative cost savings to €198 million compared with 2013. So, essentially, we have achieved our €200 million target originally set for 2016, ahead of schedule.

Although, I'm very pleased with our performance this quarter, there are areas where we can do even better. That's why we will continue to focus on efficiency in the Netherlands, improving the combined ratio at Non-life, strengthening the capabilities at our asset manager, as well as increasing the profitability of our international businesses.

The net operating return on equity of the ongoing business of NN Group was 14.9% for the second quarter of 2015, thanks to the improved profitability in all segments.

Market movements in the past quarter were unfavorable for our capital position. Despite this, our IGD ratio remained strong at 306% at the end of the second quarter. As part of our dividend policy, we already expressed our intention to pay semi-annual dividends. We are today announcing our 2015 interim dividend of €0.46 per share, which equates to €156 million in total to be paid either in cash or in shares at the election of the shareholder.

As this is NN Group's first interim dividend, let me explain the calculation method. We intend to pay interim dividends calculated at approximately 40% of the prior year's full year dividend. Please note that our dividend policy remains unchanged, and for the full year, we intend to pay an ordinary dividend in line with our medium-term financial performance, envisaging a payout ratio of 40% to 50% of the net operating result of the ongoing businesses.

Let's move to slide four. Let me run through the three financial targets for NN Group as a whole. Firstly, we set ourselves a target to reduce administrative expenses in the Netherlands unit by a total of €200 million by 2016. As I already mentioned, total cost savings to-date are €198 million. So, this target has essentially been achieved ahead of schedule.

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 six months of 2015 of €792 million represents a 44% 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 of 7.1% for 2013. The net operating return on equity of the ongoing business for the first six months of 2015 was 11.8%.

Let's move to the next slide, slide number five. 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 €450 million compared with a net operating result of €806 million.

In the first six months of this year, the free cash flow of the holding company was €688 million, which included a total of €840 million of dividends upstreamed by our subsidiaries, including NLI. This compares with a net operating result of the ongoing business for the same period of €630 million. 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 result and dividend flows.

Delfin Rueda, our CFO, will go into the details of our free cash flow later in the presentation. Now, on the following slide number six, I would like to go through some of the important developments in the second quarter of 2015.

As you know, one of the main objectives of our equity story is to return capital to our shareholders. We have been delivering on that promise since the IPO through share buybacks and dividend distributions. In February and May this year, ING Group carried out two sell-downs of NN Group shares. We participated in both of these transactions, repurchasing shares for a total amount €350 million.

At the Annual General Meeting in May, our shareholders approved the distribution of the 2014 final dividend totaling €193 million, which was paid on June 30. About 27% of our shareholders elected to receive the dividend in newly issued shares. To neutralize the dilutive effect of this, we repurchased shares from ING Group for an amount of €53 million. We also announced today, a 2015 interim dividend of €156 million in total, which will be paid in September.

Taking all these transactions together, the total capital return to shareholders since the IPO amounts to almost €700 million. We remain committed to returning excess capital to our shareholders in the most appropriate form, unless we can deploy that capital in other value-creating opportunities.

Total capital flows to and from shareholders also include a $57 million injection from ING Group pertaining to NN Bank. Delfin will go into this transaction in more detail later in the presentation. Finally, we have decided to cancel 15.3 million shares that we have repurchased from ING Group as a result of the various transactions. Our outstanding share capital consists of just over 338 million shares, of which ING Group's stake is currently 37.6%.

Let's move to slide seven.

Slide seven 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, decreased to 281% at the end of the second quarter of this year due to credit spread widening and higher interest rates, partly compensated by positive revaluations on private equity and real estate investments.

Please note that NN Life paid €125 million dividend to NN Group at the end of July this year, and this is already reflected in the Solvency I ratio. Our holding company cash capital increased to €1.6 billion as the free cash flow that was generated in the current quarter, mainly in the form of dividends we see from our subsidiaries, more than offset the amounts returned to shareholders in the form of the 2014 final dividend and the share buyback in May. In terms of financial leverage, our fixed cost cover ratio went up to 12.9 times. The leverage ratio remained stable at 22.1%, as did the gross financial leverage position of €3.7 billion.

The IGD ratio decreased to 306% at the end of the second quarter due to market movements. This ratio already reflects the 2015 interim dividend of €156 million that we will pay in early September. Regarding Solvency II, we submitted our application to the DNB for the usage of a Partial Internal Model for NN Group and the insurance entities in the Netherlands in May. The Solvency II capital ratio remains subject to significant uncertainties, including the final interpretations of the regulations and the regulatory approval process.

And with that, I would like to hand over the microphone to our CFO, Delfin Rueda, who will take you through the financial details of the second quarter 2015 results. Delfin?

Delfin Rueda {BIO 7032761 <GO>}

Thank you, Lard. Good morning, everyone.

I will start with the consolidated results. NN Group posted an operating result of the ongoing business, which excludes the Closed Block Variable Annuity business in Japan of €488 million in the second quarter of 2015. This is up almost 90% on the same quarter in 2014. As Lard has stated earlier, all of our operating segments showed improved results this quarter. At Netherlands Life in particular, the operating result was up significantly, supported by a large dividend received from a private equity investment and provision releases in the technical margin. The cost reductions in the Netherlands also contributed to the higher consolidated result.

In the right hand side, you can see that the net result for the second quarter increased to €392 million. This increase was largely driven by the higher operating result. The net result also includes capital gains and positive revaluations, offset by a negative movement in the provision for guarantees on separate account pension contracts.

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

As Lard has explained, one of our financial targets is to achieve an absolute reduction of the administrative expenses in Netherlands Life, Netherlands Non-Life, and at the Corporate and Holding entities of €200 million by 2016, measured against the 2013 cost base.

I am pleased to be able to report that we have essentially achieved our overall cost saving target ahead of schedule, having realized cumulative cost savings to-date of €198 million, of which €142 million in 2014, and an additional €56 million in the first half of this year.

Having said that, we will continue to progress with the expense reduction program at Netherlands Life, which we have previously indicated is more backend loaded over 2016. In the meantime, we will be vigilant of our cost levels, whilst we continue to see upward pressure on our cost base, such as inflation and rise in regulatory cost. And we will invest in our business where necessary.

Let's now look at the individual segments starting, as usual, with Netherlands Life on slide 11. The operating result of Netherlands Life amounted to €332 million in the second quarter of 2015, which is significantly up on the same period last year. The result for the current quarter can be largely attributed to a number of items. Firstly, the investment margin benefited from a €61 million private equity dividend, as well as higher public equity dividends, which are traditionally received in the second quarter of the year.

As you can see in the far right chart, the investment has spread consequently in Greece to 127 basis points in the current quarter. Secondly, the technical merger includes €27 million of non-recurring benefits primarily related to our provision release, as well as €28 million release of the unit-linked guarantee provision due to an increase in interest rates during the quarter. And lastly, administrative expenses were down, as I showed you on the previous slide.

On the other hand, fees and premium base revenues remain under pressure, mainly because of the run-off of the individual life closed book.

I will turn to slide 12 for the results of Netherlands Non-Life. The operating result for Netherlands Non-Life went up to €45 million, supported by a €9 million private equity dividend. Administrative expenses went up as we recognized €4 million in restructuring expenses this quarter. Excluding this, administrative expenses went down almost 4%.

Looking briefly at the two business lines within Non-life separately, we can see that the operating result in disability and accident was higher, driven by the private equity dividend, which I mentioned already, which was partially offset by less favorable claims development. The operating result in Property & Casualty also improved following better results in Motor, which were offset by large claims in Fire. For Non-life as a whole, the combined ratio increased slightly to 99.7%.

Moving now to Insurance Europe in page 13. Insurance Europe also reported a higher operating result, driven by increased fees and premium based revenues, as well as higher technical margin. The increase in fees and premium based revenues reflects higher traditional life insurance premiums across the region, and higher fees on assets under management related to the pension businesses in Spain and Romania. The improvement in cost income ratio is the result of the higher income, combined with administrative expenses, which remained more or less stable. New sales were down slightly due to lower pension sales in Turkey, partially offset by higher life sales in Greece and Spain.

Moving now to Japan Life on slide 14. The operating result of Japan Life was broadly stable at €25 million for the second quarter of 2015, excluding currency effects. The 7% increase in fees and premium based revenues was driven by continued strong sales and larger in-force volumes. This was offset by a decrease in the technical margin and the investment margin.

Administrative expenses were up 5% mainly due to IT expenses. New sales of €124 million were stable based on historical currencies, but down almost 4% at constant currencies versus a strong second quarter last year.

Now, turning to Investment Management segment, we can see in slide 15 that the total assets under management decreased to €184 billion at the end of the second quarter. This was mainly due to higher interest rates during the quarter, decreasing the value of fixed income assets, which is the largest asset class in the portfolio.

We also saw net outflows of €2 billion in the Proprietary and Other Affiliated businesses. The operating result for the Investment Management segment was more or less stable at €38 million compared with the same period last year. Higher average assets under management during the past year led to fee income going up almost 11%. However, administrative expenses also increased as the second quarter last year benefited from a €5 million expense release, and we continue to invest in the business.

The segment Other, which comprises the holding company, the reinsurance business and NN Bank, is covered on slide 16. The total operating result of the segment Other improved from a loss of €42 million in the second quarter of 2014 to a loss of €7 million in the second quarter of 2015. Let me go through the various elements within this segment.

The better holding result was driven mainly by the following two items: firstly, funding cost. Funding cost were down on last year as we used the proceeds of the undated subordinated debt issue in July 2014 to redeem hybrid debt. As I have highlighted before, this undated subordinated notes are classified as equity under IFRS. And so the interest is not recognized in the profit and loss account, but is taken directly through equity.

Secondly, holding cost were lower, reflecting, among other things, the cost savings that we have achieved in the corporate and holding entities. At the reinsurance business, the operating result was down due to lower results in the Variable Annuity Europe portfolio, partly offset by better underwriting results in the current quarter.

Finally, the result of NN Bank increased. The bank continues to grow in both mortgages and customer savings, which led to a higher interest margin. On the other hand, administrative expenses were also up as investments have been made to support this growth.

I will now move to slide 17 to cover our last segment, Japan Closed Block VA. Japan Closed Block VA reported a result before tax of €43 million, down from €79 million in the second quarter of 2014 due to lower hedge results. The current quarter also reflects a €12 million reserve release, following an update on observed lapse experience of out-of-the-money policies.

The portfolio continues to run off. The lower account value caused by the decreasing number of policies is reflected in lower fees and premium-based revenues. The net amount at risk decreased to €76 million at the end of the second quarter, primarily as a result of equity markets appreciation.

And with that, I complete the results of our operating segments. On the following slide, I would like to take you through our free cash flow, capital generation and value of new business.

Lard already talked about the free cash flow and the capital flow to shareholders during the first six months of 2015. Let me focus on the movement in the holding company cash capital during the second quarter of the year. In the second quarter, free cash flow at the holding company was €459 million, 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 €480 million received from our subsidiaries. You will remember that most of our international units traditionally pay an annual dividend in the second quarter of the year.

During the second quarter, we made a capital injection into NN Bank for an amount of €57 million. This was done using the proceeds of our capital contribution from ING Group for the same amount, which obviously is reflected in the above graph as a capital flow from shareholders.

These transactions were done to fulfill a commitment to the European Commission. The capital flows, which are holders of €286 million, includes a further two items. First of all, the €150 million share buyback following our decision to participate in ING's sell-down in May 2015 as a way of returning excess capital to our shareholders. And secondly, the 2014 final dividend paid in June of €193 million.

Altogether, the cash capital position at the holding company increased during the second quarter to €1.6 billion.

Turning to slide 19, we'll cover the capital generation. This slide shows the capital generation of our subsidiaries and for NN Life separately for the first half of 2015. As you know, we report on these numbers on a semi-annual basis.

The total capital generated by the subsidiaries was €847 million over the first half of the year. This was predominantly generated by NN Life for an amount of €759 million. This reflects positive revaluations of both public and private equity and real estate investments, as well as fixed income securities following the tightening of credit spreads.

Finally, I will discuss our value of new business numbers on slide 20. In the first half of this year, the value of new business and the internal rate of return were down at both Netherlands Life and Japan Life when compared with the first half of 2014. This was largely due to the lower interest rates in the period. Insurance Europe was also impacted by the lower rates, but this was more than offset by higher term life insurance sales in Belgium, as well as repricing and product mix changes in Belgium, Spain, Hungary and Turkey.

And with that, I will pass you back to Lard.

Eilard Friese

Yeah, thanks, Delfin. So, let's – thanks, Delfin. So let's move to slide number 22 and wrap it up. So, let me finish off by saying that we are happy to report this very strong set of results for the second quarter of 2015, and I'm particularly pleased that all our operating segments are reporting improved results, and that despite market headwinds, our capital position remains strong. All-in-all, we continue to make good progress to deliver on our equity story and achieve our strategic financial targets. We have realized cumulative cost savings to date of €198 million, which means that we have essentially achieved our €200 million target originally set for 2016 ahead of schedule. Our purpose at NN Group is to help people secure their financial futures, and in doing so, delivering an excellent customer service. If we do this right, this is good for all stakeholders. It also allows us to deliver on our promise of returning capital to shareholders, and today, we are announcing our first interim dividend as a listed company of €0.46 per share.

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

Q&A

Operator

Ladies and gentlemen, we will now start the question-and-answer session. And first question is from William Hawkins of KBW.

Q - William Hawkins {BIO 17918548 <GO>}

Thank you very much. Hi, guys. Can you tell me first how much of the Dutch Life investment margin came from public share dividends in the second quarter 2015 and 2014? And more broadly, I'm just trying to get an angle of what do you think the full underlying figure was against the €260 million headline in the second quarter, because I know that €60-odd-million was the public – sorry, was the private equity dividends, but that still leaves a very high number and I'm trying to work out how much has been distorted by other dividends and how much is the genuine increase, because it seems to be coming out nicely, €20 million or so higher than what you've been reporting in previous quarters. That's question one.

And then question two, yeah, if you could just – this may be excessive detail, but did you tell us on this call that the buybacks you're doing from ING include your view of the buybacks that are neutralizing the dilution on the dividends you're paying? I had kind of previously assumed that any dilution from dividends will be offset by just buying in the market, and the ING buybacks are kind of the additional incremental repatriation of capital. That sounds like I may have been wrong in that assumption.

A - Eilard Friese

Thanks, William. If I ask that just, Delfin, that you take these two questions, multiple questions really.

A - Delfin Rueda {BIO 7032761 <GO>}

Hey. Good morning, William. So, three questions on the investment margin. The public equity dividends were also much stronger than in the previous quarter by approximately €16 million higher in the quarter. In terms of the – that investment margin and how much is sustainable or if there is one-offs, obviously, we have highlighted that the private equity, private equity can be bumpy. So, but it's true that we have had very good results from private equity in the previous quarters as well with our €43 million in the first quarter, €24 million in the last quarter of last year.

So, it's very difficult for me to talk about a normalized amount for private equity. Public equity, we saw that increase. But if this might continue or decrease is also very difficult to establish. Obviously, the element that also show a significant improvement in Netherlands Life is the technical margin, and the technical margin basically has had some positive effects. We talked about the provisioned release, which is I mentioned explicitly, also the positive impact on the unit-linked guarantee, that, as you know, that fluctuates with interest rates. This time, it has been positive in the previous quarters, and last year, we were seeing the opposite direction. There was also some higher results in mortality in the quarter and some smaller provision releases in one industry-wide fund.

Q - William Hawkins {BIO 17918548 <GO>}

Delfin, may – sorry, may I just butt in. I got the €16 million is the increase in the public equity dividends. What was the absolute dividend impact in 2Q?

A - Delfin Rueda {BIO 7032761 <GO>}

I don't know by top of my head, but we'll come back to you with the (29:59).

Q - William Hawkins {BIO 17918548 <GO>}

Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

So, then in terms of the buybacks, indeed you have to – we both have shares three times as you like, €200 million in February, first buyback, €115 million in May, but also €56 million or €57 million in 2013 (30:21) by memory, which was the shares that we bought in order to neutralize the dilutive effect of the stock dividend. So, the neutralization of the stock dividends are done separately from the other buybacks, and we will continue to do that. That's the intention.

Q - William Hawkins {BIO 17918548 <GO>}

>: That's great. Sorry if you are misunderstanding. Thank you.

Operator

Next question is from Mr. Cor Kluis, Rabobank.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning. Cor Kluis, Rabobank. I had a few questions. First of all, on the cost-cutting program. You finalized around 99%. Probably today you'll finalize everything. When – if so, when could we I think get a new cost-cutting program, what would be an appropriate moment to talk about – to talk about that, that's the first question. Second question is about dividend upstreaming from subsidiaries, which is year-to-date, of course extremely strong. That's €40 million I think and including the one in the €25 million from the Life business, it's €965 million. Can you give an idea of what we could expect, not figure wise, but more from subsidiary wise in the remaining of the year of -- or is this mostly EBIT? And my last question is about Solvency II. You highlighted that or you (31:45) that you also filed to the Partial Internal Model. Could you give some comments on, you set up a statement that this (31:53) your standup model was around 200%, is that still the case? Those were my questions.

A - Eilard Friese

Yeah, thanks Cor. I'll take the first question, the cost savings and then I'm going to ask Delfin to take of that other two questions. So first on the cost saves. So with the cumulative expense saves of €198 million, we indeed essentially achieved our overall cost-saving target of €200 million in the Netherlands.

However, that's, let's say, on a group basis, but we also note that we've always indicated savings also for the operating units in the Netherlands and they're not done yet. Because in the Netherlands Life for instance, we've always mentioned that the programs that they have are back-end loaded towards the 2016, and we have not yet completed all those programs. So that's what we still – what's still be going on.

Netherlands Life target as you may know 15% reduction by the end of 2016 versus 2013 cost base. They've done a lot, but there is still some work that they – that they need to do. And beyond that, well, our focus remains on unit cost reductions in the Netherlands. Efficiency is crucial in a competitive market, not only from an expense reduction perspective, but also from a customer experience perspective as efficient processes also leads to higher customer satisfaction. So we continue to focus on this. We also see upward pressures on expenses from inflation and from increased regulation, especially in the Netherlands, and if we needed to make some investments to capture efficiencies, we will do so. When it comes to an update on this, we expect to – on our Capital Markets Day on November 19, to provide an update on the cost evolution. And with that, Delfin.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, of course. So, starting with the dividend upstream from subsidiaries, and in particular, what to expect for the remaining of the year, I think one dividend, of course, which is certain is what we have already paid in July for NN Life, which is €125 million. And I think that the other thing that you need to take into account is that the dividends are coming from mainly Europe and Japan, they tend to come in the second quarter of the year, because normally, it's more of an annual dividend and not interim dividends. And therefore, from the €480 million of dividends, actually €470, you excluded €10 million being – are the coupon on the subordinated debt mainly to NN Life. For this amount, the majority of it is coming from Europe, but all the segments have been contributed with exception of Netherlands Life that did not pay a dividend in the second quarter, although they did in the first quarter with €350 million. And as I said, the €125 million already paid in July.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay.

A - Delfin Rueda {BIO 7032761 <GO>}

On Solvency II, obviously with the performance so far,. we still feel very comfortable with Solvency II. We disclosed that with the fourth quarter results that the standard formula was estimated to be in the range around 200%. And it's fair for you to assume that the factors which affected Solvency I also impacted Solvency II during the second quarter, albeit in different proportions. Mainly on the greatest spread movements with under Solvency II have less of an impact because of the application of the Block. So directionally and despite the capital returns to shareholders, our Solvency II ratio based on the standard formula has moved up from the estimate calculated at the fourth quarter of last year. Obviously, there remain some uncertainties, but I think that based on this guidance so far, we feel comfortable with Solvency II.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Wonderful. Thank you.

Operator

Next question is from Mr. David Andrich from Morgan Stanley.

Q - David T. Andrich {BIO 15414075 <GO>}

Hi. Good morning. Thank you for taking my questions. I'm just wondering if you could give a little bit more color or a bit more of an update on the approval process for your Solvency II Partial Internal Model, if there is was just any additional comments you could add? And whether you anticipate any delays in the process while given where we are now, and I think previously you expected some news kind of beginning of Q4, so.

And then second one, could you just remind us, I think last year you were saying that you had about €900 million capital in the Japan Closed Block VA business that would pay out -- be paid out overtime or must be paid out potentially overtime? Could you give us an update on kind of how much has been paid out of that business to the whole (37:17) so far as of end of Q2?

A - Eilard Friese

Yeah, David. So, I'm going to ask Doug to comment on the internal model approval process and then Delfin on the capital of the Japan Closed Blocked. So Doug, over to you.

A - Doug Caldwell {BIO 17900909 <GO>}

Sure. On the Partial Internal Model, I think the process is, as we follow, there's not much in detail we can give as an update. The process runs forward. I would say that at this point, our expectation of a final result from the DNB would be in the – around early December or in December. So, I would say late fourth quarter would be the time that we would expect something at this point. But the process will continue and if we have any material news, we will share it.

A - Eilard Friese

And Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, on the Japan Closed Blocked VA, as it is reflected in the press release and the presentation, we see the run-off progressing very much as expected, probably with – not probably, with a bit more redemptions than initially envisaged, but that doesn't change, you know, the overall pattern over the next couple of years. So, in terms of the capital distribution, keep in mind that already as of – in the fourth quarter of last year, NN Re paid €100 million of dividend, and actually I don't think it is explicitly disclosed, but in the second quarter of the year, NN Re also paid €85 million of dividend to the holding. So that means that since the IPO, €185 million has already been capital distributed to the holding company. So, that shows that gradual evolution of the release of the, at the time, estimated €900 million of capital.

Q - David T. Andrich {BIO 15414075 <GO>}

Okay. Thank you very much.

Operator

Next question is from Mr. Farooq Hanif from Citigroup.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Thank you very much. I just want to ask, I guess two plain questions. Firstly, I just want to understand exactly what you're saying about the cash flow. So, you got a flow in your presentation showing how your first half of the year the cash flow is close to net operating earnings, but then there are lots of timing factors.

So, just wondered, I mean, are you going to be close. I mean, does this suggest that you're going to be close to net operating earnings this year and that you could reach your target of being around operating earnings quite quickly, so you got at least the medium term, or is there some sort of major timing issue that you think actually take into account if you want to make that segment. So, that's question number one. Question two is on private equity dividends. My experience – my limited experience is that, you get these dividends mainly, these really big dividends when you have a maturity or closure of funds. So, you must have a pretty good idea of the likely timing or sort of the envelope of when you're going to get elevated product equity dividends? So, are we looking for the next one year, two years, three years? I mean, what can you say about that? Thank you very much.

A - Eilard Friese

Thanks, Farooq. I'm going to hand over to Delfin to answer your questions.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Farooq. In terms of the mid-term target, we have always focused on these mid-term targets, because we know that capital generation is volatile and we have emphasized that every single – in every single color are discussion. Obviously, the dividend distribution from subsidiaries, as well as our external contribution to shareholders, we're trying to stabilize that more and have more after the full fund is stable evolution. So, that means that quarter basis or even on an annual basis, there will be times on which the cash flow will be below from the operating result in order that it will be higher. So, I don't think it is right to assume that now going forward is always going to be at the level or above.

Q - Farooq Hanif {BIO 4780978 <GO>}

But may I just drop perfectly, so it might just take this year, with all the – do you normally get some major countries paying dividends in the second half of the year? I mean, you could just have a Life and then Re, what will be the main contribution in the second half that will contribute?

A - Delfin Rueda {BIO 7032761 <GO>}

I mean, as I said, it's more within Insurance Europe and Japan where we tend to concentrate in the second quarter. So, that leaves the other segments, been Non-life, Investment Partners, NN Re, NN Life, as potential distributors of dividends. Also, we're not excluding that from the others, but it's not normally what it would be expected.

As a consequence, obviously, the cash flow in the second quarter and for the total of the first six months has been very good. So, that obviously will have the weight for the total evolution of the cash flows for the year. More difficult to predict it that on the 2016 onwards, although we, of course, keep committed to our midterm target of being in the range of the operating result after tax of ongoing business. In terms of the private, is that...

Q - Farooq Hanif {BIO 4780978 <GO>}

Yes, that's right. Thank you very much.

A - Delfin Rueda {BIO 7032761 <GO>}

Okay. In terms of the private equity dividends, keep in mind that these dividends are usually related to some disposals of private equity stakes in some of the funds where we are invested. So, and that in itself, for us, is very difficult to predict when that might happen as it is a decision of the private equity managers, as well as when these opportunities materialize, not in private equity, but (43:39) is uncertain and can be bumpy.

Q - Farooq Hanif {BIO 4780978 <GO>}

That's true, but I just – they tend to be terms over this three-year exit, five-year exit. So, I know there's always going to be differences in timing, but certain other companies (43:57) able to give a little bit more certainty over the timeline. So I was wondering, is it going to be – I mean, is it likely, in your opinion, to be elevated for more than just this year?

A - Delfin Rueda {BIO 7032761 <GO>}

No. Over the last three quarters, it has been good dividends coming from private equity. I don't have in mind anything in particular that I should flag in terms of giving you guidance on the size or timing of future private dividends.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much. Thank you.

Operator

Next question is from Mr. Matthias de Wit of KBC Securities.

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

Yes, good morning. I had three questions. The first is on the interim dividend policy. Could you just comment why you decided to – David, on last year's dividend, as opposed to your financial performance in the first half of the year. So, you'll now probably pay a disproportionately large part of the full year dividend in or over the second half of this year. So, could you comment on how you decided on the split and whether or not it would influence with the – or by your discussions with the regulator?

And secondly, I wondered whether you could comment on the potential for balance sheet optimization. I think you leverage both on a gross and a net basis, it's quite low for the (45:19) rating requirements you're targeting. So I just wonder how you look at that, especially in light of the low interest rate environment. It seems highly inefficient to operate with huge gross cash (45:30) and lower debt levels. And maybe lastly on Japan, just wonder whether there will be any impact on sales from the recent cutting and corporate tax rates specifically on the COLI business. Thank you.

A - Eilard Friese

Yes, Matthias. So I'm going to hand over to Delfin and I'll take the Japan Life question later.

A - Delfin Rueda {BIO 7032761 <GO>}

Indeed. And what we have is – we know that the capital generation and Solvency is volatile. And we know that the main driver for our ability to distribute capital is related to Solvency capital. So we have tried to basically provide some stability in relationship to the dividend not being completely dependent on operating result, but more on the current and expected evolution of Solvency. So based on that, first, our objective was to give creditability, and I think that we have done that, as we fix the interim dividend based on 40% of the prior year total dividend for the year. That obviously, at the time of announcing the final dividend, give you a clear indication of what we expect on the interim. Obviously, this is guidance, it's not complete fixed rule, but to the extent possible, we will try to maintain this guidance going forward.

And I think that's the – I think that, that answers your question. And certainly, this is not related to any regulatory pressure or influence on that front.

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

Okay.

A - Delfin Rueda {BIO 7032761 <GO>}

Does that clarify the question?

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

Yes. And maybe if I can just follow up on that. How do you look at your capital position and leverage combined? So what's currently the binding constraint to Solvency II?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. Well, I think that it is fair to say, when we look at the evolution of our Solvency capital and our break-in performance, that we have some surplus capital, if you like, which we're not prepared to identify, and obviously, the final results of Solvency II is an important factor into it. But I think that we have approved with the distribution of capital to shareholders before Lard made reference to the around €700 million of capital retribution, 50% of that in the form of ordinary dividend, the other 50% in the form of buybacks. And that, indeed, we're delivering on that basis. So, we basically are looking into performing – I mean focusing in our operating targets, keeping a close look at our Solvency, and together with that, providing, as much as possible, a stable retribution to shareholders. In terms of the balance sheet optimization, we do not intend at this point of time to change the total leverage of €3.7 billion. Once the rules for Solvency II are more clear, we might consider then if there is need to rebalance or do anything there on that respect.

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

Okay.

A - Eilard Friese

Yes. And about Japan Life, our life insurance business, so our insurance in Japan is very well positioned in a niche area in Japan – a large niche area in Japan, which caters for the retirement solution needs of SME owners. And over the – and that those underlying needs have been there for a long time. Over the years, we see now and then, the tax rules changing. But we also see that our company easily adapts in its products and its services to those changes. So, at this point in time, we don't see any impact, material impact on the quality of the business as a result of the recent tax changes.

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

Okay. Got it. Thank you.

A - Eilard Friese

Thank you. Let's go to the next question.

Operator

Next question is from Mr. William Elderkin of Goldman Sachs.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you. Good morning, everyone. Couple of questions. First on Dutch Life business, could you just come back to the investment margin? I think when you sort of IPO-ed, you gave an objective of, over time, keeping the investment margin flat with re-risking at high yields on the back that ran off. I mean, given how strong the second quarter seems to be, even if we take off the lumpy effects and – so seasonal effects was – I mean, is that still a sense for reference point in terms of calibrating our models going forward? And then related to that, just in terms of understanding the movements in Dutch Life general account invested assets, that, I think, was effectively flat over the second quarter at – so €61 billion, €62 billion.

I was just wondering what the moving parts in there actually are because the reported traditional life technical reserves were down quite sharply over the quarter, I think, to €55 billion from €58 billion the previous quarter. And I just want to know what the leading part is going forward. Secondly on the Dutch P&C business, I just wondered if – are there any particular movements in the claims ratio we should be aware of in terms of prior year releases or unusual level of losses? And then finally, in terms of the Solvency II ratio, I mean you seem very comfortable with your position there. But I saw some commentary around Dutch tax fiscal unity maybe (51:51) seem to be going your away. Could you just sort of talk around that a little bit more and the magnitude that effect could have on the kind of ratio coverage you've given?

A - Eilard Friese

Yeah, so let me comment on the Non-life area. I'll ask Doug to comment on the Solvency II question that you have, and I'll ask Delfin to comment on the NN Life investment margin and the general account assets.

So, first in the Non-life area, any particularities there? What we basically saw is that our attempt – our attempts or management actions over the last years to bring the combined ratio of the stability and action book in the right place, I think, have continued to bear fruit. So, it's not – the combined ratio is now at 97% for that business.

On the Property & Casualty side, I flagged earlier that we feel that – especially the Motor book, needs improvement, and the management team has indeed implemented management actions that have led to an improvement at first – first improvement of the combined ratio of the Motor book. It's not – it's a good improvement, but, of course, more work to be done to run those management actions through that book. Having said that, in this particular quarter, we were – we had some fires that – some claims in the Fire book that have elevated the combined ratio. So there's still work to be done to get the combined ratio to its target of 97% for the entire Non-life company as of 2018. The Fire, by the way, claims that we've seen are diverse in cause and not really a clear pattern visible. They are different in nature, et cetera. So, that's basically what it is. No very material other releases, et cetera, are included in the Non-life results other than in the investment result of the Non-life company, a €9 million dividend private equity.

And with that, I'd like to hand over to Delfin for the Life and the general account assets, and then we'll go to the Solvency II question.

A - Delfin Rueda {BIO 7032761 <GO>}

So, on the investment margin, obviously, the second quarter has been very high. It's difficult to provide a clear guidance on that respect. So, so far, we have been very successful with maintaining the investment margin despite the low interest rates. Everything will very much depend on how interest rates also evolve going forward. So, I would say that our objective to keep the investment margin flattish an objective, but there is some pressure on that direction if interest rates continue to decrease or to stay at very low levels. On the general account assets, it's a bit more difficult to explain over the call. So expect that from the flows that occur from the separate account to the general account on a per yearly basis, so that decreases the size of the general account, you also need to take into account – well, sorry, with a separate account moving assets to a general account, the general account assets increases, and obviously, you have the effect of the value of the assets in that due to market performance. Maybe we can provide you with a little bit more explanation offline.

Q - William H. Elderkin {BIO 3349136 <GO>}

Okay. And then just on the Dutch fiscal immunity and Solvency II.

A - Eilard Friese

Yes, indeed. So Doug is ready to answer that.

A - Doug Caldwell {BIO 17900909 <GO>}

Yes. So I think the – so are the Dutch regulators taking a particular position on how taxes should be treated for Solvency II related to this fiscal immunity. We are – we've been examining that because it's not the way the taxes are technically paid here. But we do believe that this will likely be the way this goes.

It's also one of several areas that you have to work through in order to sort out taxes for Solvency II, which is a very complicated area, and many companies are still working through that. But in short, I think to get to your final point, we don't really believe this would change our guidance. We don't – this would not change our guidance that we've given of around – in the range of 200% on the standard formula.

Q - William H. Elderkin {BIO 3349136 <GO>}

Okay. Thank you.

Operator

Next question is from Mr. Steven Haywood of HSBC.

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

Hi. Good morning. With regards to your expense savings target being pretty much achieved now, and you say you still have some plans to cut expenses going forwards, can you estimate to us how much further expenses these will cut or how much you'll overachieve on your expense savings targets in the next year or two?

And the second question is related to Solvency II. And so (57:03) recently about the European Systemic Risk Board. It's pushing for a revision to (57:08). Do you have any thoughts or comments about what this may – how this may impact your business or whether you've heard about any of these possible changes to (57:21) coming as the ESRB kind of goes head to head with (57:26)? Thanks.

A - Eilard Friese

Yeah. So, first – well, thanks, Steven. So, first, on the expenses, when we took the company public, we gave specific targets that we aim to achieve. One was an expense reduction target of $200 million by the end of 2016 for the operating units in the Netherlands and the overhead structure in the Netherlands.

Today, we've announced that we essentially have made that overall target. However, also, at the time of the IPO, we also had specific expense targets for the Dutch operating units. And for the Life company, we said that the Life company aims approximately a 15% reduction by the end of 2016 versus its 2013 cost base.

Now, if you then look at the – if you do the math on that, you're looking at an overall reduction of €70 million. They've done around €45 million or so, so far, so they still have the remainder to go. We've said that it was backend loaded in the three-year program.

So, those programs will run through. I also want to again reiterate that we do see upward pressure on the expense levels from inflation, and especially new pension regulations that are in the Netherlands. And also, we will not shy way to make some necessary investments if we can capture more efficiencies on a running basis. When it comes to the other question of Solvency II, so, Delfin, can you please discuss your (59:01) there?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Steven, I think there is a lot of ink written on the UFR and what might happen with it. And I'm not so much in the business to speculate of what could happen. Maybe just as a clarification that there has been some news about a different UFR to be applied specifically to pension funds, but that is a completely different regulatory regime than the insurance companies. And even on that, the interpretation of the VNB was to (59:40) that this could not be translated to a regulatory regime of insurance companies because to remove one element of the Solvency II framework from its context created the risk of cherry-picking and no understanding the overall. So, until the UFR, which is fixed by Europe changes, this is an integral part of Solvency.

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

Okay. Thanks very much.

Operator

Next question is from Mr. Farquhar Murray from Autonomous.

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

Good morning, gentlemen. Just one very quick question, unfortunately coming back to the fiscal unity discussion on Solvency II. From what I recall, the 200% Solvency II invitation for full year 2014 assumes fiscal unity. So when you indicate that the Solvency II ratio is kind of up in the first half, does that still assume fiscal unity or has the assumption changed within the half? Thanks.

A - Eilard Friese

So, Doug, can you – so, thanks, Farquhar. I'll ask Doug to...

A - Doug Caldwell {BIO 17900909 <GO>}

It still includes that assessment of excluding the fiscal unity. So, pertaining to that one statement that Delfin made, if we'd include our assessment of adjusting for the fiscal unity as the regulator has asked.

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

Okay. And basically, on the first half, if you – did it not assume fiscal unity, essentially, the guidance still wouldn't change, would still be around 200%?

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah, the guidance would go for either way.

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

And then why is the impact of fiscal unity so low? Is that just an offset of low interest rates currently or what's the dynamics?

A - Doug Caldwell {BIO 17900909 <GO>}

Well, the issue is that – I don't know how this expands in other countries in Europe, but in the Netherlands, you can group multiple companies together from a parent into one tax filing. And that's what NN does and, I think, many other companies do. When it comes to Solvency II, you have both group filings, and we go into the filings. And so the question tenders around, how should all we go into the – and then, ultimately, the group, as they consolidate, usually go into these – consider the deferred tax offset in the owned funds, but also in the SCR. And this is what the discussion is about.

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

Okay. And why is it so low though if those interest rates have an impact on that number?

A - Doug Caldwell {BIO 17900909 <GO>}

I don't know what you mean about so low. There is no specific interest rate consideration in this particular discussion.

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

Okay. Thanks so much.

Operator

. And the next question is from Mr. William Hawkins from KBW.

Q - William Hawkins {BIO 17918548 <GO>}

Hi, thanks. And I'm sorry to come back. But I just wanted to follow up again on the dividend from insurance Europe, because it does strike me as remarkably high. If you've got €480 million of dividends from all your subs, and if I were to guess that about a third of that was from Insurance Europe, that will be implying you've got about €150 million out of that division, which is more than last year's net operating result, for example. So for the growth business, that seems like a remarkably high payout ratio. And this time last year, you were saying the risk was more that you'd be downstreaming capital for Solvency II and the rest of it. So if you could add up just a bit more color on that. And I mean, are you implying that the 2Q dividend for Insurance Europe is now sustainable in future years or is there something one-off that helped that figure?

A - Delfin Rueda {BIO 7032761 <GO>}

Thanks, William. The dividends from the Insurance Europe are quite split. So, the largest dividend is coming from Poland, and circling Poland, there is some extraordinary coming of one-off because that was related (01:03:27) pension fund, where approximately half of the assets under management were taken away due to the pension reform.

And that, obviously, had the negative impact that reflect into our operating result at that time and going forward, but also have the possibility to having some impact there. We have not explicitly mentioned how much dividend is coming from Europe, but to give you an order of magnitude, maybe you could consider approximately €40 million or so being extraordinary on that respect. But then, you also have strong dividends coming from Spain, from Belgium and from other entities over the segment.

Q - William Hawkins {BIO 17918548 <GO>}

And are we now through the risks that Solvency II may require you to downstream capital or is that still something that could happen over the next (01:14:18) or 18 months?

A - Delfin Rueda {BIO 7032761 <GO>}

So, we'll have to see, but, yes, there is a risk that we could have in a particular days to downstream capital. But in the – let's say in relative terms to the group and what's going on within Insurance Europe, that's not a particular concern at this point in time.

Q - William Hawkins {BIO 17918548 <GO>}

Excellent. Thank you very much.

Operator

Next question is from Mr. Marcus Rivaldi of Twelve Capital.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Good morning, everybody. Just one follow-up question, please, on Solvency II. Has the DNB clarified its position on how we look at transitionals – maybe I can expand that to include the UFR in relation to capital in the Solvency II. Yeah, the PRA in the UK has made it very clear that transitionals will be uses, too, on capital and it will be included in the assessment to dividend paying capacity. I'm just wondering whether the DNB has made an equally clear statement on that. Thank you.

A - Eilard Friese

Yeah. Thank you very much. I'm going to ask Doug to comment on that. Doug?

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah, I think the situation is a little different from the UK, but in the sense of the nature of the regime going ahead of time, the DNB has made no (01:05:29) the statements that I'm aware of on transitionals, but you can follow the – in essence, we can follow the general rules of Solvency II, which allow them under certain circumstances. But because the Dutch companies have generally been on a mark-to-market curve already, there is less discussion about the topic. And in terms of the UFR, I think U.S., it's just a matter of we take this into account and looking at our current and future capital generation and our financial position. But as Delfin has said, it's one part of many parts of Solvency II, so we don't overly isolate one element versus the others.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

And just can I just follow up? Would you say the UFR is one of the creators (01:06:12) of uncertainty that you flag in your comments this morning about your Solvency II position?

A - Doug Caldwell {BIO 17900909 <GO>}

No, not necessarily. And I think it's a pretty clear part, it's well defined. So in that sense, it's not one of the uncertainties.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

I'm thinking (01:06:31) the absolute level that the...

A - Doug Caldwell {BIO 17900909 <GO>}

I think Delfin answered that question earlier, we're not aware. I mean, we're aware of discussion, of course, as the question was asked earlier. But we're not aware of any change underway, and if a change comes, then we will manage it at that point.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Okay. Thank you very much.

Operator

And the next question is from Mr. Archie van Riemsdijk of Dow Jones

Q - Archie van Riemsdijk

Yes. Thanks for taking the question. I was wondering if you could give some more detail on the Dutch Life book and particularly what part of your business and season premiums are from the closed book with unit-linked and position, and what part is from the rest?

A - Eilard Friese

So, Archie, the – if you look at the Life company in general, and I will just give you the split – I'll just give you a split, a rough split as of the end of 2014 numbers because of – due to the size indication. Let me just see that. It's a total balance sheet of roughly €40 billion – sorry, roughly €73 billion at that time. So, roughly €40 billion – here we go.

So, the total business at the end of last year, we had our technical reserves around €44 billion of the – for pensions and about €29 billion for the individual life closed block. So, the closed block is about €29 billion at the end of last year and pensions around €44 billion. So, to get the overall technical reserves, you need to add the two, which gives you a total of €73 billion – €72 billion.

Q - Archie van Riemsdijk

Okay. Great. And what part – can you also give us some color on the extra cost reductions expected? Is that mainly in the pensions or for a larger degree in the closed book?

A - Eilard Friese

Well, as I said earlier, this is just part of something that we've announced already earlier at the time of the IPO, which was an overall cost reduction of €200 million, and then we split that out at the time to cost reductions done by the Life company and the Non-life company, and the overhead structure. Now, for the Life company, we said that they would likely reduce their expenses, that was our target, by 15%. They are well underway. So, they've already done a lot, but they still have some to go. They've done around €45 million, €46 million of the €70 million that they need to do, and that they are on progress to do in the coming period. And they will just continue to do so to finalize their expense reduction program.

Please note, we're doing this to make sure that we remain competitive, that we are an efficient platform in the Netherlands and compete well, but at the same time, also ensure that the processes improve, and as a result, our customer satisfaction goes up.

Q - Archie van Riemsdijk

All right. Thank you.

Operator

No more questions. Mr. Friese, over to you.

A - Eilard Friese

Yes. Thank you very much, operator. Before I close off, there was one follow-up answer that Delfin would like to give to one of the questions.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. There was a – the follow-up question from William Hawkins on – earlier on the public equity dividend level of NN Life. So, the total equity – the total dividend coming from private – from public equity was €50 million in the second quarter of 2015. That compares to €34 million in the previous year, and this is why I gave the €16 million higher public equity dividend in the quarter versus last year. Please keep in mind that also, for the receiving dividends from public equity, this tends to come in seasonal, it tends to come in the second quarter.

A - Eilard Friese

So, with that, I would like – with that note to finalize, I would like to finish off by saying that we are happy to report this very strong set of results for the quarter. I'm particularly pleased that all our operating segments are reporting improved results, and that despite market headwinds, the capital position remained strong. So, all-in-all, we continue to make good progress to deliver on our equity story and achieve our strategic financial targets. We have realized cumulative cost savings to-date of €198 million, which means that we have essentially achieved our €200 million target, which was originally set for 2016, ahead of schedule.

Our purpose at NN Group is to help people secure their financial futures, and in doing so, delivering an excellent customer service. And if we do this right, this is good for all stakeholders. It also allows us to deliver on our promise of returning capital to shareholders, and today, we're announcing our first interim dividend as a listed company of €0.46 per share.

And with that, I would like to thank all of you for your questions, and I wish you a very good day.

Operator

Ladies and gentlemen, this will conclude the NN Group analyst call. You may now disconnect your lines. Thank you for attending, and have a very nice day. Thank you.