Q2 2016 Earnings Call

Company Participants

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

Other Participants

- Ashik Musaddi, Analyst
- Bart Horsten, Analyst
- Benoît Pétrarque, Analyst
- Farquhar C. Murray, Analyst
- Gordon Aitken, Analyst
- Matthias De Wit, Analyst
- Nadine van der Meulen, Analyst
- Robin van den Broek, Analyst
- Ron Heijdenrijk, Analyst
- Steven Haywood, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. This is the operator speaking. Welcome to NN Group's Analyst Conference Call on its Second Quarter 2016 Results. The telephone lines will be in a 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. Lard Friese, Chief Executive Officer of NN Group, let me first give the following statement on the company's behalf. Today's comments may include forward-looking statements, such statements regarding future developments in NN Group business, expectations for its future financial performance and statements not involving historical fact. Actual results may differ materially from those projected in any forward-looking statements.

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

Good morning, Mr. Friese. Over to you.

Eilard Friese

Yes. Hello, everybody, and welcome to our quarterly earnings call. I will start up today's presentation by looking at the highlights of the second quarter results as well as the progress we are making to deliver on our strategic priorities.

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

Let me start on slide three with the highlights. NN Group's operating result of the ongoing business for the second quarter of 2016 was €321 million. This compares with an operating result of €488 million for the same quarter last year, which benefited from a private equity dividend and significantly higher technical margin in the Netherlands Life.

Our businesses are focused on further improving their earnings while at the same time having to deal with regulatory changes and market conditions. Interest rates dropped even further in the quarter, which continues to put pressure on the results of our insurance activities. And a tax on assets in Poland introduced earlier this year is an additional expense for our Insurance Europe unit.

Market volatility, as we saw again in the second quarter, creates a difficult environment for the asset manager to attract net inflows. The current quarter was also impacted by the particularly severe storms which hit the Netherlands in May and June resulting in higher claims at our Property and Casualty business.

Now on the other hand, we continue to make good progress with our cost-saving plans in the Netherlands. And NN Bank again reports healthy growth in both mortgages and savings. Our balance sheet and capital position remained strong even in the face of volatile market conditions. The Solvency II ratio of NN Group increased to 252% which already reflects deductions for the €500 million share buyback program and the 2016 interim dividend.

Free cash flows at the holding company was €494 million bringing the cash capital at the holding to €2.3 billion at the end of the second quarter. Finally, we have today announced an interim dividend for 2016 of €0.60 per share in line with our dividend policy.

I will now turn to slide four. Our brand promise is You Matter. And our ambition is that NN Group is a company that truly matters in the lives of all our stakeholders. So let me give you some examples of how we're doing that. We take sustainability very seriously whether it be in investing responsibly, creating positive change in the communities or managing our environmental footprint.

NN Group was recently included in the FTSE4Good Index for companies demonstrating strong ESG practices. Our sport sponsorship supports our aim to contribute to people's general health and financial well-being. We are a large sponsor of running events which is an activity that unites people of all ages. For example, NN sponsored the 2016 European Athletics Championships held in the Netherlands, the largest sport event in the Netherlands this year.

In line with our focus on innovation, we recently signed a three-year partnership with StartupBootcamp to sponsor its fintech and cyber security program. The agreement includes offering professional assistance to fintech startups by providing employee mentors. By participating in these types of ventures, we hope to help the industry reach new levels in terms of speed and customer centricity.

Now on the following slide, I will talk about developments in customer services at our business units. In the Netherlands, our strategy is centered around providing digital, personal and relevant services with the aim of enhancing customer experience. We are continually implementing new functionality to meet the growing demand of customers for 24/7 services and solutions while at the same time wanting to be recognized and treated as an individual customer.

For example, customers logging into the NN portal receive a personal message alerting them when the fixed rate period of their mortgage will end within four months. And existing NN customers who request a quote for car insurance through the website are informed through a message that they might be eligible for a discount if they already have a package of insurance products.

NN Bank continues to attract new customers and grow its business. As one of the top mortgage originators in the Netherlands, the mortgage portfolio currently stands at more than €11 billion. And following a record inflow of retail savings deposits in the first six months of the year, customer savings now total over €9 billion.

NN is continually developing and launching products that meet customers' needs and at the same time help us to capture growth opportunities in the insurance markets where we are active. NN in Hungary recently launched a new accident insurance product which offers financial support as well as unique medical and assistance services that are crucial for faster recovery after an accident.

In Japan, we introduced a new COLI critical illness product for SME owners to support business continuity should they fall ill. And NN Life in Romania launched an innovative private health insurance solution which enabled our Romanian customers to insure (06:38) the financial futures of their families should unexpected medical situations arise.

Let's now turn to slide six. We have a diversified portfolio of businesses with leading positions in the Netherlands and a strong presence in a number of other European markets and in Japan. However, a portfolio is never static and we continue to assess our businesses on a regular basis. This has lead to various transactions over the past year; including the sale of Parcom, a private equity management company, in December and the acquisition of the Polish financial broker, Notus, in May. More recently, we announced the sale of our wholly-owned independent insurance broker in the Netherlands, Mandema & Partners to Van Lanschot Chabot.

And in the second half of this year, NN Re (Ireland) expects to sign the portfolio transfer agreement for an investment contract and related investments, which are the only remaining activities of this entity. This will result in the repatriation of capitals to the Group upon completion of the transfer. In all portfolio decisions that we make, we ask ourselves are we the right owner of that business. We will always act rationally when considering the best way to deploy capital.

So moving on to slide seven. Improving efficiency in the Netherlands remains a priority and we will continue to implement a range of initiatives to achieve the cost savings target that we have set ourselves. At our Capital Markets Day last November, we announced a new expense base target for Netherlands Life, Netherlands Non-life and the holding entities of €700 million by the end of 2018. This expense reduction program is on track with total of cost savings achieved to date of €32 million.

Following the sale announcement of Mandema & Partners, which is part of the Netherlands Non-life segment, we have now reduced the target expense base to €685 million to take account of the costs of Mandema that we will no longer incur. We still have a lot of work to do reach this ambitious expense base target as we have to deal with upward cost pressure in the form of project expenses, the regulatory costs especially in the pension business and the need to invest in our businesses. But we are committed to the target and we believe that these initiatives will make our company more efficient and agile and will improve the customer experience.

Now let me round off this part of the presentation by looking at our dividend policy on slide eight. As I mentioned earlier, we have today announced that we will be paying a 2016 interim dividend of €0.60 per share. This is calculated as 40% of the prior year full year dividend in line with the guidance given in our dividend policy. We continue to aim for sustainable and predictable dividends. The share buyback is progressing well with 22% of the total buyback amount already repurchased as at the end of last week.

In total, NN has returned more than €2.1 billion to shareholders in the form of dividends and share buybacks since the IPO two years ago, including the current share buyback program and the interim dividend as announced today. This demonstrates our commitment to return excess capital to shareholders.

At the same time, we continue to look for ways to deploy capital in other value-creating opportunities be it organic growth opportunities or acquisitions. Please be assured that we always act rationally and that we assess all opportunities based on strict financial and non-financial criteria.

And with that, I will now hand over to Delfin Rueda. Delfin.

Delfin Rueda Arroyo {BIO 7032761 <GO>}

Thank you, Lard. Good morning, everyone. NN Group reported an operating result of the ongoing business of €321 million for the second quarter of 2016. And for the first six months of 2016, the operating result came to €626 million. I will go into the main drivers of the operating result when I discuss the results of the individual segments in the coming slides.

A decrease in the net result for the first six months of 2016, as shown in the right-hand chart, can be mainly explained by the lower operating result and a negative hedge result in Japan Closed Block VA due to the market volatility.

Please now turn to slide 11 which gives more details about Netherlands Life. The operating result of Netherlands Life was €190 million in the second quarter of 2016. This is a decrease from €332 million a year ago, which benefited from a €61 million private equity dividend as well as significantly higher technical margin.

The technical margin in the second quarter last year was supported by €27 million of non-recurring benefits mainly relating to technical provision releases as well as a €28 million release of the unit-linked guarantee provision.

Even the further fall in interest rate this year, the current quarter reflects a €7 million addition to the unit-linked guarantee provision. We continue to increase the investment allocation to higher yielding assets, which helped to offset the impact of the low interest rate environment on reinvestments. The last 12 months investment spread remained more or less stable at 128 basis points.

Fees and premium-based revenues were down, reflecting the runoff of the individual life closed book. Administrative expenses increased slightly compared with the second quarter of 2015 primarily due to higher cost as a result of changes in pension regulations. We had previously flagged that progress on expense savings may not be linear from quarter-to-quarter due to upward cost pressure that we have to absorb. Finally, the value of new business in the first six months of this year decreased slightly to €6 million.

I will now turn to slide 12 for the results of Netherlands Non-life. The operating result for Netherlands Non-life decreased to €19 million from €45 million for the second quarter of 2015. The results of Property and Casualty were impacted by the severe storms that Lard mentioned earlier. And this was only partly offset by a favorable claims development in Disability & Accident. Please note that the second quarter last year also benefited from a €9 million private equity dividend. The combined ratio increased to 104%.

Let's look at the two business lines within Non-life separately. The second quarter operating result in Disability & Accident increased to €47 million from €37 million in the same quarter of 2015, mainly reflecting a favorable claims development in both the individual disability and the group income protection portfolios as well as a €4 million positive impact from an IBNR update.

The Disability & Accident combined ratio was exceptionally low at 87% compared with 97% in the second quarter of 2015. The operating result in Property and Casualty decreased to a loss of €30 million mainly due to the impact of the severe storms in the quarter which led to claims of €28 million affecting both the Fire and Motor portfolios. An unfavorable claims experience in Motor and Miscellaneous also contributed to the decrease. The P&C combined ratio deteriorated to 118% from 102% in the second quarter of 2015.

Please turn now to slide 13 and the results of Insurance Europe. Insurance Europe reported an operating result of €52 million for the second quarter of 2016. This was down slightly on the same quarter in 2015 due to a lower investment margin because of lower reinvestment rates and lower invested volumes. This was partly offset by higher fees and premium-based revenues.

Administrative expenses were also higher, reflecting the tax on assets of insurance companies that became effective in Poland as of February 2016. The cost/income ratio increased on the higher administrative expenses. The value of new business in the first six months of 2016 decreased to €46 million, largely due to lower term insurance sales in Belgium as well as negative market impact.

Moving now to Japan Life on slide 14. The operating result of Japan Life was €23 million in the second quarter of 2016, down from €25 million in the second quarter of 2015. The lower operating result reflects a decrease in the investment margin due to lower interest rate on reinvested assets as well as lower mortality results because of a few large claims. This was partially offset by higher fees and premium-based revenues driven by larger in-force volumes.

The cost/income ratio increased as higher income was offset by higher administrative expenses to support the growth of the business. The value of new business in the first six months of 2016 was broadly stable at €49 million as the impact of the decrease in interest rate was largely offset by higher sales of COLI protection products.

Let's move now to slide 15 and the Asset Management segment. Total assets under management increased to €197 billion at the end of the second quarter of 2016 compared with €190 billion at the end of the first quarter. The increase was driven by positive market performance of €7 billion as a result of lower interest rate increasing the value of fixed income assets. This was partly offset by net outflows of €0.5 billion mainly of other affiliated assets.

The operating result decreased to €33 million in the second quarter of 2016 from €38 million in the same period last year. These were down due to lower average assets under management, as well as a shift to lower margin assets. Expenses also decreased, reflecting lower staff-related expenses, as well as lower volume-driven fixed service fees.

The cost-income ratio increased slightly as fees decreased more than expenses. The segment Other is set out on the slide 16. The total operating result of the segment Other improved to €2 million in the second quarter of 2016 from a loss of €7 million in the second quarter of 2015. This segment comprises the holding company, the reinsurance business and NN Bank. Let's look at this individually.

The holding result improved to a loss of €24 million, mainly driven by lower holding expenses as we continue to achieve cost savings as part of our cost reduction program in the Netherlands. The operating result of the reinsurance business remained stable on the same quarter last year at €9 million.

Finally, the operating result of NN Bank increased to €17 million in the second quarter of this year from €6 million in the same quarter of 2015. This increase reflects a higher interest margin and a lower addition to loan-loss provisions. This was partly offset by higher administrative expenses as we continue to make investments to support the bank's strong growth in the mortgages and savings market.

I will now move on to slide 17 to cover our last segment, Japan Closed Block VA. Japan Closed Block VA reported a loss before tax of €28 million, down from a positive result of €43 million in the second quarter of 2015. The result in the current quarter was mainly due to a hedge-related loss of €38 million due to the impact of higher global market volatility. The second quarter of 2015 included a €12 million reserve release from higher lapse assumptions of out-of-the-money policies. The second quarter of this year also reflects lower fees and premium-based revenues as the portfolio continues to run off.

That completes the results of our operating segments. On the following slides, I would like to take you through the free cash flow and the capital position. On slide 18, you can see the movement in the holding company cash capital during the second quarter of 2016, which increased from €2.1 billion at the end of first quarter to €2.3 billion. The free cash flow during the quarter was €494 million, which included dividends of €532 million received from almost all segments, of which €150 million from NN Life, €199 million from Insurance Europe and €80 million from Japan Life. A full list of the dividends upstreamed can be found in the appendix to this presentation.

During the quarter, we had total capital flow to shareholders of €263 million. This comprises the cash part of the 2015 final dividend of €185 million and the amount repurchased under the share buyback program in the second quarter of 2016 of €78 million.

On slide 19, I would like to talk you through the developments in NN Group's Solvency II ratio. On this slide, we show the movement of the NN Group Solvency II ratio, the Eligible Own Funds and the SCR over the second quarter of 2016. As you will see, the format has been simplified by showing the operating return for all entities in one column. In the second quarter, the Solvency II ratio increased from 241% to 252%, mainly due to market variances, partly offset by capital flows being the deduction in full of the €500 million share buyback program and the 2016 interim dividend.

Let me spend a moment to explain the main movements in a bit more detail. Starting with the largest movement, market variances, which had a material positive impact on the Solvency II ratio of 21 percentage points. This mainly reflects the impact of lower credit spreads on highly-rated sovereign bonds. This movement is in line with our disclosed sensitivities and our large exposure to German, Dutch and French sovereign bonds.

The operating return had a positive impact of six percentage points. There are two lumpy items in the Own Funds, being the net result of Asset Management for the full year 2015 of approximately €80 million and a non-recurring benefit in Japan Life relating to deferred tax assets of approximately €50 million. As we have noted in the past, the operating return will move around quarter by quarter. Finally, the SCR remained relatively stable over the quarter.

Finally, on slide 20, let me remind you of the three drivers of the free cash flow available to shareholders that we expect to generate over time, the first and main driver being the generation of Own Funds by all segments. So, both the Solvency II entities, as well as Japan Life, Asset Management and the pension funds.

The second driver is the development of the SCR. The SCR will reduce as they close books in the Netherlands and Japan VA run-off. But it can also increase as a result of new business growth or a shift to higher yielding assets.

And the third driver is the reduction of surplus capital in several of our units. These drivers of free cash flow are volatile quarter-by-quarter and interact with each other. Let me give you two examples. The tightening of credit spreads on sovereign bonds, like we saw in the second quarter, increases the Solvency II ratio, but decreases Own Fund generation. As a second example, should the UFR be lower, this would reduce the Solvency II ratio, while at the same time reducing the UFR drag, and as a result, increasing Own Funds generation. Taken together, these three drivers support our guidance that over time, we expect to generate free cash available to shareholders in a range around the Group's net operating results of the ongoing business.

And now, I will pass you back to Lard for the wrap up.

Eilard Friese

Yeah. Thank you very much, Delfin. Going forward, our focus remains on delivering excellent service to our customers while making our operations more efficient and effective and pursuing profitable growth in selected European markets and Japan. At the same time, our priority is to improve the operating performance of our businesses to increase earnings and generate cash. We are progressing well with these strategic priorities, but there's still more work to do and the entire management team of NN Group is committed to doing this.

Our capital position remains strong and resilient even in this volatile environment and this allows us to weather the challenging market conditions. We will continue to execute our open market share buyback program and we will pay an interim dividend in September. Including these, we have returned more than €2.1 billion to shareholders since the IPO.

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

So, operator, let's turn now to Q&A.

Q&A

Operator

Thank you, Mr. Friese. Ladies and gentlemen, we'll start the question-and-answer session now. Go ahead please. The first question comes from Ashik Musaddi from JPMorgan. Please go ahead sir.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Good morning, Lard. Good morning, Delfin and then Doug as well. Just a couple of questions. First of all on UFR. So, on UFR, we can see that your sensitivities haven't changed for 3.2% for 100 basis point decline. What's driving that? And just linked to that, can you give us some sense about what would be the sensitivity for a 2% decrease in UFR? I am just trying to understand whether it's linear or not. How should we think about?

And secondly is, I mean sovereign spread tightening has benefited your capital a lot, but there will always be a risk of that going back. And given that the yield on German bonds and Dutch bonds are more or less zero, is there any value – is there any way to lock that sovereign spread tightening, i.e., move into cash or some other asset classes where you are kind of locking in that spread tightening benefit? Any sense on that would be really great. Thank you.

A - Eilard Friese

Yeah. Thank you, Ashik. I'll ask Doug to take these two questions. Thank you.

A - Doug Caldwell {BIO 17900909 <GO>}

Hi. Yes. Thank you, Ashik, for the questions. I think on the sensitivities to the UFR, I think there's a couple of things. I think with rates coming down, it can make it a bit more sensitive. At the same time, we have a bit more tax offset than we had at the queue – DTA offset than we had at Q4. So, this is why the sensitivity is about the same as it was then.

I think – we're not disclosing a number at 2.2% I think is not something we're calculating at every level. We also think of the UFR as one element of Solvency II and not just – we do isolate it here to 3.2% because of the attention it gets. But we're careful to put too much focus on only one point of Solvency II changing.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. I mean, instead of giving any specific number, can you give us any sense? Is it linear on the higher end or the lower end, i.e., the impact increases or is it not?

A - Doug Caldwell {BIO 17900909 <GO>}

It would increase a bit.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

A - Doug Caldwell {BIO 17900909 <GO>}

It would increase. It would be some convexity in that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thanks.

A - Doug Caldwell {BIO 17900909 <GO>}

And then the second, I think your point is something that certainly has our attention that as sovereign spreads, especially as the higher-rated sovereign bonds like our German and Dutch and French holdings have really increased in value due to spreads becoming even more negative. Of course, it's something we look into as to whether we should lock those in.

It is important to note that these are critical assets for us in terms of managing our interest rate position. So, if we were to do something like sell them or some other action, we need to consider that because we still, at this point, maintain our approach to prudently managing the interest rate position with a tight match.

That said, I think what you see happening and could see happening – what you see happening a bit in the second quarter is some gains from selling some German bonds and reinvesting in some slightly higher yielding assets and you may see some of that happening from time to time. Also, assuming we can manage our interest rate risk. There are a few other tools available that we're looking into. But clearly, your point is correct that if this can reverse and it may well do so, but there are actions we can take along the way.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very good. Thank you.

Operator

Your next question comes from Gordon Aitken from RBC. Please go ahead, sir.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah. Morning. Thanks very much. Just the first question on your SCR. I mean, you talked over the years that you've basically got two very big run-off books, and the SCR at Q1 increased a little bit and Q2 is pretty much unchanged if you strip out the market movements. Can you just guide as to how the SCR should move over time?

And the second question is about really in the Dutch Life market, can you talk about the competitive environment and the change there? I mean, you've had other players derisking in a way that you don't need to. There's also been a listing, which sometimes can have some discipline in that market. But your volume of new business in Dutch Life is pretty low at €6 million. Can you just break that into sort of DC, new business and also there are news on the DB pensions? And do you expect that to improve? Thanks.

A - Eilard Friese

Yeah. Thanks, Gordon. Let me take the overall view on the competitiveness of the Dutch Life market and I'll ask Doug to comment on the SCR question that you raised. So, in general, the Dutch Life market, what we observed, of course driven by low rates and longevity is that, let's say, classical pension schemes on a defined benefit basis become quite unaffordable or very expensive at least for employers that have these programs for their employees. So, at renewal date, we observe increased activity from our clients to move to change these employee benefit schemes and we're helping them with that. And it's all in the same direction. It all moves towards defined contribution. So, that shift is something that we observe and that we actively, by the way, help our clients with.

However, please note that the majority of the pension liabilities on our balance sheet still remains the DB (34:16) pensions. And since that is quite a large stock of past accruals, if you will, on these employee benefit schemes, it only gradually migrates towards defined contribution. Margins on defined contribution products are lower than DB products, but obviously, it's far less capital-intensive. So, the return of capital is quite good there.

Now, we have a range of products and capabilities that we can offer to our clients, weather it is through full DC, hybrid DC, whether it's PPI institutions, et cetera. So, in that sense, we are very well placed to manage this transition in this market. Now, with that, can I hand over to you on the SCR, Doug?

A - Doug Caldwell {BIO 17900909 <GO>}

Yes. I think – thank you, Gordon. I think on the SCR, I think I refer a bit to page 20, slide 20 of the presentation that Delfin went through. I mean, it's certainly true that we do have some reductions in our SCR every quarter, and so every year that come from our – especially our individual life book in the Netherlands and our Japan VA book. We see that happening. It will not be the same number every quarter, but it's certainly going that way as we would expect.

As we also say, we are over time shifting towards more capital-light products in some of our other regions and businesses as well, which has an impact solely through the ratio. That can be offset in any particular quarter depending on what we may do on the asset side or new business growth including in Japan.

So, I think this will move around a bit. But I think in general, those are the items that will move and I think it will not be entirely consistent every quarter.

Q - Gordon Aitken {BIO 3846728 <GO>}

Okay. Thank you very much.

Operator

The next question comes from Farquhar Murray from Autonomous. Please go ahead sir.

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

Morning, gentlemen. Just two questions, if I may. Firstly, just looking at capital generation on slide 19. If I crudely take the €300 million operating return and then adjust for Asset Management in Japan, one-off, then we seem to be looking at about €190 million in the quarter. Now, is that a reasonable expectation going forward? And in particular, does it capture the increased UFR drag that was kind of highlighted last quarter or is that being washed into the market move? Obviously, I appreciate all these numbers move around a lot, I'm really just looking for a rough sense of indication.

Secondly, can we just dig a little bit into the Other component on that slide? In particular, I'm just trying to determine whether we should regard elements about the structural, specifically from (37:09) on the kind of accruals on qualifying debt. Are those ongoing and roughly what kind of magnitude might we be looking at there? Thanks.

A - Eilard Friese

Thank you, Farquhar. Delfin, can you please take this?

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

Thank you very much, Farquhar. So, indeed, I mean, we have given you the movement analysis and showing the key drivers of our Solvency II ratio over the quarter and have pointed out some of the more material items. The reality is that the operating return under Solvency II is going to fluctuate quite a bit from quarter to quarter.

As a reminder, the operating return includes (37:54) spreads, the UFR drag, the risk margin runoff, and other elements. And all of those are influenced by our starting balance sheet position, model and assumptions, and what has happened in the markets. In addition to that, there is also the impact of new business, operating variances and contributions from Japan Life, Asset Management and pension funds.

Given these, I am reluctant to talk about a sustainable level or to provide any precise guidance step. The reference that we have made and I think is important to repeat the free cash flow generation. And that, as you saw in slide 20, is formed by three different items, the generation of the Own Funds, the release of the SCR and the release of the excess capital.

And these will, we believe, vary around the range of the IFRS operating result after tax. And this will change from quarter to quarter, but that is much stronger and clear guidance than operating return that will fluctuate necessarily every quarter.

And your second question on the accruals on qualifying debt, well, I think, yes, we have approximately €20 million in the quarter. And that is something that we'll continue, unless there is any change on our debt structure.

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

Okay. Thanks so much.

Operator

Next question comes from William Hawkins from KBW. Please go ahead, sir.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thanks very much. Thank you for the reassuring capital disclosure. I'd like to just ask a couple of simple questions on the IFRS results though. The impact of public dividends on the Dutch Life investment margin, could you quantify that for us, please? I think it was €50 million in the second quarter of last year.

And then secondly, you've got a very strong bank results again. I thought you'd been guiding that over time, that figure should be fading as you're investing in growth, but actually the opposite seems to be happening. It still seems to be doing very well. So, could you update the outlook for the bank result? Thank you.

A - Eilard Friese

Yeah. So, Delfin, can you take those questions please?

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

Yes. Thank you, William. Public dividends, not much change. So around €50 million also this quarter. In terms of the result of NN Bank, I mean, in the quarter, as highlighted in the press release, we saw a significant growth in the balance sheet, both mortgages and savings. In addition to that, there was a decrease in addition to the loan loss provision. And that is driven by less delinquencies and also the recovery in housing market. As a consequence for NN Bank, we believe that that current situation and trend is to be maintained.

Q - William Hawkins {BIO 1822411 <GO>}

That's great. Thank you very much.

Operator

The next question comes from Ms. Nadine van der Meulen from Morgan Stanley. Please go ahead, ma'am.

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

Good morning, gentlemen. Thank you for taking my questions. I realize that you were reluctant to give a normalized level of the operational capital generation. It is interesting to see that the second quarter, if you take off the one-offs, as you indicated on the slides, the resulting level is roughly in line with what you were guiding to in the first quarter. In any case, there's still, I suppose from that level, quite a big gap to the net operating results that you're guiding to in terms of cash generation of, let's say, €900 million to €1 billion or at that level.

With regard to that gap, you indicated on slide 20 indeed that that is partly from the reduction in surplus solvency levels. Can you give us some more color what the areas are where you are thinking about reducing these solvency levels? And I could imagine that quite a large chunk of it is the Closed Blocks and the Japan VA Closed Block and the Dutch Individual Life business.

So, I suppose the second question follows up on that in whether you can give the capital release profile of both the VA Closed Block and the Dutch Individual Life business and whether that is probably unchanged with what you've guided previously? Thank you.

A - Eilard Friese

Yeah. Nadine, thank you for your question. So, Delfin, can you take these?

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

Yes. Thank you, Nadine. So, in terms of where to expect the release of capital – sorry, I think I did not have my microphone on. So, I'll just start again. Thank you, Nadine. So, in terms of where do we expect to see reductions in the solvency capital requirement which I think was your question, this is driven by...

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

Sorry. Sorry to interrupt. But it's not the reduction in the solvency capital requirement, but it's the excess capital over the solvency capital requirement.

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

Okay.

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

Yes.

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

Okay. Thanks. Then – well, you have seen that we have had a very strong quarter in terms of capital generation. And as a consequence, also dividends from the subsidiaries resulting in the €2.3 billion of cash capital upholding. As Lard mentioned before, if you included the interim dividend that we have announced on the share buyback that we are executing, we have paid back to shareholders €2.1 billion so far. We do continue executing our dividend policy and looking into the opportunities to deploy that capital organically and inorganically. And if that, we will – let's be – let's rest assure that we will continue with that discipline in order to do it in a gradual, consistent manner.

In terms of the elements on the runoff for the NN Life and Japan Closed Block which, as Doug mentioned, are the main drivers for the reduction on the SCR to some extent, there is no change of guidance. So, for the Japan Closed Block VA, we do still expect the portfolio to run off mostly by the end of 2019. And I would say that approximately €500 million of capital is still to be released from that portfolio. And the pattern of NN Life, again, we think that it's going to progress gradually. And it's difficult to say on a particular manner, but it might be around €50 million per year.

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

And so just following up from that, for example, the Japan Closed Block VA, the €500 million that you indicate, I assume a good chunk of that is the release of the SCR as you mentioned, which is already included in the operational capital generation number as on slide 19, (45:58). And the rest of it is not and will go through – well, will fill the gap basically between the number that you show and the guidance that you're giving with regards to cash being equal to net operating result.

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

To make it clear, the €500 million is obviously the release of both the capital requirement and the surplus capital associated with this business. So, when you look at the evolution of the free cash flow, you will have – in this particular case for Japan Closed Block VA will be part of release in the Solvency capital requirement in part of release of the surplus capital supporting that business. That's correct.

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

Thank you.

Operator

The next question comes from Matthias De Wit from KBC Securities. Please go ahead, sir.

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

First question is on the Dutch Life business. On the fee and premium-based revenues, which were roughly flat on a year-on-year basis. In previous quarter, they were down double-digit level. So, why is the decline leveling off and what should we expect here going forward, please?

And then the second question is on the UFR. I just wanted to get a sense of your Dutch Life capital position on a ex-UFR basis. I assume you don't want to provide it, but could you confirm whether it's ahead of 100%? And could you, in this respect, also comment or provide some insight into the amortization pattern? So, what proportion of the UFR could, for example, be amortized over, let's say, a 10-year period of – or is there anything you could say on that, please? Thank you.

A - Eilard Friese

Doug will take the point on the UFR, and then thereafter, I think Delfin on the fees and premium-based revenues for NN Life. Thanks, Matthias. One moment.

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah, I think as you noted, we don't really quote our Solvency II ratio adjusting for any one particular element like this. So, we will, I think, stick to that guidance because there's too many parts of Solvency II that come together to make the entire ratio. In terms of the question about amortization pattern, I think we can say a bit more on that. A good, I would say, a vast majority will run off over the 10-year – in about 10 years.

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

Okay.

A - Eilard Friese

So, Delfin, on the Life fees and premium-based revenues.

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

Yes, Matthias. I think that there is, as you know, some seasonality on the first quarter because there is the renewals of the pension business coming through. But if you look to the year-to-date development, still, I think we are around €20 million down in relationship to last year. So, renewals might also shift a bit from the first quarter to the second quarter. So, that trend is there.

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

Okay. Thank you.

Operator

The next question comes from Benoît Pétrarque from Kepler. Please go ahead.

Q - Benoît Pétrarque

Yes. Good morning. It's Benoît Pétrarque from Kepler Cheuvreux. Two questions on my side. First one will be on the investment margins. Clearly, you are re-risking on the Dutch book. Could you talk a bit more on this re-risking? Where are you now on the re-risking? How much you are planning to do for the rest of the year and next year? And what type of – what is the kind of investment margin outlook for the coming quarters? Are you going to be able to maybe slightly improve your investment margin or keep it stable?

And linked to that as well, I was wondering if you could give us the impact of the re-risking on the FCR in the first half of 2016? And then the second question will be on the disability business. Could you update us on the outlook for the disability book? We are seeing very strong claim developments in Q2 which actually a bit against the trend we have seen in Q1 which was going for the duration (50:33) there. So, could you guide us a bit more on disability, where are we going now? Thank you.

A - Eilard Friese

Yeah. So, first – so, thank you very much, Benoît. Maybe it's good to hand over to Doug for your first question. I will take the second question thereafter.

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah. I think on the investment margin, I think consistent with what we've said for a long time, and we still remain with quite a prudent investment book with a significant amount of government bonds and especially high quality. And then over time, we are looking for the opportunities to move those to slightly higher yielding assets as those are available. We have been, the last year and a half or so, investing quite a bit more in mortgages, in loans, taking advantage of the illiquidity of the liabilities and also, more corporate bonds and some other fixed income, spready assets. That has been gradual and we will continue to look for those opportunities to do that.

Also, similar to the question Ashik gave, obviously, on a market yield basis, many of these high-quality government bonds are very well yielding to even negative in some cases. So, that will continue. And I think the guidance – I think we've generally given on the investment spread as we expect it to be relatively in line and remaining stable to the level we had in 2013, the time of the IPO, which was around 105 basis points. So, even with rates coming down, we believe we can try to – we will be working to keep that in line.

A - Eilard Friese

Yes. Benoît. And on the Disability & Accident business, first of all, we had a strong second quarter in Disability & Accident results. By the way, you also need to look at the comparison with last quarter, same quarter last year, where there was a €6 million private equity dividend included in 2015. So, if you look at what's been driving the good results, it was actually very low inflow and high outflow of claims in the Individual Disability portfolio. And that was in contract to, indeed, the high level of claims that we saw in January and February of this year.

By the way, you may recall that in the call at that time, the earnings call, I said that those were things that happened in the first two months of that quarter and as you can see the months thereafter going through the second quarter. It was actually a quite positive, favorable claims development. So that's been driving it, low inflows and high recovery especially in Individual Disability part of the business.

Q - Benoît Pétrarque

Okay. Thank you very much.

Operator

The next question comes from Bart Horsten from Kempen & Co. Please go ahead, sir.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes. Good morning. Bart Horsten, Kempen & Co. I have a few questions on cash and capital. You remitted €532 million in the second quarter, which is quite high. Have you considered to leave part of the cash in the operating companies because you didn't need it to shore up your cash at the holding level which is already quite high? So, could you elaborate on that?

And on the UFR. In Q1, you guided that the lower interest rates would result in UFR drag of €100 million additionally for the rest of the year. Is that still the case? And related to that could you give an indication of what the impact would be on your capital generation when UFR drops from 4.2% to 3.7%? Thank you.

A - Eilard Friese

Yes. So, please, Delfin. Yeah.

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

Yes. Thank you, Bart. We explained in the past our philosophy for capital management based on three pillars. One of the pillar, which we think is also important in order to maintain also internal discipline on the usage of capital is that the operating units have to be operating at, what we call, internally our commercial capital target level. So, even if it shows up in cash capital upholding, we think it provides more fungibility (55:09) for the group and is the best way to manage the group. So, we do not consider to leave it in the business unit. And we look at sustainable distribution from those units to their holding company.

In terms of the UFR impact, clearly the impact of the UFR drag has been negative on the operating return, but that's already been flagged. There are many items such as the risk margin release and others that have offsetting impact. And in terms of the sensitivity today, UFR to drop to 3.7%. We have not disclosed it explicitly within the sensitivity. But I think that if you were to take half that amount, it won't be that far off.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you.

Operator

The next question comes from Steven Haywood from HSBC. Please go ahead, sir.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Hello. In terms of what happened with your NN Re division in Ireland, could you give us a bit more detail here? And could you indicate what sort of amount of capital repatriation may be possible from this entity? And then also, for the NN Bank, I don't know if this was asked earlier, I apologize, but could you explain to us why the number of customers is increasing so rapidly and how NN Bank is doing and why is it doing so well here? Many thanks.

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

Yes. So, let me take the question. Thanks, Steven, on the Bank and then I will ask Delfin to give some more comments on the Ireland venture. So, NN Bank is focused very much in the Dutch market on providing mortgages and saving solutions for customers. And this very much an extension of the product range that we have in the Netherlands on life insurance solutions for retail customers and non-life insurance solutions for retail customers and especially because in the individual life insurance market, the long-term saving solutions market has – that due to all kinds of regulatory changes in the past, has reduced very significantly that that equity has been taken over by banking products. And we have moved in to that space to provide those same services to our client within the form of a bank.

So the role that our bank plays is very much a extension of our product range in the Netherlands to solidify our already very strong position in the Dutch market. The bank is doing well in its progress both on mortgage origination as well attracting new customers when it comes to saving solutions. Those are long-term saving solutions, deposits, et cetera. And we will continue our focus on growing the bank. The bank is doing well. It's efficient. It operates through the, let's say, the distribution structure that the insurance group also uses. So it's not a bank with branches or something like that. So in that sense, it's an innovative bank activity, a very focused bank activity that we have, that we aim to grow further. It's doing very well. And it nicely contributes to the overall product offering while at the same time, being an origination capability to help us originate an asset that we actually like on balance sheets of our insurance companies as it is an attractive asset class with a nice spread that helps us to back our long-term liabilities. So that's, let's say, my commentary on the bank. Maybe Delfin on the reinsurance company in Ireland.

Yes. Thank you, Steven. So we have a subsidiary in Ireland, NN Re. Its only activity is an investment contract and obviously is related investments. We are in the process, in advance discussions and expect to sign a portfolio transfer agreement for both that investment contract and the related investments to be transferred. And as mentioned in the press release, we do expect that this will close, that will be signed during the second half of the year. And it will result into after-tax loss which we don't think is material. And in addition to that, that will free up the capital link to – or lock into NN Re and this is the capital repatriation that we will bring to the holding company. Once the transaction has been signed, we will communicate the precise impacts.

Q - Steven Haywood {BIO 15743259 <GO>}

Thanks very much.

Operator

The next question comes from Robin van den Broek from Mediobanca. Please go ahead, sir.

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

I'm sorry to come back to this. But clearly there's a relationship between re-risking in your SCR and what that should contribute to Eligible Own Fund generation. I think I missed the answer to what happened to the UFR drag in Q2. But based on swap movements in Q1 versus Q2, I would expect that UFR drag hasn't increased as much as in Q1. So if you assume re-risking which keeps the SCR flat, should we not assume that incrementally you are looking at higher Eligible Own Fund generation going forward? That's basically the question.

A - Eilard Friese

Yeah, so I'll ask Doug to comment on that. Thank you very much, Robin.

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah. Actually, I believe I missed answering this question earlier in terms of the SCR. I think as we mentioned – I mentioned on the slide 20 and also I mentioned as we move from truly – some of our government bond position toward riskier assets, that will increase the SCR. I think the reason we're careful to give any specific numbers on this is because first of all the asset markets can change. So what we were exactly invested in the future is not necessarily what we invested in yesterday. And also every particular quarter, we may take steps in a different path on this.

The other thing that happened in a particular quarter is you don't necessarily have large movements because of diversification and other things like this. So I think whether the additional assets that we buy will end up fully offsetting the runoff of the closed books, it remains to be seen. I think we can't give specific guidance on that. And it also depends a bit on the assets. But right now, going into mortgages, especially Dutch mortgages, have been also quite reasonable in terms of spread risk as well because they're a bit shorter duration. And then we swapped those out with longer-dated swaps. So from a Solvency II perspective and spread risk, it's not adding substantially more capital.

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

So can you – sorry.

A - Doug Caldwell {BIO 17900909 <GO>}

And in terms of will those assets increase capital generation. At any point we increase the market spread on our assets, that would increase capital generation. But then again, that will layer on over time and not all happen at one time and again will be dependent on what we actually do going forward, which is dependent on financial markets and the attractiveness and availability of assets.

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

But given what we've seen in Q1 basically, that UFR drag increased that March; it was pretty difficult to offset that by re-risking in Q2. That should be easier going forward. Is it a correct conclusion or -

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

So I think maybe, Robin, I can jump in here. There are many elements affecting the capital generation in a particular quarter. The UFR drag is one of them. As I mentioned, it's the release of the risk margin but also all the movements in the valuation, the new value of the balance sheet. So I think that as we re-risk, as we take assets with higher expected return; the Eligible Own Funds will not change per se. But it will change the expected return from those assets. So indeed, every step in re-risking have a positive effect in the capital generation. And it will increase or have an impact, as it has been explained by Doug, in the solvency capital requirement as well.

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

Okay, thank you.

Operator

The next question comes from (01:04:05). Please go ahead, sir.

Good morning, gentlemen. Thank you for taking my question. I have one left on Netherlands Non-life. If you strip out the claims of the P&C of the storms, what would be the combined operating ratio both for the whole Netherlands Non-life as well as for just P&C? Thank you.

A - Eilard Friese

Yeah. Marcelle (01:04:29), this is Lard. If you would exclude the €28 million of claims as a result of the severe storms in May and June, the overall Non-life ratio would be on that pro forma basis, if you will. It would be 97%. And if you would look at the Property and Casualty piece of that, it would improve by roughly, let me see, 13 points (01:05:02) what we published. Yeah, so we obviously publish the combined ratio as it is. But since you're asking specifically if you take out the storms how would it look; if you take out the storms, you're looking at 97% for the quarter on the total combined ratio of the non-life company.

Q - Operator

Okay, thank you.

The next question comes from Ron Heijdenrijk from ABN AMRO. Please go ahead, sir.

Q - Ron Heijdenrijk {BIO 3653338 <GO>}

Good morning, gentlemen. Thank you for taking my question. Most have been answered already. Two small ones remaining. In the bank, can you confirm that the only assets that you're putting on your balance sheet are mortgages or are you investing your savings in other assets as well? Secondly, could you give an indication of whether the loan loss provisions you saw in Q2 are a proper run rate going forward or whether or not these were abnormally low in this quarter? And then on the Disability business, how much of the favorable claims development in the second quarter is actually an offset of the unfavorable claims experience in the first quarter and therefore what would be the good run rate of your combined ratio going through those two quarters? Thank you.

A - Eilard Friese

Yeah. Thank you very much for this. I'll answer the Disability piece. This is volatile. So Disability & Accident on a monthly basis, looking at the claim inflows and outflows, et cetera, is of course some volatility we'll see in a monthly basis. What we've seen is that - and I've mentioned that at the earnings call in Q1 is that in the individual book, we saw some elevated claims in the first two months of the year, which was then basically subsiding in the months thereafter resulting in a good result over the first half of the year for that book. So there is some volatility as a result of that. The other piece, Delfin on the bank.

A - Doug Caldwell {BIO 17900909 <GO>}

Yes, Ron, your first question on is mortgages the only asset, very much so. So it's that they need to maintain some liquidity. This is a very simple retail bank, as you know, focused on providing mortgages and savings for the time being. In relationship to the addition to the loan loss provision in the second quarter, is it a good run rate? There's nothing exceptional, positive or any non-recurrent or anything to highlight. And as a consequence, I would say so it is the result, as I said, of some very strong signs of recovery in the valuation of housing in the Netherlands. And we don't think that this is extraordinarily high or anything to adjust for that tax (01:08:01).

Q - Ron Heijdenrijk {BIO 3653338 <GO>}

Thank you for those answers. So is it fair then to conclude that the current profitability of the bank is sustainable going forward and actually going to grow in line with your book growth? And then to come back on the Disability, how much of the reassignment (01:08:17) of your elevated claims in January-February has been due to management, i.e., how much were there? Well, false claims is maybe the wrong term, but how much has been managed away, so to say?

A - Eilard Friese

The nature of our Disability business - and by the way, I'll let the bank comment go to Delfin. So he will comment in a second probably. On the Disability side, now this is really not the - what we're doing very actively - if a claim comes in of a client that has fallen ill, then what we do is we help the customer as soon as possible to get it into a reintegration program. So we're going to - doing a lot of activity to help individuals and customers to reintegrate and to get back to work and to be healthy again, et cetera. We do a lot of work and a lot of services around this to do that. So in that sense, is it management action? Yes, obviously. We have a very active way of managing and helping customers to get back and to reintegrate back.

Having said that, it depends very much on the nature of the illness, the nature of what's causing the disability that leads to how long it will take for the customer to reintegrate back, et cetera. So we did pay a lot of attention. We are known for this by the way. So we are known with our brand for this that we are very active and that we are helping customers to get back to work as soon as they can. And we help them with that. But again, it very much - it's dependent on the nature of the disability or the illness. Yeah.

A - Doug Caldwell {BIO 17900909 <GO>}

And in terms of the result of NN Bank going forward. Indeed, I think that NN Bank has been growing from being a very small bank into becoming much more mature. And therefore, we will see these economies of scale as it grows depending on how the interest margin will stay over time. As it grows, the bank will need to do some further investments and expenses. And also, one element to keep into account is the additional regulatory levies that we have now to incur. There is deposit guarantee scheme that - I believe it was introduced in the last quarter of last year. And that together with a contribution to our resolution fund, it provides something around €7 million of cost per annum. So when you look at the cost base in 2015, that was not included. And it hasn't started - been reflected in our profit and loss account as from the start of this year.

Q - Ron Heijdenrijk {BIO 3653338 <GO>}

Thank you. Very clear.

Operator

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

Q - Ashik Musaddi {BIO 15847584 <GO>}

All right. Thank you. And just a couple of follow-up questions. I'm not sure if I heard it correctly. I think Doug mentioned that the majority of the UFR will amortize over next 10 years. Is that right? Sounds a bit low to me given that - your duration of the book is around, say, 17 in pensions in the group pension and 13 in the individual life. It should be amortizing over next 20 years. So is that 10 year what I heard it correctly? So I just want to clarify on that. And secondly is, how should we think about - sir, you're hedging cash flows at the moment whereas some of your peers are hedging UFR or, say, Solvency II balance sheet. Can you give us some sense about why are you hedging cash flows even when (01:11:55) zero, any sense on that? Some good bits or bad bits. Thank you.

A - Eilard Friese

Yeah. So thanks, Ashik. Doug.

A - Doug Caldwell {BIO 17900909 <GO>}

Yeah, thank you. Yeah, I think did speak the way I meant to in terms of the most majority of the UFR drag or benefit is from (01:12:14). We'll amortize over the next 10 years. It will not be 100%, but let me explain why I say that. Basically, it has to do with the only cash flows impacted by the UFR are any cash flows beyond year 2020. So if you go 10 years from now and you move that forward, most of our cash flows will sit between year 2020 and 2030. There are some, of course, that go beyond year 2030 that would still be influenced. But that would be influenced for 10 or less years. So if you just kind of move the whole thing forward on a - if it was on a purely closed book type basis, we would not have that much impact in 10 years from the remaining impact of the UFR and in Life. There will be some there, but it will be much, much reduced from what we have now. That's why we say they amortize over 10 years.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, that's clear. Thank you.

A - Doug Caldwell {BIO 17900909 <GO>}

Why are we hedging the cash flows? Well, I think we've been doing this for a long time, also believing that low interest rates were a risk for a long time, also using economic capital and a lot of different risk management tools for many years. We believe it's the way to manage.

I think your question becomes is there a point at which you would not want to do that if interest rates become low. There were several thoughts on that. If I had a nickel for every time I've had people tell me over the last 10 years that you should stop. The rates are going to start going up. So you could adjust your interest rate position. I would appreciate that because I've heard it for many, many years and rates have just continued to fall. Now, of course, we're starting to enter into a completely new world with negative rates on certain government positions, even 10-year swap rates are approaching a negative territory. And I think of course it's fair to ask that question. And I think it's fair to say that we do discuss this internally. The point at this point is we have not changed our general focus on managing interest rate risk and if we do, we will say something about that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. So just to clarify, at least at the moment, you're not looking to change that strategy because the sense I'm hearing from everyone is the rates could continue to remain low. It may not go down, but it may continue to remain low. I just want to confirm that here.

A - Doug Caldwell {BIO 17900909 <GO>}

I can confirm that we have not changed our interest rate hedging strategy.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah.

A - Doug Caldwell {BIO 17900909 <GO>}

And if I can find the person who can tell me how far interest rates are going to go negative, I would appreciate that. But they've already – it's very hard to say what happens.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, that's good. Thank you, Doug.

Operator

The next question comes from Benoît Pétrarque from Kepler. Please go ahead, sir.

Q - Benoît Pétrarque

Yeah. So just two follow-up questions on my side. Now the first one, I was wondering if you could provide a bit more granularity on the NN Bank earnings. I think overall, it start to be really significant so that we will (01:15:15) calculate your net interest margin, loan loss ratio and cost/income ratio. That's the first – just a remark. Second point will be on the P&C. So just to make sure I understand, so you had a 118% combined ratio in the second quarter. And I need to strip out 13 percentage points of storm impact, so I will get on a clean (01:15:41) basis at about 105% on P&C. Is that correct?

A - Eilard Friese

Hi. Let me do – Benoît, I'll...

Q - Benoît Pétrarque

Yeah?

A - Eilard Friese

I'll take the non-life piece. Yeah, so we published our combined ratios, obviously, as they are for the total non-life company. If you would take out the impact of the storm, and you'd do that on a pro forma basis, you will end up 97% for the total non-life company. If you would do that only for the Property and Casualty piece, the Property and Casualty element of the non-life company would improve on that basis by 13 percentage points. Okay?

Q - Benoît Pétrarque

Thank you.

A - Eilard Friese

And then on the bank earnings and your questions on net interest margin, et cetera, so, Delfin.

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

Yes. Thank you, Benoît. I mean, it's a very generic question, which I don't know honestly from where do I start.

I think you have some details in the financial supplement where you can see how the flows have evolved so far. Up to now, we have considered NN Bank to be as part of the segment Other, one additional contributor to the segment and we have not provided too much explicit detail on it. That's something that at some point in the future we'll have to consider as it becomes more relevant. And you have some of the – in the financial supplement some data in relationship to how it has evolved, the level of capitalization, which is very strong, close to 16% (01:17:34). As you can see that the net operating ROE has also been improving over time. And the business in NN Bank is quite simple and straightforward. They have some interest yielding (01:17:54) assets, being the mortgages. You have some cost of funding and some administrative expenses that has been increasing as the bank grows, but providing this margin. And as I said in the financial supplement, you also have done some additions on the position and other savings as well as mortgages, how this has been evolving over time.

Q - Benoît Pétrarque

Okay. Thank you very much.

Operator

The next question comes from Robin van den Broek from Mediobanca. Please go ahead, sir.

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

Yes. Good morning, again. Ashik already asked the question, but I want to follow up on the UFR amortization period of 10 years. I understand what you're doing. But can you maybe explain how regulation prescribes you to amortize the UFR because there seems to be a certain amount of subjectivity in it? So, Doug, I guess this question is for you.

A - Doug Caldwell {BIO 17900909 <GO>}

I think Lard agrees, I'll take the call – I'll take the question. Yeah. I think I want to – yeah, I can answer this, and I think I want to clarify one point that may be underlying also some of the question of Ashik. But I think there is no particular – the regulation is simply on how you set the curve. So, basically you use the swap curve with some few adjustments up to year 2020. And then you extrapolate over time toward a forward rate that becomes one year forward rate. It becomes 4.2% in year 2060. So, you have a gradual increase at least on the current curve.

Then you simply discount your cash flows. So, when we talk about a UFR drag or UFR impacting your capital generation, in some sense, every year or every period you move forward on that curve and that impact of the UFR and that adjustment after year 2020 goes away. And so, for those cash flows – and it goes away for a quarter or for a year for all the cash flows as they move forward. And so, it's effectively part of your discounting of your cash flows.

I think the other thing that I want to make sure or clarify is that there's two – is also that we're talking about here the UFR amortization, which is different from the risk margin amortization. So, we always say we have a UFR benefit – I mean, a UFR drag, and we also have a benefit from the risk margin. The risk margin takes more time to run off. It runs off more slowly than the UFR and I think it's good to understand also the difference between the two.

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

And how long does it take for the risk margin to amortize? Is it probably...

A - Doug Caldwell {BIO 17900909 <GO>}

Longer than – I don't have an exact calculation to give you in comparison. But it's just much more – it's more slowing (01:20:40). Okay. That's tied almost completely – it's mostly tied – well, materially, it's mostly tied to our longevity risk in the Pension business in the Netherlands.

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

Okay. Thanks.

Operator

The next question comes from Bart Horsten from Kempen & Co. Please go ahead, sir.

Q - Bart Horsten {BIO 2390919 <GO>}

Yeah. Thank you. One final question, if I may. On the first page of your press release, you spent almost half a paragraph on Poland, and you said that you are following it closely. And I was wondering how you look at it right now and would you also consider exiting Poland if the situation continues to be like this? Thank you.

A - Eilard Friese

Bart, our Polish business is successful and this (01:21:39) business that we've been building over the last decades in Poland. It's got a very strong position in both the Life Insurance side, the Pension side and also on the Asset Management side; we have a good business there as well. So, we will continue to grow that business. We actually did an acquisition, a small acquisition in the beginning of the year, to cater for additional distribution strength to support the growth of that business.

What we are pointing towards is a development that first of all we had some changes in regulation coming through over the last periods, which we've been flagging and reporting on. And there is a very general and high-level proposal now for changes in one piece of our business. At least the regulation around that (01:22:31) business for pension funds. But those high levels proposals for those changes are not yet precise, and the consequence is therefore not yet clear. So, we need to wait for this new legislation to go through various rounds of consultations, and we expect that to be finalized for 2016.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you.

Operator

The next question comes from (01:22:54) Please go ahead, sir.

Yes. Hi. Some follow-up on the interest margin at the bank. If you look on year-on-year, your deposit growth was lower than your mortgage growth. Deposit growth was €1.3 billion. Mortgage, €1.9 billion. Is this the only thing that explains the margin increase or are there also measures? If you look at the last quarter-on-quarter, your deposit growth is higher than your mortgage growth. So, what was the evolution quarter-on-quarter? And are there any measures still left outside, let's say, volume growth that could you help sustain or even grow your interest margin?

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

I think – I mean, we can take this question offline to go into the detail. The only thing I would say now is that in addition to the interest margin, we should not forget that NN Bank is an originator of mortgages, also for the insurance companies and also for our Asset Management as some of our institutional clients are investing into that mortgages through some of the funds managed by Asset

Management. That means that apart from the interest margin, there is also an origination and service fee flowing through NN Bank.

And I think that with that, we'll be happy to go into further details offline to cover NN Bank if you have any additional questions (01:24:25).

Q - Operator

Okay. Thank you.

Ladies and gentlemen, this concludes the Q&A. Please continue.

A - Eilard Friese

Yeah. So, thank you all for your questions. Let me conclude by saying that we are making progress to deliver on all our strategic objectives but we are fully aware that there is still more work to do. We are able to fully focus on improving operating performance, thanks to our strong capital position while at the same time; we remain committed to disciplined capital management. Our base case is to return excess capital to shareholders while maintaining a robust capital position and the financial flexibility to be able to pursue value-creating corporate opportunities be it organic or inorganic.

Now finally, I would like to mention that this was Doug Caldwell's last quarterly analyst call as Chief Risk Officer of NN Group. His successor, Jan-Hendrik Erasmus, will join NN Group on the 1st of September and will take over the CRO role in October. I would like to take this opportunity to extend a huge thanks to Doug for his expert knowledge and clarity during these calls and for his contributions to all our interactions with investors and with analysts over the past few years.

I want to thank all of you and wish you a very good day. Thank you.

Operator

Ladies and gentlemen, this concludes the NN Group conference call. You may now disconnect your line. Thank you for attending.