Q2 2014 Earnings Call

Company Participants

- Delfin Rueda, Chief Financial Officer
- Doug Caldwell, Chief Risk Officer
- Lard Friese, Chief Executive Officer

Other Participants

- Cor Kluis, Analyst
- David Andrich, Analyst
- Farooq Hanif, Analyst
- Francois Boissin, Analyst
- Frank Kopfinger, Analyst
- Jan Willem Knoll, Analyst
- William Elderkin, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for holding. This is Peter, welcoming you to NN Group's Second Quarter Results 2014 Conference Call.

Before handing this conference over to Lard Friese, Chief Executive Officer of NN Group, let me first say that today's comments may include forward-looking statements, such as statements regarding future developments in our business, expectations for our future financial performance and any statement not involving a historical fact. Actual results may differ materially from those projected in any forward-looking statement. A discussion of factors that may cause actual results to differ from those in any forward-looking statement is contained in our public filings, including our earnings press release that's posted today on our website.

Furthermore, nothing in today's comments constitutes an offer of sale or a solicitation of an offer to buy any securities.

Mr. Friese, go ahead please.

Lard Friese {BIO 17008174 <GO>}

So, thank you very much. Good morning everyone and welcome to this conference call to discuss NN Group's second quarter 2014 results. Obviously, this is a special occasion for us as we present our results for the first time as a stand-alone company.

What we will do is, I will kick off today's presentation by looking at the highlights of this past quarter and the progress we are making on implementing our strategy and delivering upon our targets. Delfin Rueda, who is with us, the CFO of NN Group, will then talk you through the financial details of the second quarter results. And I will then conclude the presentation with a wrap up, after which we will turn it over to you for your questions. We also have Doug Caldwell, Chief Risk Officer of NN Group, with us here to answer any questions you may have.

So, let's go to slide number 3, which are the highlights of the 2Q '14. For the second quarter of 2014, we report a solid set of results, posting an operating result of the ongoing business of EUR257 million. This is down 6% on the second quarter of 2013, but year-to-date, the operating result is up 22%. The net result for the second quarter of this year improved significantly to EUR252 million, driven by positive hedge results at Japan Closed Block VA and higher revaluations.

Our focus on reducing administrative expenses in the Netherlands is already showing results. In the first six months of this year, we reduced expenses in the Netherlands by EUR75 million.

The net operating return on equity for the ongoing businesses of NN Group was 8.7% for the second quarter of 2014, which reflects the higher equity base following the debt-to-equity conversion and the pre-IPO capital injection from ING Group. We further strengthened our capital position in the second quarter, with our IGD ratio up at 272% and our holding cash capital increasing to almost EUR1.2 billion. This was supported by dividend up-streams from the subsidiaries to the holding company.

Excluding non-recurring items in connection with the pension plan -- making the pension plan in the Netherlands independent, and fair value accounting at the Japan Closed Block VA, we generated around EUR500 million of capital in the first half of this year. We are obviously pleased with this, but as we have noted before, capital generation can be volatile. And last but not least, one of our main tasks during the past few months was to prepare for the IPO, which we successfully completed just after the quarter-end on the 2nd of July.

So, let's turn to slide 4. I'd like to say a few more words on the IPO of NN Group. This event was obviously a major milestone for us; after 23 years, we are back, we are listed again on the Amsterdam Stock Exchange. There was substantial investor interest in the offering of NN Group shares, also from retail investors in the Netherlands. The books, therefore oversubscribed quite heavily. So, together with the exchange of the subordinated notes by the three anchor investors, we now have a broad investor base in NN Group shares and ING's interest has been reduced to 68.1%. We also completed two successful subordinated debt issues in the past few months, raising a total amount of EUR2 billion. The proceeds of these debt issues have been used to repay debt from ING Group.

On slide number 5 let me recap our investment proposition and then I will update you on where we stand on our strategic priorities. As we've -- the starting point of ours is a strong business position in the various markets where we are active, as well as our solid balance sheet. Building on this strong foundation, we are transforming the businesses in the Netherlands with a focus on reducing expenses.

For Netherlands Life, we are also gradually shifting to higher yielding assets, releasing capital and de-risking liabilities. In Non-life our focus is on restoring profitability by improving underwriting performance. And in the other regions we aim to achieve profitable growth

and create scale with our operating leverage. These actions are geared to improving earnings and generating capital.

In June we announced our intention to pay a dividend over the second half of 2014 of EUR175 million, which will be payable in 2015. And ultimately, we aim to pay out an ordinary dividend of 40% to 50% of the net operating result of the ongoing business and return excess capital in a form that is most appropriate and efficient to our shareholders.

On slide number 6 we have recapped for you the targets set for the overall company. Our strategic priorities are to reduce expenses, improve earnings and increase the return on equity of the ongoing business. To measure how we are delivering on these priorities, we have set ourselves the following targets.

Firstly, to reduce administrative expenses in the Netherlands units, meaning Netherlands Life, Netherlands Non-life and the holding company, by a total of EUR200 million by 2016. Secondly, to realize an annual growth rate of the operating results before tax of the ongoing business of 5% to 7% on average in the medium term. And Lastly, to increase the net operating return on equity of the ongoing business in the medium term, measured against the pro forma 7.1% for 2013.

Aligned with these targets, we expect over time to generate free cash available to shareholders in a range around the net operating result of the ongoing business. And this assumes, obviously, normal markets, the current regulatory framework and no material special items.

If we move to slide 7, even though it's early days and we have more work to do, we are making encouraging progress on delivering on these targets. In terms of administrative expenses, we have already realized EUR75 million of cost reductions in the first half of this year. Our target is a total reduction of EUR200 million in expenses at the Netherlands units by 2016, half of which we expect to realize in 2014. So we are off to a good start.

The year-to-date operating result before tax of the ongoing business of EUR551 million represents a 22% increase compared with the same period in 2013. Please bear in mind that there may be quarterly fluctuations in this number and we will measure our target of an average annual growth rate of 5% to 7% over the medium term. We have reported a net operating return on equity of the ongoing business for the first six months of this year of 9.3%. This is higher than our 2013 pro forma return on equity of 7.1%.

Looking at capital generation, this has been driven by the good operating performance, as well as economic variances year-to-date. The holding company cash capital increased to almost EUR1.2 billion as subsidiaries up-streamed EUR446 million in dividends to the holding company during the first six months of the year.

All in all, we have made encouraging progress and we will continue to focus on delivering on our strategic objectives.

So, finally, on slide number 8, let me show you the results so far of the execution of our strategy and our disciplined capital framework. The capital position of NN Group has strengthened further with the IGD ratio increasing to 272% at the end of the second quarter. The Solvency I capital ratio of our biggest unit, NN Life, increased from 235% at the end of the first quarter of 2014 to 250% at the end of the second quarter.

The cash capital position at the holding company increased to almost EUR1.2 billion following dividends received from various operating entities and pre-IPO capital transaction. And in terms of leverage, the gross debt position went down by EUR200 million to EUR3.7 billion in the second quarter. The proceeds of the subordinated debt issuances that we did in April and in July were used to repay debt to ING Group. Our fixed cost coverage ratio went up to 6.5 and the leverage ratio improved to 24%.

So, with that, I am handing over to Delfin Rueda, our CFO, who will take you through the financial details of the second quarter results.

Delfin Rueda {BIO 7032761 <GO>}

Thank you, Lard. NN Group posted an operating result of the ongoing business, which excludes the Japan Closed Block Variable Annuity business, of EUR257 million in the second quarter. This is down 6% on the second quarter of last year mainly due to lower operating income at Netherlands Life. This was partially compensated by a reduction of head office expenses and funding costs.

If we look at the first six months of the year, the operating result is up 22% compared to the same period in 2013. The net result improved significantly to EUR252 million, driven by positive hedge results at Japan Closed Block VA and higher revaluations, mainly in private equity.

The comparable periods contain some non-recurring items. The first quarter of 2014 included a EUR541 million charge to the P&L in order to make ING's closed defined benefit pension plan in the Netherlands financially independent, while the net result for the first half of 2013 reflects the capital gains achieved on the sale of our insurance business in Hong Kong and Thailand.

Our target and progress on reducing expenses is shown on slide 11. Our target is to achieve an absolute reduction of the administrative expenses in Netherlands Life, Netherlands Non-life and in head office of EUR200 million by 2016 from the level of 2013. Of this, we have

realized total cost savings of EUR75 million in the first half of this year. Our progress in the first half of this year is encouraging, but of course there is more work to do and we will continue to keep focused on managing the expenses down.

I will now go through the results of each segment individually, starting with Netherlands Life on slide 12. The operating result of Netherlands Life decreased to EUR153 million from EUR204 million in the second quarter last year, mainly due to a lower technical margin and lower fees and premium-based revenues. This is attributable to a number of factors, including the run-off of the individual life closed book, a structural lower fee incomes on the unit-linked portfolio and adverse movements in the unit-linked guarantee provisions in the technical margin due to decreasing interest rates. In addition, the second quarter of last year including relatively strong mortality results in the technical margin and some positive non-recurring items pushing fee and premium-based revenues higher.

Administrative expenses went up 1.7% year-on-year. We did realize cost savings. However, these were offset this quarter by higher employee benefit provisions due to lower interest rates. Year-to-date, total administrative expenses stayed flat.

As Lard mentioned earlier, our priorities for Netherlands Life are to de-risk liabilities and to gradually shift to higher yielding assets. Together with higher invested volumes, this is expected to offset the drag on investment margin due to the current low interest rate environment and the interest expenses on the subordinated debt of NN Life.

On slide 13 we have Netherlands Non-life. The operating result for Non-life decreased to EUR39 million from EUR42 million in the second quarter of 2013, while the operating result for the first six months of the year went up 56%. The results for Property & Casualty were impacted by large claim events in the Fire portfolio in the Netherlands and weather-related claims in the Belgian Motor portfolio. Results

in Disability & Accident continued to improve. The management actions taken to restore profitability as more stringent underwriting criteria and premium rate increases, are visible in the results for this segment. Expenses reduced significantly reflecting the success of the transformation program.

The combined ratio of 98.5% is essentially flat, compared with the same quarter last year, but is down from 100.2% in the previous quarter and down 3 percentage points on a year-to-date basis. So we are heading in the right direction.

I'll turn now to slide 14 on Insurance Europe. The operating result of this segment fell to EUR44 million from EUR53 million a year ago. This partially reflects the impact of a lower investment margin due to the low-yield environment and lower investment volumes, following dividend payments to the holding, as well as the pension reforms in Poland. New life sales were higher across the region, building on our strategy of growing in markets with low penetration of life and pension products. Pension sales were down. The lower income was compensated by a 6% decrease in expenses, and, as a result, the cost income ratio remained essentially stable.

Looking now at Japan Life on slide 15. The operating result was EUR24 million for the second quarter of 2014, down about 14% excluding currency effects on the same quarter last year. The investment margin was lower, following reinvestments at a lower yield and the technical margin was impacted by higher surrenders.

Fees and premium-based revenue growth was strong, up 12% year-on-year excluding currency effects. That reflects solid underwriting business development which can also be seen in the sales numbers. The Japan Life segment reported a substantial increase in new sales on the back of the continuing economic recovery in Japan, higher agency productivity and channel diversification.

Moving on to slide 16 on the Investment Management segment. What we can see here is that the total assets under management increased over 5% during the quarter to EUR177 billion. This increase was partially driven by a positive market performance, but there were also good inflows of assets in the third-party and proprietary businesses.

The operating result came to EUR38 million, down from EUR41 million last year, although the higher assets under management were beneficial for the fee income. Administrative expenses were also up this quarter, reflected some investments to further build and broaden the capabilities of this business.

The segment Other, which comprises the holding, the reinsurance business and NN Bank, is set out on slide 17. The total operating result of this segment improved from a loss of EUR97 million in the second quarter to a loss of EUR42 million in this quarter; I meant, the second quarter of last year. This improvement was mainly due to lower holding expenses and funding costs.

In the holding company, interest costs on hybrids and debt went down following the refinancing of external and intercompany debt, while interest income increased as a result of the subordinated loans issued by NN Life to NN Group in the first half of this year. Holding expenses were down by EUR17 million year-on-year. The operating result of the reinsurance business improved to EUR15 million in the quarter. NN Bank continues to expand its position in the mortgage and savings market and reported an operating result of EUR2 million.

In the near-term, interest costs on hybrids are expected to trend slightly higher, following the April and July issuance by NN Group of subordinated debt, which were issued to repay subordinated and senior debt to ING Group.

Let's have a look now in page 18 to the Japan Closed Block VA. The result of these segments are largely driven by hedge results, which were positive in the current quarter, due to favorable basis risk and lower market volatility, leading to a result before tax of EUR79 million. The portfolio continues to run off, which is reflected in a decreasing number of policies and account value, excluding currency effects. The net amount at risk was EUR694 million at the end of the second quarter, versus reserves of more than EUR1 billion.

I would now like to talk about our capital position, starting with the movement in the cash capital at the holding company in slide 19. The cash capital position improved by more than EUR0.5 billion in the second quarter of 2014. This includes EUR373 million of dividends up-stream from subsidiaries, as well as a net amount of EUR200 million from the pre-IPO capital transactions. We certainly feel comfortable with the current capital levels.

On slide 20, you can see our capital generation in the legal entities. Let me briefly introduce this slide as this provides a new disclosure. The graph on the left shows the change in the excess of available capital over the minimum required capital level over the first half of the year for all the legal entities, excluding the holding company. The minimum required capital level is typically set based on the minimum required from a regulatory perspective and does not represent commercial capital levels. Until Solvency II is more clearly defined, we intend to report on capital generation following this format on a six months basis.

Year-to-date, we have generated over EUR500 million of capital, excluding the non-recurring impact of the pension plan and the move to fair value accounting for the guaranteed minimum death benefits portfolio in Japan Closed Block VA. This was driven by operating performance and favorable markets offset by negative model and assumption changes and other variances.

On the right-hand side, we can see that our largest unit, NN Life, generated capital of EUR163 million during the first six months of the year. That is excluding the EUR231 million negative impact on available capital due to the pension agreement in the first quarter. Together with the pre-IPO capital injection, this led to an improvement in its Solvency ratio to 250%.

Finally, slide 21 shows the changes in our funding position. As you know, we issued two subordinated loans in January and July this year, both for an amount of EUR1 billion each. The success of this issuance demonstrates the healthy investor appetite for NN Group debt. We used the proceeds to repay hybrid and senior debt previously received from ING Group. Consequently -- as a consequence, reducing our dependency on ING for our funding and strengthening our financial flexibility. Our leverage ratio improved to 24% and our fixed cost coverage ratio went up to 6.5 times, as we increased our result before tax over the last twelve months.

And with that, I pass you back to Lard for his final remarks.

Lard Friese {BIO 17008174 <GO>}

Yeah, thank, Delfin. So, to sum up, we're very -- and this is slide number 23. We're very pleased to be able to report a solid set of results for the second quarter of 2014, our first as a stand-alone company.

While the operating profit of the ongoing business was down 6% compared with the same quarter last year, on a year-to-date basis, the operating profit went up 22%. And the net profit increased significantly this quarter to EUR252 million. We showed a solid commercial performance with higher new sales in the current quarter. Total administrative expenses were down and we have made a good start on achieving our target expense reduction.

In addition, we have been successful in further strengthening our robust capital position. And our funding position is stronger and less dependent on ING Group, following the two hybrid debt issues. Excluding non-recurring items, we generated around EUR500 million of capital in the first half of the year. We're, obviously, pleased with this. But as I said earlier, please bear in mind that capital generation

can be volatile.

Finally, the execution of our strategy is on track and we are making encouraging progress towards delivering upon our targets.

So, with that, I would like now to open the floor for your questions that Delfin; Doug Caldwell, our CRO; and myself will be ready to answer for you.

Questions And Answers

Operator

Ladies and gentlemen, as said, we will start the question-and-answer session now. (Operator Instructions). The first question is coming from Mr. Farooq Hanif, Citigroup. Go ahead, please.

Q - Farooq Hanif {BIO 4780978 <GO>}

I hope you can hear me clearly. I have just two questions. Firstly, on the cash that was paid up from the operating subsidiaries to the holding, the EUR373 million, can you talk about the timing of this over the year? So, should we expect this to be a kind of a run rate or what are the missing items that normally are paid in the second half of the year? That's the first question.

Secondly, can we read anything into the ratio? Let me take, for example, the 373 that you paid up and the 507 of cash that you generated, roughly 70% or just over 70%. Is that the kind of remittance level we should expect going forward? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Thanks, Farooq. I'll ask Delfin to take this.

A - Delfin Rueda {BIO 7032761 <GO>}

Farooq, thank you very much. So, your question was about the dividends to the holding company and what to expect for the second half of the year. During the first quarter and second quarter of the year, I mean, we have had a good level of dividends, of EUR446 million. You have to take into account that for particularly in Europe and Japan, the dividends tend to be in the first half of the year. So, it will be wrong to assume that, the dividends, as you know, will come in the second-half in the same direction.

And the second question was?

Q - Farooq Hanif {BIO 4780978 <GO>}

I was just asking -- sorry, I may have got my numbers wrong, but you paid up 446 to the holding and you generated 507, so you are paying roughly 90% of what you generated. Is that a good principle going forward in terms of your remittance ratio to the holding?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, I understand your question. So, it's -- obviously, there is no, an automatic one-by-one relationship between the capital generated in the regulated entities, because that will fluctuate. So, sometimes it will go up or down and that won't be reflected immediately into a dividend to the holding, as everyone can understand.

Obviously, the main driver for the capital flows between the holding company and the subsidiaries will be driven by that capital generation. But, you should not take any particular percentage; some quarters will be higher, some quarters will be lower. And Also, in some occasions, the driver would be to wait for the finalizing your financial accounts and have a sometimes dialog with your regulators before the dividends are up-streamed.

Q - Farooq Hanif {BIO 4780978 <GO>}

And, may I quickly ask while I've got you? I know this is a bit bad for -- I meant off to. But, what is the difference between the 373 and the 446? So, you paid up 373 and 105 [ph] and then you took about 446 from operating subsidiaries to the holding.

A - Delfin Rueda {BIO 7032761 <GO>}

The difference between the 373 and the 446 is only, that 373 is the first quarter and 446 is the six months of the year. So, in terms --

Q - Farooq Hanif {BIO 4780978 <GO>}

Thanks very much. Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

When I said first quarter, I meant the second quarter. And the 446 was for the six months, because the majority of dividends were concentrated in the second quarter of the year.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you.

Operator

The next question, Mr. Cor Kluis of Rabobank. Go ahead, please.

Q - Cor Kluis {BIO 3515446 <GO>}

My question -- first question is about the capital generation of 507. Glad that you disclosed that. Can you indicate which part of that is due to the positive market effects? Could you at least highlight what is basically the recurring element there?

And second question is about the operating results in the Dutch Life entity. The fee and premium based revenues were declined somewhat, and are somewhat on the low side. You mentioned structural lower fees from unit-linked business. Can you explain that a little bit further, and what could we expect going forward in this specific revenue line?

And maybe, one last one is on SNS REAAL. The sales process started from the government's point of view. Question is basically, are you in looking to this party?

Those were my questions.

A - Lard Friese {BIO 17008174 <GO>}

Thanks, Cor. This is Lard Friese. I will start to take the last question and then I will hand back to Delfin to take care of the other two.

So, our focus, as we have mentioned, I think, before, our focus is really our existing footprint, our existing businesses and delivering upon the strategic and financial objectives that we have across the markets in which we currently operate with the current business set. So, that's really our focus in our -- on that. And obviously, we monitor everything that happens in all the markets in which we operate, but our focus is really on our existing business.

A - Delfin Rueda {BIO 7032761 <GO>}

Cor, on your question on what is driving the capital generation, without being very specific about each amount, you should consider that there is around EUR300 million of generation coming from the operations. The economic variance has been quite positive during the first half of the year, and that was also compensated by some negative changes. The net of the two were on the range of EUR400 million.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay.

A - Delfin Rueda {BIO 7032761 <GO>}

Your question about the drivers on NN Life fees are premium-based revenues, the main driver, of course, is in the 100 increasing of the Individual Life book. Also, there is lower fees for the unit-linked income, also as part of some of the flanking measures taken in the past to limit the maximum cost. But, there were also some non-recurrent effects that had some importance. But, going forward, I think the two main drivers are the decrease in the Individual Life book as that runs off. To just remind everyone, that will decrease by 2018 by approximately

25%.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Great. Thanks.

Operator

The next question, Mr. David Andrich, Morgan Stanley. Go ahead please.

Q - David Andrich {BIO 15414075 <GO>}

Hi, good morning. Thank you taking my questions. I was just wondering if you could give a brief update in terms of the transfers going from the separate accounts to DB and then also from DB to DC, and how that's developing over time.

And then, my second question is, I was wondering in terms of returning excess capital to shareholders, how are management incentives aligned with that? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

On the transfer of the separate accounts to the general account in the Netherlands, this happens primarily once a year, as these are pension accounts that are negotiated and agreed and then usually happen mostly on January 1st. For this calendar year, we had about EUR2 billion transferred from the separate accounts to the general accounts and to the separate account, the amount of liabilities that we have in terms of these pension contracts is approximately EUR8 billion.

In terms of management compensation and incentives, senior management including ourselves, part of the remuneration is variable compensation, which is linked, obviously, to the financial and non-financial objectives that we have set for the Company, which are aligned with the strategy and the investment proposition that we have put forward and that I recapped earlier.

So, about the key metrics that we need to improve. And that will drive it. So, that's how we operate across our senior management incentivization and KPI measurement.

Q - David Andrich {BIO 15414075 <GO>}

Can I just follow up on that? Would you be able to be more specific in terms of the financial objectives?

A - Lard Friese {BIO 17008174 <GO>}

I mean, the financial objectives differ, of course, for every manager. So, I mean, if you are in a growth business, your KPIs are measured -- are in a different -- are different, let's say, than if you are in a non-growth business where the focus is really on expense reductions, et cetera. So, it differs per unit, but it is aligned with the core financial and non-financial KPIs of that particular unit. And obviously, for the Board, so, for me and for my colleagues, it is the integrated view of that, which, again, the KPIs are aligned with the main KPIs that we have set for ourselves and that we are reporting regularly progress on also to you.

Q - David Andrich {BIO 15414075 <GO>}

Okay. Thank you. And sir, can I just follow up on my earlier question about the transfer from DB to DC as well? Do you have any commentary around that in the second quarter or first-half?

A - Lard Friese {BIO 17008174 <GO>}

I think, in general, this is -- I don't have a specific number here at this point. But, in general, this is a very gradual process. So, the pension businesses in the Netherlands, usually, their renewal processes are taking place every year, but it's usually contracts that are five years out at minimum. And we are helping our clients to move from defined benefit to defined contribution, but that is a very gradual process.

Q - David Andrich {BIO 15414075 <GO>}

Okay. Thank you very much.

Operator

The next question, Mr. Francois Boissin, BNP. Go ahead please.

Q - Francois Boissin {BIO 16045021 <GO>}

Good afternoon, everybody. Two questions, please. First one is with regards to your reinvestment yield currently. Could you just highlight what level you are able to achieve on new money being invested currently versus the running yield you have on your backlog? And maybe some details on the asset allocation currently would be useful.

And second question is on the run rate of profit we can expect for the Other division and namely a split across the holding, reinsurance and the banking business would be useful. Thank you very much.

A - Delfin Rueda {BIO 7032761 <GO>}

So, on your first question on the reinvestment yields, let's say that our average currently annualized yield is approximately 4% for the total general account. Obviously, that yield varies by assets, so I am not going to be specific for each of the assets. But, basically, during the first half of the year we have reinvested around EUR3 billion of assets out, if you like, from government bonds and also the new cash coming into the Company, very much, more or less between one-third in corporate bonds and some asset-backed securities, approximately one-third in mortgages and private and commercial loans. And around 25% of this EUR3 billion in equity and real estate. From there, you can have an estimate of approximate yields.

And on your -- I don't know if that answers your question, Francois.

Q - Francois Boissin {BIO 16045021 <GO>}

It does in terms of asset allocation, but in terms of, kind of, blend yield, are we talking about something like 3% or below?

A - Delfin Rueda {BIO 7032761 <GO>}

As I said, it varies depending a bit on the yields. I think that -- I don't know, to give you an example, I mean, in mortgages, they are of course the highest is more around 4%, and for private loans it will be around 3% or so.

I terms of -- I think, you also asked about the allocation of investments. And I think that we're still -- we are very much government bonds representing around 50% of the total.

Your next question was about what to expect, I believe, in the holding with NN Bank, reinsurance and the actual holding. Obviously, NN Bank has evolved from being a very small, but after the integration with WestlandUtrecht Bank in 1st of July, we have already seen positive results, 2 million in this year. You can expect, for the next quarter, this profit will increase.

In terms of reinsurance, there is, in the quarter, some positives, non-recurrent. And in relation to the holding, obviously, some of the expenses that reduction in expenses that have already been achieved, this will be maintained going over time. In relationship to the first half of the year you have to take into account that the holding is now receiving dividend from NN Life to approximately EUR1 billion EUR1.050 billion of debt. And that obviously is going to be an income in the holding and an expense for NN Life, dragging the investment margin there.

In addition to that, when you compare the funding costs in the second-half with the previous time before, you have to take into account that in the -- with issues that we have done are in fixed interest rates and that will replace some debt from ING Group that were floating. And that will increase somehow interest charge over that period.

Q - Francois Boissin {BIO 16045021 <GO>}

And what is the order of magnitude of the increase in funding costs?

A - Delfin Rueda {BIO 7032761 <GO>}

For the interest expenses, around 10 million a year.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions). The next question, Mr. William Elderkin, Goldman Sachs. Go ahead please.

Q - William Elderkin {BIO 3349136 <GO>}

Good afternoon, everybody. I've got a couple of questions, please. First of all, on NN Life, slide 20, where you showed the EUR163 million of capital generation. Could you give us a breakdown of how that splits between operating capital generation, financial markets effects and then the change in the required capital at the underlying business?

Secondly, obviously, the holding company cash position has improved very substantially for various reasons. Can you give us a framework for guiding us in terms of how much cash you actually want to hold?

And then, thirdly, in terms of your leverage, you described it as comfortable, I think the figure is 24%. Could you give us an idea at what point that leverage starts to become lazy or inefficient from your perspective?

A - Delfin Rueda {BIO 7032761 <GO>}

Thank you very much, William for your three questions. First, in terms of the specific breakdown of NN Life, I think that's something that we don't -- I'm not planning to disclose on a quarter or on a six-months basis. But, to give you some indication, a significant part of the capital increase is coming from economic variances on that basis, but the operating result also contributed to the results in -- to the capital generation in the first-half.

When we look at the holding company cash and what guidance to give, we commented at the time of the IPO that with a pro forma level of 900 million, we felt comfortable. But, we made very clear then, and I repeat now that there is no fixed cap or a floor on which there is an automatic remittance of dividends or where our regular dividend will stop because of drop in, from that level. We are very pleased with the performance in the first six months. And obviously, that capital generation in the quarter has been very healthy. We will see variance from quarter to quarter and, as a consequence so far, we can only confirm our target of distributing a dividend of 175 million in 2015.

In terms of leverage, I would say that the current level of leverage is a very healthy level for, also taking into account our fixed charge coverage and also our ambition to stay comfortably within the Single A rating by the standard credit agencies.

Q - William Elderkin {BIO 3349136 <GO>}

Okay. Thank you.

Operator

The next question, Mr. Frank Kopfinger, Commerzbank. Go ahead please.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thanks. Hello, everybody. My first question is on your expense reduction of 75 million. Comparing this to the 200 million into the segments, which you have on slide 11, it looks like that the Netherlands Non-life and corporate holding is well on track, maybe even ahead of the plan. It seems that Netherlands Life is lagging behind. Could you comment on this, also on the phasing in of these costs savings, what we should expect going forward?

And my next question is also on Netherlands Life. As a part of the business case, there was an increase of the re-risking of the assets. Whether you could comment on how you feel in this respect, as interest rates went significantly down since the last quarter, and whether you see this as comfortable with re-risking and whether this has some effects?

A - Lard Friese {BIO 17008174 <GO>}

Yes, Frank. So, I am going to take the expense reduction question and then I'll ask Doug to comment on your question regarding the re-risking issue going on the asset side.

So, on the expense reduction of 75 million that we did versus the 200 million target, et cetera are the following. Our target is to reduce expenses by EUR200 million by the end of 2016 compared with the end of 2013 in the areas of the Life segment in the Netherlands and the Non-life segment and the corporate holding entities.

Now, the timing of the expense reduction differs per segment. As you rightly, I think, pointed out, that we are seeing good progress made on this -- from the overhead centers from the corporate and the holding entities, and also good progress for the Non-life company, which contributed mostly to the 75 million expense reductions.

Now, because of the nature of the programs underpinning the expense reduction in Netherlands Life, expense reductions are expected to be more back-end loaded. To give you an example of that, we also replace portfolios from current legacy systems into new systems. That is a more elaborate process and therefore, let's say, in terms of the timing in, that's inversely, let's say, more back-end loaded.

So, that's what I'd like to mention on that. But, please note that the 75 million, I think, is well under way for the 100 million that we expect to do this year of the 200 million in total by the end of 2016.

Now, Doug, I'll hand over to you for the assets discussion.

A - Doug Caldwell {BIO 17900909 <GO>}

Thanks, Lard. And I think, on the interest rates falling in some of the related questions, I think, it's useful to point out that we are quite -- we're reasonably cash flow matched (inaudible). So, we have quite a bit of long-term government bonds and swaps, which have very well offset the interest rates falling and then continue to keep our investment margin in good shape.

At the margin, we do have re-risking and I think, we mentioned we had several -- we had some new money coming in from the separate account pension funds and from the capital injections. That, we have been in the process of re-risking. We say re-risking on the some of the assets it has been more challenging also as the spreads come in, but we continue to look for pockets. Dutch mortgages have continued to be a good opportunity in terms of return. But, we will continue to look at the best way over time. We have quite illiquid liabilities especially on the pension side. So, so over time generate good returns and generate capital.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thank you.

Operator

(Operator Instructions). The next question is coming from Mr. Jan Willem Knoll, ABN AMRO. Go ahead please.

Q - Jan Willem Knoll {BIO 18247722 <GO>}

A bit of similar questions earlier, but then on the capital ratio. Can you provide us with a bit more guidance as to what your targeted IGD ratio is at Group level? So, what is a comfortable ratio in your view?

And maybe, secondly, can you give us an update on the pricing levels in the Dutch motor book?

And lastly, some detail as to the net inflow and outflow in asset management will be quite helpful as you have been struggling in the past and the recent quarters in asset management, and maybe also in what products? Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Delfin, can you take the first, capital ratio, if we have any targets there, et cetera?

A - Delfin Rueda {BIO 7032761 <GO>}

Yeah, absolutely. So, thank you, Jan Willem. We don't have any specific IGD target. And I think that over the last period of time, fourth

quarter of last year we were at 250%. This quarter it was 272%; the previous quarter, the first quarter it was 245%. I mean, all these levels are equally reasonable for our Company. More importantly, I think, a starting as from next year, when more clarity on Solvency II is established, I think that more than an IGD target or ratio itself, the absolute level of capitalization of the Group and each of the subsidiaries is going to be driven by the Solvency regulation to a large extent.

I don't know, you answer the second one.

A - Lard Friese {BIO 17008174 <GO>}

On the motor book, so you can see some pressure in the motor book this quarter, but this had really to do especially in the Belgian market with -- you may recall that actually, it was, I think, Whitsunday where there was a hailstorm, so that led to higher claims in that area. So, if you look at Netherlands, the motor book, we have -- we feel that we need to get the combined ratio down. That's also is one of the -- underpinning one of the programs that we have for the target of the Non-life segment to get to a 97% combined ratio overall. That will be done by a number of ways.

First of all, the expense ratio, we want to get the expenses down and you can see the progress that the Non-life company has already done on that basis in the first half of this year. That will help to get the combined ratio also for the motor book in a better place. And then, secondly, we want to make sure that we start pricing slightly differently, but then really per segment in that motor book. So, this is going to be a quite refined process, that is starting, but that will take time before it emerges in improving the combined ratio.

But, so far, I would say, overall progress has been made on the combined ratio improvement, 98.5% at this moment. And you can see that the quarters, over the last three quarters have been markedly improving this.

So, with that, I hand over for you, to you, Delfin for the inflows and outflows for IM.

A - Delfin Rueda {BIO 7032761 <GO>}

Well, there were an increase of approximately 10 billion of assets under management. Approximately, 60% of that, 6 billion will be due to market appreciation and EUR4 billion from inflows. And approximately 50-50, so, 2 billion each for third-party and proprietary.

Q - Jan Willem Knoll {BIO 18247722 <GO>}

Excellent. Thanks.

Operator

There are no further questions. Back to your host.

A - Lard Friese {BIO 17008174 <GO>}

Okay. Thank you very much for your participation on this call. And to wrap up, I'd like to make a couple of remarks. So, to sum up, we are very pleased to be able to report an overall solid set of results for the second quarter of 2014, our first as a stand-alone company. We showed solid commercial performance with a higher new sales in the current quarter. In addition, we have been successful in further strengthening our robust capital position. And our funding position is stronger and less dependent on ING Group, following the two hybrid debt issues. And finally, the execution of our strategy is on track and we are making encouraging progress towards delivering on our targets.

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