Q2 2015 Earnings Call

Company Participants

- Antonio Cano, Chief Executive Officer, Belgium
- Bart Karel de Smet, Chief Executive Officer & Executive Director
- Christophe Boizard, Chief Financial Officer
- Filip Coremans, Chief Risk Officer
- Frank Vandenborre, Investor Relations Contact

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Benoît Pétrarque, Analyst
- David T. Andrich, Analyst
- Farooq Hanif, Analyst
- Matthias de Wit, Analyst
- Steven A. Haywood, Analyst
- Thomas Jacquet, Analyst
- William H. Elderkin, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Conference Call for the Six Months Results 2015. I am pleased to present Bart de Smet, Chief Executive Officer; and Mr. Christophe Boizard, Chief Financial Officer. For the first part of this call, let me remind you that all participants will remain on listen-only mode. And afterwards, there will be a question-and-answer session.

Mr. Bart de Smet and Mr. Christophe Boizard, please go ahead.

Bart Karel de Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you all for dialing into this conference call and for being with us for the presentation of the first half 2015 results of Ageas. As usual, I'm joined in the room by my colleagues of the Executive Committee, Christophe Boizard, the CFO; Filip Coremans, our CRO; and also by Antonio Cano, who is currently the CEO of AG Insurance, but will become, as of the 1st of October, the Chief Operating Officer of Ageas. Our Investor Relations team is of course also assisting today's call.

Ladies and gentlemen, in May, I was pleased to announce to you a good start of the year, and today, I am even more pleased to report another strong quarter resulting in an excellent first half results for the group.

Part of this result, as you will have read in the meantime, is rather exceptional, and we have also been helped by favorable currency rate evolution. But there is also a clear improvement of the operating performance which is reflected in the figures. And clearly, AG again has been the main contributor to the growing inflows and the strong results.

The main result headlines announced today, and I'm on slide 1 of the presentation, are the following. The net Insurance profit for the first half amounted to €, million, which is an increase of 48% compared to last year and largely above the analyst expectation. Whereas we already announced last week our Chinese operations contributed exceptional investment results of around €100 million, which largely explains the difference.

At the same time, the results were also supported by an overall operating performance which remains very good. And this is illustrated by our group combined ratio being at 95.2%, and our Life Guaranteed operating margin being at 90 basis points.

The group inflows including the non-consolidated partnerships at 100% continue to grow especially in Asia. The total inflows amounted to €16.6 billion or an increase of 21%. Similar to the previous years, we have recorded very strong sales in the first half in Asia with inflows close to €10 billion year-to-date.

Ladies and gentlemen, if we look at the importance of Asia within Ageas, it accounts today in the first half for about 40% of our total inflows at our stake and a bit more than 40% of the total net Insurance profits.

The outstanding Asian performance is a result of our continued drive to change the profit mix towards more regular premium business, which has resulted over time in a higher portion of renewals and has had an almost automatic positive impact on our results. Hence, one can say that Asia is a real growth engine of Ageas and the reward of 15 years of close cooperation and efforts.

Notwithstanding this, I'm pleased that all our segments have had positive contribution to our results in line with our expectations, and this in an environment which is often challenging and very competitive.

The group net results increased significantly year-on-year to €469 million despite the negative net result in the General Account in the second quarter as a result of an increased valuation of the RPN(I) liability. You will remember that, last year, we booked the end of June a provision of €130 million in General Account in the context of the FortisEffect legal case.

And lastly, on the key issues and topics, the shareholders' equity increased to almost €0.52 per share or €11.1 billion. The unrealized gain from our investment portfolio amounted to almost €3 billion or €12.9 per share.

Solvency ratio of our Insurance activities solidified to 234%, among others, driven by the strong first year – half year results while our net cash position remained close to stable at €1.5 billion, to be increased with €300 million liquid assets of more than one year that we have in the portfolio of General Account.

Before handing over to Christophe, I would like to briefly touch upon two strategic files which also illustrate our constant drive to selectively grow and develop our group structure. First, we announced end of May the establishment of a new joint venture, this time in the Philippines, with EastWest Bank. You'll find it on slide 2.

This should not be a surprise as we already indicated several times our willingness to expand in a number of selected Asian markets which have a lot of growth potential going forward. Like in the other Asian countries, the focus will be on the Life business, and it represents an investment at first instance of some €60 million, which could somewhat increase depending on the growth of the company going forward.

Ageas will hold 50% plus one share stake, and the company will be reported as an equity associate. This transaction also evidences our capacity to conclude on new partnerships whereby our past successes in the region have definitely helped to convince our new partner to go along with Ageas.

Our local management team is meanwhile up and running and setting up the company. Operations are planned to start before the year-end, meaning that the first inflows can be expected as of next year.

Secondly, I'm now on slide 3. Ageas has recently obtained its Non-Life license to operate an internal reinsurance company out of the Netherlands called Intreas. This represents an investment of some €100 million and the ambition is to optimize the group reinsurance program of Ageas by harmonizing risk profiles among our entities and to further improve capital management within the group.

And lastly, the board of Ageas has decided to launch a new share buyback program of €250 million. You will find all the modalities in our separate press release issued this morning. This proves again our willingness to deploy our cash in a disciplined way.

And I would like to give now the floor to Christophe. I will come back to you for the Q&A and some closing remarks.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart. So, ladies and gentlemen, first of all, I can only confirm that today we are reporting a very strong set of figures. Let's see them in details now and, as usual, I will take first the operating results by Insurance segment and then the General Account.

So, first, our Insurance operations. As Bart already mentioned, the net result progressed substantially to €504 million compared to €340 million last year. As we already announced last week following the statement on China Insurance Taiping Holdings, our Chinese Life joint venture Taiping Life to benefit from the favorable equity markets in the first half of the year to realize part of their investment portfolio and to make quite substantial capital gains.

Calculated back in euro, this represented around €100 million at Ageas share. In addition, we benefited from a favorable currency rate evolution which overall explained €24 million of the positive variance.

Adjusting for these two elements, we still note an intrinsic improvement of €40 million in the net result of 12% compared to last year. This is mainly driven by the strong growth and a better product mix in Asia and also by the very good technical Non-Life results in Belgium.

So overall, both the net profit of our Life on the one hand, and Non-Life & Other on the other hand, substantially improved by 34% and 122%, respectively to €382 million and €122 million.

But let's follow the traditional order of the segments. I am on slide six of the presentation. Our Belgian operations reported a net profit of €197 million, slightly up on last year and marked by lower Life results more than offset by better Non-Life results.

The Life results declined by 24%, mainly because of a lower amount of realized capital gains compared to last year and a higher tax rate. I remind you that last year, we benefited from a rather exceptional sale of bonds following some arbitrage and from the release of the deferred tax liability.

This also explains why the operating margin on Guaranteed products came down, but remained stable compared to Q1 at 81 basis point, while it increased for Unit-Linked to 43 basis points. We expect to catch up in the second part of the year and to be back in our 85 bps to 90 bps target range.

In the Non-Life result, the Non-Life result continued on the pace of the first quarter with results marked by a good operating performance. Overall, the combined ratio in the second quarter amounted to 93.5% after the 95.8% in the first quarter and resulting in a satisfactory 94.6% for the first six months.

The positive evolution of the prior year claims result and improved performance in third party liability and benign weather explains the improved ratio. All the efforts to improve the Non-Life technical results are now starting to pay off.

Life inflows remain under pressure especially in the banking products as a result of the persistent low interest rates. The technical liabilities did not substantially move if we exclude the change in the shadow accounting liabilities, which is an accounting entry, not the commercial one.

In the UK now – sorry, I'm on slide seven of the presentation. The net result amount to €40 million, compared to €32 million last year with good result in household and other lines and benefiting like in Belgium from better weather conditions. You will remember that we had that storm and floodings in Q1 of last year in the UK.

The motor market remained as always challenging in the first six months, but market benchmarks are showing first signs of an upward trend. Overall, our inflows in AIL fell at constant exchange rates by 6% and in Tesco Underwriting by 10%.

The AIL combined ratio improved to 98.3%, mainly because of the very strong combined ratio in household, 91.8%. The combined ratio of Tesco Underwriting improved also to 102.5%, but stayed above 100% as you can see, suffering from adverse motor performances.

The net result for Ageas Retail came down to €5 million compared to the €7.5 million last year and including project cost related to the renewed Retail strategy. Substantial progress in this respect has been made, resulting among others in a few new partnerships.

In Continental Europe, slide eight, the net result increased to €55 million with better results both in Life and Non-Life. For Life, net profit improved by 22% to €34 million with good results in all entities, but especially benefiting from the higher results in Luxembourg.

Inflows year-to-date came 5% down marked by a lower second quarter especially in Luxembourg where management has decided to limit the activity on Guaranteed products. The operating margin on Guaranteed products improved to 105 bps, while the margin on Unit-Linked came down to 7 bps.

In Non-Life, the net result was substantially up to €22 million supported by an excellent combined ratio at 85.8%.

And lastly, Asia, slide nine, as already commented marked by an excellent result of €212 million. And you will appreciate the fact that for this half year closing, Asia is the main contributor to the group insurance result.

Coming back on this €212 million result, it includes around €100 million exceptional result in China plus another €90 million positive currency impact. Furthermore, the improved profitability also originated from better insurance operation with growing volumes.

So Life inflows, Life inflows at constant exchange rates were up 23% to €9.3 billion, growth comes especially from Thailand and from China. Within the new business, we note a growing portion of regular premium business, while renewal premium also increased significantly and represented almost half of the business.

Non-Life inflow were up 8% at constant exchange rate, growing both in Malaysia and Thailand.

This brings me to the general account on slide 10. The positive result in the first quarter turned into a negative result in the second quarter as a result of the increased RPN(I) liabilities.

For CASHES, indicative price went indeed up, following the announcement of the agreement between BNP Paribas and Ageas to further unwind this legacy. Over the first six months, the RPN(I) value increased to €491 million, up €24 million with the price of the CASHES up to 80.27%. No new settlements took place in Q2 on Royal Park Investments for the proceedings in the U.S.

Net interest income remain rather stable, while staff and other expenses went up because of higher legacy related cost and higher cost related to share plan. The net cash position decreased by €100 million to €1.5 billion and this decrease is explained by the investments in Intreas, the new internal reinsurance vehicle, Bart already mentioned that in his comment.

The upstream cash amounted to €366 million. You can find this on slide 13. More dividend will come in the second half of the year and dividend payment to Ageas shareholder plus the holding cost will be comfortably covered for the year 2015. Slide 11 and 12 respectively provide you with the traditional overview of shareholders' equity and solvency.

So let's start with the shareholder equity. The shareholder's equity rose because of the high valuation of the AG put option, now valued at €1.189 billion and you will remember the change of methodology already explained in Q1. The total impact of the put accounting in the shareholders' equity amounts now to €427 million, which would disappear in case the put was not exercised in 2018.

Secondly, on the shareholder equity, secondly, there is an important contribution from currency rate differences. And thirdly, there is a positive adjustment on unrealized capital gain and losses , but you will remember that this amounted a balance between the change in unrealized capital gain and losses and the effect of shadow accounting.

On the solvency now, so insurance solvency went up to 234% with an increase solvency in Belgium and in Asia as a result of higher retained earnings, higher valuation on real estate and absence of dividend payment based on the first six months result.

Ladies and gentlemen, I'd like to end my comment here and to hand over to Frank.

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Ladies and gentlemen, this concludes the introduction, and as usually, we now like to open the line for questions. In order to allow everybody to ask his questions, may we ask you to limit yourself to two questions by preference. Thank you.

Q&A

Operator

Thank you very much. And our first question is from Ashik Musaddi with JPMorgan. Please go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hello. Hi. Good morning, everyone. So sorry, good afternoon. So couple of questions, first of all is, can you give us some clarity on what the rationale of doing this reinsurance vehicle? Is it because of Solvency II? Does it give you capital relief on the Solvency II, because ultimately, you're putting €100 million of capital in the business, so there must be some financial rationale as well and which of the business will go into that? Will it be mainly Belgium or any other geographies? That's the first one.

Secondly, any thoughts on the M&A noise that is there in the market on Hong Kong would be great if we can get some color on that.

Just a quick one on Asia, I mean you delivered a 15% growth in Asian earnings – sorry, on the group earnings. And I think 30% growth in the Asian earnings in this quarter and in first half, even after stepping off the €100 million gain from Taiping Life, so what should be the regular earnings growth we should keep on focusing on from Asia? Thank you.

A - Bart Karel de Smet {BIO 16272635 <GO>}

Okay. I propose to pass the first question to Christophe and take the second and third one.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. So I take the first question on the reinsurance vehicle, Intreas. The first, of course, is very, very simple. The job first is to optimize, let's say the risk profile within the group. We are faced with of course whose size maybe very different and we have small operation, bigger operation, since the reinsurance program are set on a local basis, some protection can be seen at the group level at too low. And I will take a simple example, if you take Italy for instance, they are protected at the very low level of third-party liability in motor for something less than €1 million. For us being protected at this level doesn't make any sense and we are keen to take more on this. So their reinsurance vehicle will trim this situation and we will have, let's say, a more homogeneous approach on the group basis.

Having said that, it's very common within insurance group to have such a vehicle and I would say it's not really something new. We are catching up more on this.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, but you would get some sort of diversification benefit as well from this under Solvency II because if we would take like businesses from UK, Belgium and Italy, et cetera, there should be some sort of diversification benefits.

A - Filip Coremans {BIO 17614100 <GO>}

Ashik, Filip Coremans here.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Hi, Filip.

A - Filip Coremans {BIO 17614100 <GO>}

Yes, indeed, we do look at the IRP (24:44) also as a vehicle that opens opportunity to grab diversification effects down the line.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

A - Filip Coremans {BIO 17614100 <GO>}

But in the first phase, we decided to limit it to look at the improved retention, and in the second phase, we will indeed study the opportunities to grab diversification effects.

Now in the lines that we will retain already some diversification benefits will come, but that will be in first phase aimed at the catastrophe course.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

A - Filip Coremans {BIO 17614100 <GO>}

More in the – risk transfer at this point is not truly envisaged.

Q - Ashik Musaddi {BIO 15847584 <GO>}

All right. That's very clear. Thank you.

A - Filip Coremans {BIO 17614100 <GO>}

By the way, it allows us to increase our exposure to Non-Life, which is a strategic...

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes.

A - Bart Karel de Smet {BIO 16272635 <GO>}

Then, Ashik, unfortunately on the second question, I have to repeat the answer we always give and it's about market rumors, so that we don't comment on them. But the third question on the growth earnings in Asia, first of all, we of course cannot underline enough that the €100 million exceptional in China is exceptional, and so it should be not be taken as any recurring element for the future. But besides that we strongly believe, and it's part of the reason why we have made all these investments to continue in Asia is that the progress in the results is strongly linked to the continued growth of technical provisions and like, but also the growth of the real risk, we take on board be it in accident, death and so on.

And if you look to the increase of the technical provisions of the non-consolidated entities of the first half of the year, and this is not only Asia but to a large extent Asia. You see that the growth in six months is something like 15%, and this is not again an indication for the future, but the fact that we invest so much in regular premium and in quality leading to relatively low lapses makes that the portfolio – the underlying portfolio and the related technical provisions will continue to grow at quite high rate for the coming years.

Another last element on earnings, and it has been shown by the exceptional results in China. Of course, the stock market volatility can always have a positive or negative impact going forward. But in terms of underlying profit, I think we can confirm that we count a lot on Asia to further underbuild the growth of the profits of Ageas in the future.

Q - Ashik Musaddi {BIO 15847584 <GO>}

So ultimately, you're not really concerned about any sort of growth momentum slowing down in Asia if we split up the one-off?

A - Bart Karel de Smet {BIO 16272635 <GO>}

Do you refer to the slowdown of the growth?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, yes .

A - Bart Karel de Smet {BIO 16272635 <GO>}

Yes. Let's say also there – if you look to take a country like China where the growth is below 7% the economic growth, but where the insurance industry still has a growth rate that's higher than. And the main reason we see for that is that there is to be catched up and the penetration is lower than in mature countries. The population that is capable to save is increasing.

The incentives from, let's say governments in Asia, to stimulate their people to save for the older days is positive and not decreasing. But this means that even if the economic growth is slowing down, the growth in the Life business, in the growing markets is something we still expect that, that will continue. And again, there you have this reinforcing element of regular renewal of premiums that helps making a growth that's more than the purely year-on-year economic growth.

Q - Ashik Musaddi {BIO 15847584 <GO>}

All right. This is very clear. Thank you.

Operator

Thank you very much. And moving onto Albert Ploegh, ING Bank. Please go ahead. Your line is open.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good afternoon, gentlemen. Yes, also two questions from my end on cash flow and capital reversals too. On the cash flows, yes, you showed a very strong first half, a stream of dividends. With Q4 results, you basically mentioned that you're recently comfortable within, let's say in dividend stream from your units of around €525 million on annual basis. The look now into your first half run rates, you are basically at €366 million from operating units and including the capital restructuring in Royal Park around €500 million. So – and also, with the comment I think in the call that you do expect some dividends in the second half, can you give a bit of color?

And also, basically the same, same question, and then looking, for example, next year, basically now in the first half, your operating entities are at €366 million, holding costs, if I'm not mistaken, on a full-year basis, are around €100 million. So, without capital restructuring, yeah, the dividend buffer, how do you look at that longer term? I know you're not really managing – you're more managing on covering the dividend. So my question would be, could you have actually more, let's say, if you would not have had the capital restructuring in the first half?

And the second question is on Solvency II, I know that is planned for the Investor Day, but, yeah, in the past, you've always been pretty comfortable on the outcome there. Can you maybe give a little bit more kind of feeling where it stands right now and, let's say, because, I guess, the discussions with the regulator have progressed in the meantime? Thank you.

A - Bart Karel de Smet {BIO 16272635 <GO>}

Maybe a general answer and then pass over to Christophe for a bit more detail. I think we have announced in 2009 our dividend policy and are very keen and attentive to keep that. Also important to mention that, if you see the growth of the capital requirements, it has been relatively low, for instance, in Belgium, it's less than 0.5% in H1, into the first half, which means that we can continue to fund the high-growth markets plus to cover the corporate expenses and the dividend in line with our dividend policy.

But, Christophe, you probably can give a bit more detail?

A - Christophe Boizard {BIO 15390084 <GO>}

I can refer to my comment. In my comment, I said that we expect something in the second half of the year, and I said that, with this, the dividend paid to the Ageas shareholder and plus the holding cost. And by the way, not €100 million, your figure is too high, it is more in the €60 million to €70 million zone. And in that case, it will be comfortably covered, but I don't want to give you what we precisely expect on the second part of the year, but our expectation is that, as I said, the objective of covering the dividend plus holding cost will be comfortably covered.

Keep in mind that, for instance, in Belgium, with the strike that there is no strong growth, the capital requirement is quite low, for instance. So, we think that, on the cash flow, we are very well in the trend. You mentioned the €525 million of last year, we won't be far. But I don't want to make figures at this stage.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you.

Operator

Thank you very much. Sorry.

A - Filip Coremans {BIO 17614100 <GO>}

Relating to question on Solvency II, this is Filip Coremans again, obviously, I'm not going to say more or a lot more than we said before, but I can still confirm that we are comfortable with the way things are going.

The main discussions which are taking place with our regulator, but more, I would say, across Europe, with regulators relating to things such as company-specific volatility adjustors, those absorption of deferred tax, placement of non-controlled participations and other aspects of look-through on the investment vehicles, I think all these discussions are moving ahead. And I would say clarity is being provided increasingly by the regulator.

And so we are well prepared and we will inform you adequately at the Investor Day which now not so long from now anymore. So I know I'm testing your patience, but I'll continue to do that and I hope we will not disappoint you when we disclose our package.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you.

A - Filip Coremans {BIO 17614100 <GO>}

Yes.

Operator

Thank you very much. And next in line is Thomas Jacquet with Exane. Please go ahead. Your line is open.

Q - Thomas Jacquet {BIO 4110153 <GO>}

Hi. Good morning, guys. Two small questions on Intreas, without giving too much importance to that, but it's just to better understand the project. The first part is, can it have midterm an impact on your tax ratio? And maybe another way to ask the question is, can you share with us the location of this vehicle (35:02)?

And my second question is on the UK market. Inflows are down 6% at constant FX. We had some more bullish views recently, I think, from some companies and from market indices. Do you see a trough in the Motor market and do you expect this to recover? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

So I can start with Intreas, the impact on the tax ratio. As you may have read that Intreas was incorporated in the Netherlands, and in the Netherlands, we benefit from favorable tax environment. You will remember that we have a lot of loss tax carryforward, so it means that we won't pay taxes on the result of Intreas. And it's a joke, but usually say we have Bermuda (35:59). So it is like this (36:04).

So the tax ratio, the influence is to go down, but frankly, I'm not sure it will be really visible because at the end, as Filip indicated, we will limit to – mainly to cat covers and the amount of collective premium won't be huge. And then, apart from this, please keep in mind that we have to put in place a retro program so that we are decently covered. So tax-free but not with a huge result.

A - Bart Karel de Smet {BIO 16272635 <GO>}

Okay. And then the UK market. So if we look to our figures, what we have seen is that the – compared to a year ago, our average pricing went up slightly, something like 1% if we look to – compared to Q1, it moved up a bit more, plus 3%. And also the volumes moved up with something like 1.5%. But we moved to what you could call a category of risk that we assumed, assessed to be less risky. So it means that we have more cars insured than before, something like, let's say, 50,000 more. But the average cost of these cars that we insured is lower than it was a year ago. Not for comparable risk but so the risk profile has been slightly reduced.

We see a number of other companies also announcing that rates went up. We saw, for instance, the tracker for the Association of British Insurers gives it 2.9% increase compared to a year ago and a bit more than 2% compared to Q1. But let's say, the fragmentation in and the segmentation is such that it can nevertheless change from company to company, in all honesty, we expect it, and it's not the first time I say this, higher increases earlier in time already a year ago. We expected it for the first time. It starts to materialize more and more, but the big question will be whether it is sufficient to cope with what we also see increased frequency and increased average cost of claims, which remains for us, and that's also in our press release for the UK, very good results in Household and in Other lines, still a point of attention in Motor.

Q - Thomas Jacquet {BIO 4110153 <GO>}

Okay. Thank you very much.

Operator

Thank you very much. And moving on to William Hawkins, KBW. Please go ahead. Your line is open.

Q - William Hawkins {BIO 1822411 <GO>}

Hi. Thank you very much. Just a one question on Ageas Retail in the UK, the second half this year was meant to be the time when the profit started to improve and you've confirmed that the project also now coming to an end. So what kind of take off pattern that and should I assume for Ageas Retail from here?

If I just the first half results, correct me if I'm wrong, which is adding back the project costs of €2.5 million would still leave that business doing a 5% margin on revenue. I don't know what's correct, but that doesn't feel very high. So what should we be looking for, is the second half – do we just add back the project costs and that's it, or is the margin on revenue going to be improving? And what's the ideal figure? Cheers.

A - Bart Karel de Smet {BIO 16272635 <GO>}

I think on Ageas Retail, three messages of importance, I would say. First of all, we are in a restructuring program where a lot of efforts have been done to bring down cost. For instance, we closed a site in Belfast, and that's on plan. Secondly, we also had a year ago in Retail an exceptional impact, my memory is €6 million, out of recovery of a claim. So that also explains part of the evolution.

Another element is that we indeed see volumes coming slightly down, and so there's a point of attention. So the restructuring is well on track from a cost perspective, as for some attention on, let's say, in turnover or business development perspective.

And the last point is that a lot of the business we do through Ageas Retail is directed to us, Ageas Insurance Limited, so part of the benefits, if you look end to end there from the customer to the end – underwriter, part of the benefit of our strategy with Retail is in the results of Ageas Insurance Limited, so the underwriter.

But for us, the retail market in UK it's high on the agenda to closely follow up. So we expect improvements. But when and how much is a bit too early to say. We first have to wait to the finalization of this restructuring program target in the course of last year.

Q - William Hawkins {BIO 1822411 <GO>}

Just a follow-up briefly, do we still expect project cost in the second half of the year or they now come to an end?

A - Bart Karel de Smet {BIO 16272635 <GO>}

I didn't 100% get the question. But I...

Q - William Hawkins {BIO 1822411 <GO>}

The project costs.

A - Bart Karel de Smet {BIO 16272635 <GO>}

No, no. Our team is putting – no, no. Let's say, the projects costs are, let's say, they are spread over – or they are spread over 2014, 2015 and early 2016.

Q - William Hawkins {BIO 1822411 <GO>}

Cool. Thank you.

A - Bart Karel de Smet {BIO 16272635 <GO>}

So the program is not completed yet.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

Thank you very much. And moving on to William Elderkin, Goldman Sachs. Please go ahead. Your line is open.

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

Thank you and hello, everyone. A couple of different questions. First on the Asia Life businesses, I'm just wondering, have you seen any adverse development in terms of underlying business growth or lapse ratio development given higher Chinese stock market (42:23) volatility and so on? I wouldn't expect there to be any, I'd just be interested in your observations.

Secondly, just coming back in terms of this sort of new reinsurance vehicle, am I correct in my understanding that essentially this is much more about optimizing the Florida group reinsurance protection rather than necessarily going to lead to a very material movement in your overall retention ratios? But if I'm wrong on that, please correct me.

And then finally, can you just give us update in terms of development on your Turkish Non-Life business? I'm actually (42:57) trading was quite difficult there. I would be interested in your own experiences.

A - Bart Karel de Smet {BIO 16272635 <GO>}

Apologies. I think we could not understand the questions. Can you repeat them slowly please and one by one, maybe?

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

Sure, I'll start again. Can you hear me?

A - Bart Karel de Smet {BIO 16272635 <GO>}

Yeah, the line is not fantastic. But...

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

Okay. I'll try to get through some of these. Asia, on the ground, given some recent volatility particularly the Chinese stock market, are you seeing any adverse development either in terms of underlying business growth or policyholder lapse rates?

A - Bart Karel de Smet {BIO 16272635 <GO>}

Okay. I think I'll repeat the question. I think the question was that we see volatility on the Chinese stock markets and whether we expect or we have seen some adverse results coming out of this? Is that the question?

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

Yeah, in terms of sales growth and in terms of policyholder lapse behavior?

A - Bart Karel de Smet {BIO 16272635 <GO>}

Okay.

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

That's question one. Question two is in terms of...

A - Bart Karel de Smet {BIO 16272635 <GO>}

Wait, wait, wait. First, we will answer question one.

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

Thank you.

A - Bart Karel de Smet {BIO 16272635 <GO>}

Until the end of Q2, we did not see any effect. Of course, most of the policies we sell are probably with guarantees and what we call the quality of this production is very good, with more than 90% persistency rates. Maybe, Filip, you can add another point?

A - Filip Coremans {BIO 17614100 <GO>}

I can maybe just give the comfort that, from our perspective, the volatility in the stock market, of course, if growth were to slow, it will maybe have some longer-term impact. But as Bart explained first and foremost, the recurring, the regular premium new business and the renewal book in China are more than 60% – almost 65% of the income, and these are all long-term contracts which actually create sustainable inflow.

Then also in the latest statistics, and I think China Taiping will give more color to that soon at their press release, but the persistency rate in China are still amongst the highest Bancassurance channels, they are above 90% but equally so in agency.

And what we also see and which is powering the distribution power in China still being built up, where the number of agents has further grown from first half last year, 112,000, 130,000 to now almost 150,000 agents. So also the further strengthening of the channel and the diversification away from the dependency on Banca makes them also more resilient. So, of course, economic reality has impact, but we are confident that there is still growth to come out of China despite the turmoil.

The stock market does not immediately impact the results, nor the solvency yet at this moment, because let's not forget that that market rallied even today after the corrections, but you know that better than we do probably, that they are still more than 70% up year-on-year. And even compared to the beginning of this year, that market is still 17% up in equity. So, the capital base is largely intact and the growth potential is clearly still there.

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

Okay. Thank you. And my second question was in terms of the reinsurance initiative, should we expect any material change in your property and casualty retention ratio as we think about our forecasts?

A - Bart Karel de Smet {BIO 16272635 <GO>}

So, we are again hesitating on the question. I think the question was reinsurance as an internal organization vehicle, confirmation, please? Secondly, will it have some impact on future capital retention and ROE? I think that was the question.

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

It's more just in terms of thinking about growth rates in premium to net rates in premium, what will be the level of retention change?

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. So the retention will be slightly higher since we built this group retention. So retention will be higher, but not with huge figures, as I said. And as regard to the ROE, the older (47:48) project was designed with our profitability target, so we are in the range of 11% for this project.

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

Okay. And then the final question, can you give us an update on trading in Turkey, please?

A - Bart Karel de Smet {BIO 16272635 <GO>}

So, in Turkey, we have seen, and we are not the only one, it's an industry issue, that in Motor third-party liability, the average cost of claims has gone up substantially. And the main reason is that more and more, let's say, Turkish citizens use the capacity to introduce claims for bodily injuries within a time span of 15 years after the accident. So this is something that not only we but also the competitors are confronted with.

Something we did and it's not for the last year, we did it as soon as we entered into the company, was that we were not that keen to have a very high market share in motor third-party liability. And year-after-year, the proportion has been reduced, but, for instance, like last year, you will remember that we nevertheless had to build up additional reserves what impacted 2014 results.

Today, to give an example, only 7% of our portfolio is motor third-party liability, it was 12% a year ago. And when we entered, it was almost 25%. So, it has been continuously reduced, but we nevertheless see that the result in that business line is below expectations.

Second element explaining the result in Turkey or the combined ratio in Turkey, that's above what we envisaged is that there has been bad weather in the first half, of course, not to the proportion of UK and Belgium last year, but snow has been impacted in some regions in Turkey, the results in Household.

So, an area of attention, but it's an industry issue. And we try to limit our – the impact for us by decreasing our market share in, let's say, in a product line is not profitable the way it's now in Turkey.

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

Okay. Thank you very much.

Operator

Thank you. And moving on with Benoît Pétrarque, Kepler. Please go ahead. Your line is open.

Q - Benoît Pétrarque

Yes. Good afternoon. First question on my side is on the dividend received from Belgium, the €294 million. I think, in Q2, you have also issued hybrids I think the tune of €160 million at AG Insurance. So, how much of this dividend is actually relating to the increase of your hybrid ratio, therefore, your capacity to pay for the higher dividend to the group?

Second question will be on the dividend for H2. Is that correct to assume that you are missing a divided from the UK and do you expect anything from Asia, I mean, it's something decent given the volatility on the market?

And just maybe to finish it, just on the CASHES, do you – have you seen any impact on the – on a net cash from the CASHES buyback? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

On the dividend received from Belgium, there is no directly link between these two operations. On the issuance of the hybrid instrument, it was more replacing an existing instrument and which was called the Icon, (52:05) and we did a tender offer. It was not 100% successful.

So it means that we will see – the first call date is next year, in 2016. So it means that the issuance is slightly above what we recovered from the tender offer. So there is a gap. We are slightly better covered, but we have to keep in mind this deadline of next year in 2016. But all in all, please simply consider that we replaced the Icon, (52:39) so this is not related.

Then on your second question, dividend from the UK, do we expect something from Asia? As I already mentioned, we are clearly expecting something in the second half of the year, and you rightly mentioned that UK has not paid anything so far. So you are right, but maybe UK and Asia will be the main contributor for what I mentioned before.

The impact on the net cash position from the CASHES deal. So first, no deals have taken place so far for the simple reason that BNP Paribas had to ask for authorization to do so, and they have only recently received the authorization from the ECB, so no deal. So – and then the contact will be directly made by BNP Paribas with the bondholders and, frankly, I don't have any views on what they will do in the future if the pricing is adequate for them or not, we are followers. What we said is that, for us, it will be a limited amount, and we expect, that's kind of guess, at most, €100 million, but with rather high success rate.

Q - Benoît Pétrarque

Thank you.

Operator

Thank you very much. And moving on to David Andrich, Morgan Stanley. Please go ahead. Your line is open.

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

Hi. Thank you for taking my questions. Two questions on my side. Just looking at the Belgium Life business and the net underwriting result, it seemed to have deteriorated in Q2. And I know that you made a statement in the release about some adverse mortality experience. And I'm just wondering if you could give a bit more color on that and if you expect that to revise throughout the rest of the year?

And then my second question is I'm just wondering in terms of outstanding litigation in the second half of the year, if there is any important dates that you're aware of that you could flag for us?

A - Bart Karel de Smet {BIO 16272635 <GO>}

Okay. For the Belgium underwriter results, you're right and it's also mentioned in the press release, so that compared to a year ago, this is a consequence of an adverse mortality which is of course something that's very volatile from one year to another. But if you look to last year and this year, it's about €15 million. So it's not a number of cases where people die more than the year before.

But if we look to the overall margin, so underwriting expense investment, take into account to what Christophe mentioned, the lower unrealized cap gains than the year before, and we see that the margin, the overall margin, in the Guaranteed business is quite in line with the target we have set our self. You also see, for instance, that same net underwriting result in Unit-Linked gives a difference of €5 million. So, overall, it's a €12 million change, and there's no, let's say, no recurring tranche that we see in – with respect to the mortality.

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

Okay. And the second question?

A - Filip Coremans {BIO 17614100 <GO>}

Right. Regarding update on the main movements in the contingent legacies and whether they are important dates coming up in the second half of this year, I can say that all is relatively quiet on that western front. I mean, you can find on page 58 an overview of the main developments, and there are still some mentioned for the second half of 2015. But you can also see the main points, the VEB which is one of the most important development, the pleadings have been delayed now for sure to the first half of 2016, so nothing will happen there in the second half.

The judgments on the merits, which are still there for the separate proceedings in the Netherlands, which are smaller proceedings, also are shifting slowly, we don't know certainly, but slowly towards the first half of 2016. They're still there, but we also encounter delays in the procedures there.

The proceeding of the pleadings for Mr. Bos also have been delayed because of delay in filing his trial briefs. And that is also pushing it forward. The only real – how should I say – judgment that we can expect is the (57:45) procedure in Belgium. The tentative date has been published and the first announcement could be expected after the 24th of September.

So the earliest that we could hear something about that is on the 21st of September. And the content of that judgment, of course, we don't know that yet. But I would say the worst case would be that it reconfirms what is already being confirmed by AFM, one ruling on the same period and largely on the same topics.

So we should not have too many surprises, but of course, I don't know the judge's final ruling. But that's the only one where we would expect something, and the fine, this is an administrative procedure, so the fine which was in first instance would – at €500,000 is probably what the exposure is on that.

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

Okay. Thank you very much.

Operator

Thank you very much. And moving on to Farooq Hanif with Citigroup. Please go ahead. Your line is open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there, guys. Thank you so much for taking my questions. Firstly, in Belgium, I noted that in the second quarter as well there was quite a big reserve release, well above what you've had in previous years. So is this related to just lower frequency that you've seen in your book? And therefore, can we expect it to be sort of maintained at decent level at least this year and going forward, if you can comment on that?

And secondly, in Household Insurance in the UK, are you seeing pricing pressure? We've seen some commentary that low reinsurance pricing is putting pressure in that market, if you could comment on that, that would be good. Thank you.

A - Bart Karel de Smet {BIO 16272635 <GO>}

On – maybe starting with the second question, UK, going to Belgium so that I can also hand over to Antonio Cano. So, in UK, we see indeed a starting pressure in pricing in Household, which is – I look into the markets where Motor is very competitive and on under pressure. And Household, even last year with the weather events and certainly also this year has a nice profitability. So it's not abnormal that a search for increased market share moves now to Household. So this is something to be followed up and where, again, we will follow our course to go for profitability above volume.

In Belgium, may be important to mention is that, indeed, the prior year release has been substantial in Q1, also what you could see higher than a year ago in Q2. But as Christophe mentioned the last time in – with the Q1 results, over the year, this will be flat, be flattening and converge to a lower release than the one we had at the end of Q1 and the end of Q2. That's our expectation in any case.

We may not forget also that the year ago have under (1:01:03) release was 4.2%. And at that moment, we had a very strong strengthening of reserves in the other lines primarily due to the third-party liability. It was about something like €30 million reserve strengthening. So you could say that the 4.2% of a year ago was below our more historical release. And if you look over the last five, six years, a release in Belgium prior year of 6% to 7% is more the normal rate.

But maybe Antonio can give some insight on why Q2 still had the 7% release where it was, a year ago, 3.5%.

A - Antonio Cano {BIO 16483724 <GO>}

Thanks, Bart. I don't really have a lot to add. The exceptional releases were indeed more in Q1 of this year. We commented already when we commented the Q1 numbers. Q2 was not really very extraordinary. Towards the end of the year, the exceptional release prior years will come down. And I expect towards the end of the year to have, let's say, in a special release for the whole of the year of maybe 2% to 3% only. Apart from that, nothing really special to mention.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. That's very clear. Thank very much.

Operator

Thank you very much. And moving on to Steven Haywood, HSBC. Please go ahead. Your line is open.

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

Hi, guys. Thank you very much. I see the second quarter combined ratio was at 94%. And I believe this is probably one of the best combined ratios quarterly that Ageas has actually achieved for a long time. I see that the Portuguese and Italian operations are doing very well. It's less than 85% combined ratio. And the minority buy-outs have obviously helped considerably here.

But going forwards, I just wanted to know, in your opinion, in your Non-Life business, where is improvement needed, why is it needed, what's causing the problems. Obviously, outside of the consolidated entities, that's Tesco and Turkey, which appear to be significantly worse than your current combined ratio of the consolidated entities. If you could provide any kind of color on what further improvements then what is being done, that would be very helpful.

A - Bart Karel de Smet {BIO 16272635 <GO>}

Well, first of all, as mentioned sometime ago, we target the combined ratio of 97%. Overall, in the business mix, we've got the business mix being a combination of geographical regions and also profit lines. When we internally look to combined ratios per product line, it can differ from one product to another just because the financial income that we have from the yield on reserves can – is very difficult in different data. For instance, Household where the claims are arranged in a very short period compared to disability or workmen's comp, where it takes a lot of time or even more so where you have longer-term payments in a number of cases.

So we clearly – and it's also, I would say, in our press release, we clearly draw the attention on Motor where still work has to be done but we also are aware that this is a very competitive product. But the question is to find a good balance between a product that is also, in many cases, building product for a customer and the other products surrounding that are less under the same price competition to find a good balance and to take actions where needed. We probably did not have the occasion in this call to underline that not only reserve releases or recourses recognition in Belgium have led to this low combined ratio, but also a number of quite drastic actions that have been taken in the second half of last year in this third-party liability and also in workmen's comp has helped to improve, the portfolio has improved pruned. A number of contracts have been canceled. Rates went up in some areas with 10% to 20%, underwriting has been made more severe.

Referring to UK, we moved more to, let's say, the segment of customers that we know best being the 50-plus, and even there maybe the 70-plus, but with lower average premiums, but also lower risk profile. So it's a continuous work to try to find the right balance, and our main objective and remains to stay around that 97% or lower. We are there now and we – okay, we'll do everything to take all the initiatives needed to stay in that range.

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

Okay. Thanks very much.

Operator

Thank you very much. And moving on to Matthias De Wit, KBC Securities. Please go ahead. Your line is open.

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

Yes. Good afternoon. I have got three small questions. First is on the dividend, what should we expect or how should we think about the dividend for over the full year following this very strong H1 performance? Yeah, you have a target payout policy of 40% to 50% off of net insurance profit, but I wonder whether you will make an exception for the exceptional capital gains in the Chinese business in paying out or setting the dividend over this year?

Secondly is to come back on the Insurance solvency, I'm a bit confused on the Belgium quarter-on-quarter increase. Could you maybe break it down between the hybrids, the organic capital generation, the capital gains? And could you confirm whether the Belgian Insurance solvency is reflecting your dividend accrual?

And then lastly on Belgium Unit-Linked sales, they came down a bit from last year while you see a relatively strong increases at certain peers. So could you provide some color on these trends and I was also wondering whether or not you were planning to introduce new type of Unit-Linked products in Belgium? Thank you.

A - Bart Karel de Smet {BIO 16272635 <GO>}

Okay. For the dividends, we have this dividend policy of 40% to 50%. We continuously respected it. We have made one exception in 2011 with the Greek crisis where we, let's say, somewhere corrected for the Greek crisis. The decision on dividend is taken in February once we have the full year results. But I see no reason why our dividend policy would not be respected as we have announced it being a dividend between 40% and 50% of the net result of the Insurance operations. So, no reason as far as I'm concerned to not speak to our policy with respect to the annual dividend.

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

So if we expect them or if we see a good second half and corresponding strong year-on-year increase in earnings over the full year, then we could probably expect also an increase in the dividend?

A - Bart Karel de Smet {BIO 16272635 <GO>}

Let's say, if we apply the dividend percentage on an increased profit, we normally – it should be a positive outcome.

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

Okay.

A - Bart Karel de Smet {BIO 16272635 <GO>}

Filip, you take the second question?

A - Filip Coremans {BIO 17614100 <GO>}

I have the answer but only partially for you because I actually have not all the figures, it's up by region on the movement. But the main contributors to the increase in the solvency ratio, obviously, come from the increase in the strong (1:09:16) fees in the capital.

And the main contributors there are obviously the profit indeed in Belgium which was significantly high. Also additional unrealized capital gains which we booked on the property portfolio which amount close to €100 million, slightly above €100 million. And let's also not forget that the equity market in Belgium did well and also there, although our portfolio is limited, we had additional capital gains on that.

And indeed, your question on dividend is relevant because this one does not have the dividend accrual in it, whereas the end-of-year figure did have the dividend accrual. And these are the most important components of the move.

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

Okay. Thank you. Then on Unit-Linked?

A - Filip Coremans {BIO 17614100 <GO>}

I'll take the question on the Unit-Linked business. It's fair to say that the inflow levels have remained more or less leveled slightly down. We have introduced some new products towards the end of Q2 which seemed to be working well. So we'll see a bit higher inflow in Unit-Linked in Q3 as things stand now.

Overall, we remain pretty satisfied with the product Unit-Linked. Be aware that a lot of our Unit-Linked products are in fact structured products with a capital guarantee, and low interest rates do have an impact on the effectivity of these products as you cannot construct a product that gives a relatively high upside to the customer. So the structured Unit-Linked products suffer also a bit from the low interest rate environment. But I expect that in Q3 you will see an increase coming from new products.

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

Okay. That's clear. Thank you.

Operator

Thank you very much. No further questions in queue. And as there are no further questions, I would like to return the conference call back to the speakers.

A - Bart Karel de Smet {BIO 16272635 <GO>}

Okay. Ladies and gentlemen, thank you for your good questions. To end the call, let me summarize the main conclusions.

I think we have a very strong set of results based on solid operating performance. Based on the current results, Ageas believe that 2015 can become an excellent year. Secondly, I am pleased that we could conclude the new partnership in the Philippines and take part in other important growth markets in Asia. And lastly, we announced the fifth share buyback program in a row, evidencing our clear intention to return cash to the shareholders if we consider this to be the best alterative use of cash.

With this, I would like to bring this call to an end. Don't hesitate to contact as usual our IR team should you have outstanding questions. Thanks for your time, and I would like to wish you a very nice day. Good-bye.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you very much for attending. You may now disconnect your lines.
