Company Participants

- Antonio Cano, Chief Operating Officer & Director
- Bart Karel De Smet, Chief Executive Officer & Director
- Christophe Boizard, Chief Financial Officer
- Filip Coremans, Chief Risk Officer & Director
- Frank Vandenborre, Group Head-Investor Relations & Corporate Performance Management

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Bart Horsten, Analyst
- Bart Jooris, Analyst
- Benoît Pétrarque, Analyst
- Farquhar C. Murray, Analyst
- Matthias De Wit, Analyst
- Steven A. Haywood, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Ageas Conference Call for the Half Year 2016 Results. I am pleased to present Mr. Bart de Smet, Chief Executive Officer; and Christophe Boizard, Chief Financial Officer. For the first part of this call, let me remind you that all participants' will remain in listen-only mode, and afterwards, there will be a question-and-answer session. Please also note, this conference is being recorded.

I would like now to hand over to Mr. Bart de Smet and Mr. Christophe Boizard. Gentlemen, 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 2016 results of Ageas. I'm joined in the room by my colleagues of the executive committee, Christophe Boizard, our CFO; Filip Coremans, our CRO; and Antonio Cano, our COO. Our Investor Relations team is, of course, also present in the room.

Ladies and gentlemen, let me start where I normally end our call with the four main messages from our first half results. Firstly, I'm pleased to announce the first half Insurance net result of €608 million which is the best Insurance result so far; the group net result then slightly negative at €67 million.

Secondly, a word on Solvency II. We think it is fair to say that this was seen by many investors as a concern for the market, take into account the volatility on the financial markets in the second quarter. But Ageas' Insurance Solvency II has remained strong at 183% at the end of Q2, and it is slightly up compared to the previous quarter and the end of 2015.

Thirdly, three major events covered the first half of the year. The legal settlement announced in March between Ageas and the claimants' organizations around the Fortis event in 2007 and 2008. Also, the closing of the sale of Hong Kong and finally, the acquisition of Ageas Seguros in Portugal. These are major transactions with a significant strategic impact on the group and they represent important milestones in the recent history of our group.

Turning first to the settlement. Since our announcement, we have attracted additional support from other parties and this should be a positive in the context of obtaining a binding declaration that we hope to receive from the Amsterdam Court by mid-2017.

The close sale of Hong Kong brings additional comfort about our net cash position and our financial flexibility even after having refinanced the cash needed to fund the settlement agreement. And in this context, and this is my fourth key message, the announcement of new share buy-back program of €250 million, the sixth consecutive program underlying again our strict discipline with respect to our capital management policy to that in the (03:10) past and bringing the total cash to be returned via share buyback since 2012 to around €1.4 billion.

Let's return now to the financial results for the first quarter of – first half of 2016. I'm on slide four. Our net Insurance result included a €200 million capital gain related to the Hong Kong sale. This explains to a large extent the second quarter net result of €407 million. It is important to highlight also at this point that the first half was impacted by the tragic act of terrorism that occurred in Belgium in March, as well as by above-average weather cost in both Belgium and UK in the second quarter.

In total, we estimate the impact of these events on our net result at around €60 million. Furthermore, the net realized capital gains were some €60 million lower than last year of the same period, despite the realization of two real estate projects. But it's important to remember that we benefited last year from an exceptional financial result of some €100 million in Asia.

Intrinsically, this allows me to conclude that there is a sustained and continued positive trend in our results across the segments reflecting the positive impact of the many initiatives taken over the past years and across the segments to work rigorously on improving our operating performance.

Now let me look to our Life Guaranteed margin over this first six months. We see that this amounts to 108 basis points driven by higher realized capital gains in the first half especially in Belgium as a result of the realization of the two already mentioned real estate projects. The group combined ratio for the consolidated entities stood at 99% including a combined negative impact of 5.5% coming from the terrorism for 1.9% and weather events for 3.6%.

As you know we do not provide formal outlooks but this performance gives us the confidence to say that we should reach our operational targets by the end of the year bearing any unexpected significant event in the coming months. The Life Technical liabilities of the consolidated entities amounted to €74.5 billion up 1% compared to the end of 2015. This strong performance takes into account the sale and subsequent exclusion of Hong Kong, which accounted for some €3 billion.

The increase mainly reflected the strong growth in inflows in Belgium where we achieved, since the beginning of the year, a steep increase in sales of short-term investment products despite the Guaranteed rate which has been further lowered to 0.75% since the April 1, and that will – has been lowered again to 0.5%, since the August 1 of this year. In total, the inflows in Belgium grew 15%, while inflows at the group level grew 10% at 100% to €18.3 billion, including a negative currency impact of 4%.

The group net result amounted to €67 million negative with a net result in the General Account of €675 million negative, which includes the charge of €889 million related to the settlement agreement. This has been partly offset by the second part of the capital gain on Hong Kong, €204 million, and that part has been allocated to the General Account. The total shareholders' equity decreased from €11.4 billion to €10.3 billion due to the combined impact of the negative group results, the payment of 2015 dividends, the negative currency exchange differences, and the 2015 share buyback program.

On slide five, you will also find the status of the cash upstreams from the operating companies in the first half, and being close to €400 million. It reconfirms our ambition to upstream €400 million to €450 million a year, spread across the operating companies. The upstream of €88 million out of Asia, of which €60 million was out of China note (07:57) some attention.

With respect to the Solvency II ratio, I'd like to underline besides the already mentioned insurance ratio our group Solvency II ratio at 209%. And the total liquid assets amounted, end of June, at €2.1 billion, with on the one hand the entry of €1.2 billion from the Hong Kong sales and the payment of the first tranche of roughly €250 million related to the Fortis legal settlement.

The remaining commitment for the settlement of around €0.8 billion has not been deducted from the cash position, but we believe it is fair to consider this amount as being (08:41) until it is actually expensed.

With respect to this settlement, I can confirm that we are on track with regard to the timing and the milestones set forth at the time of announcement. The next important step is the start of pre-hearing by the Amsterdam Court which is planned on August 25. This is a key milestone which should ultimately lead to the approval by the Court of the settlement.

I will now pass on to Christophe for additional details on the financial results.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart, and good morning, ladies and gentlemen. As usual, I will comment on the operating research by Insurance segment and then, the General Account.

I would like to start by joining Bart in stating that our first half results have been very solid in a lot of aspects. The record net results, obviously boosted by the capital gain on the Hong Kong sale, the disciplined cash upstream, a good Solvency ratio in both our Insurance operations and at the group level, despite the volatile market. And lastly, the settlement which further simplifies the Ageas story and makes it more accessible for investors.

So, our insurance operations, I am on slide eight of the presentation. Our net Insurance result for the first half amounted to €608 million compared to an already high net result last year of €504 million. To assess the quality of the result, one should first take into account the €100 million of exceptional capital gains realized last year in China, and the €200 million capital gain on the Hong Kong sale.

As Bart mentioned, the remaining €204 million on the Hong Kong sale has been allocated to a General Account, as it relates to formerly accounted currency rate differences on the original acquisition. At the end, this amount of €204 million is recognized for P&L, but doesn't increase the shareholder equity. Then, there is an adverse impact of around €20 million related to the terrorism event in Belgium, unchanged compared with Q1, and around €40 million related to the adverse weather in Belgium and in the UK versus nothing last year.

Other significant items to compare with last year's results are an adverse currency evolution of €11 million, while the net realized capital gains under investment portfolio went up by €40 million year-on-year, thanks to two real estate transactions done in Belgium, one already reported in Q1 and the other in Q2.

Last thing to highlight is the higher level of prior year releases compared to last year. A phenomenon we already had in the first quarter of last year, but we can also link this to a series of initiatives taken to improve the overall performance.

Inflows including our consolidated entities at 100% amounted to €18.3 billion, 10% up on last year. Traditionally, we see double-digit growth in Asia, but this time, there was also a significant growth recorded in Belgium, in particular for the sales of the short-term investment product and despite the further lowering of the guarantee rates.

Technical liabilities, including the non-consolidated entities increased by €4.3 billion to €139.5 billion despite the exclusion of €3.2 billion on the Hong Kong activities. On the consolidated part, the Hong Kong exclusion was easily compensated by the increase in Belgium. And on the non-consolidated part, we have of course, the increase coming from China.

With respect to the technical KPIs, we note an operating margin for our Guaranteed products of 108 bps above the target level of 85 bps to 90 bps. This 108 bps includes the benefit from the real estate transactions I already mentioned.

Under Unit-Linked portfolio, the margin came down to 28 bps reflecting lower margin in Belgium. The combined ratio in the Non-Life remained below 100% at 99% despite the aforementioned adverse events which accounted for 1.9 percentage points due to terrorism events and 3.6 percentage points because of weather.

Some brief comments by segment. First, Belgium, I am on slide nine of the presentation. Our Belgian operations reported net results of €206 million with the net result in the second quarter of €106 million despite a cost of €28 million related to the adverse weather. This was more than offset by higher net realized capital gains mainly driven by the second real estate transaction.

Overall, both the Life and Non-Life business did well despite a few setbacks. Excluding the terrorism events, the combined ratio would have been at a satisfactory level of 96.7%, while the operating margin on Guaranteed projects amounted to 104 bps. So, again, we have the positive impact of real estate transactions here. In Non-Life, prior year reserve releases were 2.5% higher than last year.

The UK net results, I'm on slide 10, of €35 million included a small negative currency impact of €2 million, and an adverse weather cost of €13 million. Excluding the impact of the floods, the combine ratio would have been at 98.1%, reflecting the encouraging Motor and underlying Household return. The combined ratio of Tesco Underwriting amounted to 98.5% driven mainly by favorable prior year releases.

Continental Europe, slide 11. The net result came down by €19 million to €36 million. This decrease is almost entirely related to lower Life results. Roughly half of it came from Portugal, which suffered from some equity impairment. And the other half from Luxembourg with mark-to-market adjustments on the equity portfolio and this adjustment went through P&L.

In Non-Life, the net results suffered somewhat from integration cost in Portugal, while the combined ratio went up to 90.5%, which remains excellent. The contribution of the newly acquired AXA entities now renamed Ageas Seguros were closed to breakeven for Q2. And since the closing date was April 1, we have the full quarter of this former AXA entities there, so we were close to breakeven.

And lastly, Asia, slide 12 of the presentation. With a net profit of €329 million and where, as already mentioned, the net results should be adjusted for the capital gain of €200 million this year and €100 million exceptional financial results of last year to be kept in mind. As in the UK, the net result this year also suffered from an adverse currency evolution of €8 million, but benefited from the release of a tax provision in China. Taking all these elements together, we can say that there is a gradual increase in the underlying results, largely driven by China and Thailand, while we continue at the same time to invest in new markets such as the Philippines and Vietnam.

I'd also like to highlight here the significant cash upstream coming from Asia for an amount of €88 million, of which €60 million received from China. To complete the overall view of the Insurance segment, a small comment on Intreas, our internal Non-Life reinsurance company, which was established last year. Here, we saw a positive contribution of €2 million.

This brings me now to the General Account on slide 13 in the pack. The net results amounted to €675 million negative which essentially relates to the net results in the first quarter, and more specifically to the announced Fortis settlement proposal. The provision of €889 million was partly offset in Q2 by the Hong Kong capital gain and the positive impact related to the RPN(i) liability, and these two things accounts for a total amount of €271 million. Most of the remaining part relates to the €53 million staff and administrative expenses, an amount in which there is also a significant part that is exceptional and relates to the legal settlement at around €10 million.

I'd also like to highlight to you the €17 million dividend received from Royal Park Investments as already announced in the first quarter. Our upstream from Royal Park Investment is, are expected in the second part of the year, capital reduction is €14 million before the end of the year.

Slide 11 (sic) [slide 14] (20:44) provides you with the evolution of the shareholders equity, which went down by about €1 billion mainly driven by the Group results, the payout of the 2015 dividend, the negative impact of the Forex evolution, of which, beyond the €204 million already mentioned and explained, we have €100 million coming from the GDP following the decrease of the exchange rate shortly before the end of the period and since the shareholder equity elements are taken into account with the closing rate, we take the full hit of the result of Brexit poll, so there is €130 million to be taken into account in the Forex adjustment in the shareholder equity. And then, of course, to complete the picture, we have the execution of the 2015 share buyback program.

Slide 14 (sic) [slide 15] (21:49) reports on Solvency II by segment. Bart already gave the overall Insurance ratio of 183%, almost stable compared to the end of 2015. This ratio is marked by slightly higher ratio in Belgium and in the UK, and lower ratio in Continental Europe, the latter being anticipated and related to lower interest rates, highest price on Portugal and the inclusion of Ageas Seguros.

Compared to the end of March, the Group ratio is increased to 209% from 180% at the end of March. This was an anticipated move explained by the inclusion of the cash received from the Hong Kong sale. We also update you at the end of March on the solvency ratio of our main joint venture in China, where the new C-ROSS Solvency regulation was introduced as of January 1 of this year. At the end of March, the ratio amounted in China and under this new C-ROSS regime to a solid 250%. And that (23:12) you will also find further interest writeback of its sensitivity based on the end December 2015 figures which more or less confirm those provided at the Investor Day of last September.

Ladies and gentlemen, I'd like to end my comments here and to hand back to Frank.

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Thank you, Bart. Ladies and gentlemen, this concludes the introduction and now we open the floor for Q&A. We'd like to ask you to limit yourself to two questions. If you have more questions, you can go back in the queue and ask your additional questions thereafter. Thanks. Operator?

Q&A

Operator

Thank you. We have a first question from Ashik Musaddi from JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Good morning, Bart. Good morning, Chris. And good morning Frank. Good set of numbers and thank you for the buy back. I have a couple of questions. First of all, Asia, how should I think about Asia going forward, now it's basically, if I look at the clean numbers in this quarter, Asia is north of 30% of your Group earnings. And it looks like the proportion of Asian earnings is growing very fast. So, how should I think about the underlying growth in Asia business, because it looks like Malaysia is still not performing at its decent level which was the case at two years back. So, what sort of normalized growth we should expect from Asian operations? That's number one.

Secondly, can you give us any sense about Belgium earnings pressure. I mean, low interest rate, what sort of new money are you getting i.e., in net flow terms and what sort of spread are you making on the new business? The thing I'm trying to understand here is, are you shrinking in Belgium or are you trying to stay flat on your backbook (25:20)? That's two questions. And thank you.

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

Okay. Thank you for the questions. The first one I'll take it, I'll pass the second one to Antonio. So, on Asia, it's clear that our strategy always has been when we announced the Vision 2015 has been repeated in Ambition 2018, that's in our way forward that we expect the growth markets, what we mainly have in Asia, to continue year-after-year to improve the profit contribution which is also, if you take out the exceptional, like the €100 million of last year, what we've been seeing.

So, what we see is, of course, that the increase in inflows is lower than it was two years, three years ago, but of course, the base where we start is also year-after-year higher. We see that the proportion of contracts with regular premium is, in volume, but also, in percentage of the books increasing. And that's of course the best underlying base. What you also see in the increase of the technical liabilities that are increasing in one-half of year above 5%. So, it's more than 10% on a yearly base. That is some of the underlying base for our future growth of the profits in the region.

Also, remark that the two new investments we made in Philippines, already operational. Vietnam, will be at the end – expect at the end of the year. We, of course, have today and we'll have in the first year some negative impact before they are breakeven, and then come up to our standards in terms of return on equity. But, let's say, ambitions to have above 11% return on equity in these markets is more than realistic one. And we are on the right way to achieve that already, up to scale in the more mature markets in that region. You also see that contribution to the dividends, but growing more important of course, the dividends from China is not given for the next year. This was linked also to an exceptionally good year 2015. So, we are confident that Asia will increase its contribution to the profit in the coming years.

A - Antonio Cano {BIO 16483724 <GO>}

Okay. Good morning to you. I'll come back to the second question on Belgium. Nothing really new to tell. You've seen an increase in the inflow in the first half of the year. And bear in mind that we announced a reduction, a further reduction of the Guaranteed interest rates for our main products. As of the 1 of August, that is now 0.5%. So, part of that growth in inflow you have seen in Q2 is kind of anticipation on this reduction. Going forward, we don't expect this type of growth of inflow in the rest of the year. But it would mean that in terms of volume, or technical liabilities, we expect certainly for this year a slight growth, but certainly not in double-digit. I think it's 4% to 5% for this year, that will be maximum growth.

In terms of margin, I think you can see in the presentation that our new money yield for the first six months was 1.87%. The Guaranteed rates stood actually at 0.75% versus now 2.5%. So, the overall margin of our total book remains as it was in the past. And we stick to our target that the operating margin, the Guaranteed Life business will be between 85 basis points, 95 basis points. It is a bit - it's higher at the end of second quarter, but that is due, as Christophe was saying, to the capital gain from real estate that tend to be a bit bulky and, okay, at this time they were in Q1 and Q2. So, expect a slight decrease of that margin towards the end of the year, but it remain firmly within the range that we said 85 basis points, 95 basis points.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's good. Thank you.

Operator

Thank you. Our next question is from Matthias De Wit from KBC Securities. Please go ahead.

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

Yes. Good morning. Two questions from my side please. Also, on Asia, if I look at the associates earnings in light of €69.1 million, they are very strong compared to last year's level, if we exclude the €100 million exceptional gains in China. So, just wonder whether if you could provide some more color on this performance in the second quarter? For example, breakdown by the region, but also, could you comment if there's any one-off included in there? I think you mentioned that China benefited from a tax release in the press release, so what is taken in the second quarter and how big was it?

And then my second question is on holding company cash flow. Just wondered why you only related 75% of the Belgium IFRS earnings of last year. I would have expected something closer to 100% considering your very strong solvency position and the low growth of the business. So, could you in this respect maybe highlight if there is any difference between IFRS earnings and Solvency II capital generation or statutory earnings which might be more relevant for your dividend out of Belgium? Thank you.

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

Okay. With respect to Asia, I do think I mentioned these in the press release, there's one, one-off - positive one-off (31:15) of €20 million in China, but there is, of course, also the negative FX in most of the countries, which is €10 million, but I think that the strong result in Asia is a bit a confirmation of what I answered on the first question from Ashik, is that we of course, expect the Asian markets to perform better year-after-year.

For the second question, okay, we are at the dividend upstream middle of the year which is not the end of the year, but I propose to pass over to Filip, who can then give a bit more color about our capital management policy linked to Solvency II and also the impact that has on dividends.

A - Filip Coremans {BIO 17614100 <GO>}

Thank you, Bart. Thank you, Matthias for your question. Duly noted what you noted, of course, the solvency ratio overall remained very solid, and especially in Belgium, it even went up a little bit. And you know that in our ratios, we have already implicitly deducted a normal dividend portion. So clearly, there is scope for sustained and substantial dividend upstream out of Belgium. And we will consider whether we will top up what has happened in the first half with the second half.

But looking forward, there is no immediate need, no reason to refrain from upstreaming to the maximum extent our dividend, or our I hope is out of Belgium. The solvency ratio not only is stable, but also, it can easily absorb some short-term volatility. And we are comfortable with that commitment. So, that also means that the bulk of our free cash generation is actually very much intact.

Our dividend policy, or at least the operating entities is indeed based on how strong their local solvency position is, as well as how much they are in control of the volatility of that ratio in Belgium due to the disciplined matching of assets and liabilities as you have been able to see in our results this quarter. There is no reason to deviate from that.

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

And is there any reason why you operate with so much excess capital in Belgium going forward?

A - Filip Coremans {BIO 17614100 <GO>}

Going forward, we will see that in the past, that has been of course for good reasons. Looking forward, first and foremost, you have to make on the local draft (33:57) the necessary profits. The revision of the flashing-light reserve, the incorporation of that under the Belgium, let's say, the Belgium Solvency II interpretation will allow us to be more flexible even when it makes sense. But let's not forget that we may also look at global opportunities. And we always said that we will look at capital management on a comprehensive basis and stay opportunistic. And then economically also logical when we make moves. When we need it, we can consider it.

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

And, Filip, if I may add something, we have to consider the fact that AG bears the rating of the Group, that's the central entity for the Group. So, it is thanks to AG that we benefit from the A rating. So, it is not abnormal that AG is capitalized slightly higher than the objective at the total Group level. There are operating constraint as well.

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

I understand. Thanks a lot.

Operator

Our next question is from William Hawkins from KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. Just some question on capital movements. In the UK, why was there no dividend in the first half? Is that a timing difference or a fundamental issue? To the extent of the answer, presumably it relates to the low Solvency II ratio still, what's the outlook there? Can you remind us, are you intending to be building that Solvency II ratio in the UK, or is 134% okay given the business mix?

And then secondly, the additional capital injection into Ageas Portugal. I wasn't expecting that, but I might have been behind the curve. It sounds like you're strengthening the solvency there. Is that something that you always anticipated doing, or is it something that you found that you needed to do since the close? And either way, what does that do to your returns, because obviously €100 million in the context of Portugal is a reasonably large capital downstream? Thank you.

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

Okay. The first question, as I mentioned, as I answered on the previous question, we are mid of the year, so it doesn't mean that there will be further dividend upstreams in the second half. And also, for instance, to give an example, last year, the upstream in UK was also in the second half of the year.

Also, we have indeed, a kind of an internal policy where we have for each of our entities what we call a target solvency ratio that can be different from the 175%. And a function of where we stand above that ratio, or between 100% and that ratio, the percentage of upstream of profits is decided. And then, it doesn't necessary have to be at 175% before a dividend is paid out. So, even below our Group targets, or insurance target of 175%, in a specific entity, there will be a dividend upstream depending on where we position ourselves between the 100% SCR and the target.

For Portugal, first of all, it's – what we did, the €84 million additional injection in Q2, it was not a surprise. It was anticipated when we decided on the file, but I propose to give maybe the word to Christophe to give some color on that.

A - Christophe Boizard {BIO 15390084 <GO>}

So, that was exactly the case. And we have this €84 million, the precise number we had in the business case. So, I would say that first statement is that everything proceeded as planned. That's the first one.

The second thing is, why do we have to increase the capital? It is mainly due to the purchase GAP adjustment, and let's say, the mark-to-market adjustment made on the balance sheet due to the purchase GAP exercise. And here, of most the burden comes from the workmen comp portfolio where you have some, let's say, Life kind of business, where you have discount rate in the range of 3% to 4%. And when you adjust with risk-free rate, you have a significant increase of the mark-to-market liabilities, which obviously (38:26) so that's the reason. But on the other side, we have the corresponding assets which give the corresponding yield, but they were already at mark-to-market. So, that's technical effect due to the purchase GAP.

The second thing I'd like to mention is that, here there is an action plan on the way to optimize the solvency situation. We will merge some entity, some Non-Life entity. And we will get additional diversification benefit and this will be completed vis-à-vis by the end of Q3, where we will have full clarity. So end of Q3, we'll have full clarity, but some benefit will be drawn from the diversification of effect after the mergers of at least the Non-Life entities there.

Q - William Hawkins {BIO 1822411 <GO>}

That's great. Thank you for the color.

Operator

We have the next question from Benoît Pétrarque from Kepler Cheuvreux. Please go ahead.

Q - Benoît Pétrarque

Yes. Good morning. A couple of questions on my side. First, one is on Solvency II. I was wondering if you could provide some breakdown between how much organic capital generation of Solvency II you've achieved in the second quarter, or maybe H1, and how much was the impact from the market? I think you referred to spread movements and obviously impact of lower rates.

And also linked to that, you provided some sensitivities on page 56 to lower interest rates. So, the yield curve adjustment of 1%. And I was wondering if you cannot provide a bit more – a different sensitivity here, because you assumed a flow of zero percent while we are in the negative interest rate environment and also assuming 1% decrease is a bit too much in the current interest rate environment. So, I was wondering if you have more granularity in order to assess move of interest rates?

And then just the second one will be on strategy post-Brexit. Where do you see, or do you see the UK Non-Life market developing in the coming months? And does Brexit imply the change in strategy or something particular on those sides? Thank you.

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

Okay. I'll start with the last one and then give the other two questions to Filip. So, post-Brexit, we are in UK market in, let's say, in the individual lines and commercial lines in Non-Life. So, it means that, first of all, all the assets and liabilities are in pounds, so there is no immediate impact from that perspective in the country itself, of course. When we transform these results in euro, as Christophe also mentioned, there might be an FX impact, but that's already the case before Brexit.

So, the impact you could expect are more impacts that might be related to the economic evolution of the country. If indeed there would be kind of a recession, we could see what we have seen post-2008 that people drive less, which is as such not negative for the Non-Life Motor insurer because lower activity on the roads leads to lower frequency. Of course, as we know, the competitiveness of the market when claims experience revolves in the right direction, prices evolve quite favorably in the same direction. So, all-in-all, we don't expect important changes and we do not expect any change in our strategy with respect to our UK entity either. Filip?

A - Filip Coremans {BIO 17614100 <GO>}

Thanks for your questions on solvency and capital generation. Now, with the risk of being a bit lengthy in the answer there, first and foremost, I will tell you that we are indeed looking on how to provide better clarity in a way into the organic cash generation – free cash generation, and we will probably in the next quarter, by the end of the year, have additional information that to our information pack that we provide to you.

That being said, from the macro picture, it's clear that our solvency ratio has been – remained high and resilient despite some market turmoil in the first half. Now, the market turmoil increase in – or the decrease in the interest rate has been compensated largely by a drop in spread in core Europe. So, these effects have largely cancelled each other out. And the small improvement that you in fact still see despite the increased dividend expectations, especially if you look at the Insurance where we move up a little bit in comps, because of some de-risking in the equity portfolio in Belgium, where we try to get a little bit on the safer side in anticipation of Brexit.

The impact of the market movements as you have noticed, without any doubt, is quite different from Belgium versus UK, Continental Europe. So, in Belgium, as we said, the drop in the spread has actually supported the solvency ratio and that's definitely washed away any effects of the lower yield; whereas in UK, it has been stable because there is no impact from market risk factors. And actually it only evolves with growth of business versus profit. Continental Europe, as we explained, the main drop especially in comparison to Q2, is the acquisition of Portugal, say AXA, Seguros. But indeed there we do feel the impact of the increase of Portuguese spreads, whereas the interest went down, the compensation was not there.

To link that to capital generation and (45:04), as I said, or as Bart explained, we do have the ambition to upstream more in function of our confidence levels in the solvency position. If you look at Belgium, it's clear that there we've got high and stable expectations. And so, if we generate good profits, you can expect the major part of that to be upstream to the Group, and then support the base of our dividend policy commitment in the UK. And that actually adds to the answer that Bart already gave to William Hawkins relating to dividend there.

Indeed, in UK, we have no intention to keep this high type of solvency levels. It is 134%, the level that we actually envisaging, we may strengthen a little bit. But clearly in UK, the productivity in the solvency is not there, and hence it does not require all the large amount of surplus capital. Also, the growth there is not demanding a lot of – is not consuming a lot of capital, so you can expect some dividends, how do you say, to be sustained. Maybe not at 100%, maybe quite at the half, or a bit less, but you will see in the quarter going forward.

Continental Europe, there you have to make a distinction between the Non-Life and the Life companies. Clearly, in the Non-Life companies, which we do not disclose the details, and we will also not do that, they have similar solvency and maybe strength – stronger position that (46:47) risk behavior also very stable throughout market movement. And also, there we can expect good dividend upstreams in the Life companies in Continental Europe, especially those exposed in Southern, (47:03) certainly Portugal, you don't have to expect too much upstream from that under the current market circumstances. But that will be re-looked at after we finish the financial restructuring in Portugal.

And then, on Asia and the non-controlled participation, that Bart also hinted a bit. You can see that the solvency ratio moved up of the non-control, this is on a local basis from 253% to 261%, which also shows that, in fact, that these companies are supporting now their own growth, and looking forward, we have, or in the past, we have seen the dividend upstream there, though still volatile, but move up slowly in line with the growth of profit and we expect that trend to continue. So, I hope this more or less answers both your questions.

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

There's still the question Filip on the zero percentage...

A - Filip Coremans {BIO 17614100 <GO>}

Yeah. On the sensitivities. Indeed, we also ask ourselves the question obviously, whether we should move away from the zeroing of the drop. And you saw that the effect, at the Investor Day, we mentioned that the effect of lowering interest rate, interest rate shock of 1% with the floor of euro could have an impact of 24%. Now, that has become 17%, obviously, that is because we are closer to the zero. So, the effect on the shock is a bit less. We are looking at this.

But that being said, let's not forget that this interest rate down shock has more effect on the longer tail of the liability and less on the shorter tail where we are very well matched. So, with the sensitivity more related to the unmatched or unmatchable portions in the tail of our liabilities, which is not so sensitive to negative interest rate, because, in fact, in the short tail, we are well matched with taking away that floor would not so much influence it. But, probably, in the next round we could consider doing so. We will re-issue the sensitivities on a yearly basis. These are very much in line with the findings at the Investor Day as published.

Q - Operator

Great. Thank you very much.

Thank you. Our next question is from Farquhar Murray from Autonomous Research.

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

Good morning, gentlemen. Just few questions if I may both coming back to the Asian results. Firstly, just on the point of detail. Please, could you just confirm the €20 million tax provision release comes through €118 million figure for non-consolidated partnerships. I presume that is where it come through?

And then secondly, could you outline your expectations for the non-consolidated partnerships looking into the second half of the year. In particular, I'm just trying to get a sense of the annualized run rate for 2017. And when we look at last year, the result was very heavily loaded into the first half, the results – our first half of the year. And I just wanted to know if (50:07) repeat it and what the rationale for that is? Thanks.

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

So, for the first question, I didn't get it fully the first question.

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

It was - apologies. There's some disturbance actually I think on this line actually. The first question was on the point of detail, could you just confirm the €20 million tax provision release comes...

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

Yeah.

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

...through the €118 million non-consolidated...

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

Yes:

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

...partnership figure in the first half. I think that's the (50:38).

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

Yes. Yes. Yes. Yes. So, yeah, the €20 million tax provision it's something slightly above €10 million FX (50:45). So, those two I can confirm here. And then the second part is that, of course, as you know, we don't give outlooks and you refer to also the profile of the profit evolution last year in Asia.

No. Nothing of voice (51:00) that you are in the similar evolution. So, the volatility of the quarterly results is, for instance in Asia, higher than what we see in Belgium where we can - at the stable underlying portfolio. So, I certainly would not commit here to say double the result of Asia even after corrections of the exceptional. That's not an advice I would give.

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

Okay. That's helpful. Thanks so much.

Operator

Thank you. Our next question is from Steven Haywood from HSBC. Please go ahead.

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

Good morning, everyone. On the Chinese dividend up to the holding company, I just wonder if you can give us some, sort of, clue about the sustainability or the frequency of the dividends expected, potentially maybe the level or the amount there and if you can't provide anything there just, sort of, maybe discuss the amount within the €60 million that you would consider to be exceptional this time?

And then my second question is on your partnership with Maybank in Singapore. If you could just explain what's going on there and what do you expect to hear because I don't think I've heard too much of this in the past? Thank you.

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

Okay. Chinese dividend. I think we received the first dividend out of China last year. This is second year. As I mentioned earlier, it is not to be considered to be the, I'd say, the reference for the coming years because last year was an exceptionally good result in China and €100 million extra financial income is one that is, of course, non recurrent.

So we cannot – this is also a company where we are doing a (52:43) 25% stake in the company. So, the decision on dividend payout is a yearly decision of the board of directors after, of course, assessment of the Solvency position. You have seen that, that provision has remained quite stable on the new CLOs.

But I would definitely again, not count on this amount of dividend as such, but it's clear that with increasing profits with strong Solvency that we normally expect future dividends from China, at least at the level of the one we received last year, and we believe that there can be a margin to have better.

The second one, Maybank partnership in Singapore, so in Singapore we started, I believe it was end of 2014, with selling Life and Non-Life through the local, let's say, Maybank entity, and the cash-out that you see in the cash evolution of a bit more than €20 million, is a kind of a, let's say, an entry fee to have the distribution of Maybank entity in Singapore which is integrated in all the figures you see from our Malaysian entity. So, it's a subsidiary, you could say, from the Malaysian holding company that we have together with Maybank.

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

Okay. Thank you. So, if I could just follow-up, is there any further cash you expect to inject into this Singapore business?

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

No, it's a compensation for the distribution.

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

Okay. Thanks very much.

Operator

Our next question is from Bart Horsten from Kempen & Co. Please go ahead.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes. Good morning, gentlemen. Two questions, one follow-up question on the Chinese dividend. With a strong growth in China, how likely is it that you may have to inject capital to fund further growth, or is it self-supporting? That's my first question.

The second one is on the – it's more a follow-up question or clarification question on the sensitivities. You just mentioned the interest rate sensitivity, and I was wondering, did I understand correctly that the interest rate sensitivity is still this high despite the fact that you have a very small duration gap which is almost close to zero as far as I can recall that this mainly relates to the longer duration product. And which type of products would you refer to in that respect? Thank you.

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

Okay. For China, we have – in previous calls, we have indicated that we do not expect additional capital injection of any importance in China in the, let's say, in the coming future. So, I would also say the fact that a dividend of €60 million is paid out to us is also an indication that the company is not lacking the capacity to build its own capital base by retaining the remainder of the earnings.

And that's also again confirmed by a stable Solvency ratio. So, we do not expect additional capital injections in China in the near future. So, that's quite clear, I would say.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay.

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

Filip.

A - Filip Coremans {BIO 17614100 <GO>}

Okay. Well noticed. I would say, the interest rate sensitivity, although we are indeed very well matched is still relatively high but in line with what we reported earlier. But please note, and I'm quickly trying to find the page, that is on page 56, you can see that the impact is actually on the SCR component and not so much on the own funds. And so, that already suggest that indeed the direct impact on the capital base is in the available funds of the low interest, and that's why we provide a break-up there, it's not material.

So, it is not because of a mismatch. It's more of technical effects from the components of the calculation of the Solvency capital requirements and the Solvency II, and they in fact, relate to the lapsed stress test. That's all a technical matter, but it's not related to the own funds or the ALM exposure.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you.

Operator

Thank you. We have Benoît Pétrarque from Kepler Cheuvreux. Please go ahead. Mr. Pétrarque, your line is open.

Q - Benoît Pétrarque

Yeah. Sorry. Hello. Just a follow-up – two follow-up questions. One on the RPI, you said that you expect the dividend in H2, how much could that be? And on Continental Europe, Solvency II is 113%. Do you expect some capital injection in H2 maybe Portugal again or UK, I don't know. Thanks

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

Christophe (57:56)

A - Christophe Boizard {BIO 15390084 <GO>}

On RPI, what could be expected is an amount close to the dividend already received during the first half, so to give a figure around €17 million, but in this case it would be a capital reduction. It won't be supported by results, but it's an (58:18) of cash, so €17 million.

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

Okay. To add additional color to the Solvency ratio in Continental Europe and our plans looking forward, let me first start with saying that we have no intention and plans to inject capital at this moment or at least not any material amount. In that context I also want to refer to page 58 of the presentation where you can see that in fact under the local regulatory requirement Solvency II in figures, the ratio is quite a notch higher, it's actually at 136%.

In Ageas, we have decided to take into account risk on government bonds, which gives us early warnings on the stress in the Southern Europe markets, though we are a bit better there.

That being said, I said life companies are the ones where we have to look at. But as Christophe indicated, we are, how would I say, reconstructing the Solvency base and the capital base in Portugal for the (59:25) acquisition. And only after that exercise is fully done, we will see what the situation is. But we do not expect anything additional to be injected.

Q - Benoît Pétrarque

Great. Thank you very much.

Operator

Thank you. We have a next question from Bart Jooris from Petercam. Please go ahead.

Q - Bart Jooris {BIO 3470300 <GO>}

Yes. Hi. A question on Ageas Seguros. Could you clarify how much the restriction charges that you took in the second quarter? And as you announced that you did some further mergers and stuff in the third quarter, could we expect that figure to repeat itself in the third quarter? When would you expect Ageas Seguros to be a net contributor to the net profit?

A - Christophe Boizard {BIO 15390084 <GO>}

I would say zero, in the sense that everything is included in the purchase gap (01:00:17), which was done up front when we included the Ageas Seguros Company in the consolidation scope. So, then I would say this is internal restructuring. So, mainly merger between the Non-Life operation of Ageas Seguros with our existing Non-Life operation where I remind you that we are at 100% in Portugal. So, but internal restructuring, we have no restructuring cost, that's more administrative.

But then we will (01:00:54) benefit from the Solvency side of zero for the second half.

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

Maybe to give a bit of a color going forward because I think that was the second part of the question. So, on the restructuring, it is indeed, they are no real costs, but going forward we will be upgrading some of our IT systems, integrating platforms. So, you will see going forward some additional costs. You can call then integration costs, you could call them upgrading cost. But we will inform you as the quarters go by.

Q - Bart Jooris {BIO 3470300 <GO>}

Okay. Thank you.

Operator

Our next question is from Oliver (01:01:35) Ploegh from ING. Please go ahead.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes, good morning, it's Albert Ploegh from ING. A few questions left from my end. First one is on the holding cash. Even when stripping out your remaining litigation provision and the current announced new buyback program, still roughly €1 billion. Can you maybe give us some guidance on what kind of holding cash you would feel comfortable running the business going forward? The second question is on the dividend for fiscal 2016, the half of Hong Kong gains, of course, are booked in the Insurance profit, so they are eligible also for a dividend payment of that.

But if I look at the dividend history in the past, you've always shown a quite nicely growing dividend a clearly (01:02:31) on dividend for this year, there could be quite an uptick coming as well, but I assume you also want to have a growing dividend year-on-year for 2017. So how should I see this logic (01:02:42) that the payout ratio will be a little bit at the lower end of your range or - yeah, some color that, or do you maybe contemplate the Hong Kong profit to be more - let's say some, kind of, special dividend if you like?

And then the third question is on the - previous question was asked on the Solvency II organic generation. If I look at the cash upstream slide, slide number five, is there any reason that, let's say, the €400 million kind of run rate, that it is basically a reasonably good indication that it is indeed more or less the organic capacity.

And the last question I had, also coming a little bit back to the dividend again, if I look at the €400 million or €395 million upstream in the first half, you already mentioned there could be some more (01:03:34) coming in the second half. But if I look at, let's say, the dividend payout ratio of last year, including the Hong Kong profit, that will mean that you need to have quite a cash upstream from all your operating entities, or is it logic to expect that some of the dividend of this year should be paid out of the holding cash buffer? Thank you.

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

Okay Albert. A nice list of questions. First of all, the holding, I think you're right, if you deduct the new buyback you will be somewhere around €1 billion. Know that we have something like €60 million, €70 million running holding cost, that in principle is also compensated by the upstream dividend from the operating companies.

But where we had in the past, of course, this uncertainty of the litigation, meaning that we were certainly not in a position to say, let's, without problems, get this cash going down to zero. The situation is different now. We have this not full certainty, but high certainty of finding a solution for the litigation. The amount needed for that are already locked somewhere or ring fenced. But this €1 billion in principle does not have the same uncertainty as the cash position we have in the past.

And so, remember also that we have on top of this a capacity of something like €1 billion debt that can be issued on the Solvency II. And if you also have something like a bit more than €300 million Insurance that we could bring to the market. So, the cash position or the liquidity position, in case there might be an interesting important acquisition profile (01:05:25), is certainly present. And we feel more than comfortable with this future cash position. So, there is not a fixed amount that we say, this is the amount of cash we, in any case, want to keep and we will not go below this.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay.

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

And the dividend 2016 also in line with our, let's say, message in the past. We will pay out the dividend between 40% and 50% of the Insurance results. That means, the €200 million coming from the sale of (01:05:58) will be counting in the pace to decide the dividend. But as you know, the dividend is, of course, the decision of, ultimately, the shareholders' meeting on proposal of the broad and on proposal of the executive committee, so it would be a bit not well place from my side to say at what level of percentage of payout we would be (01:06:24).

But be clear that the ambition of the group is, on one-hand, of course, to, first of all, each time respect the dividend policy. Secondly, to try to have a dividend that is in, absolute terms, increasing but, and it's an important but, I hope that we will make clear, I hope that the financial markets will understand that it would be a bit too optimistic to say. So the exceptional part that will come out of the capital gain in Hong Kong will be automatically included in the start of the absolute dividend for the coming years. So, there will be a kind of part in this dividend that is exceptionally related to the Hong Kong deal.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay.

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

The last one is the – will there be part of dividend paid out of the General Account, I think that's a bit the same question as the one I gave with respect to the payout ratio, I think we have – the principle that we want to pay the dividend, by the dividends that are upstream, we will see where we end at the end of the year. And, okay, you can say that the cash from this Hong Kong deal is in the General Accounts, so maybe there might be a certain proportion coming from there. But that's a bit too early to confirm.

Then the capital generation Solvency II please?

A - Christophe Boizard {BIO 15390084 <GO>}

That is largely the same question. It's about the run rate and the upstream ability of future profit is what I refer to. You say €400 million looking at the figures which we have disclosed on slide five. As we already indicated in this first half figures they may still go up a little bit.

Looking forward there, it seems we are comfortable on most of the Solvency position. We have confirmed that we have no foreseen, at least not at this moment, major capital injections. You should look at the growth of the underlying businesses in this duration. And (1:08:35) that nor Belgium nor the UK nor Portugal has very high growth rates which consume large amounts of capital.

So, once we have restructured the capital situation in Portugal, we are comfortable that we will see normal dividends flow out on this we do know that to retain there (01:08:53) for business growth. So, I think the €400 million is at the under bound (01:09:01), I believe of what is the foreseeable cash upstream.

Let's not forget also that in here, of course, Asia is in there, but that to indeed out of Asia, in line with the growing profits, we do also see given – confirmed by the evolution in the non-controlled participation Solvency ratio. And also there, the comfort level that these entities are just supporting their own growth for most of these countries is the case and dividend payout ratios are slowly, but they are moving up.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Great. Thank you very much for your answers.

Operator

Our next question is from Matthias De Wit from KBC. Please go ahead.

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

Yes. Thank you. I have two small follow-up questions, both on Non-Life. Is there anything, maybe I missed it, and sorry for that. But is there anything you can say on the Q2 reinvestment yields in Non-Life, and could you compare that to the running yields you currently realized on the Non-Life assets?

And then secondly, for the second half combined ratio. What are your expectations, if you would take a normalized level of reserve for these and normalized level of (01:10:26)? Thank you.

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

Okay. The first point. Christophe you...

A - Christophe Boizard {BIO 15390084 <GO>}

So, Antonio already mentioned the new money yield which was 1.87%. I would say that this is the rate we have on Non-Life as well, so the same kind of performance. But please keep in mind that this is the investment return on fixed instruments, fixed (01:11:00) instrument, you have to add something coming from real estate which is always around 5% with an asset allocation of 10%, roughly 10%, so you have let's say 0.5% in addition to this. So, all-in-all, I would say, that it is 1.87% plus 0.5%, that's what you can expect on the Non-Life site.

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

And there is no difference between Q1 and Q2 in terms of fixed income reinvestments yield?

A - Christophe Boizard {BIO 15390084 <GO>}

There is difference. If you remember at the end of Q1, I gave you a new money yield which was above 2%. And now, we are down to 1.87%. So, there is a downward trend.

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

Okay. Thank you. And on the combined ratio expectations for H2?

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. So the combined ratio, we stood at 99% as indicated, the impact of the Paris attack was a bit less than 2%, 1.9%. Impact of weather was 3.6%. But even if we forget the impact of weather, you could say (01:12:15) terrorist attacks. It was 97% in line with our targets. So, we somewhere expect that if there are no similar tragic events of course that we are able to achieve the, let's say, the margin with the combined ratio that we have as a target being the 97%.

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

Also if reserve releases would come down from the current quite high level.

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

The reserve releases as mentioned before will somewhere flatten out but we see that even in – for instance, in Belgium and in UK, if we take out the effect of the flooding and even correct for the delta release, that underlying results from the current year are better than the year before. So, we are quite confident that the actions taken in past will pay off in the future.

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

Okay. Thanks a lot.

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

Maybe a short follow-up answer on the combined going forward. Specifically for Belgium, you're based in Belgium, so you are aware of the wet weather. With that bear in mind that we have Reinsurance structures in place that are very close to kick in. So, any additional exceptional weather events would have a relatively low impact for us.

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

Okay. Thanks a lot.

Operator

Thank you. We have no further questions for the moment.

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

Okay. Ladies and gentlemen, thank you for your good questions and as I always start my call with the main message, I will be very brief now. The three final key messages I would like to give are one, we believe this is a very solid set of figures. We also are pleased that we have been able to realize some important strategic milestones in the first half. And we also believe that we are in strict respect for capital management policy, approval of that is the sixth buyback that we launched. So, I'm very pleased with the performance of all our teams over the past months and believe that we are able to continue on this positive track and also hope that the markets will appreciate our continued efforts to create sustainable value for Ageas and all its stakeholders.

I would also like to draw your attention for a minute to the Investor Day that we'll organize on Monday, the September 26 in London, if all went right (01:15:01) you received an invitation in your mailbox this morning.

With this, I would like to bring this call to an end. Do not hesitate to contact our Investor Relations team should you have any questions. Thanks again for your time and we'd like to wish you a very nice day. Good-bye.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you, all, for your participation. You may now disconnect.
