S1 2017 Earnings Call

Company Participants

- Chris Figee, Chief Financial Officer
- Jos Baeten, CEO
- Michel Hulters, Head of Investor Relations

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Bart Horsten, Analyst
- Benoit Petrarque, Analyst
- Cor Kluis, Analyst
- Darshan Mistry, Analyst
- Edina Rozinka, Analyst
- Matthias De Wit, Analyst
- Robin van den Broek, Analyst
- Steven Haywood, Analyst

Presentation

Operator

Ladies and gentlemen. Good day and welcome to the ASR Conference Call on the 2017 Interim Results. Today's conference is being recorded. At this time, I would like to turn the conference over to Michel Hulters, Head of Investor Relations at ASR. Please go ahead, sir.

Michel Hulters {BIO 19111905 <GO>}

Thank you, operator. Good morning ladies, gentlemen. Good morning to those of you also listening in from the US (inaudible). Welcome to ASR's conference call and the results for the first six months of this year.

With me today are Jos Baeten, CEO and Chris Figee, CFO. And we are here to discuss the results and the business performance. Jos will start off and Chris will follow on with capital and solvency. After that we will open the call for Q&A.

We have -- I would like to point out, we have the time till 12 o'clock this morning. So there is an hour and a half from here I think it's sufficient time for all your questions. But I would like to suggest if you could start with your first two questions and then if everybody has had around, then we can take follow-on questions.

But, so before handing it over to Jos, I would like to point out also the disclaimer that we have at the back of the presentation. And I would appreciate if you could have a quick look at this after this call. So having said that, Jos, floor is yours.

Jos Baeten {BIO 2036695 <GO>}

Thank you, Michel. Good morning, everybody. Hope you had a good night, and those who are up early, hope you will get some sleep after this call. Ladies and gentlemen, it may not come as a surprise, but we are very pleased with the strong results that we have displayed [ph] in the first six months of 2017.

I'm particularly proud that the continued solid performance is driven by all of our businesses. In each of the first two quarters, we outperformed last year's results and it demonstrates that we have been able to maintain the strong momentum of our businesses.

We will discuss our financial performance and progress of our business in more detail, but let me start off with an overview of some of our key metrics and those are on slide two. This slide shows our performance on the key metrics that we have defined and consistently report on. Performance in the first six months this year has been strong, as said, on every key metric. I will highlight some of them.

Our operating result was up 28.8%, yielding an operating return of more than 17% compared to our targets of up to 12. Clearly, we are putting shareholders' money to work. All three segments non-life, life and non-insurance showed growth. Operating expenses remained flat while absorbing the additional cost base of the acquired businesses. So focus on continuous expense reduction delivers results.

In our non-life segment, our combined ratio of 93.6 reflects our underwriting excellence and the exceptional low level of large claims in the first half year. Mainly due to the benign weather conditions this year, compared to the first half of last year, the 2.8 improvement also includes the adverse impact of hail and water damages in the second quarter of 2016.

I am pleased to see that at these healthy combined ratios our Non-life business delivered close to 6% top line growth. Our Solvency II-ratio remains robust at 1.94. As you know, we are still using the standard formula. This is a 5 percentage points increase from the beginning of the year, strong organic capital creation of 193 million and favorable markets outstrip the impact of the share buyback of roughly 5 percentage points, the lowering of the VA, roughly 4 percentage points, and the re-risking of the investment portfolio, which was 7 percentage points.

Total capital accretion before the share buyback amounted to 333 million and this includes the additional capital generated by excess investment returns and operational efficiencies. The quality of our capital remains also high as well. With Tier 1 capital alone representing almost 165% of the SCR. And then, there was still plenty headroom to maneuver if we need to, in both terms of Tier 1 where we still have headroom of roughly 1.1 billion to 1.2 billion, and Tier 2 and Tier 3, where we still have room of over 700 million.

Chris will provide further detail on our solvency later and those of you who have listened to our calls in previous quarters know that there is little else that gives Chris more pleasure than talking about our solvency numbers.

In sum, a very strong set of results. And talking about solvency, I would like to make a few remarks on that. Our strong solvency position enables us to remain entrepreneurial. As we've always said, everything above 160 makes us to be entrepreneurial to pursue profitable growth. Our strong solvency has also enabled us to participate twice in the sell downs from the Dutch states.

In the first six month this year, we purchased 6 million of own shares, for a total amount of roughly 153 million. We consider, on top of the earlier commitment, which was equal to last year's capital generation of roughly 340 million, to buyback an additional amount of circa EUR100 million of shares if the Dutch State should decides to undertake a final placement of its remaining equity interest in the second half of this year. Including dividends, the total distribution to shareholders would in such case amount to approximately 440 million in 2017. Of course, this intention will depend on our solvency ratio at the moment of the decision of the Dutch State and by then, market circumstances.

While we are on this topic of returning capital to shareholders, I would like to emphasize that our buybacks at this time are strongly tied to the governance process of privatization of ASR and our commitment to supported process to achieve the best results. Our strategy aims to deploy capital in our businesses to grow both organically and by acquisitions, preferably, small bolt-ons.

And ladies and gentlemen, we still see opportunity, and we will stick to our strict financial discipline and focus on value over volume. Let's now turn to our business portfolio, and the key developments during the first six months of the year, and those are on slide three. I'm sure you're familiar with this matrix in which we brought our businesses as we have done since our IPO.

This slide highlights some recent developments and achievements and the execution of our strategy. First of all, in the top left, in box A are our businesses that provides stable cash flows. Here we focus on organic growth. In P&C, we achieved a above market premium growth of almost 6%, new sales were up almost 22% while margins expanded partly due to premium increases in motor, especially in SEC liability motor insurance.

Further on in this segment, the NIVO migration will be completed, expectably in the last half of 2017 and that will be within budget and within times, --

and within time, synergies from integration of both Axent and NIVO starts to materialize.

Above that, in our funeral business, we have adopted pricing to interest rate environment to protect margins. We lowered the calculatory rates from 2.25 to 2, which means that our new business is now priced at a 6% higher level. In the capital-light space, box C we have made also further progress. We've done an external placement in our ASR Dutch Mobility Office front for roughly 150 million.

We launched our ASR Mortgage Funds, which attracted a lot of interest from investors and we already got within a few weeks, a firm commitment of over 300 million, in the first half and that continued in the second half of this year.

Further on, the total of the third party assets under management mandates grew with close to 1 billion. And finally last year, we launched our general pension fund, and we already by then signed a few smaller contracts. In the meantime, in the first half of this year, we have signed the Arcadis pension fund contract, which is roughly about 1.1 billion.

In box B, on the left angle down are the large service books we are managing. As you may know, our focus there is maintaining a low cost level and variablize cost over time. We continued to migrate those books to our new platform and finalized in the first half year, the migration of the Falcon book which where -- which was one of the most complex books within our company. We now have started with the last few books and those should be done at the end of next year latest first quarter 2019.

And finally, in box D, the business where we decide to divest we have completed the sale of six offices of the last year acquired portfolio of the Dutch Railways that didn't fit in the ASR Dutch Mobility Fund.

Let's now move to slide four. And as already mentioned in my introduction, momentum of our business remains at a high level. Both the first and the second quarter were considerably stronger than the same periods of last year. Underlying performance is very sound, while we have also benefited from benign claims, as said earlier, in the P&C business due to the benign winter and favorite from financial markets in our life business, because the investment portfolio delivered a better yields pick up.

All key business segments contribute to the increase as you can see on the next slide. And that slide five, the operating result increased by 86 million to 385. As you can see on the slide all three key segments life, non-life and non-insurance contributed to the higher results. Non-life result was up 44 million to 106 while Life was up 40 million.

I will talk about those two in more detail in a moment on the following slide, but first some comments on our non-insurance activity, which combines were up EUR2 million in the first six month.

Banking and asset management improved due to an inflow of assets under management, resulting in a higher fee income. As mentioned, we see good business developments in asset management and this segment has the potential to grow to a 20 million business in some years' time.

Acquisitions of Corins and Supergarant contributed to an increase in the operating result in Distribution & Services. This segment is up to speed and is gaining further mass and could potentially contribute already this year a contribution of 20 million.

To finalize holding and other, a decline of 4 million shows impact from higher current net service costs for pension obligations of our own personnel mainly due to the low interest rate environment. So overall strong increase in operating result driven by gains across the various businesses.

Let's now turn to slide six, where we highlight the developments in our operating expenses. Key message there is ASR is on track with the delivery of our cost targets. Our ongoing focus on cost is one of the key drivers of operating earnings and long-term value creation. We believe we may well be the leader in terms of cost discipline, and cost culture as demonstrated by the expense ratios of all of our businesses.

Overall, operating expenses decreased with 1 million and this already includes the absorption of the additional cost base of the acquired business of roughly 6 million in the first half year. So we are, as said, on track to deliver our cost reduction.

In non-life the expense ratio improved from 8.4 to 7.5, driven by strict cost discipline and portfolio growth without FTE growth. In life, the expense ratio was also better, 9.6 compared to the 10.1 of last year. Operating expenses decreased, benefiting from synergy efficiencies of acquired portfolios and the migration of life books to our new platform.

Let me now turn to slide seven for some key developments in our non-life segment. In the non-life segment, our underwriting expertise is market leading. All non-life product lines showed combined ratios below 100 and ahead of their targets and we are proud of that. Gross written premiums rose by 5.6% due to growth in P&C and health.

The market developments towards more rational prices allowed us to grow our top line by both prices, as well as more volume, still within our strict pricing and underwrite discipline. In the P&C business, the increase was mainly driven by the success of our new combined products, the new Voordeelpakket in Dutch and in Disability, value-over-volume focus let these other customers to choose for the lower price proposition of government entity UWV.

Operating results in non-life increased 71% to 106. The increase was driven by strict underwriting and claim handling the absence of large claims and favorable weather conditions in the first half of this year, while last year we had 25 million of claims from hail and water damages. This is reflected in the favorable development of the combined ratio.

Overall, the combined ratio is at 93.6, so well below our target of 97. An improvement of 2.8 points compared to last year, reflects broad-based improvement in claims ratio, expense ratio and commission ratio.

In P&C, the claims ratio was exceptional strong at 92.7, partially due to the already mentioned favorable weather conditions. However, also on a normalized basis and normalize for us is a four years average levels for large claims, the combined ratio of the P&C business would still have been under 96.

And the Disability business, the combined ratio slightly increased to 91.9. It was 90.2 in the first half of 2016 and this is due to higher claims relating to short term absenteeism. This was partially offset by the release of the technical provision related to WGA own risk portfolio. The combined ratio, to finalize, of health business improved by 1.1 percentage point to 97.1 due to the higher benefits this reporting period from the recalculation of claims by the Dutch National Health Care Institute and better underwriting results from supplementary health insurance.

To sum this up, very strong performance in non-life in the first six month of this year.

So let's have a look at slide eight. The performance of our life business, operating result in life increased almost 15% to 314 million. Our investment margin increased with 58 million due to higher direct investment returns, those were up roughly 16 million, as a result of higher yielding investments, especially in equities and mortgages. Within the investment portfolio and mortgage within the investment portfolio and a higher contribution from realized capital gains those were up roughly 42 million. The latter is part of our shadow accounting method.

However, we also incurred lower result from cost coverage. This was down 5 million due to the shrinking individual life book and a lower result on other technical sources, those were down 13 million such as mortality in the first half year. More people than expected died. Chris will provide some further color on our life earnings.

The decrease in gross written premiums in life to 848 is driven by the acquisition of NIVO and the large pension contract last year, which both were recognized within single premiums. Excluding those two one-off effects, gross written premium increased in life by 3.4%, while recurring premiums remained stable.

The share of capital light Defined Contribution products in new pension business continued to increase and is nowadays roughly three-fourth of the total new business that was in the first half of 2016 at roughly half. The growth of new business premiums from the new DC product increased with 60%.

Having said that, we are now on page nine and to conclude my part of the presentation, our performance has been strong on all key metrics during the first six month. We have been able to keep up our business momentum at a high level and our performance is better than our medium-term targets. Of course, we will continue to work hard to make the second half of this year a successful as well.

Let me now hand over to Chris.

Chris Figee {BIO 18815839 <GO>}

Jos, thank you very much. I have to make one small correction. You've told that the best thing in life is to talk about solvency. Actually, there is one thing in life that's more fun than talk about solvency is to create solvency. And for those of you that questioned my mental state are talking about my professional life, of course. But never mind, let's move on to page number 11, to talk about book values. I always like to look at book values as a sign of long-term developments. Healthy companies do generate book value over time, in spite of accounting fluctuations.

Page 11 shows IFRS equity in our Solvency II own funds. So in accounting or more market value-oriented book values, we can see over time growth in book value. IFRS equity grew by 6%, since the last time we made it from 4,481 million to 4,845 million. Since we have excluded share buybacks, our growth in book would have been about 9% in the first half year. Total book value growth in IFRS equity is about 15% in the last two years. So, I think the continuous growth in book value in IFRS equity or even Solvency II equity is demonstrating underlying development of our Group.

To move to our solvency level, page number 12. Page number 12 shows the stock of solvency that we have. A solvency level without any actuarial or theatrical fertilizer is the actual decent clean solvency number as we calculate and number of 194% with very solid tiering levels, not in this presentation. But If you were to click and combine our H1 presentation, you'd find that our quarterly solvency level since we started reporting Q1 2016 have not dipped below 186 and moved between 186 and 194 in those quarters, in spite of us, in total, this equity over 500 million of capital to shareholders.

So, we believe that the stability of our solvency number is one of the more agreeable features of our balance sheet. Headroom, Tier 1 Headroom stays above 1 billion, Tier 2 and Tier 3 headroom 747 million, up 100 million since the last time we measured. So, we continue also to add solvency Tier 1 and Tier 2 headroom, which gives our group substantial amount of capital flexibility.

LAC DT at 60% of our potential, that appears to be a reasonably conservative number. But again, you can see this number, the own funds and the required capital and how we got to 194%, we're particularly pleased with the -- not only just the level of capital, but also the build-up of the capital and the amount of Tier 1 capital in there.

Page number 13 gives more intelligence and details on the solvency of life, our Life segment.

From a capital perspective, this still is the biggest entity that we have. The solvency level of our Life business is 187%, own funds of 5.2 billion, required capital of 2.7 billion. Just as a background, 187% solvency as is, at a UFR of 2.2, which we reflect on as a more economic metric of solvency.

The Life segment solvency would be around 134%, still substantively above a 100. And if you would exclude the UFR of the volatility just altogether, in our estimate, the Solvency II of our Life business would still be above 100%. So, very strong solvency on Life business in 187%.

Page 31 and page 32 of our document gives more detail on the Life earnings and the Life back book, which no doubt will feature in your questions but has some more intelligence here. And to complete, the Solvency II of our non-life entity has had this 189%. So, where the solvency of the group is 194, both are legal entities, has Solvency II ratios according to standard formula, substantially over 180%, 187% and 189%, respectively.

Moving down from stock to flow on page number 14. There are various ways to look at the solvency of capital development. I would say, if you ask 10 analysts, you get 15 different metrics to look at the Voordeelpakket and decompose [ph] your delta in solvency, we share two capital accretion, which is on page 14 and organic capital creation, which is the next page.

Capital creation basically is the delta between the solvency at the beginning of the period, at the ending of the period. And then broken down into sources and uses of capital. As you can see, we sourced or created about 690 million of capital in the first half year, just by running the business.

Here we're talking about technical results, underwriting results, investment result and release of capital from our book. How do we spend or use the capital? We spend about 357 million in our business, which is adding to market risks, which is the absorption of the UFR unwind, which is the payment of contractual obligations to our bondholders, which then leaves about 330 million of accretive capital.

Of this, we have spent, we have paid 153 million in total on share buybacks, retaining about 180 million on our books in the first half year. And as you have seen in our press release, a contingent upon a final sell-down, contingent upon the situation at that time, it is our intention, or we are exploring that the entity spend about a 100 million buying back shares of this further retained capital in the first half of the year.

If we would do that, we'll bring the total distribution to our shareholders in this calendar year to well over 400 million. But again, we said that no matter how you book it and decompose capital developments, there was 690 million we added, 360 million that we used and of that, the remainder was 330 million, was accreted of capital, out of which we shared already about a 150 million.

On re-risking, page 27 of our document shows development in our required capital, the SCR. It gives a bit more color on how we re-risked. The market risk of our group increased by 182 million in the first half year, predominantly in equities.

There was a small increase in real estate and small increase in credit risks. Those were the key areas that we allocated market risks and we've used our currency risks. Increased our counter-party risk a bit, mainly in mortgages, 30 million more consumption of SCR mortgages, some on medical expenses. And in our business side, you can see that the allocation of capital is gradually tilting towards non-life, with the additional use of capital of the Non-life business exceeded the use of capital in our Life business.

Page 27 shows you the bridge of our delta SCR, as you can see how our capital consumption moved. In terms of the whole re-risking program, program nearing completion. We spent about seven points SCR point in the first half year, about 5 percentage points in Q1, 2 points in Q2. We're done on equities. Actually, we de-risked a bit on equities at the end of last quarter and during the summer in Q3, more from a tactical perspective as we felt that the market was a bit heavy. There was small de-risking of equities.

On the mortgage side, nearing completion. We produced over a billion of new mortgages in the first half year and we are happy with our mortgage allocation. Real estate, we are actually done on real estates. We will make some small adjustments. Remember, we allocated more to real estate in the first half year as we warehoused the offices portfolio of our books. That added to our real estate exposure in the first half.

Then at the end of the first half and during the summer, we placed those assets at external investors according to our plan. That will now make up because that came out of our own balance sheet and that will give us more room to invest into real estate. We can move that to our target allocation. So, re-risking virtually complete, bit of work to be done on credit and headroom to refill the real estate allocation of those assets that we sold to third-party investments.

Moving to page 15, which is the organic capital creation or the solvency movements. On this page, you can see the below the line and above the line development of own funds in our SCR. Very pleased with a capital increase of 10 percentage points before buyback. So 189, move to 199, after which we had a 5% spent on buyback and about 194%.

Organic capital generation, 193 million, consisting of -- which is about, over 6% of capital in the first half, which roughly is 4% of operational capital generation, 3% of release of capital, 1% UFR drag and no movements, and then 4 points in market and operational developments.

What we like of this number is that the total eligible own funds increased by 143, plus 500, and we think that ultimately, in the long run, the test of success in insurance business is whether one is able to generate own funds. That actually adds to solvency back book. So, 643 million of own funds. Second agreeable feature, the release of the risk margin, 58 million exceeds the unwind of the UFR. So, I guess stability and perhaps inherent stability to our solvency level.

And finally, we believe the operational capital generation of 143 is in line with -- we are not giving any guidance, but should be more than sufficient to cover ordinary difference during the year, if you reckon that we added 143 million of operational business capital generation in the first half of the year.

A few words on the market and operational developments. We can spot 500 million of own fund generation and a 188 million of allocation of capital. In terms of points, that is 4 percentage points in solvency, and the calculation goes as follows. And everyone with pen and paper in the hands should follow me. 12% of additional financial market returns, plus small modeling gains, plus 3% gain on the Unilever transaction leads to 15% of point of SCR, take out 7 points of re-risking, take out 4 points of the lower VA, give net increase of 4 percentage points in our solvency ratio. So it's 12 plus 3, minus 7, minus 4, equals the net 4% of additional market and operational developments contribution to our solvency level.

Furthermore, please note that the organic capital generation of 193 million equates about 70% to 75% of the operating profit after tax and after hybrid. So the conversion ratio of profits to capital stable at about 70% to 75%. No doubt you have tons of questions on this. We will take them as they come. But so far we're pleased with the organic generation of capital.

Page 16, then shows the sensitivity of our numbers for various UFR levels. You will remember that we believe that the UFR, that is commensurate to the actual cash investment return of our mix is a good metric or a good view on the economic solvency of the Group.

Historically, we've estimated that number at 2.2%. We will revisit that number, of course, at the end of the year. Also bearing in mind, actual cash yields, bearing in mind, the actual rate levels that consisted at the time. But at the UFR of 2.2, our Solvency II ratio would be 151% in ASR as a Group, or have (inaudible) for ASR Life and at that level, the UFR unwind would be less, would be lowered by about 60 million and the eligible own funds would at that point be 5.4 billion.

This picture also has the numbers for the end of the year to 4.05 UFR, that EIOPA is predicting for the end of the year. And the target of 3.65, which is the current target level that EIOPA has in mind for the UFR, if and when we get there. And you can see that our solvency ratio would have moved to 1.91 or 1.83 respectively and UFR unwind would be reduced by 3 million or 13 million, respectively. So, this should give the analyst community sufficient material to perform calculation and assess solvency basis, capital basis at various UFR levels, 4.2 sufficient number dropping to 4.05. Economically speaking, we think the 2.2 is probably more relevant figure, which then can be compared to something that should be well above 100. And at 151, solid [ph] the UFR at 2.2, we are safely and surely above 100%.

Page 17 shows the group's sensitivities. As you -- as we have presented it before, our starting point in solvency should be enabling us to absorb visible sensitivity without endangering any dividends paying levels or investment payment levels. You can see here the spread level, where we show the basis points impact after a VA adjustment. Roughly speaking, any point in VA, one point in VA is one point solvency ratio.

So, 75 basis points of credit spread impact is after a 21 point of VA contributions and 21 point of VA tends to be 21 solvency points, so that you can actually break down numbers into a gross and to a net number. The number that's not on this page, which you may find interesting is a sensitivity in new government spreads to sovereign spreads.

If the sovereign spreads were to widen by 50 basis points, 5-0, we would assume at that point, the VA would also widen by 9 points, giving us a net-net 5 percentage point drop in our SCR ratio. So, 50 basis points spread widening in sovereigns, minus 9 or supported or deflected by 9 point VA widening would give a 5 percentage points drive in our solvency ratio, setting our solvency for your approval.

The sharper analysts will find that the interest sensitivity of the Group has changed a bit. We manage and hedge our interest rate risk on an economic basis, on a cash flow mix basis as much as possible. In practice, we have a hedging bandwidth because we can never precisely hedge a rate risk. Given the market environment, we have actually looked for the upper end of the bandwidth, the interest rate sensitivity of the Group has increased a bit. Within our management bandwidth, we have allowed the team to take a little bit more interest rate risk and to be a little bit more interest rate exposed, given the developments on QE, that appears to be gradually unfolding.

So, you can see the rates sensitivity of the Group to grow up gradually, which is still within our bandwidth, but at the upper end of the management bandwidth that we've set.

Finally, our strong and resilient balance sheet on page number 18. We'd love to stress that our balance sheet is very strong. Various metrics, solvency too strong in terms of levels and in terms of composition. Substantive flexibility, look up Tier 1 and Tier 2 and 3 headroom. As a management team, we always think about, are there opportunities to use a Tier 2 or Tier 3 headroom? And if an event would take place, we would certainly explore various Tier 1 or Tier 2 opportunities. To further support our balance sheet, we've got headroom there.

Cash remittance, we upstream 250 million out of our businesses to our holding. It is not a restrained number. But we cannot do more.

It's a deliberate choice to keep the cash and capital in our various operating entities. We did upstream 254 million, but there is no limitations. It just -- it's our policy to keep cash there where people are making the money. And if you look at the operating returns of our entity, of (inaudible) that's where money is being made, the solvency levels of our entities, which I said was well above 180 do not provide at this point in time any limitations for upstream enough capital. So, no concerns in that field.

Leverage metrics, financial leverage, 23.5 on an IFRS basis, well within our target range. Double leverage, 103%, within our target range. Had we not bought back shares for 153 million, our double leverage would have been nearly precise under 100%, actually 100.3% would have been a double leverage excluding share buyback. So, we are still very safe within our range. Interest cover, 15 times on an IFRS basis, and 11 times on operating earnings basis. So, we think ASR (inaudible) was a very robust and resilient balance sheet.

That ends my presentation. And knowing that Jos loves nothing more than wrapping up, I'd like to take the

(inaudible) back to Jos.

Jos Baeten {BIO 2036695 <GO>}

Thank you, Chris. And it's not only wrapping up the story, I will wrap you up afterwards. So before we open the session for your questions, I indeed will conclude some key takeaways.

We are very proud of the strong performance during the first six months of this year. The increase in our operating performance was driven by solid performance in all of our business segments and we're very happy with that. Especially, I would like to mention, again, our underwriting and claims handling skills, combined with the financial discipline resulting in a market-leading and profitable combined ratio. Particularly noteworthy is the fact that each product line is ahead of target.

Our solvency, as Chris already explained, remains robust at 194. And just to reiterate, this is still based on the standard formula and after absorbing re-risking and share buybacks. We believe that with this strong balance sheet and Solvency II, we are in a very good position to pursue profitable growth, both organically and through acquisitions.

And finally, as already explained, we consider on top of the earlier commitment to buy back an additional amount of circa, EUR100 million of shares, if the Dutch State should decide to undertake a final placement of its remaining equity interest in the second half of this year. And I am sure, and I want to stress that you will understand that this is an intention and that this intention is dependent on the then prevailing market conditions and undiminished strong solvency.

With that, ladies and gentlemen, I hand over and we're happy to take questions.

Questions And Answers

Operator

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

Q - Cor Kluis {BIO 3515446 <GO>}

Good day [ph]. Got a couple of questions. First of all, about your solvency. It's already very strong solvency, but it seems that you have used quite conservative LAC DT assumption, especially in life insurance of around 60% and some peers are using more around 75%. Could you give an indication of what your solvency ratio would be, if the solvency of the LAC DT would be 75% and what it would be if the LAC DT would be around 100%?

And second question is about the de-risking. You de-risk somewhat on equities and real estate, as you explained during the call. What's the positive Solvency II effect of those two actions? And last question is about the fire. So, I believe [ph] some of the large fires, which we've seen here in the Netherlands in the third quarter around 5 or 6 now already. Holland Casino was a big one, of course.

Can you give some indication about the P&C combined ratio going into Q3? Do we have to be a bit more conservative? Or -- yeah, do you have better underwriting than peers like we have seen in the last eight, nine quarters? Those were my questions.

A - Chris Figee {BIO 18815839 <GO>}

Okay. Very good. On LAC DT, we have indeed used a LAC DT figure of about 60%. Look, I'm not going to comment on what our colleagues do. I can only comment on how we run our business. Although we tend to think pretty conservatively on our LAC DT numbers, I think -- but there is a Russian saying that says free cheese can only be found in a mousetrap.

The LAC DT is a number that could vary over time. And in our view, you don't want to have a LAC DT number that's very much dependent on current performance of the Group because then you enter a situation. If you ever have a dire year and your solvency is under pressure, you don't want to have LAC DT evaporate at a time when actually you need it most.

Our LAC DT, if you think about the various components that LAC DT could have, uses predominantly component one, two and three, so a very little use of component four, except for the runoff of the risk margins. So the runoff of the risk margin and the contribution that that does to your future, brings capacity. That actually is the only part of component four that we've used in our LAC DT, which means that today, in our view, there's very limited downside to it. Is there upside? Possibly, possibly, but that depends on us reviewing that number.

It also depends on us reviewing our DTL position over time. In terms of sensitivity, if we were to move the LAC DT of ASR Life to around, say, 80%, that's the number that I have. I guess that would add about -- for the Group, about 6 points -- about 8 points of solvency for the Group. So from 60 to 80 for ASR Life, group solvency would move up by 8.

Were we to move LAC DT to 100, from 60 to 100, that would add about 17 points for the Group, although I think in practice moving to 100 is a pretty daunting exercise. And I think that's -- yeah, that would create a vulnerable number. But it gives you some feel for the flexibility that LAC DT has or the impact it has. We believe downside is limited.

For upside to take place, we need to view component 4 because there is an EIOPA consultation paper out there at this point in time. The consultation paper does note that various European countries have various perspectives on the LAC DT. And that the largest two countries, Germany and France hardly use component four. So, I have no crystal ball on what EIOPA will decide, but we think at this point in time, it is wise to have a stable, defendable number and don't run ahead of what EIOPA does, especially -- however, first, we'll have to see how our LAC -- our DTL develops as well. But these numbers give you some feeling. 60% to 80% would increase Group solvency level by about 8 points in SCR.

On the de-risking, well, that has a small benefit. When we de-risk vivid equities, it's much less than we added in risk. But actually, it was more profit-taking exercise than a massive de-risking. It may support Group solvency ratio across all the activities at the end of June and July by 1 point or something like that, that order of magnitude. So we de-risked. It was like a profit-taking exercise rather than a massive de-risking or solvency push-up exercise.

A - Jos Baeten {BIO 2036695 <GO>}

And your last question, Cor, on the developments of the combined ratio in non-life. Until now, and we're not giving any guidance going forward. We haven't seen any large adverse developments. As far as I know, we were not in one of the large claims in the big fires last period. But theoretically, it can happen tomorrow and the same is for weather-related claims.

As we have seen last year, it could be possible that a big storm occurs and that would harm us too. And as said, if we look at our combined ratio in non-life, and I would normalize that for the four-years average in large claims, it would be still below 96. So in terms of looking forward, a number between 92.5 and 95.5 is a safe number, as far as we can see it today.

Q - Cor Kluis {BIO 3515446 <GO>}

Yes. Okay. Very good. Thank you.

Operator

The next question comes from Mr. Albert Ploegh, ING Bank. Go ahead, please.

Q - Albert Ploegh {BIO 3151309 <GO>}

Good morning. Yeah, three questions from my side. Two operational ones. First, on the Life performance. The technical result was down. You mentioned on the mortality side with influenza. But is that the full explanation of the year-on-year decline or is there something else going on as well?

And then the second question on the non-life, on the disability. Yeah, premiums were slightly down. You mentioned also in the presentation that some clients switched to the UFR due to better pricing. Basically, where will this bottom out because, I guess, this trend is not yet fully ended? So, maybe a little bit more color on the premiums, on disability would be helpful.

And the third question is on, let's say, your capital allocation. And you mentioned also in your opening statements, to remain disciplined also on bolt-on acquisitions. Is there anything you can give, let's say, an internal update on the pipeline or is there anything to be expected there? Or is it still quite silent on that side in terms of files?

A - Chris Figee {BIO 18815839 <GO>}

Very good. Albert, let me -- it's Chris. Thanks for your question. Let me answer your question on Life, on the technical result. It went from EUR59 million to EUR46 million, 13 million decline. I would say about -- obviously about 8 million decline, that was a lower mortality result, which we see as predominantly incidental. We had an influenza wave in the winter that caused more deaths. So, 8 million of that is incidental influenza wave. 5 million really is other stuff that happens in the business. So the majority of the decline of the technical result, we see as an incidental event because of influenza in the winter.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay.

A - Jos Baeten {BIO 2036695 <GO>}

And on your non-life question on disability, Albert, we have seen quite aggressive pricing from the UWV in the BeZaVa area, and we have decided not to compete with irrational pricing, at least from our point of view. That did cost in our top line roughly 13 million of gross written premium, so the effect is not that big.

Going forward, if a client decides to take insurance from the public system, he is obliged to stay there for three years. So, those customers will not return in the next three years. We don't expect large adverse developments going forward. But before this area will start to grow again, that could take another two to three years. So, hopefully that answers your questions.

On acquisitions, I'm hesitating a little bit, but let me tell you a story about my youth. When I was young, I loved to look at beautiful girls and I tried to understand how their character was. But I never discussed this with my parents until I was sure that she also would fell in love with me and we were able to have some kind of an understanding that we would go further with each other. So -- and actually, the same is with acquisitions. We see a lot of beautiful girls, some with a nice character, some with a less nicer character. And as soon as we have decided to engage, then we will come up to the market.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yeah. Okay.

A - Jos Baeten {BIO 2036695 <GO>}

But we still see a lot of beautiful girls.

Q - Albert Ploegh {BIO 3151309 <GO>}

Let me then rephrase little bit. I mean, yeah, so far you've been very explicit. The buybacks done and also to help hold the budget, the 100 million, you announced this morning, very much tied to the sell-down of the government stake.

But yeah, you're still generating a lot of capital, as you show. And I know you're looking first for organic growth bolt-ons. But I mean, the headroom still remains quite a lot. So, yeah, I would like to find out, I mean, is an ongoing buyback program something you clearly consider if there would be no files on the table?

A - Jos Baeten {BIO 2036695 <GO>}

What we have said, as from our IPO, we are not capital hoarders. So if and when we don't see any opportunities to invest organically or inorganically in the business and our return on equity would start to deteriorate, then we definitely would come up with the most efficient way to return capital that is not used by the Group to shareholders. At this moment in time, we still see sufficient opportunities to put capital at work. We still see organic growth opportunities and some inorganic growth opportunities.

Q - Albert Ploegh {BIO 3151309 <GO>}

Thank you.

Operator

The next question comes from Mr. Steven Haywood, HSBC. Go ahead, please.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Thank you. I'm just wondering, out of curiosity, if the Unilever transaction was not announced, would you have been in a position to announce the potential 100 million buyback that you're expected to do when the Dutch State sells down? Just out of curiosity, that was.

And then, you mentioned there are 20 million earnings from both of your non-insurance businesses. Now, is this the limit of these operations, or do you think they can potentially get bigger and contribute more to the Group? And if not, then I guess, what are the bigger drivers going to be of the Group in terms of the Life business and the non-life business, where is the growth going to come from here? Thank you.

A - Chris Figee {BIO 18815839 <GO>}

Steve, on your first question on the Unilever trade, yeah, that's perhaps speculation on a what-if scenario. We would have to see at that point. Safe to say that excluding Unilever, our solvency would have been 191%, so still well-positioned to return capital and to continue to invest in our business. What we have done at a time? Honestly, it's kind of speculating on a hypothetical event.

From our perspective, 191% ex-Unilever would have been a very robust and solid solvency level that gives us lots of capital flexibility because we found that the Unilever was a tremendous exceptional event and we'd love to share exceptional gains with our shareholders.

And as you'll see, this all was -- we're not going to -- we can't write a blank check. I mean, it depends on the timing of the sell-down and depends on the situation at hand. But our intention is to share an exceptional gain over and above what we are running on with our shareholders.

In terms of the 20 million distribution business, we think this business would grow this year towards a 20 million annual run rate. That is not the end of it. And this is a growth business. So, we think there's further growth in this business ongoing. So, we said, in the long run, we believe the distribution business should have between 5% and 10% annual profit growth and that number, I think is still there. So it's good growth of 20 million and it continues to grow at a reasonable pace between 5% and 10% going forward. We still stick to that forecast.

Q - Steven Haywood {BIO 15743259 <GO>}

Yeah. And -- yeah, you mentioned that on -- you mentioned 20 million earnings for the banking asset management as well, but in the long-term, is that the capital or is that potentially a gain to grow this business as well?

A - Chris Figee {BIO 18815839 <GO>}

No, the distribution side is nearing the 20 million mark. It's -- exactly half of it in the first half year, so double you get to 20. And we think -- well, 20 is more like a mental number but this has relevance and substance. If it's 20 million, you guys, at least you are noticing it. So, thank you for that. So, when it's 20 million, it's noticeable business, it could grow from there.

Our Banking, Asset Management is not yet at the 20 million mark, but I think it's on track to get there eventually and continue to grow. So it's not a cap. Short of a cap, the distribution business is already at the level of substance and will continue to grow. Banking, Asset Management will grow to work substance, and I have no reason to believe that they will stop growing after that.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. I appreciate that. Thank you very much.

Operator

The next question comes from Mr. Robin van den Broek, Mediobanca. Go ahead please.

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

Yes. Good morning. Thank you for taking my questions. The first question is on slide 25, where you annualized your net operating result to get to your ROE number. I was just wondering the 544 million, of course, includes equity dividends and a particularly strong combined operating ratio in the first half of the year.

But could you maybe give some more elaboration on how close could we get actually to the 544 for the full year, also giving and taking into account some more cost savings coming through and the re-risking program that you have launched? That's the first question.

The second one is on your long-term investment margin assumptions. You indicate that you significantly outperformed on those assumptions again. I was just wondering if you could quantify that. And I'm, of course, aware that these are long-term investment margin assumptions. So -- or you probably don't want to revise them next year, but how will you look at this going forward? How soon could you be revising these assumptions again because it seems to me that your peers are more aggressive there and you are basically pushing more organic capital generation towards the market bucket. That's the third -- second question.

And the third one is on the payout ratio. I think you've indicated that, yeah, you are enjoying some benign operating conditions throughout this year so far. How should we look at your payout ratio with regards to the DPS? Are you looking for a sustainably growing DPS, or are you more looking to have a flattish payout ratio going forward? Thank you. Those are my only questions.

A - Chris Figee {BIO 18815839 <GO>}

Robin, thank you. On your ROE question on page 25, the ROE of 17.4 is the annualized version of the half-year figure, so it's a mathematical effort to annualize the number. It's not a forecast. In terms of where is the business running, we don't do earnings guidance. It's a matter of principle to not give earnings guidance.

However, we can give you some, as a calculatory assistance in terms of where is the year. In the first half of the year, we ran a profit -- operating profit of 385 million, over 190 million in each of its first two quarters. In the first quarter call, we indicated the underlying profitability of Q1 was around 175 million, although we booked, we realized, we created actually more.

If you then look at the results for Q2 and take the broader half in perspective, in the first half year, we had a 17 million, 1-7, benefit of no storms. We tend to budget storms, which is a bit odd but that's how you plan. And the fact that there were no storms, added 17 million to our profits.

Also, in the first half of the year, the dividend season is -- and dividends add to our operating results. And the third component is our project spend tends to be a bit bigger in H2 than H1, when projects come on still.

On the flip side, the summer appears to be very safe, although Q3 is certainly not yet done. There is no indication of any large storms in the summer. And secondly, the re-risking impact starts to feed in into our earnings. So, with that in mind, you should be able to calculate the number.

I would not multiply the 385 million times 2. We can only be sure when the year is over. But the 175 million of underlying result in Q1 is probably a pretty safe and solid estimate to how the business is running operationally, with potential upside from no storms or no fires.

In terms of our long-term investment margins, I think we've communicated those in the last -- over the last year. We will keep them stable. If you think about the different elements between the operational bucket and the market return bucket, there is some giving and taking between the two.

Our spreads: sovereigns, non-core sovereigns and credits, the relative spreads are a bit -- that we issue are a bit higher than what we actually realize. So, in the bond field, the OCC borrows a bit from bucket number -- market, frankly, about 8 million in the first half year.

In the mortgage field, we're flat, a small contribution towards the operating environment bucket. In equities and real estate, we've planned for 300, up to 330 basis point spreads. Depending on where you think the (inaudible), I've seen insurance companies plan for 7% UFR [ph] in equities. We think that is reasonably aggressive. We'd rather stick to something else.

But if you add 1 percentage points higher returns, we've got about 5.5 billion to 6 billion of equities in real estate, meaning 1 percentage point, 100 bps, is already 50 million, 60 million. So, we think the OCC that we produce is a replicable, sustainable number across the cycle. If the bond side borrows a bit from market variances, the equity and real estate blends an accurate [ph] market variances.

Furthermore, this is based on a long-term VA, a VA of 20 basis points. So, we have 20 basis points to accrue interest on our liabilities, which also is a reasonably conservative factor given that the VA today is about 9 points. So, if you put a gun to my head, I think that's probably between 50 million and 100 million in the first half year that is in bucket four, which -- some more frivolous insurance companies could have added to bucket one, OCC. Something we do not do, because it's not something you can bank on.

But net-net, I think it's fair to assume that in the long run, bucket four will have a -- tend to be a positive number, rather than a negative number. Now, we appreciate that the market doesn't easy pay a multiple for that, but as described [ph] on page 4, a very predictable and solid OCC. And that's what we feel very comfortable with.

A - Jos Baeten {BIO 2036695 <GO>}

And, Robin, on your last question on the payout ratio in dividend, our communicated dividend policy is actually between 45% and 55% of the net operating profit after hybrid costs. We -- in our philosophy, we think it would be difficult to come up with a message that dividends, it has gone down over time. So, our philosophy is that it needs to go up on a year-by-year basis.

I think in the last three years we have proven to be able to grow our dividend. So, as long as we are able to grow our dividend on a year-by-year basis, based on the dividend per share, I think the 45% is a good starting point for our dividend policy going forward.

And a check we all -- we always have a check, double check on what part of our organic created capital is returned to shareholders. And if you were to recalculate the dividend payment rates based on the organic capital created, then it would be close to 70%. So, we return a large part of our generated capital to shareholders and that's possible because of our well capitalized balance sheet.

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

Okay. Thank you. These are very clear answers.

Operator

The next question comes from Mr. Darshan Mistry, Citi. Go ahead, please.

Q - Darshan Mistry {BIO 19807857 <GO>}

Hi, there. Darshan Mistry from Citi. Thanks for taking my questions. My first question is regarding the non-life business. I noticed there was a quite significant decline in reinsurance premiums that were paid in the first half of '17, so just wondering if there's been any kind of stunt -- change in reinsurance policy.

And, secondly, regarding the low level of large claims that you are experiencing within P&C, are all of the lower levels of large claims coming from benign weather conditions, or are there any other kind of structural changes happening in the market that could drive down large claim levels? Thank you.

A - Chris Figee {BIO 18815839 <GO>}

Let me answer that, Darshan. No major trend in our reinsurance. We had -- we've eliminated some -- all the reinsurance programs in the disability side, but we used to have a disability program, a reinsurance program on disability, which we felt did not provide sufficient return on capital, or at least the cost of capital of the reinsurance program was not sufficiently attractive, so that was being terminated.

And secondly, the reinsurance market was still reasonably soft, so pricing was relatively favorable to us. So, reinsurance side, termination of disability reinsurance contracts simply from a cost of capital perspective,

and generally speaking, we were benefiting from relatively soft reinsurance markets.

In terms of our claims, if you look at our claims, of course, benefit from no large claims, no large -- no bad weather. But also recall bulk claims -- so the majority of lots of small claims. Bulk claims frequency is also running below the level of last year, somewhat affected by the water damage and water storms of last year. So, it's hard to gauge, but out gauge, our assessment is that bulk frequency regular claims are below last year.

The book claim ratio in our Group is below 55% for the last 14 quarters. So, I always look at the bulk claims, large claims and calamities and the bulk claims ratio has been below 55% for the last 14 quarters. So, internally speaking, it's not just the absence of large claims, not just the absence of storms, but also underlying claims frequency is running a bit better than what it used to be.

Q - Darshan Mistry {BIO 19807857 <GO>}

Perfect. Could I just follow-up? So, you made reference to the underlying claim rate being below 96%. But, I mean, if you say that, part of that is driven by the lack of large storms and poor weather that you've seen in previous years, there still seems to be some improvement on your guidance. So, at what level should we take as the kind of current underlying, on a normalized weather basis, but take into account lower levels of bulk claims that you just mentioned?

A - Jos Baeten {BIO 2036695 <GO>}

Darshan, that would be somewhere between 95 and 96 at the moment. As already explained before, if we would normalize our claims ratio, taking into account Chris' story, then it would be up roughly 2% compared to what we've done over the first half year.

Q - Darshan Mistry {BIO 19807857 <GO>}

Perfect. Thank you very much.

Operator

The next question comes from Mr. Ashik Musaddi, J.P. Morgan. Go ahead, please.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Good morning, Jos. Good morning, Chris. I have couple of questions. First of all, can you give us some color about UK Life earnings? So, how should we think about that going forward? Because, I mean, UK life earnings have gone up by 50% over the past two years.

Going forward, you are suggesting that you're more or less done with the asset re-risking. And if I look at slide number 31 or something, I mean, 40% of your business, which is individual life, linked and nominal, is shrinking in nature, per say, I mean, structurally. So, whereas pension DB market should be tough to grow at the moment or even maintain at a flat base because of low interest rates. So, how should we think about the growth in Life earnings? Will this amortization of realized gains reserve keep on moving those numbers higher, or will it be more or less flat, shrinking? So, any thoughts on those things would be really helpful.

The second, Chris, you mentioned that you basically borrow from the -- in terms of capital generation, when I think about the sovereign spread, you are using over the cycle sovereign spread. So, you mentioned that you actually borrow from the market bucket. Is it possible to quantify how much you borrow from the market bucket every year? Because this is something that I think is already embedded in your portfolio, i.e., we know what is the market consistent spread you should be earning. We know what over-the-cycle assumptions you are using. So, what is the difference between the two?

Because see, in terms of equity return, we don't know what equities will give you. It will depend on equity market. But in terms of bond, we know what the spreads are. So, any thoughts on these two questions would be great. Thank you.

A - Chris Figee {BIO 18815839 <GO>}

You were referencing equity UK Life earnings? What -- I didn't really get.

Q - Ashik Musaddi {BIO 15847584 <GO>}

UK Life, sorry. No, no, Dutch Life.

A - Chris Figee {BIO 18815839 <GO>}

Because UK Life earnings tend to be pretty stable.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah.

A - Chris Figee {BIO 18815839 <GO>}

Not growing much actually, but --

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. I'm sorry.

A - Chris Figee {BIO 18815839 <GO>}

Our individual life earnings, yes, our Life book is shrinking. The actual asset base that we're in today is still very stable. So, I see no reason to forecast immediate decline in our life earnings, although the book itself is shrinking. It's spinning off capital that we're reinvesting, but the asset base itself, if you look at the claims payable for the book is going up because there is a funeral business, which is naturally still accreting in terms of volume. The pension book is free in terms of volume. And if I look at the asset base that we're running, it's still holding up pretty stable. So, I don't see (multiple speakers)

Q - Ashik Musaddi {BIO 15847584 <GO>}

But -- sorry to interrupt, but higher asset base should not really mean higher earnings or is it because it is just mark-to-market? You have logged in the spreads on day one.

A - Chris Figee {BIO 18815839 <GO>}

Yeah. But the higher asset base will allow you to actually make money on those assets. I mean, of course, you'd lock them in, but we find that reinvesting some of the results actually provides a floor to your assets. On the capital gains reserve, it is now 3.5 billion at Group, 3.4 billion in the Life business. It has remained stable. So, we've actually -- it has amortized over time.

It is something that's, of course, very pretty mechanical, if you wish. I think the fact that we added more capital gains reserve release to our P&L, the total amount has remained stable means that at least our Life earnings are well supported by this capital gains release. So, I see no immediate reasons for this to decline and there is some room for re-risking to further kick in. In the first half of the year, the re-risking happened during the year. So the first-half results contain Q1 numbers where the re-risking have not been fully built in.

In terms of the spread, the bucketing between OCC and the actual bucket (inaudible) -- organic capital generation and the market capital generation is that, it's my estimate that the government side borrows about 8 million in the first half year across the various categories than workers actually contribute. It depends a bit how you look at the pricing, but we write mortgages at 251 basis points. Swaps are 80 basis points today. So, there is a spread of 160 basis point on mortgages, where we bucket -- we credit ourselves with 110. So, there is a 50, 60 basis point spread on mortgages.

The actual credit losses, the losses of foreclosure are earning less than 1 basis point on a half-year basis, probably 1.5 basis points in the full year, so you get about 50, 60 basis points of additional compensation. Part of that is for options that we grant to our customers, so an early redemption option, a moving option, a pipeline option. But those are not always actually bucketed.

So, I believe that indeed, the bulk side borrows a bit from market variances. The mortgage side actually contributes to market variances. The VA assumption (inaudible) contributes to market variances. So, I would like to -- we've given you clarity, but a deflect notion that our OCC would be overstated, simply because there is more giving to the market variance buckets than there is taking. And as you see, whereas government bonds and yields and spreads are moving, actually that part is still -- the borrowing is actually declining significantly.

So, we think the 193 of the OCC across the cycle is a reasonable assumption of what we can make across the cycle. But the very feature of an across-the-cycle figure is that there are across-the-cycle differences between realities. In practice, we see today that the market variance is actually a positive number.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. That's great. Thank you.

Operator

The next question comes from Mr. Benoit Petrarque, Kepler Cheuvreux. Go ahead, please.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes. Good morning. Yeah, two questions from my side. First one will be on the combined ratio target of less than 97%. Clearly, H1 percentage were well below the actual level. Are you planning to review these targets?

We have seen very good pricing in underwriting environments.

Also, commission and cost ratio are down, I think 1 percentage point, especially last year. I think you've commented also on the P&C combined ratio of 96%, while I think you still have a target of less than 98%. So, are you planning to kind of review the combined ratio targets at Group but also at the segment level? That will be the first question.

Second question will be on the market impacts, especially on the kind of real estate side. So, how much positive revaluation you've booked in H1 on the real estate? I think you kind of review your real estate portfolio every year. But is that fair to assume that you've only reviewed part of your portfolio? And can we expect kind of a more positive contribution from revaluations in H2 on that book? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Benoit, on your first question, we just have started our budget season for the upcoming three years. Within that budgeting process, we, of course, will discuss the sustainability of all of our businesses and also of the combined ratio targets communicated to the market. And it's always a challenge to combine, on the one hand, growth of the portfolio and on the other hand, remaining in the right area of delivering lower combined ratios than projected. So, the outcome of that will be part of our full-year numbers communication.

We're discussing it right now and it's waiting. The balance between, on the other hand, remaining competitive and using a part of the combined ratio to gain market share, to gain healthy market share and on the other hand, delivering the results as we have done over the last few years. So, hopefully, that answers your question. And in the meantime, Chris is ready to answer your second question.

A - Chris Figee {BIO 18815839 <GO>}

In the meantime, I have revalued our real estate portfolio. In terms of -- how does real estate revaluation process work? Let me see, how does it works in practice. Every -- and, yes, everything we own is reviewed every quarter. So, four times a year we do a revaluation. Every quarter, there's a physical external taxation once a year. So, four times a review, once actually somebody goes in, an external valuator goes and visits the building and three times a year, we do a desk revaluation.

In the first half of the year, the unrealized revaluation of real estate was 24 million in the first half-year growth before taxes. So, 24 million unrealized revaluation, mostly in the housing, retail, and commercial offices space, not the lands. The lands actually effectively only needs revaluing in Q4. So, 24 million pretax revaluation in H1.

Will there be more to come? That would be a minor point of earnings guidance we don't want to give here. But rest assured, we do taxation every quarter, so there will be locations that will be revisited physically every quarter and the land book is done in Q4. So that gives you some color on the real estate contribution to the capital gains.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Great. Thank you.

Operator

The next question comes from Mr. Matthias De Wit, KBC Securities. Go ahead, please.

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

Yeah. Good morning. Two small questions left. First is on the Solvency II ratio. Since the start of the quarter, there have been important movements. So, I'm just wondering if you could update us on the main impacts we've seen quarter-to-date?

And secondly, it's on capital generation. If I understood you correctly, your current guidance is based on a volatility-adjustment of 20 basis points. Could you quantify the impact if you would use the current nine basis points?

And just to -- small follow-up on capital generation. Yeah, the release of the risk margin in EOF and also the SCR release continue to contribute materially. Should we expect any changes from these components going forward or is that quite stable for many years into the future? Thank you.

A - Chris Figee {BIO 18815839 <GO>}

Matthias, the last question, I didn't quite get your last question. What you're trying to ask?

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

Yeah. It's on the SCR release and the release of the risk margin in EOF. How should we think about these components going forward because they contribute materially to the organic capital generation? And just wonder whether you could see anything on the pattern of these -- the release pattern of these two components.

A - Chris Figee {BIO 18815839 <GO>}

On the quarter-to-date solvency, hard to say, it's fluctuates, probably a small drag in the quarter-to-date given where equity markets are, but again, within reasonable fluctuations. So, depends a bit on how geopolitical risks evolve. We'll see how the markets do. Probably a small drag is my estimate, but again, within the normal volatility that we have.

In terms of the volatility impact, I think it's a couple of million. You talk about probably 4 million to 5 million impact on the OCC in those numbers. Obviously, we can look up in more detail, but my estimate it has -- it's about 4 million to 5 million of contribution to the operations, the non-operating elements factor, solvency generation.

In terms of risk margin, SCR release, reasonably stable over time. I think you'll see in those two, the risk margin release probably is higher in the early days of our book decline SCR, higher in the back-end of our book decline. The sum of the two is likely to stay really stable in the foreseeable future.

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

Okay. And if I could just briefly follow-up that 370 million guidance you provided in Q1, including that re-risking impact. If I understand correctly, it's based on a 97% combined ratio target. Could you just confirm that, please?

A - Chris Figee {BIO 18815839 <GO>}

Yeah. Yeah, confirmed.

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

Okay. Very good. Thank you.

Operator

The next question comes from Mr. Bart Horsten, Kempen & Co. Go ahead, please.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes. Good morning. Few follow-up questions from my side as well. First, on the buyback. You linked it to the sell-down by NFLI before the end of the year. What if there's no sell-down this year? Would you then postpone it to next year, or could it also be possible that you will buy shares in the market in that situation?

And just a confirmation on your guidance on the Banking and Asset Management numbers. I'm not sure whether you said it will be around 20 million this year or that it's a mid-term target, so could you confirm on that? And lastly, every underlying business unit performs very well. You have a very strong capital position. I was wondering what's keeping you awake right now. And I mean, that's obviously on a business level. So, could you give some guidance on what's your biggest, well, worry, if that's the right word? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

On your first question, Bart, if and when, and if I would decide not to do the sell-down this year, it's difficult to answer that. It's going to depend on how solvency developments and market developments are. It's our clear intention to support the final settle down of the government. And we don't know when it will take place. That's up to the Minister of Finance. So if and when it wouldn't take place this year, we're not considering to buy back shares in the market. That was your first question. Your second question was about the...?

Q - Bart Horsten {BIO 2390919 <GO>}

Guidance on the banking?

A - Jos Baeten {BIO 2036695 <GO>}

Yeah. On the banking, we have explicitly mentioned Banking and Asset Management is moving towards the 20, but that's definitely not the number we will reach this year. We will reach that number probably in the area of distribution. There the 20 million will be feasible this year. But Banking and Asset Management, we're still investing in the asset management business, so that could take up to two or maybe two and a half years.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you.

Operator

The last question will come from Ms. Edina Rozinka, Deutsche Bank. Go ahead, please.

A - Chris Figee {BIO 18815839 <GO>}

What if the sell-down does not take place this year or next year? So, let me just -- sorry, I was just working on something else.

Q - Edina Rozinka {BIO 16575765 <GO>}

Hi, there. It's Edina from the Credit Strategist, Deutsche Bank. A follow-up question regarding the beautiful girls, please. Just wondering about your thoughts regarding the consolidation in the Dutch insurance market in general. And would appreciate if you could provide some color at least, where do you see opportunities and what size you would consider? As I see, you have about 750 room in the Tier 2, Tier 3 bucket, and you could issue easily a senior, given that your 30% leverage target. So, any color would be appreciated. Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Okay. Edina, Thanks. Well, we have always said in different statements that we are in favor of consolidation of the Dutch market. We have to be honest, the Dutch market is not a fast-growing market and in such a market, it's normal that there is consolidation. Our preference has always been a small bolt-on because we think they are -- we can integrate them in a very short time. So the market sees the results of such consolidation. We also have always commented on a larger consolidation.

If and when there are opportunities, we always will look at them. But we've also commented that we will do that within our strict financial criteria. A consolidation -- because of consolidation, it's not on our mind. It has to make sense in terms of our business. It has to make sense in terms of what we have promised to our shareholders. So if and when there would be an opportunity, we definitely would look at it.

Q - Edina Rozinka {BIO 16575765 <GO>}

Okay. Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Well, I think we forgot one question of Bart. And he asked what business-wise keeps us awake over night? Well, I think a few remarks. We -- our ongoing business definitely does not keep us awake. A few things are, at least on our minds. Still the interest rate environment and market movements do keep us awake because we can't influence them, but they definitely will influence our business.

Secondly, we see a change in customer behavior over time in the way how customers buy insurance. We're on that. We've invested in all kinds of new developments in IT. But we don't have a glass bowl, where we can see where the market is going to and that is definitely one of the things that is on the Board table.

And lastly, ASR is doing well. And everybody within our ASR is aware of that. And keeping everybody sharp that we not only deliver this year, but also over time is one of the things that us as a Board keeps awake because it's easy to look at the results and then to come up with, well, we don't need to save any cost anymore because we're doing quite well. So, keeping everybody within ASR sharp on the delivery of the results, as we have done until now is one of the things that is at least every week on the Board's table.

So, thanks for attending this call. Thanks for all your questions. If there are any more questions, please address them to IR. And to wrap it up, again, we are very happy with the strong operating performance we have shown over the first half year, especially because this was driven by the solid performance in all of our business segments, underwriting and claims handling skills, combined with financial discipline, drive market-leading and profitable combined ratio and as said, each product line ahead of target.

Life continues to represent an important part of earnings and organic capital generation. Robust solvency is at on 194 based on the standard formula and absorbing our re-risking and the share buybacks. Strong balance sheet enables us to pursue profitable growth organically and inorganically.

And we still see opportunities there. And as said, to finalize, we are considering an extra share buyback of 100 million in a possible final placement of NLFI in the second half of the year.

Having said that, I all wish you a very nice day.

Operator

Ladies and gentlemen, this will conclude the ASR conference call on the 2017 interim results. You may now disconnect your line. Have a nice day.