# Q1 2020 Earnings Call

## Company Participants

- Antonio Cano, Chief Operating Officer
- Bart De Smet, Chief Executive Officer
- Christophe Boizard, Chief Financial Officer
- Emmanuel Van Grimbergen, Chief Risk Officer

## Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Bart Jooris, Analyst
- Farooq Hanif, Analyst
- Farquhar Murray, Analyst
- Fulin Liang, Analyst
- Jason Kalamboussis, Analyst
- Robin van den Broek, Analyst
- Steven Haywood, Analyst
- William Hawkins, Analyst

## Presentation

### Operator

Welcome to the Ageas Conference Call for the First Three Months of 2020. I am pleased to present Mr. Bart De Smet, Chief Executive Officer; Mr. Christophe Boizard, Chief Financial Officer.

For the first part of this call, let me remind you that all participant will remain on listen-only mode. And afterwards there will be a question-and-answer session. Please also note that this conference is being recorded.

I would like now to hand the call over to Mr. Bart De Smet, CEO; and Mr. Christophe Boizard, CFO. Gentlemen, please go ahead.

### Bart 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 results of Ageas for the first quarter of 2020. I'm joined in the call by our CFO, Christophe Boizard; our CRO, Emmanuel Van Grimbergen; Antonio, our Chief Operating Officer; and Filip Coremans, our Chief Development Officer.

In these special times and for security reasons, we are however not all present in the same room, so we will have to be a bit creative in passing the questions to the different executive members.

The group net result was supported this quarter by a non-cash one-off related to the finalization of the fresh tender offer at the beginning of January. In the context of the global COVID-19 pandemic, our insurance activities have proven quite resilient over the quarter. We have been impacted by the global financial-market turmoil, which triggered to the significant level of impairments, partly offset by realized capital gains and by the interest rates movement, but the impact on our insurance operations has remained so far relatively limited both in terms of inflows and of claims.

The revaluation of our equity investment has heavily hit our P&L during the quarter, however our balance sheet remains strong, thanks to our prudent investment strategy to invest primarily in sovereign bonds. With more and more companies facing difficulties in the current environment, our lower exposure to corporate bonds compared to sovereign bonds has proven to be a sensible decision. And we provide you more details on the composition of our corporate bond portfolio on Slide 4.

The impact of a one-notch downgrade of the whole corporate bond portfolio on our solvency ratio, which remain limited to less than 5 points.

I would like to emphasize that both our capital and cash positions remains strong. Despite the volatility of the financial markets, our Solvency II Ageas ratio stood at 196% at the end of the first quarter and at 192% at the end of April, comfortably above our target of 175%.

And that's where our cash position stood above the EUR1 billion, when excluding the amount ring-fenced for the Fortis settlement and the ongoing share buyback, which gives us strong comfort that we are in a solid position to face the uncertainties brought by the COVID outbreak. As you know, we anyway complied with the recommendations made by the Belgian Insurance Regulator in the context of the COVID outbreak regarding prudency around the use of our capital.

We have adjusted the distribution of the 2019 dividend, while confirming our intention to pay over 2019 a total dividend of EUR2.65 per share. The first dividend payment of EUR0.27 per share will be proposed next Wednesday to the channel Shareholders' Meeting, and we intend to propose for approval in October and intermediary dividend of EUR2.38 per share.

Our Belgium subsidiary AG aligned to the group view, but the other operating companies have already decided an upstream of that dividend or will do so in the coming months.

The COVID-19 pandemic brings uncertainty over the overall economic slowdown and the volatility of the financial markets. Although our operations have proven resilient in this first quarter, it is too early to get the full and accurate picture or the total potential impacts that this pandemic might have. These exceptional circumstances may prevent us from achieving this year the net result that we expected. And we hope to be in a condition to provide you with a better estimate at the time of our Q2 results.

Two weeks ago, we have celebrated Ageas's 10-year anniversary. These past 10 years have been an eventful journey and this pandemic is not the first crisis that we have to overcome and will overcome. I strongly feel that at times like this, it's all the more important to live up to being as our purposes supporter of your life. Many initiatives have emerged within Ageas in the past weeks or months to provide our customers, partners and employees with additional support in these difficult times. We hope that they will bring some relief to the economic impact of this pandemic on society and will benefit to all in the long run.

Ladies and gentlemen, I now hand over to Christophe for details on the results.

**Christophe Boizard** {BIO 15390084 <GO>}

Thank you, Bart; and good morning, ladies and gentlemen.

As you can see Slide 5, our group result stood at a high EUR452 million this quarter. This result included EUR310 million net capital gain related to the tender on the FRESH securities, launched at the end of the last year and finalized at the beginning of 2020. This was already announced during the previous call reporting under Q4 2019.

An additional tranche has been acquired in April at 50% of the nominal value, generating a fair value gain of EUR23 million in the second quarter. I remind you that these gains constitute a non-cash element and will therefore not be available for dividend distribution. Our group net result also benefited from a positive revaluation of the RPN(I) for EUR56 million.

Under pure insurance scope, meaning without the holding result, the net result amounted to EUR113 million compared to EUR269 million last year. This decrease compared to last year is mainly explained by impairments on the equity portfolio in Belgium and Asia. Although impairments were partly offset by realized capital gains, the total capital gains net of impairment on our insurance operation amounted to a negative EUR36 million this quarter versus a positive EUR93 million during the first quarter of 2019, which you will remember was exceptionally good. Thanks to the favorable equity market in Asia at that time.

Our net result was also affected, but to a lesser extent, by the storms that hit Belgium and the UK last February for a total amount of EUR64 million, but the underlying combined ratio, meaning without the storms, was lower than last year.

As regards to the commercial performance, our inflows decreased by 7% of the quarter as our continued growth in non-life couldn't offset a significant decrease in life.

As usual, I will give you now some comments per segment. Slide 6, in Belgium, our life net result suffered from a EUR60 million impairment impact, resulting from the weak equity market at the end of the quarter. Consequently, our life result ended in negative territory, despite a higher underwriting result. These impairments, along with lower recurring real estate revenues, weight on the guaranteed margin, we have here to mention the significant drop in revenues from our controlled tire parking business, Interparking, because of the COVID-19 lockdown.

The unit linked margin, which stood at 47 bps compared to 26 bps in Q1 last year was supported by higher management fees, whereas in Q1 last year we had the impact of higher costs.

In non-life, the strong operational performance in motor and the sale of two old reinsurance portfolio in run-off mitigated the claim cost related to the storms. Without these weather events, the combined ratio would have stood at 88%. The net cost of the storms amounted to EUR20 million as part of the gross cost that was shared with the reinsurance segment, who the -- internal Quota Share agreement.

I take this opportunity to remind you that, as previously announced, we have increased this quarter, the cession rate of the Quota Share reinsurance agreements between ageas SA/NV, the holding, and the operating entities in Belgium, UK and Portugal, and the new cession rate is now 40%. Although this has no material impact on the group net results, it has, however, an effect on the result by segment.

Regarding the commercial performance in Belgium, life inflows were down compared to the exceptionally high level of last year. 2019 benefited indeed from a successful sales campaign in unit linked and high guaranteed inflows in the bank channel.

In non-life, all business lines contributed to the continued growth.

On the UK, now, on Slide 7, the impact from the adverse weather on the net result amounted to EUR15 million, while the motor business continued to suffer from market wide claims inflation. This quarter confirmed the stabilization of the inflows, supported by steady growth in commercial lines through digital distribution and increased volume in household, thanks to new distribution partnerships.

In Continental Europe, Slide 8, our life result was strongly up driven by a reserve release in Portugal, where we aligned local resulting policy with a group policy. These had a positive impact net of EUR20 million on the result and this was partially offset by the adverse evolution of the financial markets. While this reserve release through the guaranteed margins strongly up, the unit linked margin, on the other hand, declined sharply due to exceptional arbitrage cost in France in the context of intense market volatility. This one-off cost completely offset the improvement in Portugal.

In non-life, Portugal did very well with an excellent combined ratio of 87.3%.

On the commercial front, non-life inflows continued their strong growth with sales up in whole business lines.

In life, the strong increase in unit linked inflows could not fully compensate for the sharp decline in guaranteed products in Portugal in the current low interest rate environment. In this country, we are in a transition phase marked by the launch of new products better suited to this low-yield environment.

In Asia, Slide 9, we recorded (technical difficulty)

## Operator

Ladies and gentlemen, we have an issue. Please wait a minute. We will start over in few seconds.

## Christophe Boizard {BIO 15390084 <GO>}

So, I am on Slide 9. In Asia, we recorded resilient result this quarter compared to an exceptionally high result in Q1 last year. As previously announced, the COVID-19 had a limited impact on our claims. Nevertheless, we suffered from three things. The equity market declines that triggered some impairments, especially in Thailand, where the market was down by nearly 30%. This was partly offset by equity capital gain in China.

The difficult context to sell life product with a lockdown, fortunately the decrease in the life inflows remain limited, thanks to the large part of a regular premium products in our business mix and to the excellent persistency level of the non-life business where strong sales momentum continued with double-digit growth.

And then the third and the last thing, the decrease of the government bonds yield in China, which amplified the unfavorable evolution of the discount rate curve. Given the evolution of the Chinese government yield, the discount rate curve is expected to further decline throughout the year.

Overall, these three negative impacts of the COVID-19 were mitigated this quarter by the solid operational performance.

The reinsurance segment now, so on Slide 10. So the reinsurance segment was heavily impacted by the weather events in Belgium and the UK.

Moving now to the balance sheet items and capital position. As you can see on Slide 11, the total liquid asset stood at EUR1.6 billion at the end of the quarter, following the EUR513 million cash out for the tender on the FRESH. Excluding the amount ring-fenced for the settlement and the cash set aside for the ongoing share buyback, our total liquid asset amounted to EUR1.1 billion.

Despite the turbulent financial markets, you can see Slide 12, but our group Solvency II ratio stood at a high 196%, still comfortably exceeding our target level. Unsurprisingly, the two main drivers for the Solvency this quarter were the 11 percentage points impact coming from the tender for the FRESH and another 11 percentage point coming from the market's movement, mainly the downward shift of the risk-free curve and the declining equity markets.

Our operational free capital generation, Slide 13, amounted to EUR95 million, including EUR10 million dividends from our non-controlled participation. The storms had a total impact on our IFRS results exceeding EUR60 million, which directly weighted on the own fund generation of over quarter, the SCR being broadly unchanged. By segment this impact is spread over our Belgium, UK and reinsurance through the 40% Quota Share.

And this is now the end of my presentation. Thank you.

## Questions And Answers

### Operator

Okay. So, we will now start the Q&A session. (Operator Instructions) We have a first question from Ashik Musaddi from JP Morgan. Go ahead.

### Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you; and good morning, Bart; good morning, Chris. Hope everything good at your end. Just a few questions. So, first of all, I'm not sure if it is the right time to ask this question, but I still want to check about M&A. Now, in my view, markets are down 30%, 20%, this is probably the best time for you to consider doing M&A, because you might get something good value for money and given that you have a lot of cash at the balance sheet what you are thinking about it? Is it something you're looking at it or I mean are you just busy with other stuff? That is number one.

Secondly is, can you give some thoughts around -- updated thoughts on Chinese earnings, how Asian earnings will work in this year? I mean, are you still comfortable with EUR325 million to EUR350 million on guidance, or do you think that lower interest rate will have a drag?

And lastly is, the DTA thing, the new change in the reinsurance. I mean is it going to crystallize some of the DTA benefit or is it a bit too early?

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

Okay. Thank you, Ashik. First question on M&A. So maybe going a bit broader, I would say that during this in the meantime more than eight weeks lockdown in most of our activities, we've been able to bring all our people from the first, say, even a bit before in some countries to a full daily work environment, working from home, and I can assure you that our operations did not suffer from it. So it means that all teams continue to focus to serve customers to be in connection, I would say, with people like you and with investors and analysts and the same comes for M&A team as. So we continue to work on what has been announced to the market in 2018, being part of our strategy, it's clear that a number of, let's say, potential targets may be change in value or in ease of operation, but, in essence, we do not change our criteria, we continue to spot opportunities as we've been doing in the past years.

We -- I would say, we continue to be somewhere prudent in our approach. I think some of the -- okay, the opportunities we missed in the past year looking backwards and that's of course is inside. We are probably not that dissatisfied not having made these deals, but, okay, you know that we cannot give more concrete information, but we continue to spot to see where we can do additional acquisitions in countries where we are, we look to the markets that we spotted like Indonesia and we also look to a possibility eventually to find affords of whole market in Europe.

The second point, on the Chinese earnings. First of all, as I mentioned in my introductory speech, we -- the only thing we can say is that, we cannot confirm our guidance for the Ageas results for this year. So it also accounts for the underlying segments. The only thing, and Christophe referred to it, is of course that due to the low interest rate in Asia, in China, the impact that has on the 75 days average that is expected to have a further negative impact in the course of this year. The big question will be, of course, what potential mitigating elements could appear in the next nine months to partly maybe compensate that decrease.

And then for reinsurance, I propose to pass to Antonio.

## A - Antonio Cano {BIO 16483724 <GO>}

Yes. Hello. Good morning, Ashik, and hope you're doing well. On reinsurance and the DTA questions that you asked, I'd be very short, I think it's far too early to think about DTAs.

## Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very clear. Thank you for this.

## Operator

Thank you. Next question from Albert Ploegh from ING. Please go ahead.

## Q - Albert Ploegh {BIO 3151309 <GO>}

Yes, good morning. A few questions from my end. Maybe first one follow-up from Ashik on Asia. Can you help us out a little bit at least in terms of the discount curve impact in the first quarter and remind us where typing is currently with the VA compared to peers that it might be one to two offsets, I assume?

And the second question I have is unfortunately a bit forward-looking, but you're in a way quite special that you are still continuing your share buyback program, we all understand why and then (technical difficulty) all possible, but looking a little bit ahead on August you normally update the market, but in light of off let's say the spirit of EIOPA and restraints on capital return, what is your thinking about that as things stand today? And especially looking at your share price actually, new buyback would actually make a lot of sense compared to your book value? That will be my second question.

And the third one, a little bit linked maybe to the buyback is on the cash upstreaming outlook. Normally you provided with Q1 some kind of overall outlook for the year. You have not done this time, but I heard in the opening remarks that I think you mentioned something like remittances or upstreams is probably going according to plan. So can you say something about that? And is there any risk of timing of upstreaming to Belgium dividend to maybe more to the second half compared to typically in the second quarter? Any color there would be appreciated. Thank you.

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

Okay. On the first question. The discount curve impact in the first quarter. Let's say compared to last year, first quarter it's an impact of something like -- a bit more than EUR30 million negative, while it was slightly positive last year. The VA has not been changed and is lower than the one applied by the peers.

The second question, the share buyback, first of all the continuation when we announced the dividend payment in two steps, we confirmed indeed the continuation of the running share buyback, first of all, because we still had, I would say, only EUR60 million outstanding to complete the program. We had this strong solvency level that we still have today. We had the strong cash position that we still have today and I must say also in our communication or exchange of communication with the National Bank, this has not led to frustrations or anything from their side. So -- and we just wanted to deliver on the promises that we made in 2018 when we said we will do every year a EUR150 million minimum buyback unless we have sizable acquisitions. So that's the reason why we continued.

What we will do with the -- maybe next moments of decision, so my answer same as the one I gave in the past, we will have at that moment a view on the economic financial environment, our own position, our own plans, and so we cannot say anything about it today.

With respect to the cash upstreams, so as you can see we already received EUR85 million dividends, it's dividends from Turkey, Portugal pay the dividend. We have, in the meantime -- and also a little amount from India -- in the meantime, I can say all our operation -- operating companies have decided on a dividend upstream. So it's Belgium, it's UK, it's China, it's India, it's India, India paid, Thailand, Malaysia, and most of them will be, let's say, paid out in the coming quarter. The only -- where we follow the Ageas timing is for Ageas in Belgium. So we are, at this moment, more than convinced that the upstream of dividends will be more than sufficient to pay the dividend to cover the operating costs and also to cover part of the buyback. So it should be an amount of above EUR600 million.

## Q - Albert Ploegh {BIO 3151309 <GO>}

Great. Thank you. Very clear.

## Operator

Thank you. Next question from William Hawkins from KBW. Please go ahead.

## Q - William Hawkins {BIO 1822411 <GO>}

William Hawkins of KBW. First of all, Bart and Christophe, could you just comment slightly on the solvency environment on Belgium -- in Belgium, and the discussions you've had with the regulator? Because I still come back to this point, but I don't believe it's a naive comment to say that if your solvency ratio was 2 times the regulatory minimum and you only have a 5 percentage point sensitivity to a one-notch downgrade across your corporate bond portfolio, it's very strange understanding the current environment. There is so much regulatory intervention into your behavior. So could you sort of help me understand what I'm missing in terms of the bigger debate.

And then I guess much more importantly, how has this experience changed your attitude to what you think need to be the appropriate solvency buffers. So your thoughts about the 175%? You could argue there's no point having that buffer if the moment things get challenging, you have to suspend your dividend anyway. On the other hand, you could say, well, maybe you need to take your buffer up a lot further just so that hopefully the environment will be different next time when we have a crisis. So could you talk a bit about the regulatory environment and your solvency ratio?

And then, secondly, again I appreciate there are so many moving parts on this, given that you've made it very clear that you've dropped your guidance for our first earnings this year, could you help us just sort of summarize what you think are the most important drivers that tipped you over the edge to drop your guidance, because again there are so many different things going on with the discount rate curve and impairments and underwriting. Are there a few things that you would highlight that have been a particular issue or is it just kind of all of the above, they all just add up? Thank you.





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

Okay. On the first one is, it's I would say -- I would have to give also a bit of political answer. I would say, even if we would have had the solvency level of 300%, I think regulators in average would have expected the same. So they apparently, at this moment, do not really give the impression to make a difference between a company that has 200% solvency or one that -- stands at 25%. The only explanation I can give is a kind of an overall uncertainty fear amongst the regulators that the worst might be yet to come, but so it's -- I think we tried to to make our point and I've seen that many other European insurance group did the same where we say that, first of all, there should be a kind of discretionary approach at this moment between different insurance depending on their appropriate situation.

So that's also the reason why we have been quite, let's say, affirmative in our decision communicated earlier this year that we -- okay, we somewhere respect the -- of course the request for EIOPA and the Belgium regulator, but we do not change our plans and we will propose the remainder of the dividend by the end of this year, so in the month of October.

So -- but having said that, there has been no, I would say, unfriendly communications with the regulator. I think they also recognized our strong position. They also recognize that it maybe a bit of pity, but they want to make the rule for the -- real -- or the recommendation at for everybody the same and I will, at the end, maybe pass to our Chief Risk Officer, Manu, to give his comments, because he is of course weekly in contact with them on the weekly update of the solvency.

With respect to the prudency around the outlook, I think the most important uncertainty is everything which happens on the asset portfolio, so the financial impact. We are not that uncertain in -- with respect to the really product related claims. So that's something where we see some positives in some areas, some negatives in the others, but not to really to have huge impacts.

On the investments, you have, first of all, of course, the equities. We have real estate, where you know this is an important part of our investment portfolio. So we will have or we have lower income in our parking business. We have some interventions in the shopping centers with the rents to be paid by our customers. So that's also something that will impact the financial income. And then you have of course what you already referred to, impact of the lower interest rate in VAs in Asia.

There has been a certain impact on the top line, but if you look for instance like you see the figures in Asia; in China, we have minus 5.9% after three months and the outlook for the future is not that bad, because they recruited net more than 60,000 more agents in Q1, so we expect to catch up over there.

Manu, maybe you can give some feelings about interactions with the regulator on solvency.

## A - Emmanuel Van Grimbergen {BIO 18010465 <GO>}

Okay. Thank you, Bart. Emmanuel speaking indeed. So we had to start to report on a weekly basis over capital position to the National Bank of Belgium, since mid of March. But for your information, we started earlier to do this already somewhere in end of February, we started to have a sort of internal follow-up on our capital position on a weekly basis. My interaction with the National Bank on a weekly basis, but I have not a lot to read to what that says. So I -- at least in my conversation I don't have any sign of worrying from the regulator on our current position and my guess is only the -- probably the -- also the lack of visibility moving forward from their side and then they want to be very, very prudent from that perspective.

Then we -- you also had a question related to our buffer and our target capital. There, we don't change our mind and I would like to remind you that -- and we presented this in our Investor Day in 2018 as a recap also. Our target capital is based on our risk appetites. So we start from our risk appetite and from a solvency point of view, we want to be protect for one in thirty events over solvency. We want to protect our solvency for one in thirty events and that remains the same. We calibrate this on a regular basis and we follow up this on a quarterly basis. And the one in thirty events protection leads to a target capital of 175% and that's what we still have as a risk appetite policy within the group.

## Q - William Hawkins {BIO 1822411 <GO>}

That's helpful insight. Thank you, gentlemen.

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

Will, if I may, add some things of the regulators, they usually issue directive for the whole market altogether. And so they cannot specifically mention one or another company, and it's a well known fact that AG is among the strongest entity in Belgium and it's the reason why one of the hint that you can see is that when we declare that we will pay this first dividend in May and that we will keep on with the existing share buyback and that we this second opportunity in October, they didn't make comment. So it's an aberrant. But we are not level a matter of concern to the regulator.

## Q - William Hawkins {BIO 1822411 <GO>}

That's great. Thank you.

## Operator

Thank you. Next question from Farquhar Murray from Autonomous Research. Please go ahead.

## Q - Farquhar Murray {BIO 15345435 <GO>}

Well, two questions if I may, one kind of general and the other slightly more specific, but both really on business interruption and I do appreciate you mentioned that you kind of comfortable with the claims picture in the background. Firstly, could you outline in broad terms how business interruption policies have provided across the group, and in particular what exposure you might have to non-physical triggers? And I understand you've got some policies that have non-physical elements in the UK and I'd also like to understand Belgium if possible as well.

And then more specifically, can you just outline what exposures you might have to business interruption in the restaurant sector and it's obviously that sector has legitimate reasons for non-physical triggers and apologies for the baby in the background. Sorry.

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

I forgive. Good morning. Hope you're well too. So business interruption in the UK, we have a fairly small commercial lines book as you are aware of. So the impact that we see even in a worst-case would be rather limited. You're probably aware that the FCA has started up what I call a friendly legal procedure to clarify certain wordings that are a bit unclear in the market. We'll see how that winds up. But the good thing about it is that that it will create fairly quickly, I think, some clarity. I think that's probably in June we already know this end. And so in UK very limited, and in Belgium we also have kind of business interruption, although the wording is not that as used, but also there the impact is fairly limited also because the wordings are much clearer. So the direct impact to come back to your question on business interruption, we expect it to be fairly limited. To be totally clear, there is also, in the UK, a small book of what we called landlord insurance or rental protection, also that is a fairly small book and there we could have some claims, but also there the legal aspects are not entirely clear. Hope that helps.

### Q - Farquhar Murray {BIO 15345435 <GO>}

And on the restaurant sector?

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

I don't really have top of my mind what our exposures in the restaurant sector. It's not a sector that we particularly like, certainly not in Belgium, it is huge. In the UK, there might be a few, but again our book is small. Well, there could be an impact because of the economic slump in the restaurant sector. It will be indirectly on the real estate business. You have some food and beverage type of establishments in shopping centers, et cetera, so if -- some tenants with us for the rent relief, it would be those, so restaurant sector maybe more on the real estate.

### Q - Farquhar Murray {BIO 15345435 <GO>}

And then just final thing then, so the claims in the UK that obviously triggers, I mean is that -- are we talking literally hundreds of policies at most?

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

To come back to -- to clarify your question, if any claims have been triggered, that was your question?

### Q - Farquhar Murray {BIO 15345435 <GO>}

I mean, according to the Ageas UK website, there are policies that will have triggered. And given your limited statement, I presume that must be like hundreds of policies at most.

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

Yeah, at most. Yes.

### Q - Farquhar Murray {BIO 15345435 <GO>}

Yeah. Okay, perfect. Thanks a lot.

### A - Christophe Boizard {BIO 15390084 <GO>}

I think but generally speaking the group being in Belgium, UK and Portugal, we are more in personal lines and we don't do a lot on the corporate side. So the business interruption matter. We are not on the forefront of this problem being on personal lines, as I said.

### Q - Farquhar Murray {BIO 15345435 <GO>}

All right. Thanks, all.

### Operator

Thank you. Thank you. Next question from Fulin Liang from Morgan Stanley. Please go ahead.

### Q - Fulin Liang {BIO 21126177 <GO>}

Hi. Good morning. A couple of few questions. So, first of all, is in terms of the intergroup remittance. Did you just say actually all the like India, China, Turkey they were already kind of confirmed for the remittance. Did you actually just say that the Belgium remittance is still in discussion? And could you please kind of confirm that point? So that's the first one.

And then secondly, is that, so considering that you just mentioned that your capital return is -- doesn't really matter how strong your solvency is. And also we see that your solvency ratio is really not sensitive to the credit portfolio, because you are underinvesting in credits. And then we see that your Belgium actually is on the pressure on the guaranteed book. Would actually the solution or the next kind of step would be actually more rationale to re-risk your Belgium book given that you have plenty of Solvency II to support that re-risk and then recover the book to -- in terms of the profitability. So that's the second question.

And then last one is that the -- the real estate, you just mentioned you will have some rental reduction in profession like that and when will you actually reevaluate that assets and would that be normally in the second half of the year? Thank you.



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

Okay. I'll pass the third question to Christophe. The first one, limits of Belgium. First of all, the decision on the payment -- the amount and the payments to be proposed to the shareholders of AG Insurance has been decided, but we follow there exactly the timing of AG as itself, because as well Ageas are, let's say, overlooked by the Belgian National Bank. So it means that in principle there will be Shareholders' Meeting of AG Insurance before the one-off Ageas planned in October and then remittance to the group in such a way that it can perfectly match with the payment we have to do to our shareholders. So that's the only reason.

And as Christophe mentioned, due to -- or linked to the reactions or the normal reactions from National Bank on our communication earlier this year about the split of the dividend and the continuation of the running buyback, we, in principle, don't expect any problems with that.

The second question is, let's say, the guaranteed book in Belgium. I don't think that we are concerned about the possibilities of this business. We have -- of course, if you look to the inflows, they are lower than last year, but don't forget that last year in the first quarter there was an increase with almost 40% due to a number of commercial actions before reduction of the guaranteed rate and, secondly, a strong unit linked action. So we see the volume of Q1 this year was something like 15% higher than two years ago. So we continue to believe in that business and the investment portfolio is following in debt and yearly reviewed strategic allocation exercises, where one of the reasons I think Christophe -- probably Christophe referred to it in the free capital generation you have a bit increase of SCR in Belgium due to an increase of the equity exposure. Not fundamentally, yeah, but -- so we don't see a change in our policy not with respect to business underwrite, not big changes in our assets portfolio.

Can you take it?



## A - Christophe Boizard {BIO 15390084 <GO>}

Yes, so on the asset side, so two themes. And first the re-risking of the portfolio and then the real estate. So first on the re-risking of the portfolio, we have -- we are studying a new concept, the hiatus from the upcoming IFRS 9 regulation. It is to build a kind of long-term equity portfolio where we should -- where we could opt for the fair value to OCI instead of being subject to impairment. So we would create kind of bucket a little bit in between bond and equity, because at the end the change in valuation at each closing would be recognized through OCI as it is the case for bonds, for instance. So that's an ideal if we opt for this, that's steady, but obviously this could be done when IFRS 9 is in force and it is connected to IFRS 17, but we have this study of having at the end more equity in the -- in our asset portfolio, but it is not exactly for today. But the idea is there.

On real estate, so the old revaluation process is quite all over the year, but there is kind of peak in Q2 where we review most of the valuation and we will try to take into account all the different impact. And during Q2 we will have a better view on the parking business, because we are progressively exiting from the lockdown, so we will be able to more precisely assess the impact on the whole year -- new on the parking in the airport, in the cities and so on, and then we will review the rent.

So on the real estate, I think -- but we will be in a position to give you more info at the next closing end of Q2. So, in conclusion, re-risking full equity, thanks to IFRS 9 but not now and then on the real estate more to come end of Q2.

## Q - Fulin Liang {BIO 21126177 <GO>}

Okay. Thank you. That's very clear.

## A - Antonio Cano {BIO 16483724 <GO>}

Maybe I have to get a small add-on on the real estate. Be aware that the way we value real estates at amortized cost, so even if valuations of real estate objects will come down they will still be above our book value, because of the accumulated depreciation. So you (technical difficulty)

## Operator

Thank you. Next question from Jason Kalamboussis, sorry, from KBC Securities. Please go ahead.

## Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, thank you very much. Good morning, gentlemen. Nice to see that we have a full house today. My first question would be on Asia. Just wanted to understand -- if we look at the results EUR69 million in life, you take out the capital gains of EUR14 million, you had the EUR30 million that is due to the discount, we get EUR85 million. It does look that if we were to exclude the capital gains, normally in Asia you should be already still kind of on track on an underlying basis to still meet your guidance. So I would be instead have your thoughts there on an underlying basis? Also just check that there are no other one-offs in these results in Asia.

And also how do you see the outlook? I mean, I can see that you have brought 60,000 new agents, that's good. But do you see a catch-up during second quarter or more in second half and do you see, for example, COVID-19 playing into your hand where basically it raises awareness and suddenly we get to see very good sales, because already in Q1 they were very good at minus -- just minus 6%.

Second question would be on the UK. You have changed the management, results continue to be under pressure and some that you could possibly have some one-offs like Ogden coming in the future helping out, but could you give us your thoughts on any potential sale of the UK at some stage?

And the third question, a quick one, did you get your tax authorities' clearance finally in Q1? I think, I presume you have and does that mean that we are going to move to life reinsurance at some stage during the year? Thank you very much.

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

Okay. On the first question and second, and third, I will pass to Antonio. On the first question, if we make and you almost did it yourself, also, Jason, our underlying (technical difficulty) we come to an underlying result of EUR87 million life plus non-life compared to EUR94 million last year. So it's a slight decrease and that's then correcting for fear -- and for capital gains, capital losses. So you could, say, that EUR86 million multiplied by 4, but we know also from the past that that's not necessarily the way we can extrapolate in Asia and our decision not to give any guidance is also there related to, again, the same uncertainties. So it's -- what will be the evolution of the equity markets, what will happen with interest rate and as a consequence of fear.

So that's a reason not to give any confirmation on the, let's say, the normally expected results for Asia, because when we said EUR300 million to EUR325 million or EUR350 million, it was always of course before taking into account cap gains and real impact. So that's the uncertainty that we have everywhere.

From the commercial front, we see indeed that -- and it's sometimes different one country from another, and we see in any case in China quite some resilience and the fact that the decrease in the first quarter was only 6% was mainly thanks to the very important book of renewal premiums. So 90% of our inflows are renewals. So even if you would have a quite important drop in new business, you will only have a partial impact.

The first signs we have of the period since the end of March is, in any case, promising. And so we don't see a big, big difficulty in Asia to catch up. Whether what happened with COVID-19 is creating awareness, improving awareness, mainly to subscribe some life and critical illness complex, definitely it is -- but don't underestimate the fact that also the sales process, which is still rather face to face process in the first instance to convince customers have been strongly hampered in the first quarter is now taking up.

So we remain by saying impossible to give a clear guidance on what the result will be. From a commercial point of view, we believe that if there is no renewal of the COVID outbreak that the remainder of the year will permit to catch up. Antonio?

## A - Antonio Cano {BIO 16483724 <GO>}

Yes, hello, good morning. On the UK, indeed we have announced the appointment of a new CEO as of 1st of June, so Ant Middle will take over from Andy. And coming back to the second part of that question, sale of the UK is not on the table. On the tax clearance, I think you are referring to the tax ruling related to internal reinsurance. Yes, indeed, we got our ruling for Belgium and now we are looking into the life reinsurance options. By the way we did already a fairly small first life reinsurance treaty, internal life insurance treaty with the Portuguese entities.

## Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you very much.

## Operator

Thank you. Next question from Farooq Hanif from Credit Suisse. Please go ahead.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Good morning. Just on China, can you tell us what the discussions are currently around the volatility adjuster and what the timing might be around that?

Secondly, what comments can you make on lower motor claims frequency that you may have seen in March and in 2Q to-date? And is your intention really to hold back from giving refunds at this stage as you assess what happens with the claims experience?

And then, lastly, just on the reinsurance agreement that you've -- the Quota Share that you've increased, can you talk about some of the benefits that will have in terms of fungibility of capital and upstreaming that you didn't already have with your previous Quota Share arrangement? Thank you.

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

Okay. On the timing on discussions of VA, we are not in discussion on VA at this moment. So we continue to apply what we did in the past. Let's say, and then of course our partner is in the leader for the discussion if there would be one upcoming. In frequency in Motor and rebates, this is a very -- we know a sensitive point and companies and countries take different stance. For instance, the

Belgium regulator, National Bank urged insurers not to do any rebates, because, say, it's too short period to take that initiative, and that's also a bit our view. We of course have had six, seven of, of course, less traffic with as a consequence lower loss ratios.

But as the industry is now getting back started and there is a high request from the authorities to avoid to take public transport and to take cars to go to the office, there might be an opposite movement in the second part of the year or even in May and June. And you also see that less experienced people will get on the roads and probably will cause actions. So it's too early and we also don't believe that giving a 20, 25 pound or euro rebate to all your portfolio is much more than a marketing initiative. And so -- but maybe, Antonio, you can develop a bit more.

## A - Antonio Cano {BIO 16483724 <GO>}

Bart, I think you've made the main points. It is too early. As Bart was saying, we don't know what frequency and severity will be going forward. So we'll see there again at the end of Q2 a better view.

## A - Emmanuel Van Grimbergen {BIO 18010465 <GO>}

Maybe one additional comment on the VA in China. So clearly as Bart said the partner is in the lead. We know that there is a small amount of the VA rather below the peer level. It is something that has to be discussed with the regulator in China. So that's not an easy discussion. But what we can say is that with the solvency ratio being very high in China there is absolutely no need to come back on the VA. So it could be even seen as a kind of prudent approach and it could be put at a slightly higher level, but to our knowledge there is absolutely no intention, because there is simply no need.

## A - Christophe Boizard {BIO 15390084 <GO>}

Then there was a third question on the internal reinsurance and the motives to do that. Well, again, just to remind you, one of the main motive is this indeed capital fungibility, which is actually kind of monetizing the diversification effects across the regions by concentrating those risk of one balance sheet and then this diversification becomes material and you can have an SCR saving. That is, I mean, I'm not telling anything new, that's the basic thought behind it.

There was, yes, is that a kind of upstreaming? Well, you could see there is a kind of upstreaming of the results as the part of the non-life results will materialize at (technical difficulty) instead of flowing through dividends. You could see that as such, but be aware there is also SCR that you are transferring from the operating company to a higher society [ph].

## Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

## Operator

Thank you. Next question from Robin van den Broek from Mediobanca. Please go ahead.

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

Thank you, and good morning, gentlemen. Just coming back on the real estate moving parts that you mentioned. I mean, you said it's kind of (technical difficulty) so we won't see effects to I think your IFRS equity from that side. Could you comment a little bit about the potential impact for your Solvency II ratio, because there I would assume that it's on fair value?

Next to that, to what extent this impair your guidance for guaranteed margins in our life business. This is generally -- it will be more difficult to realize the real estate gains you've been putting through throughout the year, but also your running yield might go down on the back of that. So any quantification there would be helpful?

Then am I correct in understanding as a sensitivity per basis point from the China 750-day average 10-year is around EUR4 million to EUR5 million per basis point?

And coming back on the buyback, I understand everything you said that you're comfortable on capital, you're comfortable with the quality of your assets basically to be able to deliver future buybacks as well, but simply practically speaking do you think that -- in a way I think the NV has been quite general in saying that they are sort of in line with EIOPA and you were talking a little bit more about the discretionary approach for a company? Do you think basically that discretionary approach will still apply to you also in August? Thank you.



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

Okay. I will ask Manu at the end to give his comment on the solvency impact for real estate. The question was also whether we will be able to realize (technical difficulty) operations in the course of the year and we have a number of potential use in preparation. Of course, we look to the opportunities you may need. In any case, the guidance -- where we cannot give guidance with respect to the end result of this year, the net profit, we will continue like we did in the past to try to achieve our targets in terms of combined ratio and margins on guaranteed and non-guaranteed basis.

Don't forget also that in this first quarter, for instance, we foresaw an amount for profit sharing in life, which is only provisionary, because the profit sharing is something that is decided at the end of the year depending on the full-year result and to give you a comparison in 2009 over 2018, in 2012 over 2011 no profit sharing has been given, because the financial results were under the expected levels. So we also there will work in function of the targets we have set.

So I will give the question on the impact on solvency to Manu at the end there for technical reasons, because Manu is (technical difficulty)



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

Sensitivity in China more than 750 (technical difficulty)

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

Yeah. That is moving average. I think we communicated, it was last year, I think. That one basis points sensitivity is more or less EUR6 million P&L impact, no? I'm reading what they -- confirming. So less than what you projected. But of course also there, the impact is -- there is a gross impact, but then you have mitigating actions as possible, like also profit sharing and things like that. We were -- sorry -- so I cannot your EUR45 million nor my EUR6 million and I propose that our Investor Relation people try to get that.

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

Okay. Sorry I said EUR4 million to EUR5 million, so it is not that far off, actually.

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

Excuse me.

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

I was mentioning, EUR4 million to EUR5 million, so not EUR45 million, EUR4 million to EUR5 million.

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

EUR4 million to EUR5 million. Okay. Yeah. Okay, then we are not far from each other. Yeah.

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

Thank you.

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

On the real estate, I would like to add something, you have to remember the amount of unrealized capital gain, which is very high, in excess of EUR1 billion and you will remember that a figure we have -- we gave in the past that we need roughly EUR80 million to achieve the margin, so put in perspective the EUR80 million to the unrealized capital gain even if the revaluation of the portfolio goes slightly down, I think that we have a very thick and comfortable cushion and then the last element is that our CEO for real estate is still indicating, but there is appetite to buy building. So we are not stuck in this, not at all.

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

Okay. That's very clear. And on the buyback?

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

Think I can only repeat what I said earlier, this is -- say for instance, it's not an issue today. It's one we will tackle later in the year and, okay, we will follow our decision or create our decision take into account all the elements available at that time and the position of the National Bank could be one of these elements. Maybe pass to Manu for impacts of real estate on solvency. Manu?

### A - Emmanuel Van Grimbergen {BIO 18010465 <GO>}

Yeah. Okay. Thank you, Bart. So what I propose is that, that you take Page 58 of the Investor Relations presentation, on that page you can see that we have updated our sensitivities. And on that page is a more specific the sensitivities for Pillar II and in the middle of the page you have the sensitivity on property where you have a negative revaluation of 10%. The impact on our solvency is minus 11%, which is absolutely in line with the sensitivities that we published also last year. And that on Page 58 is for Pillar II and on Page 60, you have the one related to Pillar I, which is strictly in line with Pillar II, so for Pillar I we have 12% negative for devaluation of 10% on the real estate portfolio.

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

Okay. Thank you.

### Operator

Thank you. Next question from Bart Jooris from Degroof Petercam. Please go ahead.

### Q - Bart Jooris {BIO 3470300 <GO>}

Yes, good morning. Happy to hear all of you. Most of my questions have been answered. So there is one follow-up regarding potential M&A and share buybacks as in the beginning of the presentation you said that your cash position of over EUR1 billion makes you feel comfortable in this crisis. Does that mean that for the moment you want to keep more cash aside as a buffer and that your war chest to do M&A hence has decreased, could you give us an idea of what do you think about your war chest at this time?

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

I think that's on top of the cash you have abilities to further issue debt and that in total something like EUR2 billion that we had before is still available. Again whether we will use that amount, we've never used such amount in the past. So -- and also in the past we have never come to cash position that was close to zero. So as an indicator in the beginning M&A policy did not change, maybe some opportunities come up, others disappear, but we don't see a real reason to change our position in this respect.

## Q - Bart Jooris {BIO 3470300 <GO>}

That's very clear. Thank you.



## Operator

Thank you. We don't have any more question -- (Operator Instructions) We have a new question from Jason Kalamboussis from KBC Securities. Please go ahead.

## Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Hi, again. Just a very quick one on COVID, which is the one -- if you were to look at your -- I mean I can appreciate you cannot give details, but in which country are you more likely to have the higher claims. And in which line across the (technical difficulty) I know the developments in critical illness in China, we talked earlier about business interruption, but in general? And another quick one is on the holding cost. That were again slightly higher in Q1, are they going to do pull back to normal in Q2 or is going to be further down the year? Thank you.

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

So I can answer on the holding costs. Indeed, it is slightly above the guidance and we can -- we could maintain the guidance here. We are not affected by COVID-19. But here -- so first, it's only the first quarter, so I'd rather wait until Q2 to have a better view, but I already have one explanation and this is that we had to pay for the cost of the FRESH transaction. So you remember that the transaction was completed in January and we had to pay some fees and a legal fees, banking fees. So on the quarter, it's kind of one-off, which is not really flagged, but since you have a sharp analysis you notice the smaller increase, but let's put it on the back of the FRESH operation.



## Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you.

## A - Antonio Cano {BIO 16483724 <GO>}

Hi, Jason. On your question on which country could be most heavily impacted, I really struggle to give you an answer. I don't think that any country will be materially impacted with the possibility could be that it would be bigger than the others, but then very manageable, could be the UK maybe because of the sometimes on certain legal situations that you have there. So, yes, that will be my best guess. But, again, nothing material as we see it today.

## Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you very much. That's what I was looking for. That's enough.

## Operator

Thank you. Next question from Steven Haywood from HSBC. Please go ahead.

## Q - Steven Haywood {BIO 15743259 <GO>}

Good morning, and thank you. And just wanted to talk about the UK and see whether in particular you have any thoughts about the FCA comments about dealing the product offering value to customers and we've seen a couple of the companies making adjustments and potentially removing covers, but driving covers are broad and for multi-trip holidays and travel insurance, et cetera. I wonder if you had any thoughts about what, I guess, you can might just hear? And also in light of the holdings [ph] have you given a non-life figure that tells us what will the claims from kind of 2019 could amount to in the first quarter or year-to-date? Thanks.

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

So first on the FCA offering products that will really create value and if that has any impact on our portfolio, again, as we are not in these, should we not reactive in travel, for example, you referred to that. So there is no real change. We obviously -- our team is in contact with the FCA. We don't see for now any big impacts on the covers we offer.

And I think your second question was on claims, what would be the total impact? Again, as I said earlier, we don't expect any material impact of those claims. It's a question that, for example, reinsurance -- reinsurers ask us, we give them the same answer, this -- it's not appearing on our radar screen.

### Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you very much.

### Operator

Thank you. We don't have any more question for the moment. Back to you for the conclusion.

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

Okay. So, ladies and gentlemen, thank you for your questions and to end this call let me summarize the main conclusions. In the context of the COVID-19 pandemic, our results was impacted by the financial markets volatility, but the insurance activities have proven resilient. Both our capital and cash positions remain strong. And looking past, the short-term turbulence is brought by the COVID-19. We are confident in the solid fundamentals of the group, and confirm our intent to pay our 2019 dividend in October.

With this, I would like to bring this call to an end. Do not hesitate to contact our Investor Relations team if you would have outstanding questions. Thanks for your time. Keep safe, and I want to wish you, on behalf of the team, a very nice day. Thank you.

### Operator

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

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