Q1 2019 Earnings Call

Company Participants

- Antonio Cano Y Bosque, Chief Operating Officer and Executive Director
- Bart De Smet, Chief Executive Officer and Executive Director
- Christophe Boizard, Chief Financial Officer and Executive Director
- Hans J. J. De Cuyper, Chief Executive Officer and Director

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Bart Jooris, Analyst
- Farooq Hanif, Analyst
- Jason Kalamboussis, Analyst
- Matthias De Wit, Analyst
- Robin van den Broek, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Ageas Conference Call for the first three months of 2019. I am pleased to present Mr. Bart De Smet, Chief Executive Officer; Mr. Christophe Boizard, Chief Financial Officer; Mr. Filip Coremans, Chief Risk Officer; Mr. Antonio Cano, Chief Operating Officer; and Mr. Hans De Cuyper, CEO Belgium. For the first part of this call, let me warn you that's all participant will remain on listen-only mode. And afterwards there will be a Q&A session. Please also note that this conference is being recorded.

I would like 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 three months of 2019. I'm joined by my colleagues of the executive committee and by Hans De Cuyper, CEO of AG Insurance, and of course, our Investor Relations team is here as well.

Ladies and gentlemen, before commenting on the results of the quarter, I would like to highlight a few developments that have occurred in the past month. On the M&A front, we completed the acquisition of 40% of the Indian Non-Life company, Royal Sundaram

General Insurance. Furthermore, as announced, we launched the quota share reinsurance program for the Non-Life activities within the group with the aim to enhance capital fungibility. This internal reinsurance program is now up and running in Belgium, UK and Portugal, and this has at this moment a very limited influence on the net result at group level, but it has created some internal movements between the different segments including one-off impacts this quarter. Christophe will come back on this.

Additionally, we announced last month changes in the Executive Committee in order to best support the AGS' Connect21 ambitions. Filip Coremans will become AGS' First Chief Development Officer while subject to the approval of the general shareholders' meeting taking place this afternoon. Emmanuel Van Grimbergen, our Group Risk Officer, will succeed Filip as Chief Risk Officer.

And on the capital management front, AG has called its $550 million bond in March, and thanks to its new A level rating AGS was able to successfully issue a EUR500 million Tier-2 debt security last month. It was a great achievement as it was the first time that AGS issued that at a Holding level.

The group net results, which amounted to EUR251 million in this first quarter is in line with the strong results delivered last year. This year, we suffered again from adverse weather in Belgium with storms in March. We had a lower capital gains contribution in Belgium, but this was offset at group level by an exceptionally high result in Asia; thanks to the favorable equity markets.

We enjoyed solid sales momentum with inflows up 8% and growth in almost all the segments and the increase was particularly noticeable in Belgium where inflows were up as much as 34% mostly driven by the sales of Life products, both in Guaranteed and unit-linked. The Guaranteed margin of the group remains within our target range, although it suffered from a timing difference in the realization of capital gains, plus last year, the margin benefited from exceptionally high investment income.

The unit link margin was impacted by commercial costs related to the sales campaign in Belgium and lower sales when compared to Europe. Our combined ratio stood at 98.3% compared to 98.8% last year and was impacted by the storms in Belgium. Excluding this, the operating performance was strong across the group.

The new reinsurance program creates some distortions in the combined ratios of the segments as we've realized the loss portfolio transfer to premium transfer, but as agreed, we provided you with pro forma ratios in the investor presentation and in the Excel file that you can find on our website.

Our total liquid assets amounted to EUR1.5 billion compared to the EUR1.7 billion at the end of 2018. This decrease is mainly attributable to the EUR185 million acquisition in India. Regarding the cash upstream, by the end of the quarter, we had received EUR75 million from Portugal and EUR10 million from Turkey. Since the end of Q1, we also received EUR450 million upstream from Belgium. And as you can see on Slide 5 of the presentation, we expect to receive the full year at least EUR630 million from the insurance operations. This would be more than sufficient to cover the EUR440 million dividend that we would pay out to our shareholders later this month after approval at the meeting this afternoon.

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

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart, and good morning, ladies and gentlemen. As usual, I will give you some details per segment. On Slide 6 on the presentation, so in Belgium, the net result amounted to EUR81 million compared to EUR136 million last year. As you know, with the weight of real estate in the investment portfolio, the level of realized capital gains in the quarter is volatile and depends on the timing of the transactions. This quarter, the results in Belgium reflects lower capital gain, but let just remember that the level of last year was very high. More capital gains in real estate are scheduled later in the year and there is no concern today on realizing the annual budget.

In Non-Life, the windstorms that took place in March had an impact of EUR18 million, which means 10 percentage points on the combined ratio. Excluding this impact, the operating performance was strong across most business lines. For comparison purpose, please note that the combined ratio of 104.2% is before the effect of the internal quota shares where things are comparable with the combined ratio of last year.

On the whole Non-Life pension book, the new quota share reinsurance agreement had a EUR10 million positive net impact and I strongly advise you to refer to the website where a detailed tables by segment are provided to explain the accounting effects of the quota share.

In Life, the Guaranteed operating margin has also suffered a bit [ph] from the lower level of capital gains, but we are within the target range of 85 bps to 95 bps. The unit-linked margin was below target mostly due to commercial costs related to the sales campaign that took place in the first quarter.

As mentioned by Bart, our activity in Belgium benefited from exceptional sales momentum. The Life inflow jumped by 54% with strong increases in both Guaranteed and unit-linked products, while Non-Life gross inflows increased by 5% across all business lines.

In the UK, Slide 7, the result amounted to EUR11 million, at the same level of last year, but after the EUR12 million of restructuring costs not included in the combined ratio, and a EUR3 million negative impact from the new internal reinsurance. Inflows were down reflecting the ongoing pricing discipline. While the Broker channel is the predominant distribution channel in our book, direct sales through the aggregator platforms continue to grow in line with our strategy. The combined ratio stood at 95.5% before internal reinsurance. The lower benefit from prior NEP [ph] was offset by a strong current year claims ratio performance supported by benign weather.

In Continental Europe, Slide 8, the result was up 27% scope-on-scope; thanks to a strong performance in Portugal, both in Life and Non-Life. Additionally, the new reinsurance agreement had EUR3 million positive impact on the result of this segment. Gross inflows were up 14% scope-on-scope driven in Life by higher sales of Guaranteed products in all countries and in Non-Life by Household and Healthcare.

In Asia, Slide 9, the exceptionally high result was mainly driven by a high level of capital gains following the well-performing Chinese equity market, strong investment income and a solid operating performance across the region. The third dynamic continued in Asia with strong regular premium in new business and high levels of persistency across the region.

In the reinsurance segment, on Slide 10, an initial loss of EUR12 million following the implementation of the new internal reinsurance agreements, whose impact was EUR15 million expected to reduce in the coming quarters.

The General Account, Slide 11, generated a negative net result of EUR7 million only; thanks to a sizable positive contribution of the RPN(i) revaluation. This big support was partly offset by higher costs related to the administrative execution of the Fortis settlement. This quarter, the provision for the settlement was reduced to EUR764 million compared to EUR812 million at the end of last year following payments made to shareholders by the foundation for settlement.

On group Solvency II ratio, Slide 12, the solvency ratio decreased from 215% at year-end 2018 to 194% remaining however very strong and largely above our target of 175%. Some explanation on this decrease now. 10 percentage points of the decrease is explained by the call of AG of its $550 million bonds in March. But as Bart mentioned, AGS has since issued EUR500 million debt security in April, which will bring a 13 percentage points of solvency in Q2. Second element of explanation; the joint venture in India has caused in solvency of about 5 percentage points and the rest was explained by the evolution of the financial markets. The main driver on the quarterly market movement is a sharp drop in yield curve primarily affecting the own funds of the Life businesses.

The operational free capital generation for Q1 and after isolating the exceptionals, the impact of the implementation of the internal reinsurance amounted to EUR148 million, as you can see on Slide 15, of which EUR138 million coming from the Solvency II scope companies and EUR10 million from the dividend coming from our non-consolidated partnership in Turkey.

So we can conclude that we're on track with our EUR500 million to EUR540 million guide yearly -- full year guidance for the Solvency II scope companies. The implementation of the new internal reinsurance agreements associated with the discontinuation of the stop-loss between the UK and the Holding had an exceptional impact of EUR95 million on the free capital generation, with negative contribution to the free capital generation comes on the one hand from the termination of the stop-loss for EUR25 million, which is seen as redundant with the implementation of the quota share and for the rest from an increase of the SCR related to lower consolidated LACDT. Ladies and gentlemen, I leave now the room for questions.

Questions And Answers

Operator

Ladies and gentlemen, this concludes the introduction and we now open the call for questions. (Operator Instructions) The first question is from Jason Kalamboussis from KBC Securities. Please go ahead.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Good morning. A couple of questions, the first one is on the Asia. You had a very strong quarter even if we account for seasonality and realized gains. So could you give us a bit more color on this, that would be great. And also if something that you see already continuing in the second quarter, again seasonality being accounted in there. The second thing is on the UK, when do you see the end -- I mean, the inflows are still weak. Would you see an end to it, because I thought that was something that would start to stabilize towards the first half of this year? And a final quick one, if I may, on the negative EUR95 million that we had in reinsurance -- due to the internal reinsurance on the free capital generation, is it -- should we be expecting higher -- other higher SCRs going forward on the back of this internal reinsurance or it is an exceptional one-off of EUR95 million and it should stay at these levels? Thanks very much.

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

Okay I'll take the first question; Antonio, the UK question; and Christophe, the last one. So on Asia, a strong quarter indeed, but -- and which we could say the most volatile element in it is of course the capital gains where we had a huge impact in Q4, a negative one from impairments according to our rules. We have now seen the effect the other way around. But if you exclude that, I mean, look to the underlying results in all of the countries, we can clearly say that they all are going in the opposite direction, thanks to of course increased volumes and so let's say attention to the underlying cost and value of the new business. In all countries, the value of new business goes up, so that's a positive sign. So I would say the only uncertainty is the evolution of the equity markets.

A - Antonio Cano Y Bosque

Yes. Hello, good morning. On the UK, yes, it's true that Q1 will still see a drop in inflow. Our expectation is indeed that in the later part of the year this will reverse. And so far we are pretty much on track with our targets in terms of inflow. But I think particularly encouraging is also the good underlying focus -- the focus is still on that obviously.

A - Christophe Boizard {BIO 15390084 <GO>}

The negative impact on the free capital generation, so I will come back on the breakdown I have just given and will give you more explanation. So first, I indicated that the discontinuation of the stop-loss accounted for EUR25 million and you may ask why is there a net cost on SCR due to the cancellation [ph] of an internal arrangement that within the stop-loss, we had an external (inaudible) with 22.5% of the stop-loss was placed outside with the reinsurer and this was done in order to ensure that we had market conditions and the right pricing. So the fact that we canceled the stop-loss means that at the end we assume more risk because we take back the share which was previously taken by this reinsurer. So this EUR25 million, I would say, is therefore -- that's a one-off that will increase SCR we expect. Then, on the rest of the EUR70 million, so this is directly related to the quota share this time.

And what the effect we have is, it's a technical effect coming from the Solvency II and it has to do with the LACDT, as I said in the speech. So the -- what we are doing with the quota share is that we consider risk from some entities, which are taxpaying entities. So you have the full benefit of LACDT, but then the risk end up in the Holding, which is not paying taxes. So you cannot count on the amortization effect of the taxes on future results because there is no positive tax base so far in the Holding. So I would say this one-off is here to stay. That's an increase in SCR due to a net loss at the consolidated level on the LACDT. And by the way, this gives me the opportunity to tell you that we have achieved Phase 1 on the insurance. We want to go beyond recent this and -- to go beyond this to have a more positive tax base in the Holding. So this effect will be mitigated, but I am talking for the future here. This year, this will stay as well the cost of EUR70 million.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you very much.

Operator

Thank you. Next question from my Robin van den Broek from Mediobanca. Sir, please go ahead.

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

Yes. Good morning everybody. First of all, on Slide 13, you provide a EUR397 million of area for capital transactions and in the slide you specified that's the call debt instrument, the share buyback and the injection in Asia. But when I add to the call debt instrument and the share buyback, I would already be well above EUR500 million. So I was just wondering what the breakdown is on this injection in Asia is?

Second question on your capital generation of EUR148 million from an operating perspective, that's a fairly large contribution in there from the SCR, so I was just wondering since you keep your guidance at EUR125 million to EUR130 million per quarter for the European entities whether you basically see that the negatives of the UK restructuring and the storm are being offset by that SCR contribution.

And last question is, in your introduction you mentioned that Belgium Life is made mostly because of lower capital gains, which is true, but if you look at the underlying, so if you strip out the capital gains in Q1 '18 and Q1 '19, I think you're still looking at EUR36 million versus EUR53 million. I remember from last year that I think you had EUR10 million of exceptional investment income in there. So that partly bridges the gap, but still you have a year-on-year deterioration. So I was just wondering if you can give your views on that. Thank you.

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

(inaudible)

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

I'm sorry, I cannot hear anything. It is very, very soft.

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

Excuse me, can you hear me?

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

This is a lot better.

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

So the first question, the call in Belgium, of course, the $550 million was at 100% as we only owned 75%. So the impact for AGS was EUR360 million. The capital injection in Asia is a smaller amount of EUR5 million in the Philippines to follow the growth and the remainder EUR31 million is share buyback. So it's EUR360 million from the call, EUR5 million Philippines and EUR31 million share buyback.

A - Christophe Boizard {BIO 15390084 <GO>}

Relating to the capital generation and the decline in SCR noticed in Q1, I think your observations are correct. The free capital generation is helped by a relatively small SCR decline in Q1, which is partially seasonal. We also had that last year a few times depending on when premiums are corrected throughout the year. So that is not necessarily there to stay throughout the year because you see that our business development, our business growth is good. And indeed that has been offset, I would say, that benefit as you indicated by poor weather in Q1, a bit in line with what we saw last year, but also by EUR12 million restructuring costs that we had in the UK, which we hope are not going to be recurring. So looking forward, you could expect more of flat evolution or a slight increase in SCR, but then also a better generation of warm [ph] front, of course, weather permitting that is the correct observation that you made.

A - Hans J. J. De Cuyper {BIO 17991990 <GO>}

I think on the last question for Belgium, the effect of the capital gain transaction, which was booked in the technical results due to the nature was actually higher (inaudible) it was EUR21 million after tax. If we take that into account, our margin before capital gains is stable even a very slight increase compared to the same quarter last year.

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

Okay. Thank you very much.

Operator

Thank you. Next question from Ashik Musaddi from JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Good morning, Bart, Christophe. I have a few questions if you can help me on those. First of all is around M&A, I mean, if I look at Bloomberg, very recently there is speculation that you're looking at Tranquilidade in Portugal and you've been linked with the CaiFor as well in Spain. So I mean, it follows your strategy about home market and probably the fourth new market that you're looking to create. But how should we think about these from a strategic perspective and as well as from ROI discipline perspective? If you just remind us your ROI discipline, is it still 11% over the next couple of years or really could it get relaxed as well, just because there are some opportunities in the market at the moment, so that's my first one on M&A.

Second thing is, I mean, the numbers are quite messy because of this reinsurance thing. So can you just give us some clarity as to how much in terms of earnings, how much is one off? I mean, things that I can see is, sales campaign, restructuring costs, and then some extra quota share-related losses. So how much of this combined ratio would you say is a one-off as well as a how much in the Belgium Life is the sales campaign cost and is it going to continue for next couple of quarters as well?

And the last one is basically Asian earnings, clean, is around EUR100 million for the quarter ex capital gains. That's way above your guidance of EUR275 million to EUR325 million for the year. So I mean, shall we still stick with the EUR275 million to EUR325 million, i.e. things will normalize in few coming quarters or should we just try and be a bit more optimistic on that? Thank you.

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

Okay. Thank you, Ashik. The first question on M&A, so I -- unfortunately, we can only repeat what we have said at the Investor Day, and is that we in a first place look at opportunities in markets where we are strong, so being mainly Belgium, Portugal, that we do not exclude to look to find somewhere a fourth market in Europe -- for fourth market. But I would say once again it will always be in a disciplined way and we have not realized some opportunities because we wanted to stay disciplined and we did not want to pay a price that we believe is not in line with the real, let's say, in opportunity or quality or value of the potential targets. So, as you know, further than that we never comment on rumors or on files that appear to be coming or are on the market but that are, let's say, attention points in Europe, I will stick to this.

The second one, the combined ratio, we are more than convinced that the targets that we have set to stay below 96% is the one we will achieve. We are fully confident with that. In terms of specific impacts, one-offs, you could say we have the cost of the restructuring in UK, but it is not included in the combined ratio, as Christophe mentioned. For the remainder, you could say, yes, there is the weather impact, but there was weather impact last year also. The only, let's say, remark I would give in this context is that we were in last year and mainly in Belgium in a very, very favorable position. So the 93% combined, if I remember well, of the last year, we don't say it's not possible but that would be a real great coincidence. But again we believe that we will stay below our target of 96%.

The last one, the Asian earnings, remember that also in the past and I though exclude the impact of capital gains or losses on equity portfolios that in most years, we have behind us, the fourth quarter has been a weaker quarter in Asia because that's the quarter where also a lot of expenses are made to start -- to have a good start of the coming years and that's mainly the case in China. So we don't see a reason at this moment and definitely not with also the uncertainty on the equity markets to increase our guidance. But overall, as a group, I would say that the targets that we have or the range in which we believe the result will be in the course of this year -- at the end of this year between EUR800 million and EUR900 million group results after excluding RPN(i), which is a bit comparable to an insurance results of EUR850 million to EUR950 million. We see no reason at all to change or lower this range. We believe that of course exception made for very unforeseen circumstances that that will be the range in which we will end at the end of this year.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thanks that's very clear. So just going back on the M&A a bit, sorry, I'm coming back to this because I think it's a very important part of your business model. So, I mean, ROI, is it fair to say that we should still stick with like 11% ROI hurdle over a two-year period for developed businesses. Clearly, I'm not talking about Asian businesses because those are different ballgame altogether, but if you are doing M&A in the developed markets, should we still stick with 11% ROI over a two-year period?

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

Well, I would say, that's one of the criteria we've set there. So we will stay to that. Of course, depending on the country where you are, the risk profile that can be from one country to another country slight difference in ROE that we -- the ROI that we apply for a special file and maybe refer slightly to a comment that was made when we entered last year in the deal in India Non-Life, at that moment the price earnings was considered quite high around to 40 [ph]. In the meantime based on the full year results of that entity, Sundaram, it is at this moment 20 [ph] times earnings and if the evolution of the profits go on within one or two years, it will be 15 times earnings that we paid. So in some markets you have to be a bit more, let's say, flexible from that side. But we will not for instance go in Belgium for an acquisition where the return on equity is a 7% to 8%.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Many thanks for this.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Good morning. Thank you very much by the way for the explanation in your pre and post insurance and it was very helpful. So thank you for that. Just three questions; firstly, I note that your upstream expectation for Asia for 2019 is flat on last year and I'm just wondering why that's the case given the decent growth and technical liabilities that you've had. Just if you could explain your thinking behind that. Secondly, could you comment a little bit so far about the potential gains or otherwise in Asia in 2Q taking into account further IFRS can be different from local accounting. And lastly, what can you tell us about the regulatory, the FCA, review in the UK about the difference in pricing between existing and new customers. Did you see that as a threat or a problem? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. For the first question, the EUR95 million; first of all, it's based on dividends coming out of China, Thailand, Malaysia. Thailand, Malaysia are overtime more flat. And that's also in order to keep, let's say, the growth profiles of these companies supported. In China, the dividend payout is 20%, on the local result, so that's why we receive a relatively high amount. If you would take the dividend received from China compared to the results we made on -- we made in IFRS accounting on China, it is even closer to 60%. So every year decision is taken on the dividend payout, that's 30% and as you can see in the solvency overview and the solvency of typing live as a public figure. It has slightly decreased now with 4%, 5% and is at -- if I remember well at 229% end of Q1. So going forward of course when profits go on up locally, we can expect with the same payout ratio, higher dividends coming from China.

On the explanation on the potential capital gain in Asia, in Q2. So first let me remind you that the backdrop of our Asian activity putting aside the capital gain is extremely favorable. Whole our (inaudible) and we really have satisfactory results everywhere. When we are left with the volatility of the equity market and you have for sure noticed that the local indices are very volatile. We were down at the end of last year and we had to book impairment and we were up by 30% at the end of March and I will come back on this. But then at this moment with the recent development on the trade war, we are back at plus 20%. So we have lost 10 percentage points compared to end of Q1, so which means that we have volatility here and volatility is even exacerbated by the fact that we have a different impairment rule in local, implement rule is, I would say, less flexible -- is more flexible locally but on our side, we apply our own rule vis-a-vis impairment and we tend to impair quicker.

So in the capital gain of Q1, part of this is due to the fact that we heavily impaired end of Q4 of last year and we could take back part of this in Q1. In Q2, we would see what's the equity market will do, we'll see what our policy will give. But I have to admit that the visibility is not perfect and volatility is rather high because you know that the equity allocation in China for instance is quite high, always navigating between 10% and 15%. So I would say let's monitor and let's see but we are still at plus 20% vis-a-vis end of December of last year, which gives a decent margin for the future. But it cannot be (inaudible)

Q - Farooq Hanif {BIO 4780978 <GO>}

If I just following up the fact that there's been a recovery year-to-date could potentially, in my view, I think lessen the downside risk on impairment. Would you agree with that in 3Q, sorry in 2Q?

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

Yes, maybe a few words on the FCA pricing review in UK and particularly you refer to the price discrimination between new business and renewal. So, yes, there is some legislation or some paper that's going to be published by the FCA. We are aware obviously of discussions between the FCA and the British Association of Insurance. Now, is this good news or bad news for us, I think it's fair to say that we have our own fair pricing framework quite a while in place. So I would say that we would be more on the positive side of the equation compared to our peers. This is obviously a market phenomenon, so the market will adapt to the new rules for us. For now, I would just keep it as a neutral item. Obviously, it has also some possibilities. I think by June, July we'll know a bit more.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. That's very helpful. Thank you so much.

Operator

Thank you. Next question from Bart Jooris from Banque Degroof Petercam. Sir, please go ahead.

Q - Bart Jooris {BIO 3470300 <GO>}

Yes. Hi. Thank you for taking my questions. If I -- you already touched on this Bart, but if I could continue a little bit on the combined ratios in Belgium, we saw increases in an all business lines. So there is only a weather impact of this. So what we should see as the new normal going forward than the same a little bit we saw a slight increase there's still a very good combined ratio in Central Europe, is that also a new normal? And then regarding to the UK, if we add back the reinsurance EUR3 million and the restructuring of EUR12 million, it's EUR26 million, if we do that times three and we add the profit of this year, you're already on the top of your guided range. Do you stick to that range?

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

Okay. Maybe for the combined ratio, Belgium, I will leave it to Hans to give a bit more detail. Hans?

A - Hans J. J. De Cuyper {BIO 17991990 <GO>}

Well, I think that the prime effect is indeed as we said the weather effect in the Non-Life business for a full 10%. If I zoom in on the detail, we see a slight deterioration if we exclude the weather impact on Accident and Health, but nothing really to look to worry about mainly in workmen's compensation. We see more -- a slight deterioration in Motor, but overall the Motor business for us is far within the 96% target. We see actually excluding weather a nice further improvement in Household and Fire. So I think the story is a little bit mixed. If we look at the numbers excluding weather impact that we have no concerns at this stage on the 96% ambition. Of course, for the remainder of the year, the impact of reinsurance for additional weather effects that might happen of course will come into play. So you can definitely not extrapolate the weather impact for the full year.

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

Okay. And then on UK, you rightly indicated that if we would take out restructuring cost and add the reinsurance that we are above this EUR11 million reported, we stick to our guidance given earlier of target being EUR70 million and EUR90 million. But as the EUR3 million this quarter part of it will be recognized under the reinsurance segment. But if you look through the AGS results coming out of the UK, you could indeed keep that EUR70 million to EUR90 million that we indicated earlier at the full year results scope.

Q - Bart Jooris {BIO 3470300 <GO>}

But probably more on the top of the range, right?

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

If we can exceed the targets we give we will never let it stay apart. So but take also the overall indication I gave that we are quite confident again not excluding, really unforeseen would say, world's issues that we will see -- the year between that EUR800 million to EUR900 million group results, -- EUR850 million to EUR950 million insurance results; whether it will be on the lower, higher or medium end, that's something I think where we probably will be able to give a bit more feeling further in the year.

Q - Bart Jooris {BIO 3470300 <GO>}

Okay. One small detail on that, is there any update on the Ogden rate of evolution?

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

On Ogden, everybody awaits the first weeks of August as the date and that will be published. But as with many things in the UK, you never know.

Q - Bart Jooris {BIO 3470300 <GO>}

Okay. Thank you very much.

Operator

Thank you. Next question from Albert Ploegh from ING. Sir, please go ahead.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning. Thank you for taking my questions. I've got basically two. One is on the earnings bridge in Asia from Q1 last year to Q1 this year. To understand a bit better what is the true operating underlying performance? Q1 last year, I think, there were some favorable impact from interest rate movements and also a quite low, let's say, expenses rates to commercial sales. Clearly this year, the capital gains are higher but to better understand the bridge between those two periods. And the second question is also a bit related to on capital gains. And looking at Belgium Life, it was well known that it would be low in Q1 this year. Can you say something on the budget for the full year? I know it's always a bit difficult to talk about budgets for capital gains but maybe in relation to at least the real estate capital gains that you expect mainly? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

On the first question, so the comparison Asia last year and this year, I would indicate that the main difference is the higher net capital gains. If you look through slides, sorry Slide 5 or 6, I think is -- sorry 19, you'll see that last year, we had EUR25 million capital gains, this year EUR49 million, so it's plus EUR24 million and the net result goes up with EUR23 million. So what you would see is that the end results we had two, three years ago in Philippines and in Vietnam are on the right path. In Vietnam, we are almost breakeven. Philippines will take a bit more time, but we are not far from a breakeven, I would say, within one, two years. And then there was on reevaluation of reserves in China, there was a minimal impact, I think, something like EUR5 million. So that's some of the explanations. But the big difference is lower capital gains.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you.

Operator

Thanks. Your next question from Matthias De Wit from Kempen. Please go ahead.

A - Christophe Boizard {BIO 15390084 <GO>}

Sorry you still -- would you still like to get some feedback on the capital gains in Belgium. I think you had the second follow up question. There were -- I don't think we will give the full budget numbers for the year, but what I can tell you is we are quite on track of what is concerned the capital gains on equities. I think we are there within the ambition level quarter on quarter. And real estate, there are few transactions in the pipeline, which were scheduled and at this moment they're also fully on track. So we still keep our ambition on the operating margin towards the end of the year, which is also within the targets of the group.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay, clear.

Operator

Sorry, now, next question from Matthias De Wit from Kempen. Sir, please go ahead.

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

Good morning. I've got two questions, please. First is on capital generations. I could just come back to the operational SCR movement the decline of EUR30 million, you mentioned seasonal items, but is there anything else that you can highlight because I would have expected an increase given that the book grew during the quarter and also the allocation for risky assets increased. So just wonder if part of that risky impact is captured by the market (inaudible), if you could confirm that please.

And just to continue on capital generation, we've seen quite strong decrease in risk free rate and credit [ph] during the quarter. So is there anything you can say on how sensitive your capital generation is to this macro movement? And then just a second question is on taxation. What should we expect in terms of the effective tax rate following the reforms we've seen in Belgium and also taking into account the impact of the reinsurance -- internal reinsurance, which could be beneficial? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay, Matthias, thank you for your questions. Okay. I can indeed only repeat that the main aspect is seasonality, and if you look at the movement in SCR, of course on the quarter, it's always exaggerated in the free capital generation because in overall it's only a small fluctuation percentage wise on a EUR4 billion. But indeed to your point on why the growth that we see is not reflecting directly in some increase in SCR, now one of the points is that a substantial component in the growth in the first quarter and Bart indicated that is due to very strong growth in unit-linked lines of business. And, of course, there is little capital consumption related to that. So that kind of offsets what I would say you normally would expect if you see the top line development.

Related to macro movements and sensitivities on free capital generation, of course I have to refer you to the sensitivity tables which we updated in this presentation and I think they are on Page 58, you'll find the updated sensitivities at least on the solvency ratio but, we break them up on SCR and own funds impact. So that should give you some indications there, how these things impact the free capital generation.

Now specifically for this quarter, because I noted in some of the comments that are coming out of the analyst reports already, that people were to some extent surprised by the high impact of the market component for the quarter because indeed, market impact was around 5% in the solvency ratio. And if you compare the movement on the yield curve, because actually it is all related to yield curve movements, to the last quarter of last year where we also saw the yield curve come down a bit.

Yield curves on average last year had a lateral move of about between 10 bps and 15 bps. This year, however, it is more the long hand that came down, so it's more a flattening of the curve and in fact on the relevant segment, the impact was around 30 bps. So it actually is double the impact of we saw in last quarter. And if you then look at the table on Page 58 and compare that with the sensitivities that have been given on the yield curve, down 50 bps would have an impact of 15% that brings that very much in line what we saw happening in the first quarter this year. So I have the feeling that by now our sensitivities that we give, of course, they're based on the end of year solvency, give a good indication of the macroeconomic impact that you can expect also on SCR as well as own funds and on some free capital generation.

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

Thank you. And the tax thing?

A - Christophe Boizard {BIO 15390084 <GO>}

On the tax following the reinsurance, so I don't want to spend too much time after -- on the three months and one quarter because we are not in a very favorable position, why? Because in my speech I told you that what we booked is an initial loss of EUR12 million, which is you will guess this not the long-term expectation, why, because if we have a loss at the Holding level, it's counterproductive on the tax rate, which means that we have positive impact on the tax paying entity, and of course, I am thinking of AG. So on Q1, the result of the reinsurance is more tax for Belgium unfortunately, and at the Holding level, we have a loss which cannot be offset by any positive tax base.

So we are not in the -- what we expect, but I'd like to mention the fact that we have one-off costs, setup costs but not what we expect. We know that with the absence of (inaudible) Belgium, the positive result at the Holding level will build up progressively over several years, and that in the future, we will have a decrease tax rate at group level but not at the end of Q1 unfortunately. But this is temporary and please note that there is no tax return based on the quarter. So these are accounting entries, as far as cash is concerned, it will be an annual tax return at the end of the year and my expectation is that the net profit of the quota share at the Holding level will give a better image at the end of the year. Thank you.

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

Okay. Thank you.

Operator

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

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Hi. Just quick follow-up questions. The one is on the M&A that was asked earlier. I just wanted just to ask, I mean, Portugal that's fine that's in line with what you got, but when you're looking at the new country in Europe, I thought that your preference would have been less to be opportunistic and more to look at countries like Italy where you already know the market rather than entering for example a new country like Spain. If you have any thoughts I would appreciate that.

And the second thing is on reinsurance on the quota share. You have given us very helpful explanations in April with a webinar, but are you confident that there is no way that in the future there could be an issue on how you have structured it. I mean, you have taken all the precautions basically so that every unit is independent and can voice its opinion and basically said the quota share in an agreement if you want with the reinsurance theme, but are you confident that in the future there is no way that there will be an issue from the taxman in a certain way either general to spending a lot of time and that the benefits somewhere in the future could run into an issue.

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

Okay. Jason, the first question, again, we don't comment on the rumors as. So when we said that we might look to a fourth market to find a fourth core activity as far as I know we excluded explicitly markets like Germany and France because too big for us. We also on the specific question mentioned that we believe that our added value in the Netherlands would be minor knowing that there are three, four big players that have advantages and that's it. So we didn't mention specifically or exclude specifically other countries. So no real concrete things that we can share or we'll share it with the outside world.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Okay. So if I may -- on this one you don't have a preference for a market like Italy. It is basically for you every country, it will depend on the opportunities and what you see coming in front of you?

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

I could say, and then don't take it as whatever indication, we have experience in Italy. We have had as a group a lot of experience in the Netherlands. We also have had the experience with CaiFor for a long time ago in Spain. So I think of course that's an element in Europe we will look at whether we have some good knowledge of the markets, but next to that we don't have a blacklist of all these excluded. We don't have -- we have of course some areas that might be preferential but we -- for the reasons you know we will not share them with the outside world.

On the potential issue with the tax authorities coming from this internal quota share arrangements. So, as you can get, that was one of our key points in the file when we studied the file and we have studied the file for quite a while now. So it was well captured since the beginning, I think that we have (inaudible) why? Because we had really (inaudible) but a very serious discussion about the conditions in order to ensure that market conditions are within these context and I will take the example of Belgium; Belgium (inaudible) a specific reinsurance broker to help them to have the market and we had our own reinsurance broker so it means that two insurance brokers were in the group and I can tell you we have all the meetings we had, we've hold the exchange of (inaudible) for negotiation, which was a long one. We cannot say but it was something completely driven by the Holding. It was, I can -- I'm 100% sure this real market and length transaction. In any case, the tax authorities are consulted. We are in the process of discussing tax ruling, and if we obtain a tax ruling, this will remove all the risk for the future.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

When do you expect to get that tax ruling?

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

On that side, but I really feel confident about the strength of our tax authority. These are things which are known in the market. If you go to the UK for instance that is very common, this kind of protection arrangement at even much larger scale. So frankly it should be okay. But in any case we will have the formal feedback from the tax authority.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, I appreciate that you have had -- there have been a very thorough action in each country to do it, but just when you are going to have the tax ruling that kind of will free up if you want any residual risk even if not this is very remote.

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

If we free up, and you risk because once the tax ruling is obtained, the physical administration cannot comeback on what the tax ruling states.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, but the tax ruling, when is that in place?

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

It's under way. So there are some delays. So we have to wait for some months but the outcome will be known before the end of the year.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Superb. Thank you very much. Very helpful.

Operator

Thank you. We don't have any more questions for the moment. (Operator Instructions) As there are no further questions, I would like to return the conference call back to the speakers.

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

Okay, ladies and gentlemen, thank you for your interesting and strong questions. To end this call, let me summarize the main conclusions. Our net result was in line with the strong one delivered last year with the exceptionally high result in Asia, offsetting the lower capital gains in Belgium. We enjoyed a solid growth across most of the segments including an exceptional sales momentum in Belgium. We generated a strong operational free capital of EUR148 million. We reconfirmed our belief of EUR800 million to EUR900 million, net group profit for the whole year. With this I would bring this call to an end. Do not hesitate to contact our Investor Relations team should you have outstanding questions. Thanks for your time and I would like to wish you a very nice day. Thank you.

Operator

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