S1 2021 Earnings Call

Company Participants

- Antonio Cano, Managing Director Europe
- Christophe Boizard, Chief Financial Officer
- Filip Coremans, Managing Director Asia
- Hans De Cuyper, Chief Executive Officer

Other Participants

- Ashik Musaddi, Analyst
- Benoit Petrarque, Analyst
- David Barma, Analyst
- Fulin Liang, Analyst
- Michael Huttner, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to this Ageas Conference Call. I am pleased to present Mr. Hans De Cuyper, Chief Executive Officer; and Mr. Christophe Boizard, Chief Financial Officer. For the first part of this call, let me remind you that all participants will remain on the 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 to hand the call over to Mr. Hans De Cuyper and Mr. Christophe Boizard. Gentlemen, please go ahead.

Hans De Cuyper {BIO 17991990 <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 six-month results of Ageas. I'm joined in the room by my colleagues of the Executive Committee, Christophe Boizard, our CFO, and Emmanuel Van Grimbergen, CRO; Antonio Cano, Managing Director for Europe; and Filip Coremans, Managing Director for Asia.

This quarter, our businesses continued to enjoy a strong commercial and operational performance in both Europe and Asia. In Europe, the impact of the COVID-19 pandemic is gradually fading. We are still recording lower revenues on real estate, mostly from our parking business and experiencing lower claims frequency in motor, but to a much lesser extent than in previous quarters. Moreover, the pandemic had a neutral impact on our results in Q2 with the lower frequency in Non-Life positive, compensated for the remaining negative impact on investments in Life. Overall, the sound operating performance of the consolidated entities in the first half of the year is reflected in the Life operating margins and the Non-Life combined ratio all standing within target range.

In Asia, the net result was driven by a solid underlying performance, mitigated by the impact of the unfavorable evolution of the discount rate curve in China and by negative net realized capital gains recorded on the quarter.

On the commercial front, we enjoyed a solid sales momentum in Europe and Asia with inflows up 11%, driven by both Life and Non-Life. Life inflows benefited from the strong start of the year campaign in China and from excellent Unit-Linked sales in Europe. Whereas Non-Life inflows were up, thanks to a strong performance in Belgium and Continental Europe and to the new contribution of Taiping Re in Asia.

On a sadder note, I would like to mention an event, which took place after the closing of the second quarter. As you know, heavy rainfall during the first weeks of July caused floods in a large part of Belgium with devastating consequences. Our teams have been fully mobilized to provide help and support to the victims. Given the size of the damages suffered and in order to indemnify the victims as quickly as possible, we have joined the sector to propose an additional effort above our legal requirements.

Our current assessment, taking into account this proposal, leads us to expect a negative impact on our third quarter -- on our net third quarter result of around EUR55 million, and this is after tax and after reinsurance. Despite these exceptional weather events and despite the impact of the further decrease in Chinese yields, we are confident in our ability to deliver a full year net results, excluding the impact of RPN(i), in line with our initial guidance of between EUR850 million and EUR950 million.

Moving now to our cash and solvency positions. Our cash positions remained at EUR1.2 billion, which gives us a great financial flexibility. Since the beginning of the year, we have already received EUR670 million dividends from our operating companies, which is a record amount for us, and we confirm expecting above EUR700 million for the full year.

These dividends more than covered the holding cost and the EUR485 million dividend paid to Ageas shareholders in June. Additionally, as announced, we have finalized the acquisition of the Turkish Life company, AvivaSa, which has since been rebranded AgeSa. I would like to take this opportunity to mention that AgeSa, which has been consolidated into our accounts since May 5, recorded solid results in Q2, and already contributed EUR4 million to our results.

Still on the M&A front, the sale of Tesco Underwriting in the UK is now completed. We received the first payment of EUR45 million in the second quarter, and we expect a second payment of around EUR95 million in Q3.

Lastly, our solvency amounts to 196%, up with 1%, significantly above our target of 175%. And given our strong cash and solvency positions, we have announced this morning a new share buyback of EUR150 million.

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

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Hans, and good morning, ladies and gentlemen. As you can see on Slide 5, our six months group results amounted to EUR407 million, including EUR115 million negative result from the general account, driven by EUR57 million negative revaluation of the RPN(i). As mentioned by Hans, our operational performance has been solid in both Life and Non-Life. And as usual, I will now give you more details by segment.

So let's start with Belgium on Slide 6. In Non-Life, the combined ratio year-to-date, which amounted to 93.8%, was still supported by lower claims frequency in Motor, which compensated for some adverse weather, not related to the floods of July. The remaining COVID impact in Non-Life was fully offset in Q2 by the continued lower revenues from real estate in Life. It is, however, worth noting that these revenues are gradually recovering as restrictions related to COVID are being eased.

The guaranteed operating margin amounted to 81 bps in the first half of the year, so slightly below the target range. In Q2, this margin was impacted by some scattered impairment on the equity portfolio, even if at the end of the quarter, the amount of unrealized capital gain on the equity book reached a record amount of EUR1.2 billion compared to EUR0.8 billion at the end of last year and EUR1 billion at the end of Q1. So there is a progressive trend -- positive trend on the unrealized capital gain on the equity book.

The guaranteed operating margin should recover later in the year with the realization of real estate capital gains expected in the second half of the year. The Unit-Linked operating margin reached 37 bps, so in the upper end of the target range. Moreover, the commercial performance has resumed robust progression after the weaker level of last year induced by the COVID-19. This year, Life inflows are strongly up driven by high Unit-Linked sales. And on Non-life, an exceptional growth of 7% was recorded, we progressed in all business lines.

In the UK, Slide 7. Motor claims frequency were back to pre-COVID levels in the second quarter. There, lower frequency no longer compensated for the continued increase in claim inflation. Prudent reserving, along with increased levy costs, weighted on the combined ratio of the quarter. Meanwhile, the strong net result benefited from a higher corporate tax rate, which induced positive revaluation of the deferred tax assets.

On the commercial front, inflows have proven resilient in the COVID context and remain stable scope-on-scope when excluding the past contribution from Tesco Underwriting.

In Continental Europe, Slide 8, the performance was satisfactory in both Life and Non-Life. In Non-Life, the combined ratio year-to-date stood at an excellent 87.0% in Portugal with motor claims frequency normalizing to pre-COVID level in Q2. The contribution from Aksigorta in Turkey to the result, while still positive, suffered from adverse claim experience.

In Life, the guaranteed operating margin year-to-date amounted to a high 113 bps, thanks to a sound underwriting performance, while the Unit-Linked margin pursued its steady improvement and stood at 32 bps within the group target range. As previously mentioned by Hans, the newly acquired Turkish company now renamed AgeSa contribute for two months to the Life results.

The commercial performance delivered by the segment was excellent in both Life and Non-Life. In Life, inflows showed a strong recovery driven by Unit-Linked sales. And the Non-Life, inflow increased by 17% at constant exchange rate over six months with growth in all the product lines.

In Asia, I am on Slide 9 now, the Life segment continued to deliver a solid operational performance. In Q2, the underlying performance was broadly in line with the excellent performance of last year. However, after a very strong Q1, the net results suffered from the adverse evolution of the discount rate in China and from negative net realized capital gains due to our own IFRS restatements. It is worth remembering that the dividends we received from Asia are based on local accounts, so before our own restatements.

In Non-Life, the result increased, thanks to the contribution from Taiping Reinsurance. The continued growth in inflow at 100% in both Life and Non-Life also benefited from the contribution from Taiping Re for EUR618 million in Life and EUR727 million in Non-Life. You can see Slide 15 where you have all the details segment by segment, entities by entities on the inflows.

The Reinsurance segment, now on Slide 10, benefited in the first quarter from the lower claim frequency recorded at the level of a ceding entities, whereas the second quarter reflected normalizing claim frequency and adverse weather in Belgium, already mentioned.

As already announced by Hans, our group Solvency II ratio, Slide 12, increased to 196%, driven by a strong operational performance, which more than covered the accrual of the expected dividend.

Our operational free capital generation, so Slide 13 now, amounted to EUR375 million, including EUR163 million in dividends from our non-controlled participation. On the negative side influencing the free capital generation we had in Belgium, the progressive migration to assets, bringing increased SCR, that's what we call the "derisking" of the balance sheet to support the margins.

In the UK, we had a somewhat weaker on fund generation in Q2 due to the prudent reserving and the change of scope following the sale of Tesco. And additionally, we incurred the increased interest costs generated by the new debt instrument issued at the holding level over the past year. All this weighed on the operational free capital generation. But nevertheless, on the other hand, at Group level, the operational free capital generation is satisfactory given the increasing amounts of dividend received from Asia.

And all the segments have been reviewed. This is the end of my presentation.

Questions And Answers

Operator

Thank you. We will now go through the question-and-answer session. Ladies and gentlemen, this concludes the introduction. We now open the question-and-answer session. (Operator Instructions) We have a first question from David Barma from Exane BNP Paribas. Please go ahead.

Q - David Barma {BIO 19957338 <GO>}

Thank you, and good morning. My first question is on the Non-Life business in Europe in your -- the statements you make on the debts? [ph] Can you remind us how the excess of loss program works at the Group level and then Belgium particularly? And how the government support mechanisms work in Belgium? And how that fits with the EUR55 million impact that you mentioned this morning?

And secondly, on Non-Life as well, could you give us an update on your key markets for motor insurance on competitive dynamics? And maybe if I can add a small last one on the Life investment income. So you mentioned still a drag from your real estate investment rental income in the second quarter, what was the impact this quarter versus your, say, run rate's budget for that? Thank you.

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

Okay. Thank you, David. Let me take the first question on the impact of the floods. Well, I cannot in detail zoom in how do the insurance program works for Ageas. That's, of course, Company confidential information, but traditionally, you reinsure yourself for one single event, and we also reinsure ourselves on an annual basis for this type of incidents.

Now how does the mechanism work? Before 2005, actually, all CatNat claims came automatically on the CatNat fund, which was run by the government. There was no intervention by the insurance industry. And in 2005, the CatNat law came into force, where the insurance industry would take a first layer of claims and that layer is automatically adjusted for the size of the market. And today that stands for the industry around EUR350 million. Above that, we do, as traditional, go back to that CatNat fund owned by the government.

From 2005 till this year, actually, all CatNat events have been taken by the insurance industry within that first layer. So it's now the first time and, of course, quite excessively that we will go above that first layer, and therefore, there are some discussions going on at this moment with the government how part of this cost could additionally be shared between the government as well as the insurance industry.

I cannot -- due to the confidentiality of those negotiations, I cannot go into the details of the current proposal made by the industry. I think we are more or less in the final days to come to a formal agreement. What we have done is we have, in the EUR55 million, taken into account already the current proposal, which is on the table coming from the insurance industry.

And so that brings us to EUR55 million. The overall claims cost for AG looking forward today is expected to be around EUR400 million. That makes the total event definitely an event above EUR1 billion claims cost for the market. The EUR55 million is net after tax after reinsurance and for the 75% owned by Ageas in AG. So that's what I can tell you about the flows.

On the motor dynamics in the European market -- sorry, yeah.

Q - David Barma {BIO 19957338 <GO>}

No. Thank you for that. Sorry, just one thing. My understanding was you had an excess of loss treaty for cumulative events. Is that still in force? Because I would have thought that the July floods plus the H1 weather events would have triggered that.

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

Well, we have that stoploss, yes, in place. And of course, this type of incidents will go way above the retention of that stoploss. That being said, of course, it is also not automatic that any additional intervention you would do that, that is automatically fall into your reinsurance cover so that you should also take into account and you assess that EUR55 million impact. But I cannot give you, at this moment, more details how the impact is split between the basic regulation and the excess. At this moment, I cannot give you more light on this due to the confidentiality of the discussions.

Q - David Barma {BIO 19957338 <GO>}

Thank you.

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

For Motor, I pass it to Antonio for the European markets.

A - Antonio Cano {BIO 16483724 <GO>}

Yes, hello, good morning. So on Motor, let's -- I guess you were referring to the main markets, so Belgium, UK, Portugal. Belgium on motor, you see, as was said by Hans' and Christophe's introduction, we see frequency creeping up to pre-COVID levels. I would say in Belgium, we're not there entirely but very close.

Just anecdotal evidence recently, there was a report from the Flemish Road Safety Institute, and they indicated that claims frequency on the Flemish roads was actually to levels of 2016. So that it's picking up as the lockdown measures are relaxed. For us, not really a lot more to mention on the competitive dynamics of the Belgium market. It remains competitive, but not more competitive than in the past. So it's a stable market.

UK, also there, we see claims frequency creeping up, slightly different nature, less claims frequency related to, say, the daily commuting as many companies are still in semi-lockdown, but you see a higher frequency in the weekends, et cetera. So overall, frequency is creeping up.

On the pricing dynamics, you've seen in the first part of the year, a drop of average premiums. I think for Q2 compared to Q1, we were minus 1.5% in the market. We see that stabilizing. But just for completeness, in Q1, the drop was more significant. I think it was more in the order of minus 6%. And in Portugal, a bit the same story, frequency creeping up again, but a fairly stable market in terms of pricing dynamics.

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

Okay. Life investment income, Christophe, you will take that.

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah.

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

Okay.

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah. Okay. So two things on the investment income. First on new money and then on the existing book. So on the new money yield, we achieved a very remarkable performance because in Q2, new money yield reached 205%. So this is done through, obviously, not with govies [ph]. So we have more -- so we have a riskier asset, but we reached the 205%. By the way, the reason why if you look at the evolution of the SCR coming from AG, it is going slightly up. And it is a consequence of what I mentioned in my speech, the derisking of the balance sheet. But all in all, all remaining obviously, within our risk appetite, of course. But we reached 205% on new money.

Then on the existing book, we have a drag on real estate. On real estate, two things. First, the retail and then e-pickup [ph]. So broadly, we have on e-pickup, loss around EUR10 million, but we are -- we observe a good trend in the occupancy of the car parks. And hence, we are close to 70%, 75% now. So what is left -- what is really behind is the airports, but on the rest we are recovering rather quickly. And then on the retail, what weighed on the result is the fact that we have reduced some rents. We have and this is for another EUR9 million. So EUR10 million on e-pickup and then EUR9 million for the retail, EUR19 million in total, they're covering on e-pickup.

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

If I can make a comparison, year-to-date on the inter parking, we see still compared to pre-COVID levels compared to 2019, a drop around 30% to 35%. But we do see, for instance, in July that, that is already reduced to minus 10%. So we do expect for the second half of the year a recovery. We have actually some countries already where the parking revenues are above the pre-COVID levels. And as Christophe said, the main impact that remains are the airports and the airports is the biggest impact on the Belgian parking business. But we are actually quite confident that we can go back to pre-COVID levels and even thought that because the parking -- park is still also growing gradually. So that we can go back to pre-COVID levels very, very soon. And so it was in second quarter last year, all real estate and equity impact was minus EUR44 million. And this year second quarter, with this minus EUR19 million. So we are actually less than half on what it was the year before.

Q - David Barma {BIO 19957338 <GO>}

Thank you very much.

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

Yeah.

Operator

Thank you.

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

Sorry.

Operator

Thank you. Next question from Ashik Musaddi from J.P. Morgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you. Good morning, Hans. Good morning, Christophe. Just a couple of questions, if I may. First of all, if I think about your earnings guidance, I mean, you had increased it from EUR850 million to EUR950 million and then EUR900 million to EUR950 million and now again, going back to EUR850 million to EUR950 million. I mean, how do we think about that change in the guidance again? I mean, are we more or less thinking that the earnings would be between EUR850 million to EUR900 million? Or what are the moving parts here? Because on one hand, I agree that this losses from the Belgium floods are high, EUR55 million, no doubt about it. But at the same time, I mean, European equity markets have been strong. So there could easily be some offset from capital gains that you can book in Europe. So how you are thinking about this guidance is the first question?

Second thing is, I mean, clearly, macro in Asia, especially China has been volatile with equity markets as well as interest rates coming down. So any fresh thoughts on how do we see the underlying earnings of Asia, I mean, in past, you have done a great job in giving us the building blocks of the earnings. So any thoughts on those updated numbers would be very helpful.

And lastly is, you have announced a share buyback of EUR150 million. I mean, how do we think about the capital position here? And is there any relevant M&A in the pipeline that you would flag or not at this point? Thank you.

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

Okay. Ashik, let me take the first one on the guidance. You know very well and you're right, we have said in the beginning of the year the guidance, EUR850 million to EUR950 million with a very strong performance in the first quarter mainly also coming from the capital gains and some continued positive impact of COVID. We have raised it to EUR900 million to EUR950 million. Since I think we have now for the second quarter to take into account two important elements going forward. First of all, in the EUR51 million coming from the floods. And the second one, as you remember, in previous guidance, we have assumed a negative impact from the variable interest rate in China for the first two quarters and that, that would more or less stabilize in the second half of the year.

We see now that interest rates are still going down or have been going down in China, stabilizing a bit now. So -- but we do expect some additional negative impact and Filip, in your second question can zoom in into this, for China. So those are the two main attention points.

You're also right that we have a very solid unrealized capital gain position, both on the equity book as well as on the property book. And so that's why we are also not lowering the upper limit. So we take into account the potential on the lower side, but we do not lower the upper limit because that will depend on financial markets, equity markets and the potential of capital gains.

Also, let's not forget that this year, the capital gains season on the real estate transaction is almost fully in the second half of the year, where this is still to come. I cannot give you detailed numbers on this. That is also something we should take into account. So that's the motivation to go for EUR850 million to EUR950 million.

Where will we end in the range? Honestly, it's hard to say. I keep it open for the full range for the time being with the arguments I just gave you. And on the Asia earnings, I will pass to Filip for some details.

A - Filip Coremans {BIO 17614100 <GO>}

Yes. Thank you, Hans. Let me start with saying that underlying, there is absolutely no change in the outlook and indicators that we see on Asia. And I know, of course, that many of you were surprised by the relatively low results on the surface for Q2, certainly after a strong Q1, happy to comment on that.

But if we look at the underlying first and foremost year-to-date, we had an overall result of EUR203 million. And in fact, the underlying result is not all that different because the net-net, the capital gains realized to date was EUR65 million. And the valuation interest rate up to half year was EUR74 million. So underlying that leads to a EUR212 million. And if we do the same exercise specifically for Q3, we had a valuation interest rate impact in Q3 of EUR34 million and a negative capital gain impact of EUR36 million. So underlying, we had even a very strong EUR125 million for Q2 on its own.

To put that further into perspective, and Christophe and Hans commented on it, this negative capital gains, very important to note what they are not. They are not realized losses, and they are not impairments. They are IFRS derecognitions of local capital gains. The result in China in their accounting rule, they put their property in fair value to P&L and they have an outstanding trading book, of which also the gains run through the P&L.

Under IFRS, we derecognized both. However, what we do not do and that is quite conservative, if you ask me, is take the profit sharing, compensating effect into account. So we do still carry the full charge of the profit-sharing dotations that I think Group -- I think Life makes in these funds. And I'm more inclined to look at the underlying trend, which is more in line with what you can expect in the local results, which, in the end, drive dividend expectations forward.

So what is then our outlook, as you asked, Ashik, by end of year? The interest rate in China undeniably came down further and took a dip in July, even touching 2.8%, now rebounded a bit to close to 2.9%. But based on that, our best estimate, and of course, with the caveats of high volatility in this indicator. They range between EUR170 million and EUR180 million impact of valuation interest rate by end of the year.

Then on the result outlook related to that, we stick to our EUR350 million to EUR400 million range, but I am inclined to say given the fact that in the local accounts, they realized already quite a bit more capital gains than we did that we may not end under IFRS close to the 400, but rather to the 350.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Okay. Okay. I will find. Thank you. Thanks a lot. That's very clear.

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

Okay. Thanks, Filip. Ashik, your last question on the share buyback. Well, three comments I want to give there. First of all is, of course, I cannot disclose anything on M&A, but what we call our test position to look at potential M&A is actually not impacted really by this share buyback because you have heard me saying during the introduction that we expect more than EUR700 million of upstreaming this year, taking into account the EUR485 million coming from the dividend. We still have ample room to do this share buyback.

Secondly, I think we have always said that our guidance this year is the Connect21 program, and we want to honor our commitment there and where we have set if no significant M&A announced that we would do a share buyback of EUR150 million. So that's also, I think, the second reason why we do the share buyback. And last, but not least, also our solvency position has been very resilient throughout the whole COVID crisis into this year, into the second quarter. So we're also very, very confident from a solvency point of view.

One final comment I'm going to give because that question might come later on anyhow. Within the European directive, we had a limitation of EUR130 million, but once again, same as the dividend last year. We have announced a share buyback in a very open and constructive dialog within the National Bank. You know that the European directive will end 30 of September. So there was no objection to go EUR20 million above that maximum limitation that we have. So we have been able to honor our Connect21 commitments.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thanks a lot for the detailed answers. Thank you.

Operator

Thank you. Next question from Benoit Petrarque from Kepler Cheuvreux. Please go ahead.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, good morning, all. A couple of questions on my side. And I would like to come back on the July event in Belgium, which is all extremely severe and shocking as well. I was wondering what have been the lessons learned from your side from these events?

I mean, we're talking a lot about climate change. I was wondering if you are currently happy with your reinsurance program, the way you structure it? Or you are potentially thinking about a small reset or adjustment of this program? So that will be the first question, just kind of the long term -- more long-term -- or medium-term, long-term impact of this July event from a strategic point of view.

Then the second one, just to come back on the normalizing frequency in Non-Life in Belgium. It was still a small positive in Q2. What do you see so far in the third quarter? Do you expect more normalization? We've been talking about also frequency potentially shooting up a bit during the normalization phase. And I was wondering if you still think that, that will be the case?

And then just finally, on re-risking, you've been doing re-risking in the second quarter? And where are you now? How much further rerisking are you expecting? Thank you.

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

Okay. Let me take the very your first part of the first question, lessons learned. Well, I think it's too early. We are still dealing with the recent events. Of course, we can all read that frequency and impact of this events is on the rise. So I can imagine that after the agreement with the government, there will be a follow-up how the CatNat regulation might be further improved, which I think is also very important for the insurers because that way, they are able to align their reinsurance programs with the regulation and that we can operate within a very clear legal framework and that insurers can protect and organize themselves for this. But what about our current reinsurance program, I'll pass it to Antonio.

A - Antonio Cano {BIO 16483724 <GO>}

Thank you, Hans. So the reinsurance programs get adapted every year, but the principal philosophy remains the same. Basically, we insure slightly above the one in 200 events. And each of these models continue to be adapted and referring specific to climate change, it is nothing new for the reinsurance world. So the models have been gradually adapting, maybe there will be more adaptations. But don't expect because of this specific event like a drastic change in the reinsurance cover. But as Hans was saying, should the legal framework be adapted then that obviously will be reflected in the reinsurance rates.

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

(Technical Difficulty) there's no additional lockdown coming up. I don't see any reason why that should stop. So we are gradually normalizing, definitely in Belgium, definitely in the Flemish part of Belgium.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. On your first question (Technical Difficulty) segments. We're subject to this rerisking thing. It is mainly Belgium and then -- but to a lesser extent, Continental Europe. So I will take Belgium has a very good illustrative example. So first, let me give you the asset allocation in Belgium and you will understand where we are heading to. So real estate, we are slightly above 10%. Loans, close to 20%; equity, close to 4%; and then the bonds as the rest.

So the re-risking, it is on real estate. And on real estate, it is safe to assume that we are close to a maximum in -- when you compare with the SAA, the strategic asset allocation, which is the reference, we are close to a maximum. So I don't expect a lot of additional SCR coming from the real estate.

On equities, the trend will continue. Why? Because we will take advantage of this famous long-term equity. But as you know, they have a more favorable solvency treatment. But on equity, the goal is to increase by roughly 1 point.

And then on all the fixed income bonds and loans, we still have migrations from sovereign debt to more advanced instruments like loans, infrastructure, direct lending or things like this. So -- and there, the movement will continue.

So conclusion, on equity, we can expect more, more SCR, more allocation on equity and then the reshuffling of the fixed income portfolio with more note and instrument bearing additional SCR. So conclusion, and I don't -- I cannot give you precise figures, but the trend will continue for a while.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Thank you very much for that.

Operator

Thank you. Next question from Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

And so the -- my main question is really to understand the operating capital generation. I know you don't kind of focus so much on that, but you did (inaudible) EUR212 million the guidance for the year was EUR500 million to EUR540 million, which is well below. And it looks from what you're saying on the SCR that the second half will not be higher. So here, my question is how does that impact the cash generation that you would expect core operations of consolidated unit?

And the second thing is on -- are there -- I feel a disconnect and I'm really sorry, but I feel it really strongly. You're investing more in these real assets, but you're not actually giving us more gain to reduce the guidance. I'm kind of thinking, well, if I -- I'm not a shareholder, I'm just an analyst, (inaudible) I'd be a little bit disappointed.

And then finally, if I may. So China's cash is delivering a bigger payout that you kind of assume, so 35% versus 30%. How sustainable is that? Thank you.

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

So I will -- I take the question. So on the free capital generation, you are right. Indeed, we are below the guidance, the guidance of EUR130 million a quarter. And in my speech, I gave you some explanation. So let me remind you the main one. First, some rerisking in AG and "the cost" of this derisking is quite sizable. The increase in SCR for AG is EUR29 million. EUR29 million additional SCR time the 1.75 of the objective, you have a very sizable effect on the operational free capital generation.

If you only restated by this amount, you would be back within the guidance, but there are additional things like the fact that you left the scope, it accounts for EUR5 million. We have more financing costs. The financing costs now reached EUR30 million, which is, again, a sizable amount, decreasing the own fund generation of the general account.

So a lot of -- some adverse things. But then, as I said, and compensated by a nice increase in the dividend coming from China. I know that this has to be deducted when we compare with the guidance. But in the near future, we will upgrade the presentation of the free capital generation, and we will be able to rely more on the free capital generation coming from Asia, but is the future, but you will see that the free capital generation coming from Asia is really strong.

Then your second point was, how come we're investing more in real estate. We don't generate more return. We do. We do. And when we invest more in equity and more in real estate, we have more own fund generation. So I cannot give you the exact breakdown, but indeed, there is more over time. So when we invest into these riskier assets, you have a kind of one-off upfront cost with the increase of SCR. But for the future, you have on a recurrent basis more generation of own funds. So this is included.

Q - Michael Huttner {BIO 21454754 <GO>}

And on the Asia -- yes.

A - Filip Coremans {BIO 17614100 <GO>}

You asked an additional question, which you asked on the sustainability of the payout ratio in China, which is indeed very important. And we saw indeed that our payout ratio on a local result basis moved from 30 now to 35. We -- given the also excellent result last year in China led to record high dividend submission out of the region.

We are now at 152, I believe, more or less, and that is going up with the dividend still coming in from Malaysia, I believe. So we will be close to EUR170 million net dividend contribution. So your question on the sustainability of the 35% is indeed very relevant.

First and foremost that all depends on the capital consumption for the growth and the capital generation, as Christophe said, operational free capital generation is of the essence. Now remember that last time, we said that last year -- over last year, and it was also in the footnote of the free capital generation in the previous presentation, that Asia region overall had an operational free capital generation of around EUR400 million.

So having -- if you look at the dividend outflow, it's still just 35, seems very much sustainable. It also depends on the solvency evolution of the operating entities. And as you can see there, they're fairly stable.

Of course, Taiping -- China Taiping still has to release this results. So I cannot say too much, but I don't expect too many surprises there. Of course, they paid its dividend, which in the first half, always a little downward pressure. But overall solvency ratio seems to be stable with this payout ratio.

And the only other thing that remains to be noted is the upcoming C-ROSS and then probably you read in the press, there was an article appearing in Asia Insurance Review, I believe, a few days ago saying that they expect that the impact for the sector to be around 10%.

Now giving the fact that the solvency ratio of Taiping is over 200 that is not worrying. And at the same time, China Taiping also announced or at least Taiping Life announced issuance of subordinated debt, which we -- in execution, which will add another 14% to their solvency ratio. So all in all, we expect stable solvency conditions and sustainability of payout ratios 30 to 35 (Technical Difficulty)

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

And Filip, what we can add on the sustainability of the dividend of China is that at the CTIH level at the Taiping group level, there is a need to collect dividends. So because it's a key component of the group, that's the largest entity -- so Taiping Life, it's a little bit like AG for Ageas for them.

Q - Michael Huttner {BIO 21454754 <GO>}

Correct. Understood. Very helpful. Thank you.

Operator

Thank you. (Operator instructions) We have a new question once again from Ashik Musaddi from J.P. Morgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you. And sorry, Filip, sorry to come back again on Asia. I mean, you kindly gave what the whole moving part of Asia for this year. I'm just wondering like how do we think about the interest rate impact for next year? This year, you mentioned it's EUR170 million, EUR180 million. I mean, should we expect any improvement in that number for next year on a marginal differential basis, not like what would be the actual number. But like differential wise, would this number go down next year or would this number, would you say, go up next year based on what we know about the interest rates as of now? Thank you.

A - Filip Coremans {BIO 17614100 <GO>}

Ashik, I particularly appreciate the last part of your sentence as what we know right now because this is obviously moving every time, and it's quite volatile. But yes, of course, you can actually project it, if you look at the ones -- the 75 rate averaging forward. It will taper off in the end towards the current rates and that gap is diminishing because the current rate is around 3.08 and the new rates are account of 2.9. So they are -- the band is narrowing down. So this effect will taper off. Initially, we even know that in 2022, we would have almost no impact. But given this recent dip in rates, some impact will be there.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

A - Filip Coremans {BIO 17614100 <GO>}

Let me put another caveat to it and that is for everybody. The volatility does not only come from the rate, there are two other components, and you keep that in mind that it is not science. It depends on the curve. It's not a single point. So also the movement in the curve may have an impact from month-to-month from quarter-to-quarter on the effect.

And the other thing is the size of the balance sheet because we still continue to grow quite strongly. If you saw the assets under management decreased 11%. So also on new business that impact is there from quarter-to-quarter movements. So keep that in mind that the volatility of these figures are high.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you.

Operator

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

Q - Fulin Liang {BIO 21126177 <GO>}

Hi. Hi, good morning. I've got just two questions. The first one is, so I saw that the inflow of Asia is growing, which is good. But if I look at the APE in the second quarter of this year. By my calculation, the APE has actually down about 18%. Is there anything we should be concerned? Or is there any special reason that the APE in the second quarter is down I mean, compared to the second quarter of last year? And that's the first question.

And the second one is, I'm sorry, I don't actually fully understand that capital loss explanation in Asia, maybe can I ask a question from a different angle? Is actually the property market value and the equity investment market value actually going up in second quarter or is actually going down? Thank you.

A - Filip Coremans {BIO 17614100 <GO>}

First on -- let me first talk a little bit indeed about the new business. Indeed, you rightfully noticed that APE in the second quarter -- so first, let me start with year-to-date APEs are up, I think, around 13% -- 12%, 13% year-on-year. So there is a nice growth for the first six months. But indeed, it was more in the first quarter and quite a bit less in the second quarter.

Now there are two caveats to that. First and foremost, last year, in the first quarter, of course, we had more COVID impact and there was a catch-up clearly there in the second quarter into (inaudible) volumes, whereas this year, the first quarter started extremely strongly.

And secondly, there has been more focused on higher VenB [ph] products. So less focus maybe on top line and specifically in China, less focus on higher tickets in the banca channel, but more on value-adding tickets in banca channel, which held back APE. But we will -- and we will publish these tables later, as you know, with some delay still. VenB in the region for an APE up 12% will be up more than 40%. The exact figure, I leave it mostly to our colleagues of Taiping to disclose. So the value of the new business written is significantly better than the APE growth even. So it's also a shift of focus on more value-adding products, maybe less on the top line in the second quarter.

Then the second question was about the capital loss. So clearly, there is no losses. It's the recognition, as I said. So market value recognized on property went up in the local account and the mark-to-market on that trading book went up in their local accounts. To make your life, let's say, easier, it will be interesting for you to follow the result announcement of China Taiping, which, unfortunately, as you know, comes in one or two weeks from now, and that will give you a better insight and difference between the local result and the IFRS results that we recognize, and hence also in the magnitude of the adjustment we had to make.

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

Actually in summary, it is capital gains that runs over the P&L in CTIH, but not in the IFRS accounting of Ageas. (inaudible) from a valuation point of view, it's actually good news because value is improving. In one sentence, so the revaluation of real estate, it is fair value to P&L. This increased results is eligible for increasing the profit sharing at a rate of 70%.

And then what we do is since our own IFRS option is to do amortized costs on real estate, we restate and we cancel this revaluation of real estate, but we don't restate the profit sharing increase. That's the reason why we say it is very, very prudent, as Filip said.

Q - Fulin Liang {BIO 21126177 <GO>}

Okay. Thank you. Thank you.

Operator

Thank you. As there are further questions, I would like to return the conference back to the speakers.

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

Ladies and gentlemen, thank you for your questions. And to end this call, let me summarize the main conclusions. First of all, we delivered a very solid operational performance in Europe and in Asia. I want to note that the inflows were strongly up, both in Life and in Non-life. And despite the expected impact of the recent floods in Belgium and the interest rate evolution in China, we are confident in our ability to deliver a full year result in line with our initial guidance of EUR850 million to EUR950 million. And given our strong cash and solvency position, we have announced a new share buyback of EUR150 million.

With this, I would like to bring this call to an end. Do not hesitate to contact our IR team should you have any outstanding questions. Thank you for your time. And I would like to wish you a very nice day.

Operator

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