S1 2020 Earnings Call

Company Participants

- Antonio Cano, Chief Operating Officer, Executive Director, Member of the Executive Committee
- Bart Karel August De Smet, Chief Executive Officer, Executive Director, Member of the Executive Committee
- Christophe Boizard, Chief Financial Officer, Executive Director, Member of the Executive Committee
- Emmanuel Van Grimbergen, our Chief Risk Officer

Other Participants

- Albert Ploegh
- Ashik Musaddi
- David Barma
- Farooq Hanif
- Farquhar Charles Murray
- Fulin Liang
- Jason Kalamboussis
- Steven Haywood
- William Hawkins

Presentation

Operator

Ladies and gentlemen, welcome to the Ageas Conference Call for the First Six Months of 2020. I am pleased to present Mr.Bart De Smet, Chief Executive Officer. For the first part of this call, let me remind you that all participants will remain on listen-only mode. And after which, 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.Bart De Smet, CEO. Mr.Smet, please go ahead.

Bart Karel August De Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you all for diving into this conference call and for being with us for the presentation of the results of Ageas of the first half year of 2020. As usual I'm joined in the room by Christophe Boizard, our CRO; Emmanuel Van Grimbergen, our Chief Risk Officer; Filip Coremans, Chief Development Officer; and Antonio Cano, Chief Operating Officer.

Before diving into the results, we'd like to draw your attention to another press release issued this morning on the dividend and share buyback. As you probably remember, earlier this year, if you have decided to adjust the distribution of a dividend payment of EUR2.65 per share for the year 2019, taking into account initial guidance issued by the National Bank of Belgium on April the 7th of this year in the context of the COVID-19 situation.

First dividend of EUR0.27 per share was paid in June, while Ageas communicated its intention to organize a second general shareholders' meeting in the course of October 2020 with the aim to propose for approval the payment of an intermediary dividend of EUR2.38 per share. Last week on

Thursday, the National Bank of Belgium issued an updated guidance, recommended insurers to delay dividend payments until at least the 1st of January 2021.

After careful consideration and taking into account Ageas has strong solvency and cash position, the Board has decided to keep its initial commitment. The National Bank of Belgium has been informed that the payment of an intermediary dividend of EUR2.38 per share for the year 2019 will be submitted for approval to a general shareholders' meeting on the 22nd of October. We will, however, take into account this updated recommendation issued by the National Bank of Belgium on the timing of the launching of new share buyback programs.

The second press release this morning informed the market about our Chairman's decision to step down at the shareholders' meeting of the 22nd of October. Under the Chairmanship of Jozef De Mey, Ageas evolved towards a self-confident and profitable insurance group, leaving all the 40s legacies behind, while further development -- developing its presence in Europe and Asia. We sincerely want to thank Mr.De Mey for his efforts and vision that have helped shape the Ageas we know today.

His current mandate expires on the 19th of May 2021, the process of appointing a successor was already well on the way to ensure smooth continuity of company's management. We will communicate further on the proposed candidate at the appropriate time.

I would also like to draw your attention to the press release announcing the acquisition of an additional 23% stake in our Life joint venture in India, IDBI Federal Life Insurance Company. By buying this additional stake from our partner IDBI Bank, we will become the largest shareholder in the joint venture with 49%. This is a great opportunity for us to play a more active role in developing further this company, alongside our long-lasting partners, IDBI or Federal Bank in one of the largest -- world's largest market, very fast growing and with a low insurance penetration rate.

Returning to the half-year results. Our activities have proven resilient in these difficult times, and we have achieved a solid group net result of EUR791 million, or EUR459 million if you exclude the EUR332 million capital gains related to the two transactions on the FRESH securities. The adverse financial markets awaited on our profitability, most in Life, as this resulted in equity impairments in the first quarter and the whole recurring investment income in the second quarter. This affected our group guaranteed operating margin which stood at 75 basis points over the first six months of the year. However, it is worth noting that the fair value of our investment portfolio which dropped in the first quarter strongly recovered in the second quarter, recurring only a limited decline of 2% over the first six months of the year. The annual revaluation of the fair value of the real estate portfolio actually had a slight positive outcome as the marginal decrease in Car Parks and Retail was more than compensated for by other Real Estate assets segments.

And contrast to Life, our Non-Life results stood at high EUR181 million for the first six months. Thanks to our product portfolio, mainly oriented towards individual customers, we had very limited exposure to commercial claims brought by the COVID pandemic. Additionally, the low mobility during the lockdown, temporarily reduce the claims frequency, especially in motor. This compensated for the adverse weather in the first quarter and resulted in an excellent group combined ratio of 91.7%.

On the sales side, inflows in Life decreased with 11%, due to the lockdown measures with the timing difference between regions. In China, where the lockdown measures were first taken, the inflows recovered in the second quarter resulting in a small increase over the six-month year-on-year. In Europe, the decrease in inflows took place in the second quarter aligned with the lockdown with the gradual improvements as from June.

Inflows in Non-Life increased 2% over the first half, thanks to a very strong first quarter and the second quarter 4% below last year. As you may remember, given the uncertainty prevailing at the time of our Q1 results, we could not confirm our annual guidance of a group net result between EUR850 million and EUR950 million. Today, we have to be prudent as you witness the sign of the potential second wave of the pandemic. However, excluding the one-off positive impact from the FRESH operations, given our results year-to-date and the resilience demonstrated by our operations, we expect to be able to achieve a result close to our initial guidance. This of course assumed that there would not be no further material negative impact from the pandemic and financial markets in the coming months.

Our group benefits from a robust capital position with the Solvency II Ageas ratio at a 192%, comfortably above our target of a 175%. You can also rely on the solid cash position which stood above EUR1 billion that excluding the amount ring-fenced for Fortis settlement.

Ladies and gentlemen, with this, let's say, satisfying news, I would now hand over to Christophe for details on the results.

Christophe Boizard {BIO 15390084 <GO>}

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

As you can see Slide 5, our half year result amounted to a high EUR791 million versus EUR606 million last year. This result includes EUR332 million of net capital gain related to tender on the FRESH securities, of which EUR310 million realized in Q1 and an additional EUR22 million realized in Q2.

As mentioned before, these gains which constitute a non-cash element will not be available for dividend distribution. This result also includes a positive impact of the RPN(I) for EUR16 million. Our net result was supported by a much lower amount of capital gains at the rebound of the equity markets in the second quarter could not fully compound say impairments recorded in the first quarter.

After a restatement of the usual exceptional items, like capital gains, weather events, et cetera, our underlying operational performance before restatement linked to the COVID-19 crisis has improved compared to the same period last year. The overall impact of the COVID crisis was roughly estimated as follows. The positive impact of some EUR90 million on Non-Life net result compensate for the EUR94 million lower contribution of net capital gains in Life. Furthermore, our recurring investment income was lower than last year.

As usual, I will give you now some more comments per segment. Slide 6, in Belgium, after the first quarter impacted by equity impairments, the situation improved in the second quarter with a market recovery. However, our Life result continue to suffer from lower recurring financial income due to lower dividends received and a decreased contribution of real estate in particular of the parking business Interparking.

As a result, also our guaranteed operating margin recovered in the second quarter, reaching 91 bps in Q2. It remains on the six months at 46 bps largely below our target despite the solid underwriting performance.

Since real estate has been a matter of concern for the investors and financial analysts, I would like to make a quick focus on that topic. The recurring real estate income mainly coming from the Car Parks is expected to remain low as long as the lockdown measures will not be fully withdrawn.

Compared to 2019, Interparking experienced lower occupancy rate with a drop of 70% in April and 55% in May. In June, we saw a pickup of the occupancy rates with a decrease was -- and the decrease was limited to 28%. Depending on the evolution of the situation, we expect the occupancy rates to continue this gradual recovery in H2 to reach almost normal levels by the end of the year. The only exceptions are the airport car parks.

Revaluation exercise of the real estate assets conducted at the end of the second quarter showed a small positive movement in share values as a whole. The slight decrease in CapEx was more than compensated by a higher fair value of the two -- of the other categories. In case of a gradual recovery scenario starting after the summer and reaching the pre COVID-19 activity levels over a couple of months, the impact on the valuation will remain limited.

Now, let's come back on the insurance result of Belgium. In Non-Life, the lower claims frequency during the lockdown mostly in motor, compensated for the adverse weather in Q1, and this resulted in a low combined ratio of 91.2% over six months. As for the sales, Life inflows decreased significantly in the second quarter due to the lockdown measures in combination with a lowering of a guaranteed rate in April, whereas Non-Life inflows on the contrary prove to be resilient.

In the UK, Slide 8, the net results benefited from low claims frequency in the second quarter. This resulted in a higher net result of EUR25 million above the quarter, despite a continuous sector-wide claims inflation and a volatile pricing environment due to the pandemic. It is worth noting that the impact of claims related to business interruption, rent insurance and event cancellation has remain limited. The decline in inflows remained limited as higher volume in household and commercial line partially compensated for the decrease in motor.

In Continental Europe, Slide 9, our result was strong in both Life and Non-Life. In Life, our guaranteed operating margin which benefited from a solid underwriting margin was further supported by a reserve release in Portugal in the first quarter already mentioned for Q1. Excluding the release of this reserve strengthening, the guaranteed operating margin would have amounted year-to-date to 107 bps far above our target and this despite lower capital gains and financial income.

In Non-Life, the excellent combined ratio of 82.9% reflected low claims frequency in motor and health in the second quarter, benign weather and continuously improved operating performance. The result in Turkey more than doubled over this semester compared to the first six months of 2019, hence also contributing to the highest Non-Life result of the segment.

On the commercial front, the Life inflows decreased as the transition in the product mix in Portugal to run new products better suited to the current low interest rate environment has been slowed down by the lockdown measures. Non-Life inflows proved resilient and continue to outperform the market in Portugal.

In Asia, Slide 10, we recorded in the second quarter a solid net result supported by capital gains as the market recovered shortly. Excluding the negative impact of the evolution of the discount rate and the EUR50 million of retroactive tax benefits recorded in Q2 last year, our Life underwriting result increased. This reflects the solid operational performance of our business in China. Here also the strong Non-Life result was supported by the favorable climate variations during lockdowns.

As for the commercial performance, Life inflows rebounded sharply in the second quarter driven by China and compensating for the weak first quarter. Non-Life inflows also impacted by the lockdown in the second quarter increased by 15% over the six-month period. The reinsurance segment on Slide 11 recorded a positive net result of EUR44 million this quarter, thanks to the lower claims frequency in the seeding operational entities. This more than compensated for the negative impact of the stocks in Belgium and in the UK in the first quarter.

Moving now to the capital position. Despite the turbulent financial markets, you can see Slide 12, that our group solvency ratio stood at a high 192% comfortably exceeding our target level. Unsurprisingly, the two main drivers for the solvency over the first six months were the 11 percentage point impact coming from the tender of the FRESH and another 16 percentage points coming from the market movement, mainly the downward shift of the risk-free curve and the declining equity market.

Our operational free capital generation, Slide 13, amounted to EUR437 million, including EUR116 million dividend from our non-controlled participations. The low claim frequency in the second quarter are fully compensated for the lower Own Funds generation in the first quarter because of the February start. We are well on track to end the year with an operational free capital generation in line with our annual guidance of EUR500 million to EUR540 million for the Solvency II scope.

This is the end of my presentation, and I will conclude by saying that in the context of the COVID-19 crisis, this good result shouldn't come as a surprise since the business profile of the group mainly based on selling personal lines covers leads to insignificant exposures to business interruption, travel insurance and even event cancellation which are suffering most from the present situation.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now go to the question-and-answer session. Ladies and gentlemen, this concludes the introduction and we are now open the call for question. May I ask you to limit yourself to three questions. We have a first question from Fulin Liang from Morgan Stanley. Please go ahead.

Q - Fulin Liang {BIO 21126177 <GO>}

Hi. Thank you. Thank you very much for the presentation. And this is a very strong result. I have two questions, please. The first one is, you basically reverse what you said -- what you said Q1 in terms of the annual guidance. And you're basically saying that you have fixed the original guidance, which I understand is 850 to 950 excluding the FRESH impact. Can I ask about the -- what do you -- obviously, you mentioned the COVID is the caveat is that the financial market remains stable. As a pass on that, (inaudible) clarifies that in this, when you make this guidance, you actually already taking to account that the market further pressure in China in terms of the discount rate and then there will be still -- positive benefit on the lockdown will be -- being down in the second part. So just want to make sure that these are -- (Technical Difficulty) -- that is my first question.

And then secondly is, just want to confirm that you obviously use because of the buyback you cannot plan to announce the new buyback program. But it is difficult to determine your intention to resume your buyback once -- (Technical Difficulty) --.

Sorry, I have one more question. Third question is also -- (Technical Difficulty) --. So assuming you are achieving the high end of your target, which is EUR950 million. And that if you only pay 50% of that kind of earnings, the payout ratio, you will be -- could ended up with a dividend actually lower that what was announced last year. I mean, the full amount on the EUR2.65. Is would that be your intention that in -- is that okay, you could increase your payout to at least maintain stable or even higher EPS. Thank you.

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

Okay. A lot of elements in your questions. Thank you for that. First of all, when we give -- when we were prudent or even could not confirm our guidance at the end of the Q1, I think the justification was mainly that we were fully in the start, in any case, in Europe of the COVID-19 crisis and as also the first quarter results gave a reason for us to be relatively prudent.

On one side, the results we made in the second quarter and as indicated by Christophe in this end comment, the confirmation that our -- the model that we have with geographical diversification where we also see that impact of COVID is very different from market to market. But more precisely even the fact that we are diversified between Life and Non-Life gives us much more confident on the statement that we believe that we will be close to our profit guidance. When we say close to, we -- you don't have to interpret it, it will be close to EUR950 million. So when we say close to the range, it could be slightly below or slightly above. So it's around that, and again knowing our prudence that the view we have today.

One caveat is indeed, we have an additional impact of impairments like we had in the first quarter, that's something that could make us change that outlook. But all-in-all, we are overconfident that that is achievable. And with respect to this, because that could be an element there. So our view on fear is that if we assume that the government bond yields in China would stay at the level of what we had in June, and for your information it was at that moment 2.86 and it is now close to 3, so it increased.

But if we assume that the government yields would remain for the rest of the year at the level of end of June, we then expect that there will be a further impact, and that's of course included in our confidence on the guidance and that will be an impact in the second half of the year that will be a bit higher than the impact we have had in the six first months. And in six first months, I think we disclosed or we mentioned to you, the impact in Q1 that was EUR28 million; in Q2, the impact is EUR30 million. So overall, we had an impact of some EUR58 million -- EUR57 million, EUR58 million this year and bond yield staying at the level of end of June. You could imagine that we expect a slightly higher amount for the next six months. So, that's in our -- raising our confidence about the guidance.

Your second question was about a dividend and share buyback. I assume that that's an element that we'll come back. So first of all, with respect to the dividend, we organized this shareholders' meeting on the 22nd of October. It has been beforehand, largely communicated also in all transparency with our supervisor. And the intention is, if the shareholders approve that intermediary dividend we paid out on the 30th of October, so still this year.

On the other hand, we also wanted to underline that we, somewhere, understand that supervisors are in this period extremely prudent with respect to cash out of financial institutions, but nevertheless pointed to a big difference between the situation of banks and the situation of most in the insurance, sector also looking to the huge number of insurance company that like we nevertheless paid out dividend. Our main reasons are clear that also out of the information Christophe gave, a strong dividend, a good path -- 0cash position, confidence about the underlying business going forward. So, that's something that we wanted to communicate to the market.

On the other hand, we also in order to show indeed this, I would say, appreciation of the concerns of the of the supervisor, where we in April decided to continue the running buyback, we said okay. We have a commitment of share buyback in our strategy of minimum EUR150 million a year, if there is no sizable acquisition, those plans do not change. The only thing we say is, we will delay that decision. You have to know and I think it's also be mentioned in my speech that the April request from the National Bank not to do all these things buyback, dividends, rebates of premium, profit-sharing to customers until the end of September, that recommendation has been delayed until the end of the year. So I cannot precisely say, when we will announce this, but it will be a set later in the year that maybe with an execution early 2021.

Q - Fulin Liang {BIO 21126177 <GO>}

Okay. Thank you.

Operator

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

Q - Albert Ploegh {BIO 3151309 <GO>}

Good morning all. Yeah. I've got three questions from my end as well. First to come back on the Asian results X capital gains and X discount growth impact. I still struggle a little bit on the Q-on-Q underlying improvement. I understand that Non-Life obviously was very fully impacted by the lockdowns and the claim experience. But it seems that also on the Life side, the underlying performance improved, so a bit more color would be welcomed.

And then also coming back on the guidance, and I understand what you said on the first question on this. But can you maybe give some color on what your expectations in terms of capital gains, realization for the second half, especially on the real estate if you can give us anything already in the budget or executed already in the beginning of the third quarter.

And then my final question is on the organic capital generation. I see also in parallel to your EUR500 million to EUR540 million guidance there, excluding the dividends from the NCPs. Clearly, Q2 was very strong and well above, let's say, the normalized EUR130 million, even if I strip out the dividends. Yeah. What elements are in Q2 which might not be sustainable, because it seems a very strong level in the second quarter, some detail there would be helpful as well? Thank you.

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

Okay. A quick high level calculation of that on your first question. And so if you look last year, the profit in Asia was EUR331 million. Yeah, you could say -- the addition -- let's say, the exceptional element in that were EUR50 million tax relief. From the past, if you look to the delta it is, it is this year, we have the EUR57 million or EUR58 million negative, where last year it was a positive of -- sorry to check it a positive of EUR18 million, so the delta is EUR75 million.

And then we have also EUR18 million less net capital gains. So it means there was a EUR143 million in that result of EUR2,031 million that you could deduct and then you come to a result of EUR188 million compared with this year EUR216 million. That's where we say underlying improvement. And of course, the biggest bulk is in Life.

And maybe, but it is useful to remember that beginning of last year, we had this very strong recovery of the equity market in Asia. So, the level of capital gain were extremely high, with the reason when we see say -- we can safely say that there is an operational improvements.

The second question. So in the first half, there were almost no capital gains on real estate, in the meantime, in this third quarter and some operations have been realized with a net impact, positive impact for Ageas of EUR30 million. And so we expect we see we have still some files in the pipeline to really raise additional capital gains, so there are no signs that we will not be able to achieve, to reach our budget in our expected amount in real estate capital gains. That's something that is also of course helping us in the comfort with the guidance we gave.

Maybe the third question, I pass it to you Christophe, operational.

A - Christophe Boizard {BIO 15390084 <GO>}

Yes. So on the operational free capital generation, we -- Q2 benefited from the COVID-19 thing, good improvement in Non-Life, which goes there rather directly into increase in the -- on front part. So, you don't have a lot of difference in the SCR. The jump in the Q2 operational component of the free capital generation mainly comes from one fund, and out of this from the very low combined ratio we had in Non-Life I mentioned the EUR90 million and you will say if I did at EUR90 million full below the guidance. But please keep in mind that Q1 was very, very weak, because of the level. So all-in-all, it's -- if we restate by these two elements, we are above the guidance on the six months basis, and it's the reason why we are confident to stay within the range for the whole year.

Q - Albert Ploegh {BIO 3151309 <GO>}

Great. Thank you.

Operator

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

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you. And good morning, Bart. Good morning, Christophe. Very good numbers. So, thanks a lot. I have a couple of questions, if you can help me. Now, I think for this year, you have been pretty clear about earning momentum. But I want to go back to your Investor Day slide, where you showed that your EPS expectations -- EPS growth expectation is about 5% to 7% on the base of 2018. So if I use that EUR4.1 of 2018, I mean, 2021 EPS suggest that it could be about EUR4.75 to about EUR5. So, how do you think about that? Has that changed, because of this COVID-19? Obviously, I mean, we need to assume that market normalizes next year. So would you still stick with that EPS growth guidance? So, that would be my first question.

Second question would be, any thoughts on how the claims frequency is trending in second -- in third quarter so far? I mean, is it still going to be -- is it still looking good, or is it getting normalized? So that would be the second one.

And last one. I mean, M&A, again, I know this might not be the right time to do M&A, because regulators are a bit worried about capital. But actually if you think from economics perspective, I mean, valuations would be depressed if you won't to buy anything. So what are you thinking about M&A? What are the areas that you're looking that at the moment? Is there anything in the pipeline? Thanks a lot.

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

Okay. Thank you, Ashik. Before I go into the answer of your questions, together we'll give probably. A reminder that I have not given a complete answer on a question I received -- we received previously on the dividend for the future related to the guidance ever. The question was, yeah, that if you somewhere in that range EUR850 million, EUR950 million and you take a 50% dividend payout, it might be a dividend below the one-off of this year. Let's say, it's very clear that our dividend promises one-off minimum 50% of the group profit. So, we don't stick necessarily to the 50%. And there also I think in the current context that is maybe a bit premature to already do both statements about that in the past we said, we have that promise. And next to that of course, the Board always tries to avoid a decrease in the dividends, but let's see where we will be next year.

Then on your questions, the earnings per share, CAGR 5% to 7% was indeed a CAGR. So it's not a yearly target and exactly this when we announced the strategy was made to absorb some where the volatility in results. And okay, our current plan runs until the end of 2021. We, at this moment, did not have a specific view on whether we would not be able to reach that starting from the EUR4 per share where we were announced the strategy.

(Technical Difficulty)

Hello. Yeah. What we -- our assumption when we came to this confirmation or more confidence about being close to the guidance, as being based of course on also what we expect in the different operating companies as evolution in the Non-Life results, and then mainly frequency, security, and maybe you, Antonio, can dwell a bit more on that.

A - Antonio Cano {BIO 16483724 <GO>}

Yeah, Ashik. So I'll try to be brief. The drop in frequency is most notable obviously in motor attritional. So there you see in all regions and it is slightly creeping up, but still well below the what we normally expect. Large claims, so bodily injury related claims, then we don't really see a tendency, they are still happening. And I think it's early days, but also bear in mind that it's about attritional where we see a drop in frequency. Obviously, that's a big chunk of your claims range.

And there, there might be also something on -- in healthcare, mainly on Portuguese business, but that's more anecdotal evidence that people kind of delay any treatment. So there you also see a slightly lower frequency in medical in Portugal. But I mean, if you would ask me this question like a month ago, I would say, well, we expect to normalize it in Q3 with all the additional lockdowns, et cetera, I would expect that will -- that frequency will continue to be depressed.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you.

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

And the last question on M&A. First of all, okay, there could be opportunities. I indicate what we yesterday published with respect to the Indian joint venture where we believe that the outcome and I can really send all congratulations to Philip who is there instrumental in that deal and with all M&A and other people involved for the nice outcome they have been able to negotiate in the interest of all parties I would say.

But if you -- when you refer to the attitudes of the regulators or the supervisors, we see that when they ask to be prudent with capital and cash deployment that is -- they are less concerned around M&A, because that's more cash that definitely goes out, it creates -- that's a new business coming in, in the portfolio. So we continue to apply our, I would say, our strategic orientations that we've given at multiple times and as you know we'll not be entering new deals, where we don't see a strategic let's say added value or where pricing is beyond what we feel reasonable.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very clear. Many thanks for this.

Operator

Thank you. (Operator Instructions) Next question from Farquhar Murray from Autonomous Research. Please go ahead.

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

Good morning, gentlemen. Two questions, if I may. Firstly, on the decision to pay out an interim dividend, that clearly entails the situation as kind of respectful disagreement between Ageas and the NBB, which frankly I don't blame either of you for. But could you just give us some insight into the nature of the current dialogue and do you see any -- foresee any possible consequences from that disagreement?

And then secondly, Jozef De Mey has been kind of instrumental in the build-up of the group as it stand. So I just wondered if you could outline what criteria and priorities are going to be with regards to using his successor? And is that most likely to be an external candidate and perhaps more broadly are we likely to see any new on strategy as we move into a new era? Thanks.

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

Okay. On your first question, Farquhar, I personally do not like that this decision for us to pay a dividend we've seen as a disagreement with the National Bank. So I -- it can appear to be like that. But we have been in talks with them already since the month of October. I think where we have built our case, that's rather strong, it's based on one the promise we made to our shareholders and we are a company that is always strives to deliver on our promises.

Secondly, the fact that we have a strong solvency and we have done stress tests in the past, but also in the recent past that are heavier than what we see today with the COVID situation. And that showed the strength of our solvency ratio on the different scenarios. We have, of course, a cash tool that is giving some comfort, in case situation would be worse than what we assume. We have, of course, also used an argument that's maybe a bit more an emotional one saying that, 22% percent of our shareholders our retail shareholders and that counts to a certain extent on dividends to, let's say, to add it to their own average lower legal pension. And so not paying them a dividend is also impacting their personal finance.

We have had other arguments like, the fact that we have been doing a lot to what society being funding research for finding a vaccines in the UK and in Belgium, also helping a lot with material in the elderly homes, you can grow them up.

And the last point that we made to them is that, on one side, that the fact that they need to start at the old (inaudible) that they throw I would say, all financial institutions in the same basket, where for instance the banks have been somewhere helped with capital relief and are also much more, let's say, under pressure with the let's say non-paid loans. And where insurers are very different profiles and like offset we are not in -- strongly exposed to event cancellation to business interruption.

The (inaudible) being used an elemental level playing field, where they say, it would not be fair that some insurers pay dividends and other not, because that gives them a sign to the market that are strong and weak ones, and also there we motivated that that is exactly what will put in danger, because of the credibility of Solvency II and that insurers also could be kicked out in the future from capital markets and debt issuance.

Are we still? Okay. And so the credibility of Solvency II is a bit under pressure.

So -- and the last element is that, if we gave the National Bank an overview of some 30 bake insurers that when 69% of the announced dividends have been paid. And if we would not be able to continue our plans, we would create a lot of uncertainty about the strength we've got them where we are convinced off. So this motivation has been extensively discussed, exchange with the National Bank. And like in April, we did not see specific frustration from their side, collaboration with the National Bank is very, very good. And you can imagine that we as one of the biggest companies, even the biggest in Belgium under their supervision, that we have done everything not to be in a disagreement mode or a fighting mode.

So that is, you could say that in order to nevertheless show some respect for their view, that we have taken this decision that I commented on a delay of the payment of the buyback. It's not something that they impose, it's something that we are self-proposed in order to have a balanced agreement with them.

The second question on the Chairman. So first of all, we -- it's a very personal decision. And I can assure you that we all have an immense respect. And I would say, myself personally, I'll be working with Jozef De Mey for 22 years in different roles. And yes, really been instructive and exemplary for the development of the group. Of course, a group or a company is never made by only one man. I think one of his strengths is maybe, and I'm not talking about myself but all the colleagues, is that we've been able to always select the right people in the right place to get this organization where it is today.

We were of course, anticipating the end of the mandate of Jozef, which was planned for next year in May, already for many, many time, so it started in 2019 the preparation. And we will continue that process. In that process of course, he himself as together with corporate governance and nomination committee determined the criteria that they believe are important for the new Chairman, whether it will be an external person, internal person at this moment, I think it is -- not element for communication.

The only thing we can say is that, it will not take too long, because the communication has to be done before the 22nd of October. But be aware also that this kind of change has always have to be combined with the fit and proper approval from the National Bank, so that also takes some time. So it will be an internal decision that will be taken by the board rather quickly. But we then still a certain period of one month, one month and a half before the National Bank will give its approval. But be assured that this will be that this is a very professional process and where the arc [ph] will be communicated as soon as possible.

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

Just as a follow-up on that. If you -- if there is a kind of approval process with the NBB, do I take it therefore it must be an external candidate?

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

No, even if it's an internal one, every change of role has to be -- to pause again the fit and proper person.

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

Yeah. Okay.

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

That's not even with the another born memory if somebody from management, the only thing is if it would be an external person, you could expect that the timing, the delay for the fit and proper might be longer.

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

Okay. And then --

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

That's why I'm a bit prudent in saying one month, one and a half.

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

Yeah. That's totally fine. Just for the record, by the way. I actually totally agree with your arguments, and actually -- I actually have quite a lot respect the NBB. It's not an not my fault the situation we're in. Thanks.

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

Thank you.

Operator

Thank you. Next question from David Barma from Exane BNP Paribas. Please go ahead.

Q - David Barma {BIO 19957338 <GO>}

Good morning. Thank you for taking my questions. Just a few remaining. That the first one is on solvency and under the regulatory ratio. I mean, this is something we talked about in the past, but given the volatility in H1, just wanted to come back on this. Would you be able to split the key elements driving the drop in Belgium in Q2? And remind us how we should be thinking about to be about the dividend [ph] and the operating entities?

My second question is on Belgian Life. Would you be able to split the impact in Q2 on the investment results coming from lower dividend and lower rental income for otherwise contribution wise?

And a small third question on the UK. You mentioned in the slide back, some provisioning being done like the potential COVID impact on non-motor lines. Would you be able to give a some color on that? Thank you.

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

Emmanuel, you take the first question.

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

Yes. I'll take the first. Okay. So yes, I'll take the first one on solvency and one, and your question was more specific on Belgium and dividend. So -- but what I first want to recall is that from a dividend point of view and a capital management point of view over framework is based on Pillar 2, and there we stick to that one. Of course, we need to keep an eye on Pillar 1 that is something that we have always really communicated, but the levels where we are today in Belgium and in other countries, operating companies from a Pillar 1 perspective. Absolutely, not at level where we have concern from a capital distribution.

So that's a general comment that I wanted to make, no more specific on Belgium. And the Pillar 1 evolution, yes, there is at least for us absolutely not a surprise. If you look at the evolution of the solvency in Belgium between in the first six months, at the end of 2019, it was at a level of 185, so before the COVID crisis. Then at the end of Q1, Belgium was at a level of 204%; and then we were, if you remember, really in the middle of the crisis. And that was simply due to the dysfunctioning of the volatility addressed. Because corporate spread increased quite heavily by the end of Q1, and as a consequence, also the volatility addressed.

And then finally by the end of Q2, you have seen the actions of the central banks that they have led to a decrease in spread on government bonds, but also an even more on corporate, which means that we have quite a material decrease in the volatility addressed earlier than Q2. And then Belgium move in Q2 from 204% to 170%. And that is exactly the reason why by the introduction of Solvency II in 2016 that we did not want to manage the group base on such a volatility and that we introduce our Pillar 2 framework where all the main important decisions are taken like ALM pricing, but certainly also capital management decisions.

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

Okay. Thank you, Emmanuel. Maybe Antonio.

A - Antonio Cano {BIO 16483724 <GO>}

Yeah. So your second question, I think it was your -- the drop in investment income as AG and what the sources are. So there is a drop of dividend income, Q2 typically is the big dividend season. So not everybody has paid the expected dividend that we see like a around EUR8 million net impact. There is probably the biggest one would be a drop of the revenues for Interparking. There also our net impact we estimated about EUR12 million to EUR15 million. And then there is a drop in the say regular rental income of AG real estate and there it would also be a number around EUR10 million to EUR12 million.

Then yet another question on the provisioning for the UK given COVID-19, I will not really give you precise numbers. So we have provisioned more related to our rent guard, to our rental protection products where we actually don't really see any planes coming in yet. But we expect in the second part of the year, maybe also even in '21 some more claims and that we've taken a provision where I will say it's not a double-digit number, and I'll keep it like that, so it's relatively minor.

Q - David Barma {BIO 19957338 <GO>}

Great. Thank you very much.

Operator

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

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Good morning. I just wanted to ask you three quick questions. The first one being on the UK. What would be the underlying number excluding COVID? So we're trying to see if we have had any underlying improvement or we are close to basically zero results from the UK, and what can you give us encouragement for the second half outlook?

The second thing is in general, you seem to be having very good -- COVID has helped you in Q2, clearly it will partially help you in Q3.

There's a second wave again, that could be supported. So normally they should give you some confidence that on the guidance that you've given excluding realized capital gains, which I think normalized at whatever circa 120-130m, you should be able to meet the lower end of your guidance. So I'm not asking you to probably say that you cannot comment on it, but to say that the end of day there is also something that is the results is also something that is a good headwinds that could help you achieve your results for year-end.

The third -- quick question is around M&A. We have not heard about the ETHIAS file for a while. It's a company where back two years ago, you were saying that you know it would have a good fit with the peers, possibly to do some deal.

Could you just update us on the situation there? And that is relatively important, because that can determine, if you do more sizable M&A having seen that you meet -- so you know if you meet CASER and in Portugal Tranquilidad. I just wanted to put that in perspective with these potential file. Thank you.

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

So on the UK, just maybe coming back to the numbers and I'll give you the numbers of Q2 only for the UK. So, you see we have reported the Q2 result of EUR25 million. Bear in mind in the reinsurance account there's also a very sizable amount that is originated by the quota share and the LPG contrasts where with the UK, that is net also about EUR16 million. So the result of Q2 for the UK net, including the internal reinsurance and back will be EUR41 million.

Now, a big chunk of that is obviously COVID related. I don't have to give you an exact number, because yet in motor attritional, there is a positive. We've had some claims related to COVID claims in travel, in event cancellation, we have had this additional provision that we set up. So, overall it's a positive. But it does not either way completely the result of the quarter.

Underlying, we do see an improvement and part of your question was also what our views are looking forward. Leaving COVID aside and the possible -- positives on the COVID frequency, we did increase our rates in Q4 last year in Q1, obviously that's a much more challenging task in Q2. But as we increase those rates, the earned premium of the rates increase is starting to flow through our P&L and it will flow through the second part of the year. So, we are kind of bit more positive on the development in UK. We also see that in our large claims part where you remember 2019, we had serious increases there. We actually see an increasing positive runoff in those previous years' claims. So overall, we are positive on the trend for the UK.

Okay. With respect to your second question. So when we talk about the confident that will be close to the guidance EUR850 million, EUR950 million in the -- in that, let's say, the exercise behind, does not assume a second wave. As so it means if there would be a second wave comparable to the first one, it would have a positive impact, in any case in Life to be seen what will be impacting Life. But what we what we practice today and of course, it's different from country to country.

But when you look at for instance the Belgium market, okay, there is again an increase in number of cases. But we compared to March, April, we see much more cars on the road, people going to work, prefer car above public transport. So, we have also more non-experienced people on the road. So the essential have is that the second half of the year will show a frequency that is more than normal one. So, that's with respect to the second wave. So again, it's not in our assumption that the same impact for this is as in Q2.

Then the last question is with respect to ETHIAS. First of all ETHIAS is a company that was some years ago under pressure from solvency and mainly due to a kind of a toxic live book that has been completely decreased and the remaining part has been sold. So they have very decent strong performances. And as you know, the three shareholders are the three regions, federal governments. And first of all, you have complete different composition of governments, one in the Walloon region and the Flemish region. And on the federal level, we are still far from final new government. And even if that would come in the coming weeks or months, we don't expect that ETHIAS or the divestment of a number of the government owned entities will be high on the agenda. For the reason that the big chance that the socialist parties will be part of that new government. And as you can imagine, they are more for government-owned than private companies. So, we don't focus too much in our M&A activities on a potential evolution in the ETHIAS filing.

Operator

Thank you. We will go to the next question from Steven Haywood from HSBC. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Thank you. Just can you give me a bit of insight into Solvency II ratio of 153% for the Continental Europe. It means, it come down, state from a 170%. Is it a similar impacts that are hitting here compared to the Solvency II ratio? And another anymore -- anymore reserving actions that need to be done in Portugal?

And then secondly on your delayed share buyback. I assume that the 1st of January 2021 is the earliest date at which you may announce this. And then thinking ahead next year, can the -- through a share buyback in the period of six months, can it take place over a period of six months rather than a period of 12 months, or will you shift your sort of an annual announcement of share buyback to the full year from the second quarter? Thank you.

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

Okay. Thank you for the question. I'll take the Continental Europe question on solvency. So indeed, so we are in end of June, our Pillar 2 solvency is at the 153%. And looking at the Pillar 1 solvency, there we are at a level of 233%. But as you know, in that ratio, there are also conditional measures that are included for our Portuguese entity and also for our French entity. So the decrease that we have seen in our Pillar 2 ratio for Continental Europe is mainly driven by the decrease in interstate. So, that's the same reason that the also for Belgium, but Belgium to a lesser -- to a much lesser extent; and in Continental Europe, the impact of interest rate has been higher than for Belgium.

You know in Continental Europe, we have mainly two countries, Portugal and France. And France is certainly, when exposed to interstate movement, because there we still have a small certainly for Ageas level, we still have a smaller amenity business that is much more -- sensitive than the rest of the group. So -- and I think you had also a question, whether we expect any reserving in additional reserving in Portugal, the answer is very simple, we do not expect any additional reserving in Portugal.

A - Christophe Boizard {BIO 15390084 <GO>}

For instance, for the reserve and you -- I mentioned in my speech, but we just released reserves. So this should be a sign that there is no need in this region.

And on the question on the share buyback, so we refer to repayment, a delay of the launch to early next year, it does not mean that it could -- should not be able to announce it earlier. The question whether we would be able to do it over a period of six months, I think practically that is possible if the question is also, will you then announce second one in the midst of the year, there I would say, let's not jump too far away in time. It will -- and like we did in the past, it will depend on of course, social level, but there is no news yet, we are confident. But also on, of course, M&A activities on maybe nevertheless a bit the environmental situation and so on. And if you go back in history, the one and first share buyback we did I think in 2011 was one over a period of six months, so definitely not excluded.

Q - Steven Haywood {BIO 15743259 <GO>}

Great. And that's very helpful. Thank you.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody, and congratulations on your good results today. Just going back on the question of the regulatory PIM. So in Belgium, I believe the dividend has not been upstream yet in that ratio or has it, because obviously it could go down a lot more when you do that. So, is the regulator basically happy with your Pillar 2 in a sense? And then I kind of understand the difference of therefore is looking through this. So, do you feel very confident on your outlook for -- from Belgium?

And secondly just also a clarification on the earlier question from Albert on Asia. So, you correctly gave an underlying improvement in the Asian profit over the six months. But the improvement is even better than the growth in technical abilities, the margin seems to be getting better. Could you give some comment on this? And is this kind of a sustainable trend? Thank you very much.

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

The first question. So when we contacted the National Bank on our intentions with dividend, we of course, also indicate to them that AG Insurance, so our Belgium subsidiary will in principle follow the same route. And for your information, when beginning of the year, it was already a decision taken by the both of AG Insurance to organize a shareholders' meeting to pay the dividend equal to 100% of the profit of last year.

So this -- but when we, in April, decided to pay only a small part of dividend, of course, the Belgium subsidiary forward, so that's -- and again the reasoning towards the National Bank is no different from whether it JV as sellable AG Insurance. But there, we expect of course that timing-wise also it is in line with our intentions to pay on the 30th of October.

The profitability in Asia, I -- (Technical Difficulty) -- in -- not in assets under management there, where we have a modern double-digit increase and that's the main driver of the growth there.

If I may back on the first question just to also clarify if AG pay a dividend, obviously a dividend to the group that has no impact on the solvency ratio of AG, because it is already subtracted from the solvency ratio invention. So there is no impact.

So, (inaudible) that mainly, because we sometime should be highlight it more. So as well as the level of the Ageas as AG Insurance and so on. The dividend to be paid is already deducted for solvency, and also the first six months in the solvency ratio that has that has been published, we already also take into account the expected dividends over the results of these six months.

So the maybe on -- coming back with some figures on the Asian question, also the funds in the management, they increased with 10%, more than 10% in Asia. And another element that's very important is that we have a very strong position rate, meaning that customers who pay the second year that -- and so the 13th monthly premium and the 25th monthly premium, which is a KPI, that's strongly followed in the Asian markets. They are above 95% as well in the bank insurance and the agency business in China. So this is why we have such an important impact from renewal payments, and of course the following strength of the growth function and management, which is on the yearly basis even above 20% if you look to our figures.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. That's very clear. Thank you very much. Thank you.

Operator

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

Q - William Hawkins {BIO 1822411 <GO>}

Hello. I just got one question, please. Could you talk about whether you're expecting any headwind to emerge against the motor frequency benefits with regards to rebates as far as I'm aware, but I'd like to know what you sort of done anything in the UK or in Belgium? So, you've taken all of the benefit of the lower frequency without kind of handing any back. I'm not sure where you are with regards to mechanical rebates, you have to wait to the end of the year and then the thing automatically happens where you are in sort of commercial terms. So, I'm just kind of, is this completely irrelevant and we can forget about it and we just think about the frequency or is they're going to come up with today, yes, we've got frequency with those more of an offset to rebates.

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

Hi, William. I'll pick that one. So, a rebate in the sense that we give premium back to the customer that is not something we are doing, it is not also something that's kind of contemplated in the contract. Now, I'm very well aware what (inaudible) did for example in the UK, is not something we are considering. Having said that, what would you do see particularly in the UK is that the premium for new car policies is going down, commercial aviation statistics. So 4%, 5% drop in average premium, so that is kind of you could say impact of COVID that impacting time market. We don't have any plans to have rebates in the sense that giving premium back to customers.

Yes, we have a positive from COVID in motor, but they're also negative particularly on our asset portfolio as you seen and the other products that might be impacted. So no, there is no contractual rebate type of thing. The only thing that you could see is in some contracts, there's a kind of a profit-sharing commission with distributors that might be an impact.

Q - William Hawkins {BIO 1822411 <GO>}

Also again, I'm sorry, I done the Belgium markets so well. Some regions have an automatic rebate of mileage ends up being lower at the end of the year. Are there any kind of automatic? Thank you so much.

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

That depends on the -- that would depend on the type of product you're selling. So if you sell products that are like a paper mile type or product then you would have that. We don't have that in Belgium, not in our portfolio.

Q - William Hawkins {BIO 1822411 <GO>}

That's helpful. Thank you.

Operator

Thank you. We don't have any more question for the moment. (Operator Instructions) We don't have any more questions. Back to you for the conclusion.

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

Okay. Thank you. Ladies and gentlemen, thanks for your questions.

To end this call, let me summarize the main conclusions. One, our result remains solid as the COVID-19 pandemic has a compressing impact positive on our Non-Life operations and negative on our investment results, mainly impacting our Life operating margin. Two, given our results year-to-date and the resilience demonstrated by our operations, we expect to be able to achieve results and operational free capital generation close to our initial guidance. And this, of course, assumes that there would be no further material negative impact from the pandemic and financial markets in the coming month.

Three, despite the context of the pandemic, our solvency position remained strong and so did our liquidity position. Four and last, provided the confidence, we provide the confidence to the Board is figures that to confirm the proposal to pay an intermediary dividend of EUR2.38 per share and shareholders' meeting of the 22nd of October will be meeting exclusively to approve this proposal and then to go to a payout on the 30th of October.

With this, I would like to bring this call to an end. Please do not hesitate to contact our Investor Relations team, if you would have outstanding questions. Many thanks for your time. I wish you a very nice day, and I hope for some of you some nice holidays. Thank you very much.

Operator

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