Q4 2015 Earnings Call

Company Participants

- Antonio Cano, Chief Operating Officer
- Bart Karel de Smet, Chief Executive Officer & Executive Director
- Christophe Boizard, Chief Financial Officer
- Filip Coremans, Chief Risk Officer

Other Participants

- Abid Hussain, Analyst
- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Bart Jooris, Analyst
- Farooq Hanif, Analyst
- Farquhar C. Murray, Analyst
- Matthias de Wit, Analyst
- William H. Elderkin, Analyst
- William Hawkings, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Ageas Conference Call for the Full Year Results 2015. I am pleased to present Mr. Bart de Smet, Chief Executive Officer; and Christophe Boizard, Chief Financial Officer. For the first part of this call, let me remind you that all participants will be in a listen-only mode, and afterwards, there will be a question-and-answer session. As a reminder, this conference is being recorded.

I would now like to hand over to Mr. Bart de Smet, Mr. Christophe Boizard. Gentlemen, please go ahead.

Bart Karel de Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you all for dialing into this conference call and for being with us for the presentation of the full-year 2015 results of Ageas. As usual, I'm joined in the room by my colleagues of the executive committee: Christophe Boizard, our CFO; Filip Coremans, our Chief Risk Officer; and Antonio Cano, our Chief Operating Officer. Hans de Cuyper, the CEO of AG Insurance, is also in the room, as well as our Investor Relations team.

Ladies and gentlemen, 2015 was the last year of our strategic cycle, Vision 2015, which started in 2012. We used this period well to reshape our portfolio of activities to reflect our strategic priorities, more specifically strengthening our Non-Life activities in the purchase in emerging markets. With respect to the financial targets, the picture is a mixed one. But if we extract certain external factors related to the financial markets, we actually made significant progress over the past years. And I'm pleased with our performance. But at the same time, I acknowledge that there are still room for further improvement.

Let me start with a brief look at the most important key figures for 2015, and I'm on slide 1. Net insurance profit for the year amounts to €755 million, slightly up to 2014. The net result in the fourth quarter amounted to €142 million, seriously impacted by the cost related to the December floods in the UK.

The inflows at 100% almost reached the €30 billion mark. As in previous years, growth mainly came from the non-consolidated Life activities in Asia and from the consolidated entities in Continental Europe. And we're also helped by the large stake we took in our Portuguese and Italian operations. The technical liabilities in our consolidated Life entities stayed fairly flat, if we exclude the impact of shadow accounting.

The operating performance in Life and Non-Life were healthy with good margins in Life and an excellent overall combined ratio in Non-Life below our 97% target, and this despite the negative impact of the already mentioned UK floods.

The group net profit compared to last year was up 62% at €770 million with a net profit for the general account of €50 million. This last figure is to be compared with the loss of €261 million in 2014. The positive change year-on-year relates to the evolution of the RPN(I) liability, and the legal provision accounted for in 2014.

With respect with the balance sheet, I'd like to highlight our first disclosure under the new Solvency II regulation, which became effective as of January 1 of this year. Ageas passed the position smoothly with a Solvency II ratio according to the Ageas view of 182%, comfortably above our strategic target of 175%, and in line with the already reported pro forma levels at our Investor Day end of September.

And lastly, the management and the board of Ageas are pleased to propose to shareholders a gross dividend in cash of €1.65 per share, which is an increase of 6.5% compared to last year. This amount aligns with the Ageas dividend policy and maintains a position of consistently growing dividend for the fourth consecutive time, as you can see on slide 2. Since 2012, our net profit increased with 21% while our dividend showed a substantially higher increase of 37.5%.

On slide 3, you will the upstream cash from the operating companies over 2015. The full dividend but also the corporate costs are entirely covered by the cash upstream by biggest segments which underlies the group's healthy cash flow position.

2015 was also a very busy year in terms of strategic prepositioning of our portfolio of activities. We strengthened our presence in the emerging market of Asia through new partnerships in Vietnam and the Philippines. At the same time, we are in the process of selling Hong Kong, which we consider a mature market in Asia and thus not fitting within our portfolio. The acquisition of the non-life activities of AXA in Portugal is an important strategic move to strengthen our market position, making us a top three player in the market.

And lastly, the start of our internal reinsurer Intreas also makes sense from a strategic perspective.

With respect to the divestment of the Hong Kong activity, we can confirm that we are still on track to close in the first half of the year.

On slide 4, you will find the overview of our performance against the Vision 2015 targets. As I already mentioned, at first sight, the picture seems mixed. However, taking into account some external factors, I believe we have performed satisfactorily over the past four years.

Our net insurance profit has, as already mentioned, grown by 21% since 2012. In terms of return on equity, we were unable to apply the full benefit from this as the shareholders' equity grew by 36%, mainly because of the increased annualized gains from fixed income. If you exclude the unrealized gains from the occasion and also taking into account the upcoming divestment of Hong Kong, our return on equity largely exceeds the 11% target.

Our operating performance is strong with a normalized combined ratio being consistently below 100% for the fourth consecutive year and has a very strong 96.8% in 2015 despite the floods in UK. The Life operating margin especially in guaranteed products also show resilience at 90 basis points and unit-linked margin at 36 basis points.

With respect to the 60/40 split Life/Non-Life and the investment of at least 25% of our capital in emerging markets, the disposal of the Life activities in UK and Hong Kong, together with the selective acquisitions in UK, Italy, and Portugal, and new partnerships in Vietnam and the Philippines, are structural elements that contributed to reach all those targets.

I would also like to take this opportunity to repeat total amount of cash distributed to our shareholders via dividend or share buybacks, which amounted to €2.2 billion over the full period 2012-2015 or roughly €10 per share.

So, ladies and gentlemen, I would now like to give the floor to Christophe and will come back to you for the Q&A and some closing remark.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart, and good morning, ladies and gentlemen. As usual, I will comment on the operating research by insurance segment and then, the general account. So, first, our insurance operations – I am on slide 5. As Bart already mentioned, the net insurance result for the full year amounted to €755 million, compared to €737 million in 2014. Similar to 2014, the exceptional weather impact amounted to €64 million. At this year, it was purely related to the UK, whereas last year, it was spread over the UK and Belgium.

With respect to the net realized capital gains, we had some €65 million additional net gains in the Asian segment compared to 2014, more than offset by €67 million lower capital gain in Belgium, UK and Continental Europe. In addition, the 2014 results benefited in the UK from almost €50 million of exceptional positive results. The positive currency effect at group level of €21 million this year was more or less offset by the exceptional tax credit in Belgium in 2014.

If you take into account all those items and look at the underlying performance, the net result for 2015 is roughly 12% better than last year, which largely relates to the improved performance in Non-Life, illustrated by the good combined ratio of 96.8%. The result in the fourth quarter amounted to €142 million and included the negative impact of €64 million of the floods in the UK. I would like to flag here the fact that we realized a good result for the fourth quarter in Belgium, and that we took indeed the benefit of the favorable position in our equity portfolio to realize some additional capital gains.

Referring to my speech at the Q3 results, the closing of the planned contraction in real estate foreseen in Q4 was slightly delayed and took place at the beginning of February of this year. The press release from our real estate subsidiary, AG Real Estate, has been recently issued to announce the deal with a Taiwanese group. You may assume that this contraction will generate in the first quarter of 2016 a very substantial amount of capital gain, and it will be a contractual intervention segment. And this will be reported in the Q1 result later on in the year, in May.

I also remind you that we are living in volatile markets, so, for the Q1 results. I will not comment on slide 10 in detail, but there you have overview by segment of the realized capital gain within the insurance results. And you will see that in total the amount realized in 2015 is not very different from the one we had in 2014, only the breakdown is different between Asia and the rest of the group.

Some brief comments by segment now. First, Belgium. I am on slide 6. Our Belgian operations reported again a solid net result at €384 million. A lower Life result compared to last year is explained by a significant lower amount of realized capital gains, but also by the exceptionally low level of taxes in 2014, which was partly explained by a non-recurring tax credit. The operating margins both in guaranteed and unit-linked were healthy at 86 bps and 32 bps, respectively.

The Non-Life result nearly doubled year-on-year, and this is due to more favorable weather conditions, good prior year results, and the positive impact of pruning actions and tariff increases. Motor and Household, in particular, the two largest business lines, performed very well.

The UK net result – I am on slide 7 now. The UK net result was disappointing at €30 million. As already mentioned, though, corrected for the €64 million flood impact in December, the net results would've been closer to a normal run rate of €100 million.

With respect to the market dynamics, we are seeing some encouraging evolutions in the Motor segment, while the pricing pressure has now clearly moved to the Household segment. Whereas our overall inflows in the UK at constant exchange rate are down 2%, they are down 8% in Household.

The combined ratio in AIL and Tesco underwriting stood at 102% and 105.7%, respectively, caused by the adverse weather but also suffering from a combined ratio in Motor, but still too high.

With respect to the segment, Other, which includes the retail business and the holding costs, I would like to stress that the net result is broadly flat year-on-year if we exclude the one-off elements. In line with our current strategic plan to have a fully-integrated business model in the UK, I would also like to flag here our intention to redact our reporting and to merge the segment Life, Non-Life, and Other into one segment, Non-Life, as of the first quarter 2016. We do not expect this change to have a material impact on the combined ratio going forward.

The third segment, Continental Europe, slide 8 of the presentation. The net result improved to €70 million compared to €56 million last year, and this is entirely related to a better Non-Life result. This comes from a scope change as a result of the acquisitions in Italy and Portugal but also from an improved operating performance in all entities year-on-year except in Turkey.

In the Life activities, the operating margin under guaranteed business improved to 88 bps while it remained low at 7 bps on unit-linked. The net Life result declined because of lower investment result in (15:35) in Portugal.

Lastly, Asia, slide 9. A net profit of €272 million, up exactly €100 million on last year, driven by excellent results in China where we benefited from higher net realized capital gain compared to 2014. The solid profits in China are also related to inflows, which grew year-on-year by some 40%, marked by continuous improvement in terms of quality. 76% of the total inflows came from regular premium business or renewals, which is the result of the continued effort to anchorage the sales force to focus on the sale of regular premium.

The Non-Life activities in Malaysia and Thailand are also performing well. Combined inflows smoothly moved towards the €1 billion-mark, generating a net profit of €13 million, with a combined ratio of 91.1%.

This brings me to the general account on slide 11. Here, the picture is completely different compared to 2014. Whereas the general account generated a loss of €261 million in 2014, 2015 showed a net profit of €15 million. The difference relates first of all to the €130 million provision for the FortisEffect case, which was booked in 2014; and secondly, to the value of the RPN(I) liability that decreased from €467 million at the end of 2014 to €402 million at the end of 2015, generating a €65 million positive impact this year versus a negative one of €97 million the year before.

I would like also to – I would like here to flag the good result of Royal Park Investment, amounting to €18 million, of which €15 million has been upstream during the year 2015. On the cost side, higher staff and operating expenses are explained by higher lawyer costs and consultant fees, and also by the start-up costs related to our internal reinsurer, Intreas, which took off at the end of August. The net cash position stood at €1.6 billion including the €300 million of, what we call the liquid assets.

Before opening up the call for Q&A, I would like to end with the first official Solvency II figures for the Ageas Group, so slide 12. As already mentioned by Bart, you will see that the reported figure are based on the so-called Ageas view, which is the standard model adjusted for the Non-Life Partial internal model and the internal view on spread risk. The total insurance Solvency II ratio amounted to 182% at the end of 2015, which is almost in line with the pro forma figures presented last September at the IR Day.

Going forward, Ageas will report on a quarterly basis on Solvency II, based on the Partial internal model and the Ageas view. Ladies and gentlemen, I'd like to end my comments here and to hand over to Frank.

Q&A

Operator

The first question is from Matthias de Wit, KBC Securities.

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

Yes. Good morning. I've got three questions if I may. First on the Solvency II ratio. At the Investor Day, you provided an internal model-based group Solvency II ratio of 221%. This dropped to 212% by year-end. Just wonder whether you could provide a bit more color on this H2 decline. So, what part was linked to the change treatment of the sub-sovereign bonds and the ancillary services? What part was organic capital generation and maybe also the other part linked to market impact?

Then on Asia, I wonder whether you could provide an update on the capital position of Taiping Life, and also if you could comment how sensitive is this to equity markets and bond markets, so just to get an idea whether there's any need to inject additional capital in 2016.

And then lastly on the holding company free cash flow generation, can you disclose the amount of dividend which will be paid by Ageas to the group over to 2015 earnings? And also I wonder whether there's any room to distribute any of the Belgium excess capital to the holding company in 2016. Thank you.

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

Okay. I'll pass the first question to Filip, the third to Christophe and the second one.

A - Filip Coremans {BIO 17614100 <GO>}

Okay. Thanks, Bart. Filip Coremans here. Relating to the evolution of the Solvency II ratio, I believe that we did not report 221% but 216% from the group level during the Investor Day as the Solvency II Ageas figure. We mentioned the higher ratio there in the context of the anticipated impact of the transaction in Hong Kong. And indeed, when the Hong Kong transaction would go through, these solvency ratios on a group level would go up with around 20%. That is...

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

No. Sorry, Filip. If I look at the slide, so you reported 216% for the group at yearend 2014 and 221% at the H1 2015...

A - Filip Coremans {BIO 17614100 <GO>}

Okay.

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

...as we enter the first semester. So, I just wonder how you can reconcile the 221% with the yearend ratio of 212%.

A - Filip Coremans {BIO 17614100 <GO>}

Yeah. Okay. So, it's (22:37) that you're referring.

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

Yes, yes.

A - Filip Coremans {BIO 17614100 <GO>}

Of course, part of the explanation is related to the inclusion of the two or three items which we mentioned during the Investor Day. That is the fact that the ancillary services, as mentioned on slide 13, the exclusion of the interparking and the full consolidation of interparking, and putting the value at the same time of the parking concession to zero. These two components have about an impact of 3% to 4% on the group solvency ratio which, in fact, year-on-year, explains most of the evolution.

Negative effects, which have reduced the solvency ratio a bit during the second half, mostly relate, in fact, to the UK where the flat (23:40) obviously has prevented us from upstreaming the dividend and also the impact on the loss absorption of deferred tax. You will note that also for the UK on slide 12, on a full-year basis, that ratio comes down noticeably from 139% to 130%. So, the effect is also reflecting on the group level.

The third one is that in Continental Europe – and that's the third major development, I believe. In Continental Europe, you will also note that the ratio came down. There, the main impact is the capital restructuring in the wake of the acquisition of our operations in Italy. We dismantled the holding structure in the intermediate holding. And I believe €135 million was upstreamed from Continental Europe towards the group.

So, this obviously only affects the insurance ratio and explains also the drop from 186% to 182% on a yearly basis but does not have an impact on the group. Other than that, I think mostly related to the yield curves and the spread, which at the end of the year, were at the same level at the beginning of the year where half year, they were slightly higher.

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

Okay. Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

The second question, capital position Taiping Life. As you know, Taiping Life is part of a listed company, CTIH. At the Investor Day they held in December, the solvency published was above 200%. We cannot provide new updates. But I also want to mention what we said in the past that's after the €200 million investment we made end of 2013, we have no capital injection in 2014 and 2015, and we do not expect it either in the short term.

Two reasons for that. First of all, the introduction of (25:47) as of the 1st of January of this year where, okay, there are a number of mechanism in it that let us expect a positive impact on the ratio. And secondly, still quite high capacity for hybrid debt in the Taiping Life entity. So, no expectations from our side that in the short term, capital increases will be needed, let's say, short to medium term.

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

Okay. Very clear. And on holding company free cash flow?

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah. So, I'd like to take the slide 58, the presentation where you have the net cash position and you have the different flows. And I'd like to highlight the fact that we have met the objective in the sense that upstream €454 million minus the dividend pay, €329 million, and minus the holding cost, €100 million, where still we have positive margins which means that we are well covered with incoming dividends. So, you are interested in the future obviously and the impact of Solvency II.

In the group, we have the capital management and dividend policy which sets the different level of dividend according to the solvency position and the result. Since we don't have – if you exclude Asia with the big growth, if you take the average segment, not a lot of need for capital, it means that most of the result is distributable. But at this time, we are in a transition period. We are deploying the new capital and dividend policy within the group following Solvency II.

You have seen with Filip that we have, let's say, still some adjustments. It is not mature. But as we said before, it will be a smooth transition for the inflow coming from the entity. I cannot see any risk.

Then if I understand your question, you'd like to know if there is additional room for upstreaming capital from the subsidiary. At this stage, I would say it is too early to give a comment. And we will come back on this in future communications. But at this stage, apart from saying that there is no disruption with this change of regulation, I cannot say more on this.

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

Okay. I understand. Thanks a lot.

Operator

Thank you. The next question is from Albert Ploegh, ING Bank.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning. A couple of questions from my end as well. Maybe first on the Solvency II. Do you see basically room, for example, to optimize the ratio by making some changes, let's say, in your investment portfolio, for example? Second question also related to Solvency II. You might be aware that in the Netherlands, there's a lot of discussion on the loss of solvency of Texas basically. Is there anything you are aware of on the level of the NBB as well on this topic?

And then basically, also coming a little bit back also to Matthias' question on the cash flows and basically also the dividend-paying capacity, you have been growing your dividends quite nicely the last couple of years, but without, let's say, further growth in the cash flow generation, it seems a little bit hard to sustain this space. I know you have a little bit capacity to move to a 50% payout ratio still on the insurance profits. But my question would be more, are you, for example, against growing your dividends even if it means that you need to use a bit of your holding cash and so that it will not be completely funded out of the insurance profits? How do you look at that dilemma? Thank you.

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

Okay. I'll pass question one and two to Filip, and take question three potentially to be completed by Christophe.

A - Filip Coremans {BIO 17614100 <GO>}

Okay, Albert. Regarding the Solvency II optimization, of course, we are studying various options there, not only the investment portfolio. But let's first and foremost say that for instance, the setup of Intreas, we have certainly not fully exploited all the opportunities to maximize diversification benefits. This is one of the pillars and one of the reasons why we have good Intreas in our portfolio. And we will definitely try to make use of that. Obviously also, in terms of investment optimization, we may have certain instance in certain markets look at that, but let's not forget that we had a lot of time already to prepare for Solvency II, and that our investment portfolios are actually already setup with Solvency II fully in mind.

For instance, in our main portfolios, we have tried and we have done so rather effectively and well in time given the low interest rate environment now to have a full match between our assets and liabilities, and I think our Belgium operating entity has put some stellar performance there, also a reason why you see that our ratios are relatively stable in comparison to figures released by some of our peers. So, yes, we will, here and there, look at the investment portfolio optimization maybe more in the peripheral countries than in our core country. But we might study opportunities of entering, and that is more from a professional base into market risk modeling domain in the future.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. And on the deferred taxes?

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah. Sorry. And on the deferred taxes, we had, like many of our friends and foes, I would say, discussions with the various regulators in all the countries. And you know that we have this concept of the meeting of supervisors, the college of supervisors which meets on a yearly basis. And in fact, we have discussed at length. Now, this is an industry matter.

Let me be clear that the trend now is that we will follow local practice and regulation, meaning that on the level Ageas, we do exactly as been agreed on a local basis. That means that the loss absorption of deferred tax will follow the guidance of local regulators, and we do that at this moment, and there is no outstanding discussion. So, we are not trying to at least optimize at a group level beyond what is accepted on the local domain. So, there is no real discussion.

In the case of Belgium, where it is the most important, in fact, the rule is more or less that the loss absorption of deferred tax is, to some extent, limited or kept by the availability of deferred tax losses, I would say, for instance, and the unrealized capital gains on the bond portfolios in the (33:47) in Belgium are quite material. And that's, of course, a huge deferred tax liability implicit in them, to that extent deferred tax asset. The loss absorption of it can be used in the SCR calculations. That is more or less the way the Belgian regulator looks at it and is the way we have applied it.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Very clear. Thank you.

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

Okay. On the third question, permit me to repeat, since as I read in my introduction where I said that the dividend of this year is in line with the Ageas dividend policy and maintains a position of a consistently growing dividend for the fourth consecutive time, as you can see on slide 2. And if you look to that slide 2, you can see that the profit of the group, the insurance profit has been increasing and reached the highest level ever in 2015. So we, on the one hand, have the intention to further see increase our profits.

Secondly, we have a dividend proposing that we will very seriously implement and respect (34:59) being between 40%, 50%. And we have even had one year, because that was your question, a year in 2011 when we had the huge impairment of hybrid debt. That year, we paid the dividend out of the funds in general account.

But let's say that this is more the exception on the rule. We are confident that we will be able to continue the policy of paying a dividend out of the upstreams dividends from the operating companies. An example – and maybe that is a supplement to Christophe's answering on previous question on the AG insurance capacity for dividend taking into account the solvency levels on the Solvency II. And of course, we also have to look to local accounting, but we expect AG Insurance to be able to pay a dividend between 75% and 100% of the profits. So, no reason for us to believe that we will not be able, in the future, to continue our dividend policy and also the track record that we have set so far.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. So, thank you very much.

A - Filip Coremans {BIO 17614100 <GO>}

Maybe one comment from my side. We are very much aware of the concept of sustainability of dividend. So it's the reason why we have a dividend which is closely linked to the insurance result, and we want to ensure that this dividend is covered by incoming dividend.

I understand from your question that you wonder whether we could pay exceptional dividend out of the cash at the holding level. This is a different concept, and that would be an exceptional dividend. And sometime, we do exceptional dividend. You remember that some years ago we did this exceptional dividend and declared in September and paid in December, but it was a different concept. So, we have the sustainable and operational dividend and then something (37:07).

A - Christophe Boizard {BIO 15390084 <GO>}

Just jumping on the (37:12) of sustainability of dividend, I just want to remind everybody that the solvency ratios that we show is after subtraction of the expected dividend. So...

Q - Albert Ploegh {BIO 3151309 <GO>}

Yeah. Okay. Okay. Very much helpful. Thank you.

Operator

Thank you. The next question is from Ashik Musaddi, JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Good morning, everyone. So, just like (37:39) couple of questions. First of all, can you give us any thoughts on what's going on the M&A front? I mean clearly, one of the main reasons why I think you were deferring is Solvency II. But now, given we are, more or less, know where Solvency II lies for the industry for you, I mean it's a bit more certain than, let's say, last year. So, how should we think about any M&A here? That is number one.

Secondly, Bart, you did touch base briefly on Hong Kong disposal. Can you (38:07) clarity on do you think that it's going smooth at the moment? Or do you think that the current market volatility is still something to keep an eye on? So, how should we think about the Hong Kong disposal closure in the first half this year?

And lastly is how should we think about Belgium business now? I mean clearly, we are in an (38:28) which is very tough to light, say, new spread business, i.e. how should we think about this Belgium business? So, should we be thinking about stable Belgium business a bit running off at 2%, 3% a year or a bit of growth? So, how should we think about Belgium going forward? Thank you.

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

Okay. I'll take question one and two and give question three to Antonio. M&A front, also there, you correctly refer to the now Solvency II environment, the view on that. But let's underline that our ideas and our approaches with respect to M&A (39:14) compared to what we did in the past. It means that we are not withstanding cash position running behind files because we have the cash. We really want (39:25) strategic logic and that the financials are at least when we move into a file, the ones that fits with our criteria. So, we have had a very busy year 2015.

And I'll come back on part of it with your second question where we are starting up in the Philippines. We have been selling the first contracts. We are in the process of getting the necessary licenses in Vietnam. We are hardly working on the closing of the deal in Portugal which we can expect in, let's say, in the coming, I would say, one to two months. And we are selling off the Hong Kong activity.

So next is that we stick to our guidelines which is, first of all, look to end-market opportunities and look to maybe one still country of interest in the Asian growth markets, which is Indonesia. But we are not running like hell behind files. And you could say that the activity of looking for new files is rather low at this moment because we want to concentrate fully on the implementation of all the files signed in 2015.

And for Hong Kong, we announced when we did the deal that we expect the closing in the first half year of 2016. I believe that we can say that we have no indications that we would not reach that, so everything seems to be on track and is more a question of waiting for the last approvals. We would be able to close the deal, but, okay, we stick to this timing of first half of the year without being able to say whether it will be June, May or April nor earlier but expect it maybe more in the second quarter of the year.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, that's very clear.

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

Okay.

Q - Ashik Musaddi {BIO 15847584 <GO>}

And just one more last thing on just Belgium.

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

Yeah. That's – Antonio will give...

A - Antonio Cano {BIO 16483724 <GO>}

Yes, hello, good morning, Antonio Cano here. So on Belgium, I guess your question was really focused on the Life business?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes.

A - Antonio Cano {BIO 16483724 <GO>}

So you appreciate our matching position in the book and also that we continue to apply the same matching discipline and also discipline with regard to the guarantees we give and the profit sharing, which we have also slightly reduced this year. So we're pretty confident that the margin going forward will continue to be stable. In terms of the volume of the technical provisions, we believe that there's going to be a slight increase, not major, but certainly stable, so pretty confident looking forward. And also on the positive side, we've seen that as we announced also in Q2, Q3, the Unit-Linked business is gradually increasing, which also gives us a stable margin going forward.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Just on that, I mean, you remain comfortable that whatever near book you're writing to offset the overall (42:38) of the old book, it's still with like (42:42) margin and still properly matched. So you still remain comfortable on that thing?

A - Antonio Cano {BIO 16483724 <GO>}

Yes, we still stick to our target of 85 to 90 basis points operating margin in the Belgian Life business.

Q - Ashik Musaddi {BIO 15847584 <GO>}

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

Operator

The next question is from William Hawkins, KBW.

Q - William Hawkings {BIO 16752081 <GO>}

Hello, thank you very much. First of all, realized gains on slide 10. Could you just give us an indication? I know the figure is being now stable for two years, but do you think that level of realized gains we're seeing in aggregates is a sustainable figure and what do you think about the mix between countries? And specifically on Belgium Life, when you talked about this real estate gain that's now in the first quarter, can you just confirm what should be the net profit impact of that event? And how should we think about that? Is that something which is incrementally going to boost 2016 because it's basically delayed 2015 profits, or is it likely to get lost in the rounding of all the other investment management as the rest of the year progresses?

And then secondly, the three combined ratios, if we exclude the UK floods, do you think that those are good underlying basis, so thinking about the outlook for 2016 and 2017? Or is there anything else we should be adjusting for? And specifically, how do you feel about the UK flood loss? I mean, it's a big number, but I suppose it was a big event. Are you comfortable with that losses within what you would've expected, or has it raised any underwriting questions in your minds? Thank you.

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

Okay. Christophe, you want to take the first question?

Q - Christophe Boizard {BIO 15390084 <GO>}

Sure. So on slide 10, I will give you more explanation. So here, you have a breakdown by segment. And you will see that for UK and Continental Europe, figures are low. Why? Because what we call the risk assets real estate and equities are concentrated in our Belgium portfolio and are concentrated in Asia, mainly in China. What we can see here, and that was part of my comments, is the amount, year-on-year, is quite stable. We add €186 million in 2014, €183 million in 2015. So we've a different breakdown, more on Asia, less on Belgium.

So your question, is it sustainable over time? I would say this sounds sustainable in the sense that we can say Asia is slightly above what we could see at least on the right and Belgium, slightly below. Why? It's mainly because of the delay we experienced on the real estate transaction. And as you know, the real estate transaction are necessary, and they are – and very often, we sell big blocks and big things. So, it was more a timing delay on – a timing issue on Belgium. So now, to be really precise, you asked for the size of this. It's in the range of €42 million to €45 million, the net impact on the result for Q1 of this transaction on real estate. But it's kind of the sale of the program of 2015, which means that for 2016, the budget for real estate needs to realize other sales, but the sale of 2015, what we did in Q1.

A - Antonio Cano {BIO 16483724 <GO>}

Maybe just two more words on the Belgian real estate. As we shared also in the past, be aware that our real estate operations also includes a development activity, which means that, now and then, we will always realize sales of real estate objects. Most of them are real estate objects that we've developed. So it's very much intrinsic in the operation.

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

Okay, the questions on the combined ratio and more of the view on 2016-2017. So at the Investor Day, we confirmed our targets of being below 97%. So if we look back to 2015, we had an extremely good result in Belgium but also have been saved by absence of real weather events. So also in Belgium, we cannot guarantee that this will be level year-after-year, but we are quite sure that the capacity to be consistently below the 97% is there, right? One of the reasons also of the very good combined ratio is the immediate impact over the number of actions that have been taken in 2014 with respect to third-party liability. And part of the benefits of that will be further, let's say, increase in 2016. In Continental Europe, the combines are in the consolidated entities extremely good. We were at 85%. We have an attention point as a whole market in Turkey. However, changes in legislation over the last years has increased the claims but mostly in motor insurance.

And then for UK, you could say that the impact of (48:10) was something like 4%. It was, in many case, at the end of the year, higher than what we expected beginning of December that we see now. It's very, very early day, but we see now that next to the start of increase of rate in motor that there is a soft (48:30) decrease of the rates in household in the first month going to slight increase at 1%. We are there. Also note that the markets will react positively in the sense that rates will be coming through the correct levels. So 97% – below 97% core combined ratio targets for 2016 and 2017 is definitely something we expect.

Q - William Hawkings {BIO 16752081 <GO>}

Lovely. May I just come back? Thank you. Just one, I'm getting really excited about capital gains in Belgium. Are you able to put a similar number on the risk of impairments you may be taking in Asia or anywhere else if the markets stay at the current level? I don't want to get too excited.

Q - Christophe Boizard {BIO 15390084 <GO>}

So, Will, I want to give you a lot of comment on this because this is related to Q1. And Q1 – the release will take place in May. So you have to do your own homework, your own consideration, but let me help you. So you can read in the presentation that on the equity portfolio, we had €500 million unrealized capital gain. Then we had an asset allocation, which is – but we have equity mainly in Belgium or let's say €2.5 billion to €3 billion. So, we have a margin. And then we look at what the market have done. And then, you take into consideration the fact that the threshold for booking impairment is at 25%. And with all these figures, you can derive the risk. I think the risk exists, but it is not enormous. And that's the maximum I can tell you.

Q - William Hawkings {BIO 16752081 <GO>}

Just as my kids get me to do their homework. I will follow up on that. Thank you.

Operator

Thank you. The next question is from William Elderkin, Goldman Sachs.

Q - William H. Elderkin {BIO 3349136 <GO>}

Yes. Good morning, everyone. Just a couple of questions left now. Could you just give us a sense of how the insurance Solvency II ratio has moved thus far over the quarter? Again, we've had a lot of macro volatility. Perhaps related to that, give us an idea of the sensitivity of the insurance Solvency II ratio to credit spread widening. I find the sensitivity spread disclosure you gave in your presentation a little bit difficult to interpret, so any help on that would be very useful.

And then, secondly in terms of the Turkish Non-Life business, that doesn't seem to be going terribly well. Can you see light at the end of the tunnel and really what's happening on the ground to improve the covenant rate of earnings? And finally, just to - what sort of reinvestment rate you're currently getting in the insurance business rather than over the full year of last year?

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

Maybe starting on Solvency II, of course, you were talking about what you expected the Solvency II ratio movements are now in the beginning of the year. I must say, we will not start making predictions on that. I mean, Solvency II sensitivities we disclosed at the Investor Day and that is as far as we want to go. It's not because Solvency II ratios are going to be slightly more volatile that every time our market rate moves, we should go into recalculating old ratios. That is not the purpose. And the fact of the matter is that we defined our risk appetite. We have assessed the sensitivities that we can tolerate and would tolerate in our business and that is the way we have settled our Solvency II management framework.

But referring to what we disclosed during the Investor Day regarding sensitivities on solvency, of course, you can see that there - I cannot refer to a slide, but it's in the pack of information that we distributed during the Investor Day - that sensitivities to equity exposure from the Solvency II ratio of Ageas Consolidated Insurance is actually quite low, yeah? It's quite low. It's actually almost nil for the simple reason that the exposure of our main portfolio within Ageas is not as high. That's one, two because part of the impact on Solvency II of equity movements is absorbed by the non-transferable part belonging to the BNP share. So that dampens that quite significantly.

On the yield curve and the spread, the sensitivity is higher. We even said that, if we - if interest rates would go down 1%, we could see a drop in Solvency ratio of about 20 bps. Also, that is not related so much to mismatch because we know that our books are matched. So it's not related to the own front loss. It's more related through the increase of the SCR because of the low portion of loss absorption in there, not the profit-sharing feature. So it is more an increasing SCR than a lot of old funds because the Ageas book is matched quite well. And, of course, after a while, that would recover.

The third one on spread, we did a test and we disclosed that, saying, okay, if we stress test our ratio with 75% of the standard form and the capital charges, if we say, okay, let's (54:43) us with 75% of that to have a reference, then we would see the ratio come down with about 10% on spread. That spread, of course, if it does not materialize - I mean, if it does not materialize in real losses, it will come back after a few periods. In the next year, it will add to the profit and loss. And so, these sensitivities are still the relevant ones and can still be referred to. Maybe once a year, we will consider updating these sensitivities.

Q - William H. Elderkin {BIO 3349136 <GO>}

Can I just do one follow-up? Just in terms of (55:22) benchmarking your (55:22) to others, that 75% (55:28) capital charge, can you give us a sense of how that relates...

A - Operator

Okay.

Q - William H. Elderkin {BIO 3349136 <GO>}

...let's say, I'm making this up, a 50-basis-point movement disposal, whatever the number maybe?

A - Operator

Yeah.

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

I'm afraid I do not have that detail with me. But what we exactly did is we try to simulate a 1 in 30 event, yeah? So, they relate with what I believe is a 1-in-30 shock because our risk appetite and our risk acceptance in the group is based on 1-in-30 events. But I do not have exactly the details. In fact, it can be looked up because it's 75% of the standard formula. But that's quite a full table depending on term and rating.

Q - William H. Elderkin {BIO 3349136 <GO>}

(56:15) Turkey maybe?

A - Antonio Cano {BIO 16483724 <GO>}

Maybe some color on the Turkish markets, two remarks. I think that the results have suffered namely because of the Motor TPL business. If we look at the other lines of business, it is not that dramatic. It's actually quite satisfactory. But Motor TPL is the issue. Underlying is actually the fact that there has been some legislation. The changes introduced by the Turkish government, without going into detail, has to do with things like minimum wages. So that increased which has an impact on the existing book of claims reserves in Motor TPL. That has led to an increase of these claimed reserves, and that's the main reason why results suffered. And having said that, already in the course of 2015, we have significantly increased our rates for these product lines in Turkey, I think quite faster than most of our competitors. Consequently, we've also seen our market share in this product line tumble. I think we're now like the 15th Motor TPL writer in the Turkish markets with relatively low market share.

So going forward, this line of business will not hurt the P&L as it did in the past. But having said that, it remains a challenging market. But we see all our competitors actually following the same routes and rates going up. But I think the macroeconomic situation is difficult.

A - Christophe Boizard {BIO 15390084 <GO>}

So on the new money yield, so we're at - each call, we provide you with some info and quarterly figures. But I'd like to take the slide 38, (58:18) where you have some info. And what you can read here is that for the full-year 2015, the new money yield was 2.11%.

And since I always give the quarter review, I'd like to remind you all the (58:39) achievement we had during 2015, so Q1, 2%, 2.01%; Q2, 2.02%; Q3, 2.19%; and Q4, 2.25%. And the average is the 2.11% I was just mentioning. So then, you may ask how come you can achieve such a high number with your present asset allocation. And then, I'd like to give you maybe some more clarity on this.

First, on the (59:15), which is a substantial part of the asset allocation, we don't invest a lot in (59.23), which have been consistently below 1% during the year 2015. We invest in regional loans, government guarantees. So we are in term of risk in a quasi-government environment. And here, you have 1.63% for Q4, which means that you have 100 bps of spread vis-à-vis the pure sovereign loans. Then we invest in corporates, investment-grade corporate and high yield.And this here, we make, too, 70%. And then we have loans. You remember that we are very active on loans. And there, we have, too, 44%. All in all, you justify the 225% of Q4. So, we are well above the 2% all over the year with - I remind you - the minimum guaranteed rate for the main products up to 1%.

So, this is review for Belgium. This is a good indicator for the group in percent, but the portfolio of Belgium is quite big compared to the rest, and that the CIO of Belgium, the chief investment officer, he's also head of investment for the whole group, and his influence is still all over the group. So, it's a very good indicator for the group policy. So, above 2%.

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

Thank you.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you very much.

Operator

Thank you. The next question is from Abid Hussain, Société Générale.

Q - Abid Hussain {BIO 20229932 <GO>}

Hi. Morning, all. Can I ask two questions, please, based on the credit portfolio? Firstly, I was just wondering if you could share your energy sector exposure across the current portfolio. And secondly related to that, how do you view credit rating migration risk? And how important is that for you? Thanks.

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

So, we usually don't discuss the breakdown by sector, but I can understand why you are interested in the energy sector. We have some exposure, so, around €1.3 billion in corporate bond, almost no equity, and we have carefully selected and that's something which is managed by an asset manager who has consistently delivered very good performance. So we are not concerned by this, and in any case this amount is limited to €1.3 billion, all in bonds.

Q - Abid Hussain {BIO 20229932 <GO>}

Great. And just generally across the portfolio, I'm deeply worried about the rating migration risk, so, a single A being migrated to a lower class. I mean how do you manage that risk?

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

Obviously, the risk of down trade is very present in the energy sector. This is managed by the asset manager. And you can be sure that it's one of his main concern. In term of quality, we have selected high quality company in the range of, let's say, AAs, or even if we have some down trades, we have margins. So, no specific concern this year so far.

Q - Abid Hussain {BIO 20229932 <GO>}

Understood. Thanks.

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

Now, maybe one thing to add there. It's clear that we have in terms of protecting or committing to the risk appetite limits that we have set, we have cascaded within the organization a quite clear set of limits which apply on certain rating classes, and of course we will monitor the exposure in these baskets. So, if there is re-rating or rating rolling downhill, this will trigger assessment of the exposures in these various baskets and investment managers are - in principle, have to adhere to the overall composition of that portfolio.

Q - Abid Hussain {BIO 20229932 <GO>}

Understood.

Operator

Thank you. The following question is from Farooq Hanif, Citi.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Thank you very much. Just one question remaining. Going back to the comment you made about cash flow and your intention to upstream between 75% and 100% of earnings from Belgium, can you also give us a guidance on the other segments? So, can we assume that for example, Continental Europe and UK where there is some growth, but obviously, they are very cash-generative, that we can also assume a 75% to 100%

intention? And Asia being the growth area, we just have to assume that there's a big reinvestment of earnings. Could you give us some more color? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

So, on cash flow, the percentage of the net profit upstream to the group is (01:04:51) by the – as I said, the capital management and dividend policy. So, we have some limits, and when you reach a certain limit, you pay 100%; when you are below the following tranches, 75%; and then you have 50%. So, the same policy applies everywhere.

Q - Farooq Hanif {BIO 4780978 <GO>}

Right. Just wanted to get a little bit more guidance on numbers. We see your capital position by group and you've (01:05:27) a disclosure, but just trying to understand how to forecast that number is sometimes tricky.

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

I think we, of course, cannot exactly forecast each element there. The cash is being marked with (01:05:47) the different identities. But what you see also on the slide 20 – no, it's not 20. There is a slide in the pack with the upstream per operating company where you can see that most of the Asian activities have a dividend payout: China, Malaysia, Thailand, to mention them, and Hong Kong, of course, but that will go out of the group. And that in the European countries, all companies contributed. Of course, one year to another, it can change. We have had, for instance, in the past two years, some restructuring activities. There has been a higher payout in Portugal than what would be the recurring one. So, we have, as Christophe mentioned, this capital management policy where the payout ratio is linked to the solvency level and that's something that we will consistently apply within the group.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

A - Christophe Boizard {BIO 15390084 <GO>}

And then in the UK, maybe you wanted some specific comment on the UK. So the dividend on the UK was not the one expected. It is due to the fact that we had this flood at the end of the year and we prefer to defer the payment of the dividend knowing that we were already in a comfortable position for 2015 and that the targets were met. But UK should resume paying the dividend. We have a business model there with not a lot of volatility, so UK will pay dividends in the future.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

Thank you. The following question is from Farquhar Murray, Autonomous Research.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Good morning, gentlemen. Just two questions, if I may. Firstly, on the Solvency II ratio and kind of Solvency II capital more generally, you indicated that it's still a little bit too early to clarify the ability to shift capital around between the subsidiaries, specifically, obviously with regards to Belgium. My question there would be when do think things will become clearer and which issues specifically are – kind of need to be resolved or clarified?

And then, secondly, on litigation, please, can you just give an update on where matters are with regards to the VEB case? I think that probably starts in March, so I just wonder what the positioning is around that. Thanks.

A - Christophe Boizard {BIO 15390084 <GO>}

Right. Regarding the capital transferability, there is, obviously, various things at play there. First, there is the ability, and that does not only depend on the Solvency II capitalization levels, but also on local gap constraints. So, you also – and that is maybe not that transparent. You have to look at the local profit of these operating entities.

So, even from a Solvency perspective, we would be 100% confident. We have to ensure that the capital that the retained profits on local gap basis are also of the same level. And so, that, from time to time, that may mean that you cannot just stream up in the form of dividend, and you would have to go to capital reduction, et cetera, et cetera, which we are not envisaging at this moment.

The second thing also relates to the legacies where we say, okay, we have always committed that we will keep our insurance companies as independently well-capitalized as they deserve, and that is still our policy today. It puts the responsibility for making that money sweat and make a decent return on it also with the local entities. And it is part of our management model. We really want to leave a lot of local autonomy and authority, but that comes with the responsibility to make a decent return on it. So, that is the way we manage the operating entities.

Re-upstreaming of the capital, we can consider that opportunistically, we said also at the Investor Day, in case we have a reason and a use for it. So, we have to allow a group strategic degrees of freedom to make best use of this capital base. We commented on that during the Investor Day.

Regarding the legal proceedings, the VEB pleadings are just around the corner. They will start in the second half of March, as scheduled. Till then, there is nothing much to comment upon it. Although developments on the legal front, you are obviously aware about the outcome in the (01:10:37) case, which was favorable for us, but we will not throw a party for that. The outcome, however, confirms, more or less, the points made by the IFM on IFM II proceeding which is positive. But it does to some extent take into account the fact that the counterpart was a professional.

Other than that, the main – other proceedings you may expect are mostly pleadings. Aside from the VEB, we also have the pleadings in several small cases in the Netherlands, and in terms of, how should I say, older events that you may expect, there is two judgments that could come, maybe one relating to the high court appeal, FortisEffect, which may come in the next quarter. I think that sums it up and you have the nice overview of it as usual on slide, I think 61 of the pack.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay. Just to follow up on the answer you gave on Solvency II transfer, can you just clarify when do you think those issues around local gap and kind of independent legacy issues can be resolved? Is that something you think can be resolves by the end of this year, UK?

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

Can you please repeat the question? I didn't fully grab it.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Yeah. Sorry. Just to follow up on the answer you gave around the transferability of capital under Solvency II, you obviously opened up a discussion around local gap constraints and also, some degree of legacy discussions. Is that something you think you can resolve by the end of the year?

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

Your answer on that is as good as mine. The legacy discussions, the legal litigation discussions can go on for many, many more years. That could be up to 10 years if we see everything run. So the answer, that is an answer I cannot give, without question.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay. Thanks much.

Operator

Thank you. The next question is from Bart Jooris, Petercam.

Q - Bart Jooris {BIO 3470300 <GO>}

Yes. Good morning. Bart Jooris, Degroof Petercam. Two questions left. Regarding your investment portfolio, is there any CoCo exposure in there? And then, regarding the flood damages in the UK, has the bulk of them been taken? Or could we expect some more that were still only brought in the first quarter?

A - Christophe Boizard {BIO 15390084 <GO>}

So, the first answer is very simple. It is non-material. So, we can say, almost zero on the CoCos.

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

And the second question, so, what we see is that the provision that we made by the end of the year, or with respect to the end of the year, appears to be quite precise, even slightly conservative. So there are no new cases, no, let's say, inflations on existing cases. So, we are quite confident that not only the bulk has been taken, but that the reserving that we made for 2015 will be correct.

And even in the reinsurance duration where you have this 21-day views, you could say if, nevertheless, the total charge would go up, we're very close to the involvement of the reinsurers. So, additional cost would not impact our results heavily. But I repeat, the first answer is that we have rationale after mid-February that the reserving has been rather conservative.

Q - Bart Jooris {BIO 3470300 <GO>}

That's very clear. Thank you very much.

Operator

Thank you. . We have a follow-up question from Albert Ploegh, ING Bank. Mr. Ploegh, your line is now open for your follow-up question.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Thank you. I had one follow-up question on the oil and gas exposure. I understand, indeed, it's externally managed. But can you maybe give a little bit rating overview on, let's say, how much of that amount is at BBB or below BBB? And if we talk more about your P&L (01:15:11) U.S. exposures, et cetera. Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

No, (01:15:15) I am sorry, but we don't disclose this kind of information. Sorry.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay.

Operator

Thank you...

A - Christophe Boizard {BIO 15390084 <GO>}

But you may expect the low investment grade is extremely limited. This is in the mandate. So, the below investment grade is rather marginal.

Operator

Thank you. We have a follow-up question from Farooq Hanif, Citi.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Thank you very much again. Just going back to cash flow, at what level of capital ratio in, let's say, the UK and Continental Europe has obviously been under a bit more pressure? Would you say that it becomes, yeah, more difficult to upstream capital from those – obviously, UK has been hit by one-off factors. But just wondered if you give a little more guidance about the threshold for the upstream. Thank you.

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

So, maybe I'll give a start and then leave it to Filip. First of all, when we set our solvency ratio, it was a case of Solvency I. The same in Solvency II, we set the Solvency ratio on an Ageas level for the insurance activities as a whole. So, it means if you move back in the history over the past seven years that you will always have seen differences in levels in between Belgium company, Europe, UK and so on. So we manage it as insurance as a whole. That's one.

The second one is that our capital management policy relates to the solvency level of the local entity. So if we are somewhere below a certain level, the level that we aim for in the local entity can differ from one country to another. If we are below a certain level, we will probably say no pay dividend. If we are above, it could be 25% or 50%. If we are very comfortable, it can be 75% and 100%. So, this is something where we want to keep some flexibility. And maybe, Filip, you can add something.

A - Filip Coremans {BIO 17614100 <GO>}

Yeah. Okay. Look, when we look at what is required on the level of the group during the Investor Day, we actually also commented on that. What we want to achieve is that our costs of the holding, as well as our dividend commitment are comfortably covered by our upstream. And that is something that is almost guaranteed only on the basis of the Belgian company, in fact. If you look at what we said and what we said before about the available capabilities at AG, that almost covers that. So the dependability only other entities is less an issue.

That being said, on the UK specifically, I think Bart mentioned it before or Christophe might even, the volatility of the results in the UK are not as high. You may have concerns about the profitability this year because of the floods. But in fact, the business line there is rather predictable in terms of capital needs.

Therefore, in the UK we do not need to hold such high levels of capitalization such in the other countries. And in the range that we are, maybe 130, 135 (01:18:40), we could consider upstreaming part of the profit in any case. Whether that will the full amount or 50% or 25%, it depends on it and we will consider. But there is upstream ability in the UK even at these capitalization levels.

Continental Europe is not one country. So, although the ratio now came down a bit because of the restructuring in Italy, which in fact implicitly meant that we have upstream traditional capital out of Continental Europe, if you think about it, we will look at the various countries. And also there, we know that we are relatively comfortable in our core businesses in Portugal, whereas in France and in Italy we are slightly thinly capitalized and we will consider the situations in the countries opportunistically in the context of where they are. So, you could have upstream out of certain countries. We surely expected that out of our Portuguese operations, not out of France at this moment because they depend a bit more on the low interest rate, but it is a mixed bag of beans. But we do expect a reasonable dividend upstream out of Continental Europe as well.

And then on Asia, of course, that business is still growing. But what we more and more notice is that certain of these countries – and that's already the fact in Thailand and in Malaysia – have actually reached the capital sustainability. Moreover, they actually generate surplus. So, we see the dividend payout out of these countries move up year-on-year, and so that it becomes also a more or less reliable source of dividends.

And as you may have noticed also last year, for the first time, in fact China started paying a dividend which is a very good news if you think about it for those who doubted about the fact that if ever capital could flow out of China that it would only flow in. Last year, we had for the first time dividends, I think about €80 million of them coming out of China.

Q - Farooq Hanif {BIO 4780978 <GO>}

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

Operator

Thank you. We currently have no further questions in the queue.

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

Okay. Then, ladies and gentlemen, I propose we go to the closing remarks. Thank you for your good questions, and let me summarize the main conclusions.

First of all, we ended Vision 2015 era with a satisfactory final result. We did not realize all our objectives but we made significant progress on most of them, and the internal focus around the financial targets have been especially crucial.

Also in 2015, we have clearly delivered for our shareholders the annual dividend that's been increased by 6.5% to €1.65 per share gross and in cash, and we are executing our fifth consecutive share buyback program that was announced in the summer of 2015.

Since January 1 of this year, Solvency II is in place. After many years of preparation, the transition went smoothly, and we can confirm the message given last September, our insurance Solvency II ratio exceeds our target of 175%.

And finally, Ambition 2018, our new plan has officially taken off. We are working intensively to put in place the cornerstones of our future strategy to respond to the new technological and societal challenges impacting our business.

With this, I would like to bring this call to an end. Do not hesitate to contact our Investor Relations team should you have (01:22:27) any questions. Thanks for your time, and we'd like to wish you a very nice day. Good-bye.

Operator

Ladies and gentlemen, thank you for attendance. This call has been concluded. You may now disconnect.