Q1 2016 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
- Frank Vandenborre, Group Head-IR & Corporate Performance Management

Other Participants

- Ashik Musaddi, Analyst
- Bart Horsten, Analyst
- Bart Jooris, Analyst
- Farquhar C. Murray, Analyst
- Matthias de Wit, Analyst
- Michael van Wegen, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Ageas Conference Call for the Q1 2016 Results. 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 remain on listen-only mode, and afterwards, there will be a question-and-answer session. Please also note that this conference is being recorded.

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

Bart Karel de Smet {BIO 16272635 <GO>}

Good afternoon, ladies and gentlemen. Thank you all for dialing in to this conference call and for being with us for the presentation of the first quarter 2016 results of Ageas. As usual, I'm joined in the room by my colleagues of the Executive Committee, Christophe Boizard, our CFO; Filip Coremans, CRO; and Antonio Cano, our Chief Operating Officer; and of course, our Investor Relations team is also present in the room.

Ladies and gentlemen, the first quarter of 2016 will be remembered in the history of Ageas as being the quarter in which we announced a settlement with the claimants' organizations around the Fortis event in 2007 and 2008. And today, we also announced that we reached an agreement with Mr. Laurent Arnauts, the Brussels-based attorney, who launched a number of legal actions related to the Fortis events of 2007 and 2008. Mr. Arnauts has confirmed in agreement with his clients that he will support the global settlement that Ageas reached on March 14, 2016.

Last week, we also announced the closing of the sale of the Hong Kong activities to JD Capital. The impact on the P&L and on the net cash position has been disclosed and this is of course also a very important milestone within the realization of our strategy. The closing of the acquisition of the AXA Non-Life activities in Portugal happened early April. And you can expect more clarity on the opening balance sheet in our half-year results.

Returning to the financial results of the first quarter of 2016, we can certainly say that it is a quite bumpy start of the year with very volatile financial markets by the end of March had recovered significantly, however. All in all, the financial final impact on our quarterly results remains modest. But we also had an impact of the terrorist attack that hit Belgium, but all in all, the underlying results remained very solid. And these together are probably the main elements explaining a result that was above the analyst consensus.

On slide one, you'll find as usual the key figures for the first quarter of 2016. The net Insurance profit for the quarter amounted to €201 million, slightly up on last year. With the exception of Continental Europe, all segments did better. The result included the negative impact of €90 million related to the so-called TRIP arrangement covering the terrorism events that hit Belgium in March, and also some €35 million higher net capital gain. And the latter relates essentially to the delayed sale of the real estate project in Belgium, which we already preannounced at the time of publication of our annual results in February.

Both in Life and Non-Life, we can report a solid operating performance with the Life operating margin on guaranteed and Unit-Linked profits of 1.03% and 0.25% respectively and a combined ratio of 97.8%. The latter including 4% negative impact from the terrorism events.

The inflows at 100% were up 11% year-on-year with sales in Asia once more up again. Also worth mentioning here are the significant higher sales in our Belgian Life business where we noted an anticipation of a lower guaranteed rate as from April 1 and against the trend of many of the other insurers in Belgium. The group net profit amounted to €633 million negative and includes the €889 million charge related to the settlement agreement with respect to the Fortis events in 2007 and 2008.

Finally, with respect to balance sheet, our net cash position, which we will call it from now our total liquid assets to also include the investments longer than one year, they came down to €1.2 billion as at March 31, but this does not yet include of course the cash we received from the sales of the Hong Kong operations.

Our Solvency II insurance ratio remain stable at 182% while the group's solvency came down to 180% due to the impact of the settlement, but not taking in account yet the effects of the sale of Hong Kong. As of slide three, you will find the usual overview of the key quarterly figures for which I kindly hand over to Christophe.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart, and good morning, ladies and gentlemen. As usual, I will comment on the operating results by insurance segments and then the general account. So, first, our insurance operations, and I am on slide three.

Before commenting on the results themselves, I'd like to mention some changes in our reporting as of this quarter. In the UK, we have merged the Other segment with the Non-Life activities in line with the strategic project already announced at the time of our annual results. All activities are being merged in a so-called one-company concept.

The recently created reinsurance company Intreas is, as of now, also reported in the Insurance scope in a separate new segment called Reinsurance. On the group figures, FX impact was slightly negative this quarter, roughly by 2% on the results and by 3% on inflows.

With respect to the figures and as Bart already mentioned, the net Insurance result for the first quarter amounted to €201 million, compared to €198 million in 2015. As regards, capital gains and details are given on slide 20. The amount of realized capital gains were €36 million higher than last year.

In Belgium, there was a real estate capital gain of €42 million; while in Asia, the strong recovery of the equity market at the end of the period led to capital gain net of impairments €4 million higher than the ones of last year.

In our Non-Life activities, the item that took most of the attention was the €19 million net impact related to the terrorism events in Brussels that sadly took place in March. This impact is based on a total estimate cost for the market of €200 million, an amount which is slightly more prudent than the ones that has been circulated so far by other insurers.

The impact of the terrorism events under combined ratio amounted to 4% on Ageas level. Excluding this, we would have reported a very strong combined ratio of 93.8%, helped by a favorable claims ratio. The strong higher yield reserve release of 9.8% confirmed the trend of last year first quarter, an effect that is expected to flatten out later on this year.

Some brief comments by segments now. First, Belgium, I'm on slide four. Our Belgian operations reported a net result of €100 million, up €5 million, of which €82 million in Life and €18 million in Non-Life.

In Life, net capital gain amounted to €41 million, compared to €16 million last year, see slide 20 again. As a result, the operating margin on Guaranteed products increased to 98 bps which will flatten out going forward.

Our Non-Life activities performed very well in the first quarter with a very strong combined ratio of 91.1%, excluding the impact of the terrorism events. The latter impacted especially our Accident & Health and Other businesses. In the Other direction, similar to last year, prior year reserve releases were high at 16.3% overall and spread over all product families.

The UK net result, I'm on slide five, amounted to €25 million and is marked by better Motor result and slightly higher net realized capital gains. The main news here are the better inflows in Motor. Ageas UK benefited from higher tariffs across the sector which we had already anticipated in early 2015.

In Household, inflows remained almost flat at constant exchange rate in a competitive market environment. The combined ratio amounted to 99%, with good results both in Motor and Household, and a prior year reserve release of 4.2%, this is slightly higher than last year. The combined ratio of Tesco Underwriting amounted to 98.7% also driven by a good performance in Motor.

The third segment, Continental Europe on slide six, the net result decreased to €15 million, compared to €29 million last year and this is entirely related to the Life results. In Luxembourg, the negative result from the fair value adjustment on the assets classified as Held For Trading explained €9 million of the decrease. I should also remind you that we booked last year non-recurring deferred tax assets of €5 million in France.

In Non-Life, it is also worth mentioning that inflows were up 9% at constant exchange rates, with higher inflows in Turkey where our strategy is starting to pay off. In term of net result now, we noticed a similar trend with better contribution from Turkey and a very strong operating result in Portugal and Italy supported by a combined ratio of 87.4%. As already mentioned, the results of Continental Europe would include as of the next quarter the results of the acquired AXA Portugal activities meanwhile, renamed AXA Seguros.

And lastly Asia, on slide seven (sic) [slide eight] (12:59). Net profit of €61 million compared to €58 million last year. The positive difference being the increasing net realized capital gains. This could be seen as a good surprise as we have all seen the big volatility of the equity markets during the first quarter. However, by the end of March, the situation largely reversed and we realized in China some additional capital gains. More important maybe is the improvement [ph] in the structure (13:36) of the new business with a higher portion of profitable regular premium.

The Hong Kong operations contributed €12 million to the net result. As Bart already mentioned, the closing of disposal of this activity in early May implies that the second quarter figures will include only roughly one month of result from our Hong Kong activity, but we will book a capital gain of €210 million allocated to the insurance result. This is part of the capital gain. The remaining part will be recognized in the General Account. The

Non-Life operation doubled the profit to €7 million, a mix of a better combined ratio and a capital gain on real estate.

To complete the overview of the Insurance segment, some comments on Intreas, our internal Non-Life reinsurance company. The activities are still fairly small. The company started writing business in the second half of last year and is in the process of building a larger book of business. The inflows amounted to €11 million this quarter, with net earned premium of €4 million. The operating result amounted to €1 million with a combined ratio of 78.4%.

This brings me to the General Account on slide eight (sic) [slide 10] (15:19). Most has already been said by Bart here. The loss of €834 million essentially relates to the announced Fortis settlement. The increase in provision by €889 million has been very partly offset by the reduction of the FP&A (sic) [RPN(I)] (15:43) liability by €73 million. The details of both amounts are clearly explained in the press release and on the slides. The increased staff and other operating expenses are mainly due to some one-off costs related to the legal settlement.

As a last element, I would make a brief comment on Royal Park Investments where we recorded a result of €13 million coming from the resolution of outstanding U.S. proceedings. We also expect cash to be upstreamed in the second quarter.

Slide 10 (sic) [slide 12] (16:29) provides you with updated Solvency II figures, which are fairly stable at Insurance level compared to the end of last year. At the Group level, the Solvency II ratio came down mainly because of the impact of the settlement. It is interesting here to make the link to the closing of the sale of the Hong Kong activity, which is expected to positively impact the Group ratio by approximately 30%. The Insurance Solvency II ratio, on other hand, is not affected by either of these elements.

You will also note the significant increase in the figure of the non-controlling interest. This relates essentially to China where the new C-ROSS solvency legislation has been introduced as of the first quarter. At the end of March, the ratio for the Chinese operation amounted to a solid 250%.

Ladies and gentlemen, I'd like to end my comments here and to hand over to Frank.

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Ladies and gentlemen, this concludes the introduction, and we can now open the line for questions. May we ask you to limit yourselves to two questions. If you have more questions, please go back to the end of the queue. Thank you.

Q&A

Operator

Thank you. Our first question is from Ashik Musaddi, JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good morning, Bart. Good morning, Chris. Just a couple of questions. First of all, can you give us some clarity around what's going on with your Asian JV. So things like, for example, I mean, what are the risks that you are seeing from China in terms of equity risk or say in terms of any potential capital injection risk? Any thought on that? And also, related to that is what sort of growth should we expect in your Asian operations going forward given the volatility we have seen recently? So that's the first one.

And secondly is on your full-year dividend. How should we think about it? Because clearly you are making some one-off gains of north of €200 million from Hong Kong that will be reported in Insurance profits, and your Insurance profits is what is the main base for dividend. So should we still stick with the guidance of 40% to 50% payout ratio of the Insurance earnings, or should we think about last year's dividend plus, say, a regular growth in the regular business and try to grow on that basis? So it would be great to get color on these two. Thanks. Thank you.

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

Okay. Thank you, Ashik. I will start on the first question, and then more related to the asset portfolio in China handover to Christophe. But maybe start with the second question. So dividend going forward, I think we also have – always have made a strong point of delivering on our promises. So our promise to the investment community is that we pay out 40% to 50% of the Insurance results. We have no intention not to continue that policy.

So it means that with the capital gain or part of the capital gain of the sale of Hong Kong that has been recognized in Insurance, and Christophe mentioned the name, the number of €210 million that that will be part of the Insurance results for 2016. And so, our payout ratio will be calculated on the total Insurance result, including that amount.

With respect to the agency JVs, what we see is – and then one of the main questions I see is the risk on the capital injection in China. I think we – on one hand there, the start of the new C-ROSS regime that is giving a lot of comfort. We also see that the business that is underwritten in China is moving more and more quarter-after-quarter to more profitable regular premium contracts.

And so, we can only repeat what we also said in the previous quarters that we do not expect in the coming near future any capital injection in China. On the contrary, we expect like we did – we received last year a dividend from China. We expect again this year a dividend coming out of China on profits that were last year higher than the year before. So no risk on capital injection to be expected there in the near future.

Growth of business, we had the growth. Of course, that's (21:32) close to 20%. There has been a deliberate choice not to go massively for single premium contracts in the first quarter like what happened in the previous years for the same reason, because these profits have a lower profitability. So we do not see the growth of the business, not only in

China. We also see growth in Malaysia. And we see growth recovery in Malaysia and further growth in Thailand. And, of course, we have done the smaller venturing in India and the new one in Philippines have started writing business in last month. So we are positive on the further growth in volumes in Asia.

Maybe, Christophe, you can say something about the asset portfolio?

A - Christophe Boizard {BIO 15390084 <GO>}

So when we discuss Asia, China is the big piece. And here, we cannot say much because it's listed Taiping Life, belong to a listed group. So I think it is more reasonable to tell you to go to the website and to see what is public info, because we cannot disclose things which are not public.

But here, I'd like to make one comment, which is closely connected to our approach vis-à-vis the asset portfolio. What I'd like to highlight here is the fact that we have a more prudent approach vis-à-vis the valuation of the book of investment. For instance, on the real estate, we apply our rules, (23:19) amortized cost. We don't reevaluate full P&L, the increase in value as our Chinese partner does. We still apply our impairment rule on the equity portfolio, whose figure is at 25% and much stricter than the one which is observed in volatile markets. So I think we are prudent and we will benefit in case if there are turbulence, for instance, on the real estate market. So we are protected on the P&L a little bit.

Operator

Thank you. The next question is from Matthias de Wit, KBC Securities.

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

Good morning. Thank you for taking my questions. First one is on holding company liquidity. On slide 49, you showed that the gross cash dropped by €70 million because of Asia and also by €32 million and €9 million for headquarter and other costs. Could you maybe, firstly on Asia, comment on what this €70 million exactly covers? And on the headquarter and other costs, of that €41 million, how much of that is exceptional because you mentioned that there were some one-off costs linked to the settlement? I'm just trying to get an idea of what the normalized run rate for headquarter and other costs would be.

And then, secondly, on the Group solvency II ratio, there is a settlement impact that results to the 12 percentage points impact linked to other items. Could you maybe provide more color on that because I would have expected that impact to be seen on the level of the Insurance operation? And linked to that, how should we think about Solvency II capital generation going forward? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

I'll take the Solvency question?

A - Antonio Cano {BIO 16483724 <GO>}

Yeah. Let me maybe answer the last question first. Indeed, we have a drop of 32% in the Group solvency ratio where the settlement, in fact, explains 20% of that drop. That is clear.

The other remaining decrease relates to the markets mostly in the first quarter. You could say that in the first quarter from a solvency II perspective, the markets went through a mini stress test, really mini, but long-term interest rates came down almost 50 basis points. The spread in Southern Europe went up in some countries more than 1%, but for us, in Portugal, about 90 bps and European equity markets did not perform so well.

So the combined impact of, for instance, interest and spread on the solvency ratio of the Group is about 6% to 7%. And then the residual main explanation is the execution of the share buyback. So that explains, in fact, the difference between the 20% drop due to the settlement and the other components.

Now, that being said, as Christophe and Bart indicated, of course, that is before the impact of the Hong Kong transaction, which will probably raise the ratio on all things being equal back to 210%. And this was anticipated.

The volatility aspect of this market movement that we saw is perfectly, I would say, in line with what we expected and is not exceptional. The fact that the Insurance solvency ratio under the same circumstance remains stable has to do mainly with the fact that we capitalized in Intreas, obviously, and Intreas has not that many liabilities yet. So that has a very high solvency ratio. The capital injected in Intreas supports the Insurance solvency ratio a bit, as well as the capital which we transferred to Portugal in anticipation of the closure of the transaction with AXA.

So these two capital moves compensate, in fact, for the same impact of about 6% down we would otherwise have seen on the Insurance solvency ratio. So that is actually the main components behind the move.

As you know, impact of the equity markets, which we don't have a lot of exposure to it, it's mainly in Belgium in terms of materiality, not in terms of percentage of our asset mix. It's quite minimal. It impacted the Belgian solvency ratio a bit. That's why it comes down to some extent. But let's not forget, as we indicated before, that on a Group level that is mostly compensated by the reduction in the non-transferable component out of the Belgium. So on a Group level, we don't really feel the impact of the – on the solvency basis, I mean, the impact of the drop in the equity markets in Belgium that much.

I hope that is clear on terms of what is underlying the moves in the solvency ratio for the first quarter, very much in line. It's actually slightly below what we have anticipated in terms of the information on the sensitivities that we provided at the time of the Investor Day.

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

Okay. Thank you.

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

Okay. Then the first question on the liquid position. So next to the evident ones like the buyback, the acquisition in Portugal, cash has impact. So for Ageas, the €70 million is investments, for instance, partly the Philippines. We also had some additional capital – we talked about some millions for the Taiping E-Commerce company where we try to build together with a partner and e-commerce activity. So that's mainly the Asian injections.

If you then look to the regional expenses, as mentioned in the intervention of Christophe, you could say that the normal staff costs are stable. The main increase is linked to legal costs, were also part of the cost of the settlement, more of the administrative parts have been taken into account.

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

And what's sort of a normalized level going forward, could you quote?

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

I think that's something like €50 million? €40 million to €50 million.

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

Per quarter?

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

No, no. On a yearly base.

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

Okay. Okay. Thanks a lot.

Operator

Thank you. The next question is from William Hawkins, KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. Could you just talk a bit more about the positive reserve developments that helped the first quarter, particularly in Belgian Non-Life? I mean, you just said it was sort of broadly spread. And when you referred to flattening out through the year, again, can you just be clearer on that? I mean, are you saying that at some point it could go negative. So we end up back at a normal level or are you just saying the next quarters will be lower so we'll still by the full year have an exceptional high level. So I'd like to understand a bit more about what happened and then what you mean by flattening out.

And then secondly, the impact on the net cash of the legal settlement, the €1 billion odd, can you try and be clearer about what the timing of that is going to be? Because I know you said that it's over the next 18 months, but I'm not sure how much I should be lumping in for the 2Q and the 3Q and the rest of it? If you can give any visibility on that point, that would be helpful. Thank you.

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

Yeah, I'll hand over the first question to Antonio and then the second to Filip. Already indicating, of course, that the net impact of the settlement cash impact is being announced to be €1 billion. Also, it means that whenever we will pay, it's an amount that will ring-fence for the payout of the settlement, but Filip will give a bit more details about the expected timing. Antonio?

A - Antonio Cano {BIO 16483724 <GO>}

Yes. Hello. Good morning to you all. So on the positive previous year's release, Belgium, you see that that's a bit of a continuing item. We saw the same impact last year. It's slightly bigger this year. And what we mean with this flattening out? Well, actually if you look at the first quarter, it's always higher because you divide an amount by the premium that you have earned just in the first quarter. So mathematically, you always have a higher ratio.

Flattening out would mean that towards the end of the year the weight of this positive run-off on earned premium decreases, and so the ratio will come down. I think that is what we mean with flattening out. We don't expect like a negative run-off of previous years during the coming quarters, obviously.

In terms of absolute amounts, we still expect a positive run-off also in Q2, Q3, and they'll be probably minimum in Q4. Maybe some words on the inherent volatility of this business, I think Filip will color where this come from. Basically a lot of the positive run-off is generated by the Workmen's comp business and also the liability business, which inherently are volatile business. You've seen the previous years that these ratios tend to go up and down, and it's mainly there where we see volatility that is perfectly within the ranges we expect for these product lines. And going forward, we still expect to end the year for the Belgian operations with a combined ratio close to our target of 97%.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

Thank you.

A - Filip Coremans {BIO 17614100 <GO>}

Thank you. A little bit of color about the expectation in terms of cash outflows for the WCAM process for the settlement agreement is probably that is rough because the timing depends obviously on the progress we make in the proceedings and the time that the judge will allot to the various steps that have to be taken. But grosso modo, you could expect quite a immediate cash outflow of around €250 million, because we have to put some certainties in place in escrow, that is normal. But that is not really cash out, (34:22) cash out of the free cash, because it will go in escrow. That you can expect to happen in the third quarter of this year.

Then as typically, if the whole process runs escrows as we expect, then by the second half and maybe – the second half of 2017, so in next year, you may see a first disbursement (34:47). Typically, these type of settlement processes you have one or two or three disbursements, but at least two disbursements. One initial disbursement based on the first assessment of the number of claimants than joined, which has to take care of the fact that there may be dilution or escalation in the individual attributions. So you have a first disbursement, that first disbursement you can expect around the second half of 2017.

Expect that to be, but it's bit of a rough guess, because it depends on the turnout and the fastness of that people joining the process. But that could be around €800 million, but don't forget that part of that will be paid by what we have put in escrow and also the contribution of the Insurance. As you know, they will contribute €290 million to this. So, maybe an additional €500 million cash out of Ageas in the second half 2017 would be a good estimate. And the remainder, we can expect to pay in 2018, which would then also be about €250 million cash out by the end maybe of 2018 (36:03) at the end of the settlement process which would conclude the transaction. The small provision which we then have still left for the tail risk, obviously that can take longer time. But that is the main structure of the flow, €250 million, €500 million; €250 million is maybe the best estimate to keep in mind.

Q - William Hawkins {BIO 1822411 <GO>}

That's really helpful gentlemen. Thank you.

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

And we will of course, in – as of now, each time in the presentation of the evolution of our liquid assets give an indication of what part is still to be used, still to be ring fenced for certain process, so that the free liquid assets are clear for everybody.

Q - Christophe Boizard {BIO 15390084 <GO>}

Correct.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

Thank you. The next question is from Michael Van Wegen, Bank of America Merrill Lynch.

Q - Michael van Wegen {BIO 6435238 <GO>}

Yeah. Thank you. Good morning, guys. Two questions. First of all, getting back on the question about the outlook for the P&C business. I think you guided for around 97% for the full-year in Belgium, which suggests that you see sort of reserve releases around 10 points for the year, if you look at an underlying basis the development in Q1. I mean, that's still a very high level. What would you think beyond 2016 is a sustainable level of reserve releases for your Belgium P&C business?

Second question, looking at the Belgium Life margins in Q1 and adjusting for the volatility in capital gains, assuming flat capital gains, it looks like your Guaranteed margin came down about 3 basis points or 4 basis points year-over-year, and your Unit-Linked margin halved. Can you talk about what the outlook is for both lines assuming capital gains to be flat? Thank you.

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

Antonio, you will take the first one?

A - Antonio Cano {BIO 16483724 <GO>}

So, on the outlook for the combined ratio of Belgium and particularly the reserve releases – now, if you look back, I don't think we've had a year in the past where these run-off gains were not around 4% to 5%. There is no reason to believe that all of a sudden that would change. If you look at these numbers as a ratio, if premium income does not grow a lot, obviously, the ratio goes slightly up. We are not changing anything in our reserving methodology or the way we handle claims. So we expect to be around – you mentioned 10%, that is maybe long run on the high side, but 7% or 8%, that's the natural positive run-off on a yearly basis that we would expect going forward. Obviously, provided that the business mix doesn't change, et cetera, because these ratios are quite different per business lines as you would expect. So there's nothing really unusual in the current numbers. It is part of the normal volatility of this business.

Q - Christophe Boizard {BIO 15390084 <GO>}

Okay. The question on the margins in Life in Belgium, I think that we have been able in the past and we intend to continue that this year, but also next year, is that we see the business linked to the margin we want to achieve in order to be able with that margin to achieve the promised return on equity. Of course, the impact of the real estate sale is quite important in Q1. Now, it's 48 basis points, you could say, one-quarter of that could be really attributed to Q1 and the 36 basis points over the next three quarters.

But we also have very, let's say, volatile income – financial income, for instance, the dividend season is more in Q2. And we have, of course, also the flexibility of the profit sharing where we tend to provision on a flat rate over the course of the quarters with the exception of quarter four, where we adjust in order to be in line with the margin we want to achieve. So, that's for the Guaranteed business. So, no reason to doubt on our capability to end up with a margin between 85 basis points and 90 basis points by the end of the year.

Unit-Linked is a bit different story. First of all, important to mention that the impact in absolute terms is much lower. For instance, on the first quarter, the operating result of Unit-Linked was €3.5 million, compared to €118 million for the Guaranteed business. What is the reason for the lower margin in Belgium this quarter is that the product is such that, first of all, costs that we received from customers are based on the underlying assets. But also the death coverage, the Life coverage, we include is higher when markets are a little bit lower. So this is the reason why the margin has been lower in Q1.

We already said last year that achieving a 40 basis point margin in Unit-Linked, where we most probably will give a capital guarantee at the end is becoming a challenging exercise in Belgium, so 30 basis points, 35 basis points is more a reality. But even with 30 basis points, 35 basis points, we highly exceed the 11% return on equity requirements. So, no real doubts for Belgium on, I would say, nor the combined ratio within the targets, nor the margin on Guaranteed business, a slight lower margin than the 40 basis points in Unit-Linked, but the ultimate P&L impact of that is really marginal.

Q - Michael van Wegen {BIO 6435238 <GO>}

Thank you.

Operator

Thank you. The next question is from Bart Horsten, Kempen & Co.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes. Good morning, gentlemen. I have two questions. First of all, a follow-up question on the Belgium activities. You had an impressive growth in premium income there, also related to the expected decline of the Guaranteed rates. Could you give a bit more color on the dynamics in terms of sensitivities to this lowering of Guaranteed rates also going forward? And also could you give an indication on the spread you make on this product? As I understand these are short-term investment products, so I was wondering what your margins are on this new production?

Secondly, I have a question on the expected upstream. On slide 56, you gave a bridge from the IFRS equity to the solvency own funds, and that's included a €550 million expected upstream, if I'm correct in that slide. I was wondering is that the full year expectation? And if so, what was the upstream in the first quarter? Thank you.

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

Okay. With respect to Belgium, if you look and as far as we can look at the figures of inflows in Belgium, the increase in the Guaranteed business was indeed primarily in the, what we call, more shorter term investment products, having a duration of eight years which is giving some tax advantages for the policyholders. And when you look to the market, you'll see that it is in the first place or almost exclusively the Insurance having a bank distribution that outperforms compared to last year. The ones working with brokers are more down, although we see in our portfolio where we also have broker distribution that the performance of the brokers channel in Life as a whole is moving upwards.

The main reason – so we have a guarantee that was valuable until the end of March of 1%. We announced somewhere late in the month of March that we would reduce it to 0.75%. And every time we have a reduction of the Guaranteed rate, we share kind of an increased sales momentum, certainly in the bank channel, where they advise customers to subscribe before the rate goes down.

Now, we cannot put all the increase on that effect. It is just an observation in Belgium that the risk appetite of retail customers is quite low, which is the reason why Unit-Linked mutual funds don't really boom in Belgium. So, the Guaranteed business that we realize is more than acceptable alternative for people for money on the savings account where they have only something like 0.18%, of course, with a much shorter – the higher flexibility of taking money out of the account.

So, we – and that's the second part of your question. We each time put our Guaranteed rate also a bit linked to the investment yield we can achieve. And maybe Christophe can give some more detail about it. But over the first quarter, the yields we achieved from the fixed income portfolio was something like 2.14%. So, we look to the margin we want to achieve which is this 85 basis points to 90 basis points. We go for perfect matching. So the sales we do are covered so that we are sure that we can realize the margin that we promised in order to achieve our return on equity. So we don't take excessive risk, but on the other hand, if markets stay low as they are today, we will not hesitate also in the future to further decrease the Guaranteed rate if interest rate on fixed income furthers goes down.

Maybe, Christophe, is it a good moment to give some color on the yield achieved in Q1?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes. But maybe on slide 56, on the precise question of the expected upstream. So, you can see on the slide €550 million. You can divide this into two. We have €400 million coming from 2015, that's the normal dividend and to cover the dividend, we have to pay at Ageas level. And then we have €150 million related to the result of Q1, and this is due to the methodology of solvency II, where we – I remind you that we deduct the expected dividend to have, let's say, a more prudent approach. So, always the constant which are shown everywhere by Ageas are net of expected dividend and this is compliant to the payout policy. So, €400 million, first €150 million.

Then on the other question, on the yield on new money, that's the figure I comment every quarter. So, for Q1 2016, we did 2.14% which is good and very much in line with previous achievement. Q4 2015 we were at 2.25%; Q3 2015, 2.19%; and Q2 2015, 2.02%. So, we have managed to stay above the threshold of 2% so far, but to be honest with limited amounts, because we invested only €800 million during Q1, which is low compared to other sectors. In the coming quarter, it is likely that we will be slightly below the 2% level.

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

And these are, of course, yields on fixed income and next to that we have the investment in equity and real estate that, of course, help moving up the total financial income.

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah. And on equity, we are really in line with our expectations and realization of the sale, which was highlighted give us certainty about achieving the global return of 5% which is our target.

Operator

Thank you. The next question is from Farquhar Murray, Autonomous.

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

Good morning, gentlemen. Just one question, if I may. Coming back to the net liquid asset position and the broader topic of capital management. With the proceeds from Hong Kong, the liquid asset now going to round about €2.5 billion this quarter. Obviously, we should start the litigation settlement. That would leave about €1.4 billion or so. Should we then (49:24) €1.4 billion, €1.5 billion is essentially locked down by the BNP put option or could part of that be available for capital distribution once or before we get some clarity around the BNP put option? I'm just trying to wonder what kind of attitude you're taking to the cash position now. Thanks.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. So, as you correctly pointed out there, so it will be cash something like €2.5 billion, that's ring fence €1 billion. So it means we will between €1.4 billion and €1.5 billion with - in that amount note anymore the uncertainty of litigation that we previously had a much bigger level than what we can assume today. Our use of that cash will be in line with the previous provisions. It means that we continue to look to opportunities that fits with our strategy but also with our financial criteria.

The put option could be one of them, but of course, this is something that is not fully in our hands. And if we don't see the opportunities in terms of business development, we will continue to give part of that cash back to shareholders what we did in the past with the multiple buyback programs. So, we are currently in the fifth program that we expect to end somewhere at the announcement of the half year results.

We will, as we have done in the previous years, at that moment, again, assess the situation. And it's even not because there is maybe this put option that the full amount of such an exercise would have to be done in cash. So, we can think about other means to pay such an opportunity or other opportunities that may arise.

So, I would say without being able to give any clear indication that mid or by the end of July, early August, when we go to the board with the half year results, we will also come up with a proposal with respect to the further use of that cash. And as we did in the past years, a buyback is definitely one of the options.

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

Just to make a fair summary of that, is it fair to say and look at the €1.4 billion to €1.5 billion essentially you're saying that's not fully pinned down by the BNP put option?

A - Christophe Boizard {BIO 15390084 <GO>}

That's correct.

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

Okay. Thanks very much, Chris (52:02).

Operator

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

Q - Bart Jooris {BIO 3470300 <GO>}

Yes. Hello. Two questions also from my side. One, exactly following up on the previous question. Are there any M&A possibilities you are looking at very concretely today that could realize, let's say, still this year or it's still more a vague position with no concrete files on the table? And then secondly, regarding your, let's say, lower estimate of the impact of the terror attacks, €200 million instead of the €300 million, that is the maximum by TRIP. Could you give us some more color on why you took that lower figure and how confident you are that that is the correct figure?

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

Okay. M&A possibilities, I can assure you that we are regularly visited by investment bankers with possibilities they want to offer to us. And it's not new compared to the previous years. So, we are a company that expresses his will to further invest in the business. We are a company where also bankers know that we have cash available, but that does not mean that we jump on whatever opportunity.

So, you can say there are always some files that we look at, but we try not to spend – overspend time in files that we quickly see that are not fully fitting in our strategy and/or financial targets. But as you know, if you would be on the file, we would be under confidentiality and could not say it to you. So, that's a bit the frustrating answer I have to give to you. But count on the track record we have in this area, and that doesn't mean that every acquisition we did was a big hit.

I think we have been showing discipline. We have been sometimes quite far in files. But at the end, let's say, the reasonability, the rationale over one from the emotions, so we will never led us guide by the fact that we have a lot of cash or by emotions to go into operations as we do not fully believe in that not fit the strategy or that not fit the financial criteria that we have set. So, as you see – if you look back in past, the last acquisition we did was in Portugal last year, we also entered Vietnam and the Philippines, but we are not chasing about smaller acquisitions like the ones we've done in the past.

Antonio?

A - Antonio Cano {BIO 16483724 <GO>}

Yeah. Maybe give some comment on the terrorist attacks and the total costs. So, I've seen some companies mentioned a number of €300 million as the total cost for the sector. I frankly do not know where that comes from. I understand the €300 million if you look at how this pool works. So, in three words, actually this pool is a total of €1.2 billion. The first €300 million will be paid by the insurance sector. So, I guess some people assume that that level will be breached. That is not the information we have from the TRIP pool. They are below that level.

And I know that this week or next week TRIP will publish actually the recent estimate. We have a number of €200 million as total cost in the books of AG Insurance. There is also a reason why we are comfortable that it's going to be up to €200 million and there in our share which is close 20%. It is because AG Insurance has reinsured itself should the cost be above the €200 million. So, there is some logic in €200 million. So, also there, I think we are slightly on the conservative side because maybe the total costs, financial cost obviously will not exceed the €200 million. I don't know if that helps?

A - Christophe Boizard {BIO 15390084 <GO>}

Maybe Antonio, if I may. If the cost reached €300 million, the additional cost for us would be in the range of €10 million only – through Intreas. As of the Group level at €300 million, we'd have €10 million. So, a limited amount.

Operator

Thank you. The next question is from William Hawkins, KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hi. Sorry for the follow-up. I'll be brief. Just on the answer you just gave, that's reinsurance cover you bought, have you bought it since the event or was it something that you always had in place? And then secondly, during your formal remarks, you refer to cash being upstream from RPI because of the U.S. settlement. Could you put a number on that for me please?

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

I'll answer briefly on the first question, that's a reinsurance cover that we always had in place. It's not done after the events that was...

Q - William Hawkins {BIO 1822411 <GO>}

Right.

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

Therefore (57:26). So, the somewhat 20% of the €100 million between €200 million and €300 million has always been reinsured by AG Insurance on the reinsurance market, but since the – let's say the setup of Intreas in turn has taken part of it. The other question, the upstream of cash from RPI will be in Q2, and if my memory is correct. it must be something like €25 million, €26 million.

Q - William Hawkins {BIO 1822411 <GO>}

Oh, okay. Cool. Lovely. Thank you.

Operator

Thank you. We have another follow-up question from Matthias de Wit, KBC Securities.

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

Yes. Thank you. Two very brief follow-ups please. On Solvency II capital generation, is there anything you could say in terms of how we should think about capital generation going forward? And how capital generation with Solvency II is linked to IFRS earnings because both are fundamentally different? And then secondly on AXA Portugal, which will be consolidated as of the second quarter. Is there anything you can share on the profitability of the business today? And maybe also on the amount of the synergies you expect to realize going forward and the timing of any such synergies? Thanks.

A - Christophe Boizard {BIO 15390084 <GO>}

Without going in too much detail also on capital generation on the Solvency II. Of course, I think you have to make a distinction between free cash generation and capital generation there. In terms of free-cash generation, that is still largely tied to the development of the IFRS results and the transferability and fungibility of this capital sources. That does not really change that much because of Solvency II. That remains largely the same dynamics. You have to make the margins. You have to realize the profits. And then, of course, that has to be compared with the capital consumed by the business.

Now, our growth in the Belgian and Continental European businesses is not such that it burns a lot of capital. So, that dynamic remains largely intact. In terms of Solvency capital generation, of course, there is one or two – well, two important elements that come into play. That is obviously the volatility on the value of in-force, which you have to consider aside from the IFRS results. I would simply – oversimplified that it is more or less the other component, and of course the capital consumed and when generated by new business that you'll write, that has to do in fact with the implicit value new business that you'll write.

So, of course, indication on the value of new business you'll find in our embedded value report that gives you an idea there. And the volatility on our value in-force aside from the result mainly comes from the movements in the financial markets. So sensitivities on that, I have more or less to refer to the last Investor Day sensitivity information that we gave.

Now, that are the main components that you have to look at. But for me, the most important component in terms of being able to continue to live up to the expectations and the commitment in terms of dividend flows still finds its basis in the IFRS result. That's where we have put our 40% and 50%. And as we commented upon earlier, the trust we have in our risk systems to safeguard the volatility of the Solvency II ratio. So, that probably does not 100% answer your question, but that is the dynamics that are in play here.

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

Yeah. Understand. (01:01:39) AXA?

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

Maybe a few words on AXA, but already I would like to say that we're not going to tell a lot. We'll come back to this subject I guess in second quarter of this year. Regarding the profitability of what is now called Ageas Portugal previously AXA Portugal, it's true that the company was problematic point of view profitability. It was and it's still actually is a bit in a restructuring mode. So, I don't think you can infer from the performance of the recent past but the performance will be in the future. That's certainly not what we're aiming for. Obviously, there's going to be synergies with our existing operations in support functions and corporate functions. But as I said in the beginning, you'll get a bit more color on that in the next calls.

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

Okay. Very clear. Thanks a lot.

Operator

Thank you. We currently have no further questions. We have no additional questions this morning, I hand back for closing remarks.

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

Okay. Ladies and gentlemen, thank you for your questions. To end this call, let me summarize the main conclusions. I believe we can say that 2016 started well with a solid performance across all segments and the various windfalls and setbacks offset each other.

From a higher importance for the company, it was a settlement reach with respect to the Fortis events in 2007-2008. The closing on sale of our Hong Kong activity and the closing of the acquisition in Portugal are two other major milestones which helped us to reinforce and sharpen our business focus on a number of key regions and activities. And I'm lastly pleased with the fluent implementation and the fairly stable Solvency II figures reported, which confirmed our messages given at the Investor Day in September 2015.

And with this, I would like to bring this call to an end. Don't hesitate to contact our Investor Relations team should you have outstanding questions. Thanks for your time and I would like to wish you a very nice day. Good-bye.

Operator

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