Q1 2017 Earnings Call

Company Participants

- Antonio Cano, Chief Operating Officer & Executive Director
- Bart Karel De Smet, Chief Executive Officer & Executive Director
- Christophe Boizard, Chief Financial Officer & Executive Director
- Filip André Lodewijk Coremans, Executive Director & Chief Risk Officer
- Frank Vandenborre, Group Head-Investor Relations & Corporate Performance Management
- Hans de Cuyper, Chief Executive Officer-AG Insurance

Other Participants

- Albert Ploegh, Analyst
- Arjan van Veen, Analyst
- Ashik Musaddi, Analyst
- Bart Horsten, Analyst
- Bart Jooris, Analyst
- Benoît Pétrarque, Analyst
- Matthias de Wit, Analyst
- Nadine van der Meulen, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

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 First Quarter 2017 Results of Ageas.

As usual, I'm joined in the room by my colleagues of the Executive Committee, Christophe Boizard, our CFO; Filip Coremans, Chief Risk Officer; Antonio Cano, our Chief Operating Officer; Hans De Cuyper, who's the CEO of AG Insurance is also in the room, and of course our Investor Relations team are present to join this call.

Ladies and gentlemen, 2017 started well with an overall satisfying quarter and a relatively good start in all countries and regions. The sales campaigns went as expected and we successfully concluded a few asset sales and this resulted in a solid net result for the first quarter.

The only segment that remains difficult is not surprisingly the UK, where the anticipated review of the Ogden discount rate was announced at the end of February. And as you will remember, this forced us to take an additional charge after having the released annual results in mid-February. There will be some further impact in 2017 coming from this Ogden review mainly related to new business as it should take a full year to reprice the business. Hence, you may expect some additional impact on net result in the following quarters for a total amount in the range of €20 million to €25 million.

Ageas also took action to strengthen the solvency in the UK, which was very close to the 100% threshold as a result of the Ogden rate review. The combination of a capital injection that will take place in the second quarter, de-risking of our investment portfolio and a stop loss reinsurance cover allows us to bring the local solvency levels back to more comfortable levels.

As we look in more detail at the other segments, we can conclude that the businesses did well operationally. In Non-Life, our combined ratio is at 98.3% including 2.8% from Ogden, meaning we would have ended close to 95% and you can see that Belgium, Continental Europe and Asia are below this level. This reflects in particular the excellent performances of our Belgium and other European businesses and is a confirmation of the trend in recent quarters.

The Life business also performed well with strong results in both Belgium, Continental Europe and Asia. Here you should notice that similar to last year, the net result in Belgium included an important amount of realized capital gains from real estate transactions.

The Insurance Solvency ratio amounted to 177%, only slightly down on year-end 2016. The impact from financial markets and the residual impact from the Ogden rate review in UK have been compensated by the positive effects of a good operational quarter.

And before handing over to Christophe, I would like to spend one moment on the Fortis settlement procedure, which continues to progress. As you will be aware, the foreseen hearing took place on the 24th of March in the Court of Amsterdam, and the court confirmed that we can expect a verdict after the close of the market on Friday, the 16th of June.

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

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart, and good morning, ladies and gentlemen. In my comment, I will just focus on the major items. The net Insurance profit for the quarter amounted to €222 million, which is 11% better than last year. The improvement comes mainly from Belgium and Continental Europe, the latter doubling its net profit.

In Asia, the result came slightly down. But we should remember that last year, we still had positive contribution of €12 million coming from our Hong Kong activity, whose sale was closed in May 2016. In the UK, we ended at around breakeven, including a charge of €21 million related to the Ogden rate as already mentioned by Bart.

The total amount of net realized capital gains amounted to €102 million, compared to €66 million in 2016. The bulk of these capital gains has been realized in Belgium. Details on capital gains are provided on slide 21 of the pack.

Both Life and Non-Life reported solid operating performances. In Life, the operating margin on Guaranteed and Unit-Linked increased to 124 bps and 33 bps, respectively. In Non-Life, the combined ratio increased slightly from 97.8% including 4% of negative impact from the terrorism events of last year, to 98.3% including 2.8% of Ogden impact in the UK.

For this quarter, we hence have an underlying combined ratio between 95% and 96%, below our target of 97%. We must say, though, that no significant storm or natural events was observed during this first three months. Inflows at 100% were up 14% year-on-year at €12.7 billion. There was a small adverse FX impact of 2% but, generally speaking for this quarter, the FX impact are quite small, as I said, 2% on the inflows and almost nothing on the results.

This growth in volumes was, as usual, essentially driven by Asia. Contrary to last year, Belgian Life inflows came down significantly by roughly 31%, as expected, and keeping in mind the exceptionally high level of sales last year with clients anticipating minimum guaranteed rate reductions.

The group net result returned into a net profit of €110 million despite a charge of €96 million in the general account related to the RPN(I). Last year, the group result in the first quarter was, of course, heavily impacted by the charge related to the Fortis settlement agreement. The amount was €889 million. With respect to the balance sheet, our total liquid assets remain almost stable compared to the end of the year at around €1.8 billion, but we may not forget that €0.8 billion is ring-fenced for the settlement.

As from slide 4, you will find the usual overview of the key quarterly figures by segment. I will only highlight a few relevant items.

First, Belgium. I am on slide 5 of the presentation. Our Belgian operations reported a net result at €142 million, up €42 million, of which €106 million in Life and €36 million in Non-Life. Similar to last year, we managed to conclude some real estate transaction resulting in a net capital gain in the first quarter, but we also realized some capital gain on our equity portfolio. The total amount of net realized capital gain amounted to €85 million. This effect will level out over the rest of the year as obviously one should not expect similar level of capital gain in the next quarters especially for real estate but we are well on track to realize our annual program.

Our Non-Life activities confirm their strong performance of last year, marked by a very satisfactory combined ratio of 92.7%. Like last year, the prior year result releases were high but we level out over the rest of the year. Excluding the negative impact of the terrorism events of last year, the net result remained in line with last year.

The UK net result, I am on slide 6, ended at breakeven, positive by €1 million to be precise. The decrease of €24 million is mainly explained by the Ogden impact amounting to €21 million. The combined ratio end of March amounted to 110%, including a 7.6% negative impact from Ogden. Excluding Ogden, we remained above 100%, and that was the consequence of higher year reserve releases year-on-year on the Household portfolio. Inflows decreased in euro but were slightly up in GBPs (10:27). Prices have begun to rise in Motor to compensate for Ogden, but this process only started early April. And hence, it is too early to draw any conclusions at this moment.

The third segment, Continental Europe, slide 7, almost doubled its net result to €28 million compared to last year, with better results in both Life and Non-Life. The results improved in almost all countries, but especially in Portugal. The Life business was marked by good operating margins at 120 bps for Guaranteed products and 25 bps for Unit-Linked products. In Non-Life, the combined ratio was at 88%, with – even in Ageas Seguros in Portugal, the combined ratio below 97%. Inflows showed a mixed picture, with Portugal substantially up and France and Luxembourg down.

Lastly, Asia, slide 8. The net profit amounted to €52 million, compared to €61 million last year, but the latter still included the €12 million contribution from Hong Kong I already mentioned when I discussed the group results.

The main message in Life is that the continued rebalancing of new business toward regular premium and renewal products has and will have a positive impact on the result itself and on the quality of the result going forward. This explained largely why the Life result at constant scope exceed last year's result. In Non-Life, we ended up slightly below last year, which benefited from an exceptional capital gain. The combined ratio is slightly up to this year.

This brings me to the General Account on slide 10. The net result was negative by €112 million, compared to the negative result €834 million last year, where last year, the loss was caused by the provision related to the Fortis settlement. The loss this year relates to the increase of the RPN(I) liability mainly induced by an upward move of roughly 10 percentage point of the underlying CASHES.

The first quarter charge related to RPN(I) amounted to €96 million. Staff and other related administrative cost reduced to €17 million, as last year's figures only also included a significant one-off charge related to the settlement agreement.

On slide 12, you will find the updated Solvency II figures, and we also published updated sensitivity based on the end of the year - end of last year figures. Sensitivities are on slide 51 of the pack. The Insurance Solvency is down by 2 point - 2% to 177%, mainly because of spread movement on sovereign debts, while the group solvency stands at 186%.

The sensitivities didn't move dramatically and, more or less, confirm the former sensitivities. Here, you will appreciate the fact that sensitivities are given both on SCR and own fund. Only the sensitivity to the yield curve has somewhat changed in line with some changes in the underlying portfolio, but on all these different question, I am sure we will come back during the Q&A.

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

Frank Vandenborre {BIO 15168443 <GO>}

Ladies and gentlemen - thank you, Christophe. This concludes the introduction. And I think we are ready for questions. May I ask, as always, to limit yourself to three questions and, if possible, only two to allow everybody to ask his questions. Thank you.

Q&A

Operator

Thank you. The first question is from Albert Ploegh of ING.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning, all, and thanks for taking my questions. The first question is on the Group Solvency II ratio. Clearly, spreads had a negative impact in the first quarter and some regions that are quite reversed in the second quarter post the French elections especially. So, is it possible maybe to give somewhat color on, let's say, how material the impact could have been already in the start of the second quarter? That would be helpful.

The second question I have is on slide 50 and I realized maybe it's a topic for the Capital Markets Day, especially on the market movements and other that had a 3 points positive impact in the quarter. And you mentioned more qualitative the market impact of spreads and the other, mainly operational. But is it possible to get a little bit more color on what is, let's say, real underlying organic generation and what indeed has been more the market movements during the quarter? Thank you.

A - Frank Vandenborre {BIO 15168443 <GO>}

Filip, you take both questions, I assume.

A - Filip André Lodewijk Coremans {BIO 17614100 <GO>}

Yes. Thanks, Albert, for your questions. Indeed, your observation on the first part of your question is correct. Group Solvency II ratio, which came down about 6 points, 5 points in fact, it's mainly due to the elements you can find on that slide. But for the market and operational, it shows a plus 3 there. I can tell you and I'll share that the spreads component in there is minus 3. So all the other components, the yields, which we picked up a bit, and the operational and other aspects like also a good equity market, all together, they had a positive 6%.

So all in all, it was not a bad quarter at all, but the spread impact is clearly there. Now, in the first – and you know spread moves every day, so we have to be very careful when we talk about what the situation is as of today. But if you look at what happened over the first quarter in the financial market and what has been happening over the last, let's say, a month-and-a-half, you can see that many of the effects of spread have, indeed, been at least partially reversed.

Yesterday, the spread of Belgium over the last, let's say, month-and-a-half was down 10 points. In the first quarter, it was up 20 points. So, half of the impact on Belgian OLO spread has been reversed. But in countries like France or Portugal, the Pull to Par effect is a lot higher. France, the complete spread increase of about 20 bps in the first quarter has been reversed after the election results. And in Portugal, it's more spectacular in the first half on the 10-year spread, was about up 11 points. But now, that is already down 66 points on Southern Europe.

So, we expect, of course, quite a bit of reversal of the spread impact in this quarter. Of course, everything depends on how the markets move for the rest of the quarter.

Then giving a bit more color on the market and other component, indeed, we will elaborate on this and the way we will report on that going forward during the Investor Day, I already indicated that a big portion of the market and other impact there indeed relates to spread as Christophe also indicated. It's minus 3%.

And for some of the regions like Belgium, where we have a lot of the Belgian OLO, that effect was even noticeably higher. But a lot more detail at this moment I'm not going to give. Operational and other impacts all together were not bad. The picture has been colored negatively by spread, of which we believe a large reversal or to a large extent reversal can be expected in this quarter if no actions happen in the financial markets.

Q - Albert Ploegh {BIO 3151309 <GO>}

Maybe one question, without getting in too many details on the organic generation, the treatment of the capital gains, if I look at the result, it was a clearly quite a big contribution in Q1. Should I take that out when looking at organic generation as it is already included in your Solvency II stock, so to speak, or is it still part of the flow?

A - Filip André Lodewijk Coremans {BIO 17614100 <GO>}

We are finalizing for the Investor Day and we will elaborate on how we allocate expected return to operational or market components. But allow me to bar that question until the Investor Day because it requires a little bit more elaboration. But let's say that we are looking at the solution where we go for a kind of normalized return in what we call operational and exceptional movements driven by market in – the market impact. But we will elaborate and clarify in detail when our CFO presents on that in the Investor Day.

Operator

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

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

Yeah. Thank you. Two questions, please. Firstly is on Solvency II. If I remember correctly, you were planning to develop an internal model for the market risk of the Life business. So, I wonder if you could update us on this one. And then, secondly on (21:16). First one on (21:20), there was new guidance from the National Bank, which is in my view more favorable compared to the previous approach. So, just eager to get your thoughts on this.

And on (21:34), I wonder how this component could evolve considering the pressure we see on the Belgian Life business. So, I guess that part of the profit sharing component you deduct from SCR is linked to the Guaranteed Life business, which is a bit under pressure. So, also interested to get your thoughts on this one. Thank you.

A - Filip André Lodewijk Coremans {BIO 17614100 <GO>}

Okay. Matthias, let me take to three questions indeed. So, first and foremost on the internal market risk. Yes, we are looking at development in Pillar II, let me stress that, of internal model market risk and that we do not expect to have any tangible result before 2018. That being said, what we are looking for is better solutions for the inconvenient behavior of the volatility adjuster also at the same time and we will reform that when we have it. But forward-looking, I can make no statements on that.

Regarding the loss-absorption capacity of deferred tax and the new guideline that came out from the Belgian government. I think we can all and then (22:50) in the whole sector be happy with that development. There is no negative string attached to that. Indeed, we expect that it will moderately only support the solvency ratios because we have already acquired substantial loss-absorption capacity of deferred tax included. As long as your solvency ratios are solid because there is limitation, it will be between 100% and 200%, it's exactly the zone where we are at the upper end, so we will benefit from it.

We are looking at the implementation and we will do that as soon as we have clarity on the final details. We are discussing with our external auditor because he has to endorse the recovery test there, so the recoverability test, but we look positive at it. But what will be the most positive aspect of this new guideline is not so much the immediate support for the solvency ratio, but the support for solvency ratio and the stress because, indeed, if we would have spread shock, that would now largely erode loss-absorption capacity of deferred tax, that would no longer be the case when we implement this guideline. So, it will definitely, or should I say, reduce also volatility and sensitivity and the sustainability of the loss-absorption capacity of deferred tax. So, this is a positive development and definitely shields the insurance sector of too high volatility because of that.

On the loss-absorption capacity, if you call it like that, of the profit-sharing mechanisms, I assume that you're referring to the absorption by profit sharing. Of course, as long as you give profit sharing, it can absorb it. And I would actually like to hand it over to Hans to give some indication on what our current profit-sharing levels are because, of course, as long as they are there, they are still available to absorb shocks and maintain our margin because that is actually the most important there.

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

Yeah. Matthias, well, on the profit sharing, what we model is I think the operating margin that we foresee going forward. That's what we include in the models in the first place. And there, I think we monitor that also on the request of the National Bank with the reality, whether you are able to achieve these margins in a sustainable way and we are passing all these tests. So, in that sense, I think our profit-sharing modeling is very much in line with reality. And so, we will adjust profit sharing in case margins would come down and, in the first place, protected the operating margin of the products.

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

Okay. That's clear. Thanks a lot.

Operator

Thank you. The next question is from Arjan van Veen of UBS.

Q - Arjan van Veen {BIO 5197778 <GO>}

Thank you, gentlemen. A couple of questions on the UK, if I may. Firstly, on the solvency, you're injecting €77 million in the current quarter and expected to be back at normalized levels by the end of the year. So, can you just clarify whether you do expect to inject further money into the UK in subsequent quarters or to get back to normalize over that (26:24) sort of retention of profit as well as any further sort of management actions like you did in the first quarter?

And then, secondly, I know you said it's still early days on pricing, but can you maybe make some comment around what you've seen so far on pricing in terms of Ogden and enhanced speed of potential recovery of UK earnings?

And then one final question if I may on China and the mix of – you got a bit of growth in your business, but just curious as to whether we've seen that reduction in the guarantee rate in China?

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

Okay. On the first question, last year, we ended with a solvency ratio of 100% for the UK. End of Q1, we are at 109%. And with the announced capital injection of €77 million, we will be around 120%. So, the move from 100% and then the impact of Q1, which is negative 1% operationally, and then the move to this 120%, where you would say, theoretically, we are there today because the capital injection has been executed, is due to – or thanks to three decisions: one, a certain derisking of the investment portfolio; two, reinsurance arrangements; and three, this capital injection. The two first actions have been undertaken in Q1, so brings it from 100% to 109%. The capital injection that we did in the course of April will be in the Q2 evolution of the Solvency II ratio, bringing this to 120%.

And then, we expect by the end of the year that the solvency ratio will be going further up, which also means that we expect a positive result in the UK, you could say, and there I refer to my previous comment at the full-year analyst call, where we said we expect the kind of an underlying result of the UK of €60 million. Of course, with this additional Ogden impact that you can calculate, that's €40 million, €45 million at the Q1 plus next quarter's effect, you could say this comes down to €15 million, but our expectation is that we should be able in the UK to end the year with a result between €25 million and €30 million.

So, that's with respect to the solvency ratio. So, transparent reaction also, will we inject additional capital as far as we see the evolution over the year? The answer is no. This €77 million should be the one and only capital injection.

Second on pricing, so we have started increasing our prices with 9.3% by the end of March after the announcement and so on. We do not see an immediate action of all the players at the same level, some have a much higher reinsurance arrangements than we have and maybe wait until the renewal of the reinsurance comes in. Okay. We were maybe one of the first to increase our ratio at 9.3% and that's one of the reasons also why we have an impact in Q1 and still we'll expect an impact in the coming quarters. We believe that this is maybe at the bottom end of what we should do. And so we will, of course, follow the elasticity of the pricing and, if possible, go a bit higher in the coming quarters.

Then, on China, Antonio, you?

A - Antonio Cano {BIO 16483724 <GO>}

Yes. Hello. Good morning. I think the question was referring to the decreasing interest rates in China and will that will have impact on either margins or the guarantees that we offer...

Q - Arjan van Veen {BIO 5197778 <GO>}

The question is more around the actual guarantee rate that you are targeting selling in China last year. China Life is starting the pension annuity at 4%, the maximum guarantee is 3%, but obviously, you have ability to change the mix of business. I was just looking at what the average, whether there was a reduction on average in the guarantee rates you offer on this business.

A - Antonio Cano {BIO 16483724 <GO>}

So the guaranteed rate we offer on our main – in these acquired (30:37) products is 2.5%. I think the rates you're mentioning will probably link more to the single premium or what's called universal life pack products set that other players are very active in. That is not the space that we are active in. And in fact, we are pretty much focused on, say, the traditional regular premium business and that rate is 2.5%.

There are no immediate plans to reduce that. Bear also in mind that in China, there are some life insurance companies that apply a kind of volatility adjuster to adjust the liabilities, that is something that we until now have not done. So also on the results that, going forward, they're fairly resilient.

Q - Arjan van Veen {BIO 5197778 <GO>}

Okay. Perfect. Thank you.

Operator

Thank you. The next question is from Nadine van der Meulen of Morgan Stanley. Please go ahead.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Yes. Good morning. Two questions, please. So, coming back to the UK and the solvency level there. What you just mentioned, the 120%, at what level are you comfortable to resume upstreaming cash from the UK? You previously said that not in 2017, but what sort of level are you looking at? And also maybe can you remind us (32:00) strategic rationale to be present in the UK.

And then, second question was on the operating margin on the Guaranteed products but also for Unit-Linked. They're very strong particularly in Belgium. So, what is the main driver behind this uptick? You commented briefly on it before, but could you talk about the sustainability of these improved margins, do you expect them to improve even further? Thank you.

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

Okay. As you know, we have a target solvency ratio for the Insurance activity of 175%. But from country-to-country this can differ depending on the mix of the business and also a bit the market practice. So, I think it's not a surprise that for us in UK, the target solvency level is below 175%. But we do not disclose this country-by-country.

So, the only thing we can say is that with the 120% we are now, we, and I would say also the local regulator, have sufficient comfort and with the expected further increase in the remainder of the year, we believe that we are fine with that level. So, no reason. We announced already I think with the full-year results that we do not expect a dividend out of UK this year. But also there, we will reassess that situation by the end of the year. So, that's for the UK.

With respect to the operating margin with Guaranteed and Unit-Linked, first of all, Guaranteed, we have set this margin objective between 85 basis points and 90 basis points. That's something that we have been achieving over the past years and expect to further achieve in the future for many, many years. And one of the reasons is you can find a bit more evidence on that on pages 30 and 31 in the booklet, that's specifically for Belgium.

So, we steer or we manage the business towards this margin and you can see that the margin on the guarantee book is something like 1% without taking into account something like 0.5% additional margin from real estate and equity. So, it means we have a margin of above -approximately 1.4%, 1.5% before profit sharing on the book.

The new money came in has been invested at 2%, where we have a guarantee of 0.25%. You could say the gross margin is 1.75% to be increased with the margin on the real estate and equities. And on this business, of course, in the first years, we give more profit sharing than just 0.5% or 0.25%. So, we steer the business towards the margin and are quite confident with our almost perfect matching of assets and liabilities that this is a – let's say, this is a practice that we can follow in the coming years.

Of course, the risk in the margin quarter-by-quarter, you sometimes have peaks and downs. And it's clear that this quarter, the margin of 124 basis points in Belgium, to give an example, is supported by the capital gain on real estate. But if we take that out, the capital gain on the big real estate operation was €55 million. Last year first quarter, we had a €42 million impact. If you level it out, you could say that the margin was something like 87 basis points, and so we feel comfortable with that.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

And on the Unit-Linked side?

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

I think when we said the margin, 40 to 45 basis points, this would give for Unit-Linked business a return on equity of over 20%. So, we have been a bit below. I think, Belgium, we're at 41 basis points this quarter. Last year, we were low, that was mainly linked to lower underwriting results. In Portugal, we have been lower for the past years. That was due to an action to support customers that invested in these products in the more, let's say, turbulent economic years in Portugal. So, there was a kind of a commercial readjustment, but you see that there also we are coming up again to margins that are at least at the level that gives us 11%-plus return on equity on these products.

The margin that we have in Unit-Linked depends also a bit on the capital guarantee on Ogden that has a cost, but we believe there's also in Unit-Linked a margin. Maybe 40, 45 basis points is a bit ambitious, but over the cycle of 33, 35 basis points is achievable, and that gives us a return on equity that's largely above the 11% that we expect.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Thank you.

Operator

The next question is from William Hawkins of KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. Belgium is having its own review of motor tables. I think that process is now complete or completing. So, could you just give us a little bit of an update there of whether there is any impact of a Belgian motor table review this quarter or whether there could be an impact in the future and how material that could be? And then associated to that, you're very clear that the first quarter combined ratio in Belgium is unusually good. But could you just discuss what you think would be normal? I know the overall unit wants to be better than 97%. But I'm kind of hoping Belgium is trending in the direction where it's sustainably better than that.

And then secondly, I appreciate you may not want to prejudice yourselves, but could you give us any particular update on your view about your risks and optimism with regards to the Fortis settlement? The hearing did seem to push towards maybe expanding the scope of cover. I'm not sure if there are other material issues such as you can (38:12). Are we on track here and you're happy? Or are there any particular risks that you may want to alert us, too? Thank you.

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

Okay. I'll pass the question on Belgium to Hans and then Filip will take over for the settlement.

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

Yeah. Morning. Yes, indeed. The judge decided on the impact of the indicative tables in Belgium early March. Our impact Ageas' share is 18 million net. But be aware that we have already been preparing an adjustment of indicative tables over the last two years, so we were fully prepared for this by the end of 2016 and we should not expect any negative impact from indicative tables for Belgium this year.

Your second question on combined ratio, indeed, we have a very strong 92.7% combined ratio for the first quarter. But first of all, of course, it was a good quarter related to cat nat events. And in comparison with last year, of course, we did not have the impact unfortunately of the terrorism events, which were included in the results last year. In general, we stick with our ambition and we are confident that our portfolios are structurally sound to end up with the combined ratio, which should hang between 95% to 97%, and this should always, of course, depend whether some exceptional events should happen in the remainder of the year or not. But our aspiration indeed is to be structurally now below 97%.

A - Filip André Lodewijk Coremans {BIO 17614100 <GO>}

Right. Update on what transpired at the hearing. Of course, it was a public hearing, so everybody probably more or less aware of what transpired at the hearing. But we are still on track and confident that the court will follow our arguments there. If you look at what happened at the hearing session, in fact, first and foremost, we can say that the support for the settlement is massive both with the active and the non-active parties as far as we, of course, observe because the number of, how should I say, parties who wanted to object or raise some objections against the settlement were actually only three main ones.

First, it was Mr. (40:49). As you know, he is the one who finds that the waiver that we have included in the settlement agreement is a bit too broad. But, of course, this is for us an un-discussable item. He would like his clients to be able to participate in the settlement, so we actually like the settlement. But he would like them also have the right to continue proceedings on all the matters related to the same period to us which is, of course, something that does not fit in a full and final closure settlement on the (41:21). So, there we are confident that the court will follow our reasoning. Of course, you never know, but there is maybe a small risk for which probably also solutions can be found.

Then what the court, aside from that and to judge upon was two things actually, yeah, representativeness of the parties who support the settlement and there, as I said, we have quite massive support. We also got support from non-active claimant organizations, important consumer organizations in Belgium. The Belgian club of the – the federation of investment clubs made a statement on their behalf. So, we find that we have more than representative platform that is supporting the settlement. So, we are not – how should I say, we are less afraid that that would create an issue.

The other part that the judges have to ponder upon is fairness of the settlement overall. And that is, of course, about two parts. The amount is whether they deem that there is a fair amount. Now, in fact, they do not really – how should I say – judge on the amount. It's more on the attribution of the amount because the amount is an agreed-upon budget between the parties presenting the settlement, which I've said is quite substantive number of active claimants, over 95%, we believe, and so non-active. So, the real amount will not be the issue of discussion between them, high judge. But it will be the attribution, whether the discrepancy that has been made between active and non-active claimants is fair and defendable.

And there, our case has been built on the fact that we say, look, what we did is, first and foremost, take care of non-active claimants and come up with a fair compensation for them. That is the way the whole settlement has been built. And then, we have duly recognized the effort and the cost that have been made by all these claimant organizations and these active claimants over many years. Some of them – let's not forget, for eight years, there have been funding procedures and that rewards a markup on a fair compensation for a non-active one.

So, that has been our pleading, and we hope that the judges will follow this. We have massive support amongst the former shareholders. We got the blessing of the current shareholders, and so now we eagerly await the outcome, and we will obviously keep you informed. The announcement will be on the 16th of June after closing of markets. So, if there's any corrective measures that we need to take, we also have the weekend to look at what else we should do in that case. But more than that, I cannot share with you today. We are still very confident that we are on the right track there.

Q - William Hawkins {BIO 1822411 <GO>}

That's great color, guys. Thank you.

Operator

The next question is from Bart Horsten of Kempen & Co.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes. Good morning. Thanks for taking my questions. A few questions. The first one on Asia. If I calculate correctly, I think that now over 50% of your premium income, the Ageas' stake is now – or for the total of Ageas as a group is now coming from Asia. Is there any strategic maximum or target which you want to achieve, if you can influence it at all, but is there a balance you would like to have in that respect?

My second question relates to your Solvency II ratio of 177%. You also mentioned your strategic target of 175%. Could you remind us on how to interpret this 175% and what would happen if the ratio drops below that level? And my final question is around Belgium. You lowered your guaranteed rates again quarter-on-quarter. But for the first quarter, I think now you see a sharp drop-off in premium income, while in previous quarters where you also lowered your rates you still had quite some inflow in some of these products. Is this some kind of an inflection point in that area and that rates are now too low to expect further growth here? Thank you.

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

I propose you to pass the first question to Christophe. On Asia, Christophe, you...

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. On Asia, it is true that Asia is taking the big share. But be aware of one thing, with the KPI we are using, the inflow, we tend to overweight the Asia because we take everything at 100%, whereas there, we have a minority position. And as a matter of fact, if you take the IFRS account and the gross written premium, Asia is exactly equal to zero because there is nothing consolidated. So, what we give with the inflow is more, let's say, a view on the level of commercial activity, the business. But in term of real premium, we don't consolidate anything.

I would say there is no real gap at this moment. We appreciate the fact that China is becoming big in our portfolio. And in some metrics, it can even be compared with Belgium. But obviously, we are not at all in the same situation and where we have - we consolidate and we have control over Belgium. That's not the case in Asia.

So, in a nutshell, yes, we are aware of the weight of Asia but we are in joint ventures there. And to the second part of your question, there is no cap at this moment and I think there is no point in putting a cap on our side and we are trying to get advantage of the big growth of one of our segment. And this will, you will imagine, give a lot capital generation, but we will see this in June when we will disclose the free capital generation at the group level. Asia will be obviously a big component of that.

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

I would probably also want to add that we, in the previous periods, always had a kind of objective to have 25% of our equity invested in Asia. We are a bit below it. One of the reasons was, of course, that we have the difference between the volume that's coming in. That is in relation to the liabilities we have below us. So, in Belgium, technical liabilities are 10 times gross written premium. In Asia, it's more three to 4 times.

We also have less dividends coming out, but you saw last year and we expect again an important dividend contribution from Asia for this year. So, it's also a matter of having our cash balance between Europe and Asia in order. But as long as we grow as we grow now with the local entities creating sufficient earnings to retain what is needed to keep the solvency levels at a level we expect, and on top of that being able to pay dividend, we feel very happy and are not intending to reduce growth.

Then maybe the Solvency II question, Filip, the 177% compared to our target.

A - Filip André Lodewijk Coremans {BIO 17614100 <GO>}

Yeah. So, maybe good to remind you where the 175% targets came from and what we told about that when we were at the Investor Day two years ago. The 175%, first and foremost, is on the Insurance group level and it is a target. It is a not a minimum. It's a target that we strive to stay close to because it is directly attached to our risk profile that we think is appropriate for achieving the return commitments that we have given to the market.

So, it is more related to our risk appetite and our risk behavior, risk acceptance that we say, okay, we have the risk that corresponds to solvency ratio around 175%. We will feel comfortable.

Now, Solvency II ratios move up and down all the time and that means if we move high or above the 175% or become a bit lower, we will look at what re-corrective measures are required in that circumstance. But it can just be that normal - how should I say - recovery rate by the business will bring us back. And around the 175% ,we would certainly not have any reactions of immediate panic because that is obviously not the issue. This is about upstreaming dividends from operating entities. And you saw for the time being, we find that the ratio in the UK is too low. We wanted that it recover. We will start upstreaming dividends after it has recovered to an acceptable level that corresponds with the risk. So, you have to look at this like that as well. This is upstreaming capacity out of the insurance business to the general account.

Now, in terms of availability of the free capital in the general account and we'll elaborate on all these aspects, again, I must say during the Investor Day. But there, we still have an extra buffer, let's not forget that. So, we have an extra buffer because where we pay the share buyback and the dividend commitment, they don't necessarily come out of insurance only. They come out of the overall pool. So, these are the mechanisms. So, a bit below 175% or a bit above would certainly change absolutely nothing in the way we conduct our business.

If we were to deviate more from it, we can look at other measures. We can even look at capital optimization. We can look at risk reduction as we did in the UK. We can look at reinsurance solutions. So, we have many tools at our disposal to manage that ratio. The one that we are less equipped for but that we have set already is spread. And spread, indeed, is the one that seems to move a bit wildly and out of control. But there, we have a bit of feeling that spread, indeed, has this Pull to Par effect, as my Group Risk Officer always called it. I'll give him the credit for that. It will come back to operational earnings if the spread does not lead to impairment.

So, that's the only component which is less controllable. But on the others, we have quite a few tools there. That is maybe what I can say on that.

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

Okay. I will add on the question on the Life inflows. I think there are two comparisons to be made. The first comparison is with the same quarter last year, where, indeed, you do see a significant drop. But remember that at that period, we were still writing a Life retail business at 1% guarantee, while the banks had lowered their returns on the savings account to the legal minimum, meaning 11 basis points.

It's subsequent to that because of the significant inflow we saw last year that we also started lowering guarantees starting from April last year in three successive events to end up with the 25 basis points right now. So, indeed, that has significant impact on the short-term invest business. We see good performance on the risk business. We also see an increase of 3% in the fiscal business and that's the core, long-time savings business, which is I think the most strategic to us.

Second comparison that we can also made is comparing to the previous quarter, the last quarter of 2016. And there, you see that our focus to switch now more to the Unit-Linked business is paying off for instance in (53:45) the bank distribution channel compared to the last quarter. Last year, we have seen an increase of Unit-Linked, a new business with more than 50%, a new local business more or less stable. So, that's part of our strategy.

And maybe final comments I can add on this and that relates to the previous question, where is the operating margin of Unit-Linked coming from, is that in this Unit-Linked business that is written, we have third-party funds and we have our own in-house funds, in the open funds. So, first, we see a shift to open funds. They have a higher margin. But on top of that, we also see a very strong performance of the in-house managed funds. And so we see the appetite for the AG funds increasing above the third-party funds. And, of course, on in-house funds, we have also more directive margins than on third-party funds.

Operator

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

Q - Bart Jooris {BIO 3470300 <GO>}

Yes. Hi. A lot of my questions have been asked. I have a follow-up question on the Fortis settlement. This first one on Portugal. Is the restructuring of the Ageas Seguros now completed or could we expect further cost savings from this and even a further cost savings, maybe also some further restructuring costs?

Then the follow-up on the Fortis settlement. Okay, the question seems about the attribution between actives and non-actives. Hypothetically, if that has to be changed, it would probably be more from actives to non-actives. Wouldn't that hurt representativeness? Is then everything to be redone in front of the court or could change be final?

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

Yes. I'll pick up the question on Portugal. A remark before that is be aware that during our Investor Day, we will get into also more details of our activities in Portugal, but I can lift the veil slightly. We still have some, you can call it, restructuring or revamping work to do. But the bulk, I would say, is more or less behind us. There are still – we expect some cost synergies on the way during the coming quarters.

What I also can say is that the acquired business or what we called Ageas Portugal business, is close to breaking even already. So, actually, it means that we're pretty much on track. But as I said at the start, more detail we will give you during the Investor Day.

A - Filip André Lodewijk Coremans {BIO 17614100 <GO>}

On your follow-up question on the Fortis settlement, there's really not so much I can add to what I said before. But let's keep in mind that the court has more than a black-and-white option. So, in previous welcomes (56:55), it also came – it happens once or twice that they gave some – or they requested some changes to the settlement that was submitted to them.

So, it can also be that they end up somewhere in the middle and say, okay, we like the settlement, but we would like you to try to resolve this or that specific issue. That would not mean that we have to restart the whole procedure but that we would like (57:21) probably have to negotiate a bit longer and a bit more with the parties involved to try to find a solution for that. And so, it's not necessarily black and white.

And even if it is black, also then, the court will come with its views on why it has not approved the settlement I may expect. And also there, that would be a longer process you could renegotiate and reissue. So, it is not necessarily impossible even if there would be a negative or partially negative advice from the court to continue on the road that we've chosen. But that is all to be seen. But this is not a black and white situation, yeah.

Q - Bart Jooris {BIO 3470300 <GO>}

Thanks.

Operator

The next question is from Ashik Musaddi of JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good morning. Just a couple of question. First of all, is it possible for you to give, like, year-to-date Solvency II numbers because I think solvency rates have come back in, so what's the impact of that? I'm not sure if you have answered this earlier. I joined the call a bit later. Sorry for that.

The second thing is, if I look at your Asian earnings, on a clean basis, it was up 5%, i.e., if I adjust for Hong Kong. But if I look at your technical liabilities, your premiums, that has been trending pretty strongly. So, why is the earnings growth in Asia just around 5% in history? In past like, three, four years, you've been doing 15%, 20% growth in earnings. That's the second one.

And thirdly, going back to the question on Portugal, I mean, more broadly on Continental Europe. There is a big increase in earnings from €15 million in third quarter 2016 to €28 million. Is €28 million a good run rate on a quarterly basis? Is it clean earnings? Or how should we think about Portugal in Central, Eastern Europe in earnings? Thank you.

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

First question for you, Filip.

A - Filip André Lodewijk Coremans {BIO 17614100 <GO>}

Yeah. Good morning, Ashik. Indeed, I touched upon that point very early in the Q&A. But let me elaborate a little bit. Indeed, of course, the first quarter, we had the impact of spread, which is clearly there. And just I think I mentioned it, but I'll mention it again, in the group solvency ratio, spread component was about minus 3%. It means older markets and operational was probably around plus 6%. So, this minus 3% came from spreads. And out of the plus 6%, by the way, around 1% only came from yield.

Now, over the first quarter, what we saw is, indeed, and especially I just take a few examples that the yield picked up about 10 basis points. Now in the weeks after the closing of the quarter, the yield picked up between 6 and 10 basis point as well. So, you could expect similar effects for this quarter to-date on yield. On the spread, of course, the picture is completely different. We had a material spread pressure in the first quarter on Belgium, 21 bps; France 18 bps up; Portugal, well, it depends on which term, between 10 bps and 30 bps up. And that has materially reversed in the weeks beginning this quarter.

Belgium spread has been coming down with 10 bps, so half of the effect is gone. France is completely reversed. Spread increase we saw in the first quarter is completely reversed, actually in the second quarter. And in Portugal where we saw a plus 10 to plus 30, we are now minus 50. So, we have a, I would say, material reversal of the spread impact and a similar yield impact. So, I'm not going to do the mathematics, but I think we have a very positive start for the group solvency ratio of this quarter. Of course, markets do what they do. They change every day. But so far, we will have a positive effect, which is very much in line with the negative of the first quarter.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Then...

Operator

Thank you.

Q - Ashik Musaddi {BIO 15847584 <GO>}

...Central-Eastern Europe.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. I can answer on the underlying earning. And Ashik, I assume you were referring to Asia and you said even after the restatement of the Hong Kong result, the increase in result is not that huge, but I think the main element we have to highlight is the fact that during Q1, the level of realized capital gain in China was extremely low. So, that's something we know. We don't know what the future quarter will give, but compared to last year, the level of net realized capital gain and net of impairment was low during Q1. So, that's one of the explanation.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

A - Christophe Boizard {BIO 15390084 <GO>}

But at the end on China, let's take a positive look over the result and I think the change in the structure of the production is a very positive one for the future. And we expect a good result coming from China and on the top of this, we have this huge growth in China, we have this very high solvency ratio, which means that there is no need for capital support even though we have this huge growth, all this is very positive.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. And just last thing on the Central-Eastern Europe.

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

Yeah. So, in Continental (01:03:31) Europe, the €28 million result in Q1, we see a quite good projection of the run rate. So, full-year result close to €100 million should be achievable. Don't forget that we had in the past year some impact in Luxembourg to the accounting treatment. So, the €50 million was maybe a bit pulled down by that effect and we will have in the course of the year and the next quarter also the contribution from the acquired Portuguese activities of AXA. So, a good indication for the run rate.

Operator

Thank you. The next question is from Benoît Pétrarque of Kepler Cheuvreux.

Q - Benoît Pétrarque

Yes. Good morning. Sorry for the – I was late on joining the call. So, I'm not sure if the question has been asked but I will ask again and if you already answered, let me know, I will just read the summary. It's on Belgium Life, it's about the cap gains come to around €30 million net. I think this is a quite low level. I don't remember such a low level actually. So, I'm just wondering if there's any specific one-offs, specific explanation for this low underlying in the first quarter. That's just the question. Thank you.

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

So, indeed the question has been raised, but I will shortly repeat. The effect of the big real estate operation, which is of course something we will not repeat in the following quarters, was €55 million. Last year, we had a real estate realization of €42 million. So, if you take that €55 million and expressed in basis points and take only one quarter of that, so you move three quarters to the next three quarters, then you have an underlying, I would say, operating margin of 87 basis points. So, taking out three-quarter of the effect of this big capital gain.

Q - Benoît Pétrarque

Okay. Thank you very much.

Operator

Thank you. We have no further questions today.

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

Okay. Then I – ladies and gentlemen, we'd like to thank you for your questions. Maybe a short summary to end this call. First of all, we believe we have had a solid first quarter with the exception of UK. We see further growing inflows especially in Asia, more particularly in the more qualitative regular premium business. So overall, we see this as an encouraging start of the year.

To end my speech, I would also remind you of three important dates in the coming weeks. First of fall, next week we have on the 17th our General Shareholders Meeting. On the 6th of June, we have the Investor Day that will take place in Lisbon and we will talk about Solvency II, free capital generation, and our businesses in the UK and in Portugal. And so, we warmly invite you to join us. And thirdly, we have the 16th of June, the day at which we expect the judgment of the Amsterdam Court with respect to the settlement.

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 a very nice day. Good-bye.