Q2 2017 Earnings Call

Company Participants

- Antonio Cano, Chief Operating Officer & 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-IR & Corporate Performance Management

Other Participants

- Albert Ploegh, Analyst
- Arjan van Veen, Analyst
- Ashik Musaddi, Analyst
- Bart Horsten, Analyst
- Bart Jooris, Analyst
- Benoît Pétrarque, Analyst
- Farooq Hanif, Analyst
- Matthias de Wit, Analyst
- Michael van Wegen, Analyst
- Nadine van der Meulen, Analyst
- Steven Haywood, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Conference Call for Analyst And Institutional Investors for the First Six Months of 2017. 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 call is being recorded.

I would now like to hand over to Mr. Bart De Smet, CEO; and Mr. Christophe Boizard, CFO. Gentlemen, Please go ahead.

Bart Karel De Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you all for dialing into this conference call and for being with us for the presentation of the half year 2017 results of Ageas. Next to Christophe Boizard and myself, we have also in the room, Filip Coremans, our Chief Risk Officer; Antonio Cano, our Chief Operational Officer; and Emmanuel Van Grimbergen, the Group Risk Officer; but, of course, also our Inventor Relations team is present in the room.

Ladies and gentlemen, the performance in the first half of this year has been extremely good in almost all countries and regions. As such, our second quarter has confirmed a good start with an identical net result in Q2 compared to Q1. In the UK, the second quarter net result, although still impacted by Ogden, showed first signs of recovery, but it remains a challenging environment.

On a scope-to-scope basis, the underlying Ageas Insurance results corrected for the difference in the net capital gains and nonrecurring items, is stable compared to last year, which confirms the strong and sustained operating performance in both Life and Non-Life. And this is also visible in the excellent operating Life margins and Non-Life combined ratio. Both the Guaranteed Life margin at 114 basis points and the group combined ratio at 95.9% improved.

With respect to inflows, we crossed (02:16) the €20 billion cap end of June, spurred by double-digit growth in Asia, 22% up year-on-year. And this more than offsets the lower inflows in Life in Belgium, where of course you will remember the unusual high sales of Guaranteed products last year.

At the same time, I'm pleased with the growth in Unit-Linked sales that doubled, where our focused commercial campaigns in Belgium paid off. And also in Continental Europe, the Unit-Linked sales increased.

The Insurance Solvency II ratio strengthened by almost 15% over the first half to 193% without the portion of the increase coming from a strong operating capital generation. Christophe will come back on this in his part of the presentation.

You will of course recall that in the first quarter, we announced the UK action plan to strengthen the local solvency position, this [Technical Difficulty] (03:12) combination of de-risking of the investment portfolio in the first quarter and a stop loss reinsurance cover, as well as a capital strengthening of €77 million in April. Thanks to these measures, the UK Solvency ratio went up to 131% compared to 100% at the end of last year.

Before handing over to Christophe, I would like to remind you that a couple of weeks ago, we reached an agreement with BNP Paribas to sell our 50% stake in our jointly-owned Italian Non-Life subsidiary, CARGEAS. This transaction – and I'm on slide 5 now – is expected to close before the end of this year, generating an estimated capital gain of some €75 million at the end of closing, with a positive impact on our cash position of approximately €175 million by year end.

I also want to draw your attention to the fact that this operation will also have a 4% positive impact on the Group Solvency II ratio, but please note that this impact is not yet in the figures presented here as they will only be included at closing of the operation. Given our net cash position, the board of directors has decided to renew our share buyback program and to launch a new plan of €200 million that is expected to start as of August 21st. I believe that this decision confirms our confidence in the Group's financial position and the capacity of our operating companies to upstream a solid amount of cash to the Group.

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

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart, and good morning, ladies and gentlemen. I will limit myself to the most important figures in the Insurance segment and the Group result. And I will of course elaborate more, as already mentioned by Bart, on our Solvency II ratio and the related item of free capital generation.

On slide 6, you'll find as usual the key figures. The net Insurance profit for the first half amounted to €445 million, which is 12% higher than last year, if we exclude the €212 million contribution from the divested Hong Kong activities. So, for the explanation of the €212 million, we had €199 million of capital gain as indicated on the slide, but we also had €13 million of positive contribution to the group results (06:02). Material non-recurring items this year include Ogden in the UK for €31 million, while last year we had a €60 million charge for adverse weather and terrorism.

Net realized capital gains year-to-date amounted to €123 million compared to the €95 million last year. And you have to see slide 26 for details. As Bart already mentioned, we recorded strong results in all segments but the UK, with a special mention to Continental Europe at nearly €60 million for the first half. The UK remained behind for the reasons we all know. But nonetheless, the UK realized the positive net result of €11 million in the second quarter.

The operating margin on Guaranteed products was high at 114 basis points. And similar to last year, this margin was slightly inflated by the high level of net capital gain in the first half. But their effect is expected to even out by the end of the year. We are confident that our Guaranteed margin will remain in the upper end of our target levels.

The Unit-Linked margin slightly deteriorated year-on-year to 25 basis points. This is a consequence of the divestment of the high margin business in Hong Kong. Margins have improved both in Belgium and Continental Europe, which is definitely a positive development for the group.

In Non-Life, the solid combined ratio trend of the first quarter had been confirmed by an excellent second quarter at 93.6%. Overall, over the first six months, the ratio amounted to 95.9%, the best performance since 2009. This is also more remarkable as it includes a 2% negative impact from Ogden. Inflows at 100% were up 12% year-on-year to €20.5 billion and remained essentially driven by Asia (08:44).

Contrary to last year, Belgium Life inflows came down by about €400 million over the first half due to the decrease in sales of Guaranteed products as mentioned by Bart. In Continental Europe, inflows were up by €200 million with good growth in both Life and Non-Life.

The group net result amounted to €284 million despite a charge of almost €122 million in the General Account related to the RPN(i). Last year's group result was, of course, heavily impacted by the charge related to the Fortis settlement agreement.

With respect to the balance sheet, our total liquid asset stood at €1.7 billion, of which €0.8 billion remain ring-fenced for the settlement. This figure doesn't include the proceeds of the divestment in Italy, which should be received by the end of the year. For the sake of time, I propose not to comment on the segments, but as always, you can find the usual key figures on slide 7 to 12.

On slide 13 now, you will find the updated Solvency II figures which show a sound improvement of both our Insurance Solvency II and Group Solvency II ratios which stood at, respectively, 193% and 198%. As expected, this is a bit reverse of the situation we had at the end of March.

During the second quarter, our solvency position benefited from positive spread evolution both in Belgium and Continental Europe, here with a special mention to Portugal, while in the UK, the solvency position was strengthened via the implemented action plan.

Ladies and gentlemen, following up on the Investor Day presentation, we also published today our six months free capital generation figures. You will find three slides in the pack, slide 14 to 16. We have listened to your feedback and have focused on the essentials, while during the Investor Day, I spent more time on the methodology. Remember that Ageas calculates the free capital generation based on its 175% solvency target and that each movement in the SCR is therefore multiplied by this coefficient of 175% in the free capital generation calculation.

If you now look at the waterfall graph on slide 14, you will see that model changes and exceptional items, of which the negative impact from Ogden and the put (12:13) value adjustment had a rather limited impact. Next to a smaller amount coming from market volatility, the main driver of the movement in free capital was the operational impact. Whereas market volatility and the exceptional impact are driven by external factors, the operational impact covers the part of the free capital generation, which is within the control of Ageas.

Now, the figures. Over the first part of 2017, the free capital generation amounted to €459 million. You remember, it's a simple calculation. It is €1.151 billion minus €1.111 billion plus the paid dividend €419 million, of which €526 million for its operational component, which rightfully attracts the most attention.

When you look at the waterfall, you will see that we have split up the amount of €526 million in three separate blocks. €122 million is related to the stop loss cover provided by

Intreas to the UK. As this is the result of the management action, its effect is included in the operational impact.

The intra-group contract has several isolated impact spread over the UK reinsurance and the geographical diversification. This part of the operational impact is, however, non-recurring. Then the second block, so the other isolated blocks relates to the €62 million dividend that will upstream for the non-European NCPs, which are not included in our Solvency II scope. This leaves us with €342 million that you could consider as a recurring operational capital generation on group level, excluding the non-European NCPs.

At this stage, please remember that as said during the IR Day, data from Asia come with one quarter of delay. And I can already tell you that the non-European NCPs generated €56 million of free capital generation of operational capital generation over the first quarter, an amount that is not included in the €526 million. Tagging the €62 million of dividend received from the Asian NCPs allows you to do your own consolidated estimates without any double counting.

On the next slide, we provide you with a breakdown of the operational impact by segment, including the impact of geographical diversification and Group elimination to help you to better understand the origin of capital generation. I hope that this new disclosure added to the usual slides already meets most of your expectation. But we have to admit that this topic will still need some further small refining in the coming quarters. I personally consider that we are already quite far on the learning curve on these new metrics.

The results of the first six months of 2017 confirms that the capital generation is quite healthy. The better figures compared to 2016 mainly comes from AG, which benefited from strong Non-Life results, some sales in the equity bucket and less production on retail investment products, with lower Guaranteed rates (16:33) and a better yield curve.

After this longer explanation on the free capital generation, ladies and gentlemen, I'd like to end my comments here and hand over to Frank.

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Ladies and gentlemen, this concludes the introduction, so we can now open the line for your questions. And as always, please limit yourselves to maximum three questions. Two is also fine. Thank you.

Q&A

Operator

Ladies and gentlemen, we are now ready to take your questions. And we have the first question from Mrs. Nadine van der Meulen from Morgan Stanley. Madam, please go ahead.

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

Yes. Good morning, gentlemen. Thank you for taking my questions. On the normalized free capital generation that you highlighted of €342 million and the €62 million upstream from non-Europe, can you just briefly explain how that compares to the €500 million of normalized free capital generation that you guided to on the Investor Day, I guess, that was an annual number, I suppose.

And second question is on Solvency – no actually, it's on litigation. So, the settlement was not declared, binding in June. Perhaps you can comment on the next steps on the litigation front, and what the scenarios you potentially see around the €1.2 billion settlement amount?

And, yeah – then lastly, on the margins in Life, they were again very strong. You mentioned that benefited from realized gains on a Guaranteed spread and Life (18:28). Could you comment on what the sustainable level is there? Thank you. Those are my questions.

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

I will give the question, the first one, on free capital Ageas to Christophe, then Filip will take the litigation and I will end with Life margins in Belgium.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. So, on the normalized free capital generation, we indicated at the IR Day, €500 million. As you can see, with the figures we have, we seem to be above on these figures. No question about this. So, I will start from the €526 million. As mentioned, we have to do some restatement that I think the starting figure is more than (19:20) €342 million as you rightly mentioned.

So, then can we extrapolate over the year? You know that we don't give forward statements. So, I will be very prudent on this, but my contribution will be that this is what we see as the most stable and recurring part since all the most volatile elements have been isolated in the market component. So, I think that it is not completely wrong to multiply by 2, but with a lot of prudence.

Then, having said that, we have the addition of Asia, the €50 million I indicate. This is again the operational impact and you can make some calculation, multiplying by 4 (20:15), but that's something you can do.

Then, coming back on the €500 million, the comment made by Bart at the end of the – on the €500 million was not related to 2016 itself, so it was more after reconsidering all the exceptional 2016. It was more to be interpreted at €500 million. But, frankly, as we all know, 2016 was not a tremendous year on the free capital generation basis. So, I think 2017 will be much better, that's for sure. And the end result should be, I think, higher than the €500 million.

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

Thank you.

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

Good morning. Filip Coremans here. Regarding your request for update on the litigation front, I can refer to page 68 and 69 in the slides, where you find the summary of what has transpired at court hearing where, as you know, the court has requested the petitioners to look into certain modifications mainly related, not to the budget and not to the €1.2 billion, but to the allocation of this budget to the various classes of shareholders.

As foreseen in our agreement, we have restarted discussions and we have constructive dialogue going on in order to try to resolve this. But we will, of course, not report on that unless we have reached finality and so you have to bear with us until we file our reviewed petition with the court.

In terms of impact on timelines, you have it on slide 69. So, the quarter has given us time to re-file until the 17th of October 2017. And then afterwards, opponents – the initial opponents mostly will have the opportunity to file their replies. We expect a second public hearing, where all parties will meet again to present their points to the court to happen in the first half of 2018.

We cannot be more specific there, because that is obviously dependent on court's agenda. But end of first quarter – first half of second quarter is possible, but to be confirmed. But of course, we will do so once we have reached agreement and we have clarity on this date and process that we will absolutely inform the market.

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

Thank you.

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

Okay. On the third question, the Life margins, if you I think in the comment of Christophe, he mentioned that again, of course, the impact of realized gains mainly on real estate that we cannot plan quarter-by-quarter, but where we realized most the budget in the first half of the year have had a positive impact on net (23:26) margin, but also – you also have to consider that compared to last year, where the average Guarantee given on new business was 1.75%. We are now fully at 0.25%. Also the profit sharing has of course decreased over the years. But it means that we are more than confident that the ambition to be between 85 and 90 (23:54), and as Christophe mentioned, maybe more at the upper side is in any case sustainable.

And going forward, if you look on slide 25, this is the way we manage the pricing of our business, to be sure that that margin going forward is maintained not only in the first one to two years, but until the, let's say, the future business, including – for the new business, we had new money returns without taking into account real estate and shares of almost 2% for business, where we Guarantee 0.25%.

So, maybe a last point in reference to the last year's, let's say, underlying capital generation, because that's also linked to Belgium, also say, last year, the SCR in Belgium moved up. This year, the SCR in Belgium is down as you can see on the slide on capital generation. And don't forget that the margin of 85 bps, 90 bps is something that we've been consistently realizing over the past 10 years. And so, there's no reason to doubt on the sustainability.

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

Thank you very much.

Operator

The next question is from Ashik Musaddi from JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Good morning, Bart. Good morning, Chris and Filip. Just few questions, but can you give a bit of color about underlying combined ratio in Belgium and Central (25:32) Eastern Europe, because it looks like in the second quarter, you had one of your best quarters in terms of combined ratio.

And when I look at the reserve release, that's also not particularly high. I mean, even if I add back the whole reserve release in Belgium, you still did like 93, 94 (25:46), which is pretty impressive. And in your Continental Europe as well, there the combined ratios have been pretty strong as well. So, what is driving that thing? Is it structural in nature or is it just a one-off good quarter, something like that?

Second question is on Asia. I mean, this quarter, you reported €62 million earnings. Is it fair to assume that is a good run rate? Because, if I remember correctly, last quarter was around €52 million, €53 million, so that's a good jump as well.

And, thirdly, in terms of capital, now you're at 198%, you're adding again 4 percentage points from the disposal, so you'll be at 202%. Now, how should I think about this capital, because you're not using a lot of UFR volatility adjustment or transitional and you're basically conservative on the way you treat BNP call option as well. So, this is a pretty good combined Solvency ratio and you have announced a buyback. But how does it impact your dividend policy going forward, the strong capital position? Thank you.

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

Okay. I propose to pass the first question to Antonio.

A - Antonio Cano {BIO 16483724 <GO>}

Yes. Hello. Good morning to you all. Antonio Cano here.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi, Antonio.

A - Antonio Cano {BIO 16483724 <GO>}

On the combined ratio in Belgium, I think if you look, for example, on slide 33, you see also the combined ratios for the underlying products. And indeed, you see that they are all performing very well.

As a result of actions also done in the past and that are continuing to be done, the only remark that one could raise is that the weather was rather benign in the first half of the year, that's true. But even if you would eliminate or adjust for that, you would still have very, very good combined ratios well below our targets.

And, for now, we don't see any reasons why there should be a change in that. Obviously, if we have a very, very bad weather, you will see a slight increase in the combined ratios, but they will still remain better than our target.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. On the results in Asia, the €62 million, I think, okay, you have a bit fluctuation one quarter to another. But if I refer to the presentation at the Investor Day, I think the last indicator that for Asia, a kind of a yearly run rate of €200 million is what we should have. So, it's something like €50 million a quarter. So one quarter, it can be a bit more and the other a bit less.

And that's a bit, I would say, the – also what we expect that region to do. We have growing portfolios. We have, of course, still a number of like the new ventures, where we invest that are not contributing. And, over time, we should assure that we have growing profits coming from Asia. But I think €200 million yearly run rate is, at this moment, realistic.

Filip, you take the question on the Solvency II?

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

Thank you. Ashik, on the Solvency ratio, indeed, of course, as you have noticed in the second quarter, the Solvency ratio both, of Group and insurers reversed positively in quite significant way. A substantial portion, about 7% of that in the second quarter is due to the benign market conditions, spread (29:33) evolutions and the interest rate. But, nevertheless, aside from that the operational underlying Solvency growth was 9% to 10%. And that is offset by indeed share buyback and expected dividend for that period of the same level. So, you could say that we are in a kind of steady state in terms of capital generation and dividend outflows at least for this first half and Italy will add to it.

Also, as we informed you at the Investor Day, indeed, we do not take an aggressive stand on certain aspects. We don't have UFR issues. We don't take any transitional measures into account. So, we stay careful there.

Forward looking impact of this on our capital management is maybe something that also Bart may want to add a word about. But let's be (30:28) clear that the renewal of our share buyback has been taken into account amongst - on one end the lack, I would say, of other sources of capital deployment, but we keep also in the back of our mind that in the first half of 2018, we probably will get more clarity on the put option. I think that is a key milestone for Ageas, which we have to take into account when we talk about the future.

That being said, I think our policy has always been to have 40% to 50% dividend payout. If we see no good other opportunities to deploy our capital, to indeed return it to shareholders when and if we can. And I don't think we have any plans of changing (31:18) that mentality. Bart, maybe you want to add some word (31:22)?

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

Yes, indeed. I think, what we each time repeat, I want to also deliver its (31:29) consistency in whatever we announce and promise. First of all, we have dividend policy of 40% to 50% of the insurance results. Remember the guidance we gave at the Investor Day that we should expect a profit of insurance between €7.50, €8.50 (31:48) going forward. That excludes, of course, the capital gain on Italy that will, to a large extent, be included in the insurance results. So, this will also impact the dividend that we will apply.

And next to that, I would say, the solid capital position and the more than comfortable cash position, taking to account elements that could come up, like the put option and maybe opportunities in one or another country. Make that we (32:19) - each time, when we reflect on the buyback or not, try to be as, let's say, in line with our guidance as we have said in different investor days.

So dividend policy will not change. It normally should be (32:34) amount this year, that is, let's say, increased by the capital gain in Italy and the buyback we just (32:40) a new one in order to be, let's say, in line with our previous policy and behavior.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. That's very clear. Thanks a lot and very good set of numbers. Thank you.

Operator

The next question is from Mr. Albert Ploegh from ING. Sir, please go ahead.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning, all. Yeah. A few questions from my side as well. First of all, on the upstream of the Belgium units in the first half. You basically upstreamed 100% of last year's profits. Going forward, how should I link that, let's say, the policy always implied in terms of upstreaming (33:28) cash from the Belgium unit, now with a new disclosure on capital generation, which basically shows €410 million for the first half alone. And also in relation to your strong Solvency II ratio in the Belgium unit standalone 255%. So, basically, what I'm trying to get - I mean, is this 100% for now for you the ceiling or you could even pay out actually (33:52) more than the 100%, so to speak? So, that's basically the first question I have.

And the second question is a bit related to the capital generation as well. I saw you slightly lowered your expectations or your assumptions for real estate from 6% down to 5%. Can you please repeat again, let's say, the other assumptions you have applied for the operational capital generation? It will be helpful.

And the last question I have is on slide 17, that's the regional and headquarter expenses. In the first half, it was €51 million. Basically, can we annualize this to, let's say, a run rate of €100 million per annum or is that too high? I remember and that you also might have said in the past something like €75 million figure. Thank you.

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

Okay. With respect to the first question, let's say, as long as the entities in the group are above the target solvency level we have internally in mind for them, we are in a position where we expect these entities to upstream 100% of the profit. We don't have the use to ask them for more.

Having said that, of course, if there would be one day a specific operation for which there might be a reason to dividend out more than 100% of the profits, it might be possible but it's not in our policy. So, normally, for a strongly capitalized company like AG, we should expect a 100% upstream going forward.

Christophe, you take the second one?

A - Christophe Boizard {BIO 15390084 <GO>}

So, the second one on the assumptions, so we have slightly adjusted the assumptions. That's true. No major changes except on real estate where we lowered from 6% to 5%. Let's say that it is the direct consequence of what we can see on the realized deal where the internal rate of return are more in the range of 5%. So, it was more (36:20) prudent stance, but I would say, aligned with what we can see on real estate. On the rest, there is no change which means that, for instance, on the equity side, we are still at 7%.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay.

A - Christophe Boizard {BIO 15390084 <GO>}

There's no (36:35) change. (36:39). Okay. the guidance on (36:44), the expenses of the €51 million in the book is including also the cost of the regional office in Asia and Continental Europe. So, we see that it has been lowering one side because of lower legal costs, but also cost of some share plans for employees that we had last year. And so, we have, of course, the ambition to further rationalize these costs than – and try to stay at the guidance we gave also at the Investor Day of being between €60 million and €80 million.

Q - Albert Ploegh {BIO 3151309 <GO>}

Great. Thank you.

Operator

The next question is from Mr. Matthias de Wit from KBC Securities. Sir, please go ahead.

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

Yes. Good morning. Thanks for taking my questions. First one is on Belgium Life, I notice that unit-linked sales finally started to increase after many years of flattish sales. So, just wonder what has caused this trend to change for the positive, and if you see – would you expect further growth in that segment?

And then second question is on the Belgium corporate tax reform. I know it's early days, but maybe there is anything you can share yet on the impact you could expect going forward both in terms of earnings and capital. In terms of capital, I guess there might be an impact on LACDT. So, eager to get your thoughts on that one.

And then, lastly, a very small question on Continental Europe. What was the contribution of Ageas Seguros, please, in the quarter? Thank you.

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

On the first question, I think it's a combination, the highest sales in unit-linked of real commercial actions, not only in the bank channel, but also in the broker channel. And on top of that, what you might have read also in the press, the see that appetite for a bit more risky investments has been increasing. So, you could put this mostly in the wealth management environment, private banking environment. So, it's a real action also based on very strong performance of the funds we have behind these unit-linked's contracts in the past years. So, that's the main reason.

A - Christophe Boizard {BIO 15390084 <GO>}

So, I will answer your question on tax and here I will be very prudent because I have to admit that we don't have all the details and we have not been able to study all the consequences. So, I will give you only, I would say, directional trends. So, when you have a lower income tax, when you have DTAs, you have to incur them, but it's not the case in Belgium. We have almost no DTA, so we have no risk of DTA impairment. Then on the liability side when you have on the opposite DTL, if you have reduced tax, you have a positive impact, but this doesn't go through P&L.

So, you have directly the recognition within the shareholder equity and so no P&L impact. These are the instant effect. And then on the long run, obviously, this is beneficial to us if the tax rate in the future is lower. But I prefer to come back on this next time when we will release Q3 and when we have more detail.

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

Okay.

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

Okay. I'll surely react to the question on Ageas Portugal. So, the Ageas Portugal being the business we acquired from AXA, that part of the business so far this year has break-in even. And bearing in mind that there are still integration costs that have been taken this year of around €4 million. I think the main message is that we are on track on our business plan.

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

Okay. Thanks. And if I could just briefly follow up on unit-linked in Belgium, (41:16) to do the asset management as well and can you may be shed some light do the asset management as well and can you may be shed some light on your assets under management currently and your plans in this regard going forward?

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

I'm a bit out of memory. I think that our assets under management team, if that is the question, unit-linked in Belgium is something like €7 billion. And that, of course, that amount depends on the new inflow, also a bit sometimes the outflow, and of course, also the market value of the underlying funds. But, okay, I would say, our mission is to keep and grow this number as much as possible that – and we have now been able to double it compared to last year and also the years before. So, we hope that this is a start of a further growing business.

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

Okay. Thanks a lot.

Operator

The next question is from Mr. Arjan van Veen from UBS. Sir, please go ahead.

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

Thank you. A couple of questions if I may. Firstly on the capital generation, I'm just trying to get my head around a little bit more what's recurring and what's nonrecurring? And I don't know if you could give maybe a bit more clarity on that? So, the €526 million as you call out the management (42:41) actions of the stop loss down to €404 million. So, I'm just wondering (42:46) if you look at the €342 million, if there's any other management actions in there that we should be thinking about or think about normalized level of that number, I think you're indicating that is potentially sustainable?

And secondly, I was a little bit confused with the comments around the non-European (43:06) entity, so €62 million in that number of dividend upstreaming from profits from the last year, now you're saying the first quarter is running at €56 million or so in terms of free cash flow. So, (43:17) dividend, (43:18) the cash flow numbers? I'm just a little bit confused as to why we're looking at two different numbers in terms of capital generation. On top of the (43:25) profit is what you put into that number.

And on that, going back to the €500 million guidance around that number, my memory from the Investor Day was that the €500 million included Asia at about €150 million I thought. So, I'm just trying to reconcile again the breakup of that underlying free cash flow number between Europe and Asia given obviously they are in control 100% and then what you get from Asia is the dividend. So, if you can give some more color on that, that would be great.

And just final question on LACDT, apologies, if you have updated. But from memory, you indicated that the change was potentially positive but you haven't given us an update. So, if you can give us an update or a state where that's been included in the current set of numbers. Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. I will answer the first three questions and maybe Filip on the LACDT, since you are (44:22) specialist on this, you will answer. So, on the first question, free capital generation. Your question is what is recurring and what is not. So, what we try to explain is precisely the recurring part and it is precisely €342 million.

Does it include management action? It is where all the management action should lie. So, for instance, here and if we could think of another breakdown with this operational impact, we would have, for instance, the value of new business. The expected returns of things like this, all things which are subject to the assumptions made on the business itself under lapses and all this (45:14). So, it is, as explained, where the management actions are concentrated, the market, in fact, trying to isolate all the external factors giving volatility.

On the NCP, the €62 million and the €55 million, the explanation is the following. When we do the Solvency II consolidation, we add up the segment plus the General Account and we have, I would say, a sub-perimeter, but in this sub-perimeter, Asia is not included. And the dividend coming from Asia, the €62 million, are the kind of free capital generation, and this is not restated in the consolidation process.

Since we want to let you do your own calculation without double counting, we flagged, as I said in my comments, the €62 million, so that you deduct this. And so, that you can add your assessment of the operational free capital generation coming from Asia. Now, the €56 million. The €56 million is the free capital generation coming from Asia for Q1. As I said, we have one quarter time delay. And (46:41) comment, I have a personal objective to bridge this gap and one day, I would like to have the full consolidation when we release the quarterly results. But at this moment, we have some time constraint and we are only able to deliver Q1.

So, €56 million is a free capital generation. So, you don't have direct link and there is no confusion. The €62 million is the dividend paid, and we take it out for having a clean scope ready to be added to the value - to the Asian contribution. And the Asian contribution consists of the KPI given is the €56 million of Q1. So, I don't know. You could multiply by two to have the H1, the six months figure for Asia. And since we have deducted the €62 million, I would say, twice the €56 million, we are ready to add this to the €342 million. So, that's the underlying idea.

So then, coming back on the guidance we gave at the Investor Day, the €500 million, it is true that the €500 million was on the consolidated scope at this stage. We were able to provide some kind of consolidation. If you remember, I explained that we had a clean Solvency II scope. We had the contribution for Asia, and we did some kind of aggregation and the €500 million was related to this consolidated scope.

And it's the reason why in a previous answer to a question, I indicated that what can be expected for 2017 is higher than the €500 million definitely. If you want to enter into more detail, you will see. But for instance, there is a slight decrease in the SCR in AG coming from the fact that we have sold the small amount of equity. And you know with our method, taking the free capital and not the free surplus, all the movement in SCR are, in fact, multiplied by the 175%. So, each decrease in SCR is extremely beneficial to the free capital generation and these high figures on the first six months.

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

Very clear. Thanks.

A - Christophe Boizard {BIO 15390084 <GO>}

I have answer to the three first question. And on the LACDT, Filip?

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

Yes. Thanks. On LACDT, not so much to update other than what we presented at the Investor Day. So, the regulatory change or the change in the regime from a National Bank regarding the LACDT in Belgium, we have not, at this moment, reflected that in our figures yet, that will happen at the end of the year. In the Q4 figures, we will do so in fact and that this maybe good for you to know. We try to limit, in general, model changes through the year to restrict necessary minimum in order to have most comparable figures throughout the year. So, these type of changes we prefer to bring by the end of the year.

A - Christophe Boizard {BIO 15390084 <GO>}

Maybe let me add one word related to LACDT, and that is also maybe in follow up of the question of Matthias de Wit. The new tax guidance, and, indeed, it is too early to comment on that, but that may have a slight negative impact on LACDT, whereas, of course, it will have a positive impact on the results because the tax go down. So, there is a kind of balancing effect there. But on LACDT, it can be expected that that have a slight negative impact, well, that would be a probably nicely offset by the regulatory change, but we will see when we have the full transparency on that, yeah.

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

Thanks. So, thank you. (50:55) on the capital generation. That's very helpful. If I can make one point around a nice to have, maybe down the track. On slide 15, we do break it down by (51:05) which is useful, but it's obviously a very large group elimination in there. So, if possible, (51:11) we can get it netted down in each country so we can - (51:14) for the P&C, for example, the profit should be very close to cash flow generation, right. So, it's easier for us to build it up country-by-country. So, that's a request longer term. Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

You are right. And for next time, we will further improve the disclosure and I will give by segment the contribution to the group operational impact, operational free capital generation, because I can understand that the way it is presented today with the local figures and big elimination. The figure is not extremely easy to manage. So, we will give the contribution by segment. But to give you some help, among the big elimination, you have all the received dividends. So, that's the (52:10)...

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

Yeah, yeah.

A - Christophe Boizard {BIO 15390084 <GO>}

...of the elimination, but it will be improved next time.

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

Right, right. That's perfect. (52:15). It's very helpful. Thank you. Thank you for that.

Operator

The next question is from Mr. William Hawkins from KBW. Sir, please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. Bart, I'm sorry at the risk of making you repeat yourself. I'm still a little bit confused about the rationale for the reduced buyback. Your IFRS earnings are really strong. Your solvency capital generation is massive. You've got strong Solvency II. We know that there are corporate events on the horizon, but we've known about those for many, many years. And €50 million, as you guys have said yourselves, is a bit of a rounding error. So I'm confused about why you've decided to round down rather than maintain the €250 million. I've heard what you said already.

Secondly, perhaps, related to that, could you give us any kind of update on where we are with regards to the Belgium minorities in the distribution agreement? I know it's first half 2018, but presumably, we're now at the stage where there are conversations occurring.

And then, lastly - I'm sorry. Frank is going to kill me because I'm breaking the rule of three. But are we still expecting a Belgian dividend in the fourth quarter as well or is there any timing where the strong first half dividend from Belgium has accelerated, what I think has normally been a split through the year?

And lastly, if you touch your equity return assumption from 7% to, say, 5% in your operating capital generation figure, what would that do to the €342 million? I'm sorry. I know that's four.

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

Okay. On the first question, indeed, as you indicate, we'll have to repeat what has been said. I think there's no real academic argumentation behind the decision to do a buyback of €200 million or €250 million. And as you've seen a number of colleagues, a few expected no buybacks. So, those expected €250 million.

So, the only thing I think it's a given is that we always said that the buyback is a yearly decision depending on a number of elements. Having now a buyback of €200 million does not indicate – there are no conclusions to be drawn from that.

Maybe the only one that if the situation remains as we are in the sense that we don't have – we've not had acquisition targets or opportunities that we just want to continue with applying what we always said that, in that case, we'll return money to the shareholders. And we'll say if we now would have had the €250 million one day, there might be a change in the demand.

So, I am a bit personally surprised about the fact that this delta of €50 million is giving – this creates maybe some doubts because we have no real reason why we would not have done €250 million or €150 million, it's a board decision taken into account the number of elements. Brings me immediately of course to the second point on the put option renewal distribution. Okay, we can say that the potential execution of the put option is coming closer. At this moment, nor on the put option, nor on the distribution agreement talks are running, we expect them more by the end of this year beginning next year, but for both elements the initiative is enhanced. So, the key is in the hands of our partner, BNP Paribas and BNP Paribas Fortis. So, no discussion at the moment, but okay, we prepare ourselves as we do for every file to be ready once the discussion starts.

The third question, Belgian dividend in Q4, the dividend that has been upstreamed in the first half is the one that is exactly the 100% profit of 2016. So, we don't expect an additional dividend. If you look to the page with the dividends where you see that we are at something like €501 million upstream dividend, I think the only country where you still can expect in the second half a dividend is Malaysia because that country did not pay a dividend yet. But, for the rest, I think we gave €519 million as a guidance at the Investor Day, we are close to that and, again, we don't expect an additional dividend from Belgium.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. You forced me to do some number crunching on the spot to answer your question on impact on sensitivity on equity rate. We know we have a ballpark figures €4 billion on a 100% basis. So, assume now that we have about €3 billion equity in total in the book on a 1% income on that would be around €30 million on own funds on a full-year basis. So, let's be real, it would be 2%, it would be €60 million, but it would be on a full-year basis. But let's not forget, if we take that out of operational, that result will obviously pop up in markets. But, well, on a half-year basis, maximum €30 million which would then be transferred to market result.

Q - William Hawkins {BIO 1822411 <GO>}

Great, guys. Thank you very much.

Operator

The next question is from Mr. Bart Horsten from Kempen & Co. Sir, please go ahead.

Q - Bart Horsten {BIO 2390919 <GO>}

Yes. Good morning, gentlemen. Few questions from my side. First of all, could you explain a bit more the capital generation from the stop loss cover? I read that Intreas took over reinsurance deal from the UK, so how does the economics work behind this transaction and what is the actual economic benefit from it?

Secondly, on your Guaranteed rates in Belgium, you've lowered your crediting rates over the past year and years to currently 0.25%, if I'm correct. Could you indicate what the actual crediting rate to clients is as you also offer profit sharing? So, I'm curious to the level of that percentage.

And lastly, on the previous question on the share buyback of €200 million, I think, of course, it's positive that there is another share buyback. The past three years, if I'm correct, you had a buyback of €250 million. So, you said, there is no academic discussion behind the amount, what drives the size of the buyback when you determine the size of it? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

So I will answer the question on the stop loss provided by Intreas. So what we put in place is a global stop loss on the whole book of AIL for two years, and the impact is directly on the SCR. And why do we have a gain on the SCR because of stop loss, then to cut the tail risk and you can imagine with the Solvency II methodology, but when you cut the tail risk, you have huge gain on the SCR. And it's the reason why we have this huge impact of €219 million.

Then, we have an effect on the Intreas side because, on Intreas, we take the corresponding risk. But in Intreas, the effect is less, it is €24 million. So, you can ask why do we have this, not symmetrical, because there is a third component to adjust. It is a geographical diversification. And when you link through this stop loss two entities which used to diversify, you decrease the amount of geographical diversification. And the €122 million is exactly the balance. It is indicated on slide 15 of the presentation, €219 million minus €24 million and minus €72 million coming from market diversification. So, that's the explanation for the €122 million.

Then, we restated the €122 million because it's a one-off and because we have here some difference of model between the UK and reinsurance. And it was better for having the recurring figure to offset the €122 million – to deduct the €122 million. And there is a last element that we are now really entering into details.

Intreas is not taking 100% of the program, it is only taking 77.5% of it and we have external reinsurers, which are in the group to provide the support for the UK. And the reason for this is that, as always, we have to ensure that market conditions have been taken for the contract. So, the presence of external reinsurers ensures that we are at arm's length conditions.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay.

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

Okay. On the Guaranteed in Belgium, indeed this has been lowered over the years, is now since I think November last year 0.25%. For last year, so 2016, the total return to customers was 2%. So, it means that all the customers from the past with guarantees above that have no profit sharing, they have the Guaranteed, and the ones that subscribed at 0.25% receive 2% (01:02:39).

An easy calculation in 2016, the income on new – money for fixed income was 2.11%, if we add 0.5% for the investments in reinstating shares, you are at 2.60%. So, you could say, it creates – on that new business in that first year, a margin of something like 60 basis points, of course, compensated by higher margins on the portfolio. And I think we can expect that going forward that total return will further decrease slightly.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay.

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

Last one then the buyback, maybe one element that I did not mention in my previous responses is that one of the elements in reflections on buyback is, of course, also the return on investment of the buyback and having a share price of this much higher than it was so many years ago and so on, that also can be an element to say let's do it less. But I repeat that also the reflections with respect to the potential upcoming exercise of put are – is also an element that definitely has been taken into account.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you.

Operator

The next question is from Mr. Benoît Pétrarque from Kepler Cheuvreux. Sir, please go ahead.

FINAL

Bloomberg Transcript

Q - Benoît Pétrarque

Yes. Good morning, everybody. Two questions on my side. The first one will be on the capital generation. Just to come back on the recurring nature of the €342 million. I mean, that's been a very volatile figure. I think you disclosed capital generation coming from own funds of €200 million for Belgium in Q1. I think H1 is now at €340 million, so it implies €140 million in Q2. Could you talk a bit about what is going on quarter-on-quarter, because it sounds very volatile? Except for Continental Europe, I mean the €140 million in H1, I mean it compares to a bit lower than €200 million full year 2016. But I'm especially interested with Belgium Q1, Q2, what happened there?

And then second question will be on the pricing of Non-Life in Belgium. I mean, we are seeing now very low combined ratio. You're not the only one to post those levels basically I think everybody is doing the same (01:05:14). So, what do you expect in terms of pricing going forward? Do you see anything special?

A - Christophe Boizard {BIO 15390084 <GO>}

So, Benoît, on the first question, capital generation recurring nature of the €342 million, you rightly highlighted the fact that it is very volatile. It is, but it is slightly less than it appears and I will give you explanation. For instance, you were mentioning Continental Europe. In 2016, when I took the segment alone, we had €211 million, and when I take the segment alone this year, I have €119 million. Frankly, we are not far from half of what we gave for 2016. So, on Continental Europe, I wouldn't say that it is extremely volatile. It is on the positive trend, it is improving, but it is not extremely volatile.

Then, most of the volatility – volatility in the right direction comes from Belgium. But on Belgium, if you take the segment alone where we disclosed €410 million, frankly that's not very far from twice what we gave as the first indication for Q1 during the Investor Day, because we were in the range of €200 million. And so, say, two times €200 million, it makes €400 million, we are not far from this. So, things seem to be consistent.

Then, to explain the big difference with 2016, as I said since – in my comment, the main change is on AG, and on AG – we have explanation, the big turnaround is on AG. And on AG, I mentioned in my comment, first, the slight decrease in the equity allocation, and remember that this has a positive impact on SCR magnified by the 1.75 coefficient (01:07:23). So, this has a big impact.

Then, we have the better, I would say, production structure with lower production on the Guaranteed Life business. But even this reduced production is done at better conditions with a better yield rate and with minimum guaranteed rate being now at 0.25% which was not the case last year, where we were in a little bit in an interim period, where we had – if I remember correctly, three times during the year reduction in this minimum guaranteed rate. But we started the year at 0.75% (01:08:10). So, I would say, I think that figures are consistent with the above – with my explanation on Continental Europe. On AG consistent with Q1, and with respect to last year, I think that we have really an improved picture.

Q - Benoît Pétrarque

Sorry. I don't think I see the same figures. Because on the page 15, you reported own funds for Belgium at €339 million and you told us, it was €200 million in Q1 only. So, there's a big gap between €200 million and €140 million implied for Q2. And for Continental Europe, if we look at own funds capital generation full year 2016 that was €200 million. And now, you're at already €140 million, so it would suggest €280 million full year. So, that's a big delta.

A - Christophe Boizard {BIO 15390084 <GO>}

For Continental Europe?

Q - Benoît Pétrarque

No, for Belgium also. I mean, Belgium, Q1 was €200 million on own funds and that's €140 million in Q2 now.

A - Christophe Boizard {BIO 15390084 <GO>}

Sorry. Could you repeat and...

Q - Benoît Pétrarque

No. If you look at the slides from the Investor Day, the last one on the capital generation in Q1 2017 for Belgium, you disclosed own funds capital generation for Belgium at €200 million. And if I look on the page 15 of the presentation pack for Q2, I see €340 for H1. So, it does imply €140 for Q2. So, we were at €200 million in Q1, now €140 million in Q2. That's kind of quite volatile, right?

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah. It was indeed €200 million and now it is €339 million. And so, that's it. So, it is – likely the €339 million is below twice the €200 million. But making this kind of calculation is a little bit, let's say, rule of thumb calculation. So, I don't see any inconsistency between the €200 million which was, as we said, the first half (01:10:35) and the €339 million we have at the end of June.

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

If I may interrupt, the €339 million is own funds (01:10:43).

Q - Benoît Pétrarque

No. The €200 million was own funds only also...

A - Christophe Boizard {BIO 15390084 <GO>}

Yes.

Q - Benoît Pétrarque

...that's in Q1 (01:10:50).

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah. The two things are comparable. So, the €339 million is own fund, the €200 million for Q1 given at the Investor Day was own fund also, but that's the way it is, €200 million and €339 million on own fund. But as I said, multiplying by two is a rough indication. It happens that it is €339 million at the end of June.

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

I think we also have to accept that it is the same for Solvency II, that these figures are not, let's say, they are volatile. So, one quarter to another, it depends sometimes on the Non-Life results. The more Life business you do, the more it will be hampering or reducing your operational capital generation in the first year. But you'll then recover afterwards, which is also one of the explanations for the difference between last year and this year. And last year, we had less good Non-Life results. We had – we now benefit from the new business we wrote last year, and we have this year, less new Guaranteed business that explains (01:11:56) difference.

A - Christophe Boizard {BIO 15390084 <GO>}

Just to – not to add confusion on this, but just to give you one good example. Please note that we lowered the invested assumption on real estate. As I mentioned before, it's about €30 million – actually (01:12:13) €40 million impact on half year. In the first quarter, we did not do that, because we announced it at the Investor Day, but we also said its preliminary figures. So, after that some methodological changes have been made amongst others that one, where the first half would then benefit from a plus €15 million and now we would do €30 million less that would already balance that to a large extent, Benoît.

Q - Benoît Pétrarque

Yeah. No, I understand. So, but that's – just to come back to my point that Belgium was strong on (01:12:44) basically. So, the overall H1 was strong and also the Q2, €140 million, let's say including capital generation is probably a better run rate than the H1 level, if I understand correctly based on your kind of reviewed real estate assumptions and those things, but thanks for that. May be the last one on Non-Life pricing?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes. On Non-Life, so indeed we are not the only one that has good Non-Life results in Belgium. On the market, we don't see any signals that competitors are entering in kind of a price war. So, it remains very quiet. Bear in mind that most of our competitors have also Life Insurance business that does not enjoy the stable earnings we have on our Life business. So, they're – I don't think there is a lot of people are inclined to be overly aggressive on the Non-Life business, because that would hamper the overall profitability. So, going forward, we don't see any real changes in the market that would support the drop in rates and prices.

Q - Benoît Pétrarque

Great. Thank you very much for that.

Operator

The next question is from Mr. Michael Van Wegen from Bank of America Merrill Lynch. Sir, please go ahead.

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

Yeah. Hi. Morning, guys. Two things please, first of all, coming back again to the capital generation, sorry about that. But your message seems to be that €342 million is a good level to base ourselves for the – basically the European business. At the same time, you are telling us or highlighting a number of times that the Belgium SCR decline of €40 million or including a multiplier effect, €70 million benefit. I mean, what should we think about the Belgium SCR development going forward? Because I would expect the Belgium business to continue to grow, and with that the SCR to grow, so can you help us understand the outlook there?

And secondly, thinking about Holdco (01:15:03) liquidity, as and when the legacy issue has been dealt with in terms of the settlement, potentially buying out the minorities in Belgium, what level of Holdco (01:15:16) liquidity do you feel is appropriate for your business? Thank you.

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

So, let's start with SCR on Belgium. So the decrease, as I said, comes from the fact that we have sold some equities, but I would say it was more a tactical move and we realized some capital gain, because we need to do this, that's downward management. But the intention is not to reduce the equity allocation, I would say, even the opposite. So, we had this slight decrease, but I wouldn't consider that this decrease will be observed in the coming quarters.

Then I would say, again, it is volatile and you know how sensitive these things are. We are playing with extremely high numbers. On slide 14, you have the roll forward of the free capital with €1.111 billion (01:16:27) starting position, €1.151 billion is the end position, but we are playing with SCR in billion and own fund in billion. So, one of the learning here is that the free capital generation is extremely sensitive to any move and it's the reason why it is difficult to find the run rate.

Now, coming back on your first question, the €342 million, that's what we think is the best approach to the recurring element. But I want to be very prudent on (01:17:04). It is true that we could, as we said, multiply by two for the year, but then we have all these small elements which can enter into play. And it's the reason why, being still on the learning curve, I said that we are already far on the learning curve, but not really at the end. I would like to stay prudent. So, conclusion, €342 million is the best we can give at this moment, and be careful, the SCR decrease is not structural.

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

Clear. Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. On the second question, as mentioned, we have €800 million ring-fenced for the litigation after having already put some money aside. So, within the settlement amount, this is all covered. And if we deduct that €0.8 billion from the €1.7 billion cash we had end of June, you end up with a delta of €0.9 billion. We expect on one side, the proceeds from the sale of Cargeas, on the other side, the new buyback. So, that's something like neutral. You could say that €0.9 billion is a bit our remaining cash if settlement would be concluded and buyback finalized and Cargeas.

At the Investor Day, we announced that (01:18:29) financing capacity, something like taken into account this €0.9 billion was €2.5 billion (01:18:38). So, it means that in the combination of cash and debt, the put option issue could be covered. And if the question is what is the level of cash that we believe we should retain going forward, you could say it's mainly an amount we need to be sure that the corporate costs can be covered, although they are in the past and it's also foreseen in the future caught (01:19:06) by the delta between the upstream of dividends and the pay dividends.

You could say that the level of cash that we feel appropriate for running our business is quite low. We don't put an amount on it, but we don't need €1 billion or €0.5 billion maximum, I would say, to be able to keep some flexibility, if we one day or another would see an opportunity in M&A files that is other than the one you talked about the production.

And also this year, you'll see a dividend upstream of €519 million. That will more than cover the dividend plus the corporate costs. So, there is a delta and we don't need cash to cover the corporate costs.

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

You don't feel like some of your peers, for example, want to have in the quite all (01:19:57) times at least 1 times to 2 times their annual dividend covered, just in case something happens and they can't remit from the operating entities. What you're saying sounds like you don't feel that is the right approach for Ageas or am I mistaken?

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

No. Let's say, if you look back over time since 2009, we have each time with one exception that was 2011, the year of euro crisis, where we paid the dividend out of the cash in general account. But all the other years, we have been able to pay the dividend out of the cash upstreams and even in most years got an extra that was added to the cash. So, we believe in the sustainability of our results, also on the effect of diversification. And we don't see or we don't fix an amount of cash that we have to held on the holding level to potentially pay a dividend if that might be needed. I also look to the solvency position. There are other means to respect our commitments to the market if that would be an exceptional situation.

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

Okay. Thank you.

Operator

The next question is from Mr. Bart Jooris from Degroof Petercam. Sir, please go ahead.

Q - Bart Jooris {BIO 3470300 <GO>}

Yes. Good morning. Thank you for taking my questions. Most of them have been answered. So, if I would like to pick in on the UK business, are you still sticking to your net profit outlook over between €25 million, €30 million? Will there be an impact from the stop loss cover, are there (01:21:47) some profits that will be shifted over from the UK to Intreas, for instance?

And then my second question, could you give us an update on the further budgeted cash outs in Asia for the greenfield operations?

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

Okay. On the first question, so you see that we are end of Q2 at €11 million profit. And the impact, exceptional impacts in Q1 were on the one side, Ogden for €31 million. And then you could say the more capital gains and yield before for €11 million, if you correct that you could say that underlying results in half year one was something like €30 million. And if you then take that as a guidance for the second quarter, knowing that we have an additional €10 million to €50 (01:22:38) million impact of Ogden, what we announced already after Q1 and we repeat it now, or if you correct that for that, including the costs of the stop loss cover, you end up with something like €15 million that should be the result for the second half and that brings us again to this €25 million, if you add it up.

Of course, as you indicate correctly, this cost of the insurance will have a positive impact on the profit of Intreas. That's not accounted in this one. So, we still believe that the guidance of something like €25 million profit for UK should be achievable this year. Then, for the greenfields, I think that we have no short-term additional investments foreseen. So, both companies are Philippines, Vietnam, are correctly capitalized. We had an additional investment that was planned in the business plan of €50 million in the Philippines in the first half, but we don't see additional investments in greenfield.

Q - Bart Jooris {BIO 3470300 <GO>}

That is very clear. Thank you very much.

Operator

The next question is from Mr. Farooq Hanif from Credit Suisse. Sir, please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Thank you very much for taking my questions and apologies for this. Quickly, you're turning on capital generation. I would have thought that in Belgium, you would have a structural reduction in SCR every year, not necessarily €40 million each half year, but you're rapidly growing Unit-Linked. You want to de-risk your Guaranteed book. I would have thought that there would be an actual (01:24:32) reduction in SCR anyway every year, and I just wonder if you could comment on that.

Secondly, do you have any plans to further improve the capital position of the UK? Do you think you need to do that?

And, lastly, on Intreas, where are we with further optimization? If, for example, sharing the diversification benefit within the group, are there further things you can do to help local solvency? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

On the structural reduction of SCR, you are correct. This could be expected if there is the long-term reduction in the guaranteed rate portfolio. But when you take a look at the technical reserves, they're still stable. So, this is to come, but you are right. On the long run, we should have decreased trend, decrease in the SCR, but we have not observed it yet.

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

Maybe to follow up on that. It's a very stable business. Surrenders, as might be expected, are fairly low, so this business continues to capitalize. And it is – as contracts mature, then it will drop. But in the meanwhile, there is new business coming in, so don't foresee in the foreseeable future a significant reduction of the Guaranteed book, and therefore, the SCR, which is still driven mainly by that book.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay.

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

Before the UK, we brought the level expansion (01:26:09) to 131%. We expect the no additional capital injections unless, of course, there would a further decrease of (01:26:22) rate, but that's something we don't hope and don't expect. So, the level is in line with our expectations, and we expect it to go slightly up if the profits come in the entity. Also, for the local regulator, PRA, they feel comfortable with our current level. On Intreas?

A - Christophe Boizard {BIO 15390084 <GO>}

On Intreas. So, as you know, the reinsurance market is poor at this moment. So, it is not the right moment to make big development on that side and you remember that Intreas take shares of existing program. So, if the program has been (01:27:10), we are not really incentivized to take big shares. So, it's the reason why we have limited growth at this moment on Intreas.

But let me highlight the fact that it is an excellent tool for the group and the best example is this stop loss, quickly provided to our UK operation, which gives extremely cheap capital from the segment point of view and because the amount of premium paid by UK is in the range of €9 million pre-tax and it is tax deductible for a massive relief on the solvency aspect. So, it's a very good tool and we are happy to have such tool in our pocket for the group. Then, in the future, we are thinking of other things for Intreas more related to capital management, but it is really too early to say anything about that.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much. Thank you.

Operator

The next question is from Mr. Steven Haywood from HSBC. Sir, please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. I think you alluded to this earlier in one of the questions, but the set of Italian business realized it's quite a big gain. Can you say whether this will be used for another dividend boost, similar to what you did last year for the Chinese realized gain?

Secondly, you said the UK Solvency II ratio is now at a level or now restored. Do you believe it's such a level that you're happy to upstream cash from?

Thirdly, there's a few personal tax changes in Belgium, including the tax exemption on interest in savings coming down quite considerably, tax exemption on dividends being introduced for individuals, and also a sort of wealth tax being introduced. Do you think all of these personal tax changes coming will have an impact on your Belgian Life business going forwards? And then, just a confirmation of one thing, the Ageas (01:29:30) Belgium in your capital generation, is that at 100% or 75%? Thank you.

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

(01:29:40) most of your questions. Capital gain in Italy, as it is or big part of it will be allocated through the insurance result and we decide – or we promised a dividend between (01:29:53) 40% and 50% of the insurance result. So, part of that capital gain will, in any case, be included in dividend. But we don't – last year, we really made a ring fencing of that part for Hong Kong because it was a very huge amount. And so, it will be part of dividend.

Secondly, the UK Solvency (01:30:19) again. We have a policy that depending on the – we have for each of our entities a target solvency ratio that we do not disclose. But the sum of all make that we have the 175% on a group level. And if the company is below the target level, there is a scheme of paying dividend that partly permits to go through the target solvency level. So it means, if the solvency level is far below the target, there will be no dividend. If it's coming closer to the target, there will be a percentage of the profits streamed up. I think at this moment, in the UK, we are at 131%. It's not that generous either. So, we don't expect a dividend from UK this year nor next year, and then we will see while they come with the normal profit generation they make the remainder of this year and next year.

On the tax reform, I would say, linked to products, there is no impact on the Unit-Linked complex. For instance, this is also already promoted left and right as an alternative for the tax on other instruments and the deductibility of the pension savings, which is also long-term savings has increased. So, it has become a bit more interesting for, let's say, for customers to increase the amount of pension savings they do every year. So, we say from a profit (01:31:51) perspective, it's possible.

And then last, capital generation Belgium, the €410 million you see, it's 100%. And then (01:32:03) lower through the eliminations and so on.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Excellent. Thanks very much.

Operator

We have no further questions.

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

Okay. Then, ladies and gentlemen, I would like to thank you for the good questions. And let me summarize in four points the main conclusions. First of all, we have been able to show a continued growth in inflow driven by Asia, a very strong operational performance in all the segments, except UK, but where we monitor the situation closely.

As always (01:32:44), Insurance Solvency II ratio well above our target of 175%, and at the same time, a healthy operational free capital generation. And the commitment or decision to launch a new share buyback program of €200 million, taking into account the strong first half year results and the healthy financial position.

I would like to bring this call to an end with this summary. Don't hesitate to contact our Investor Relations team if you would have outstanding questions. Thanks for your time and I wish you a very nice day. Goodbye.

Operator

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