Solvency II

AGEAS INVESTOR DAY

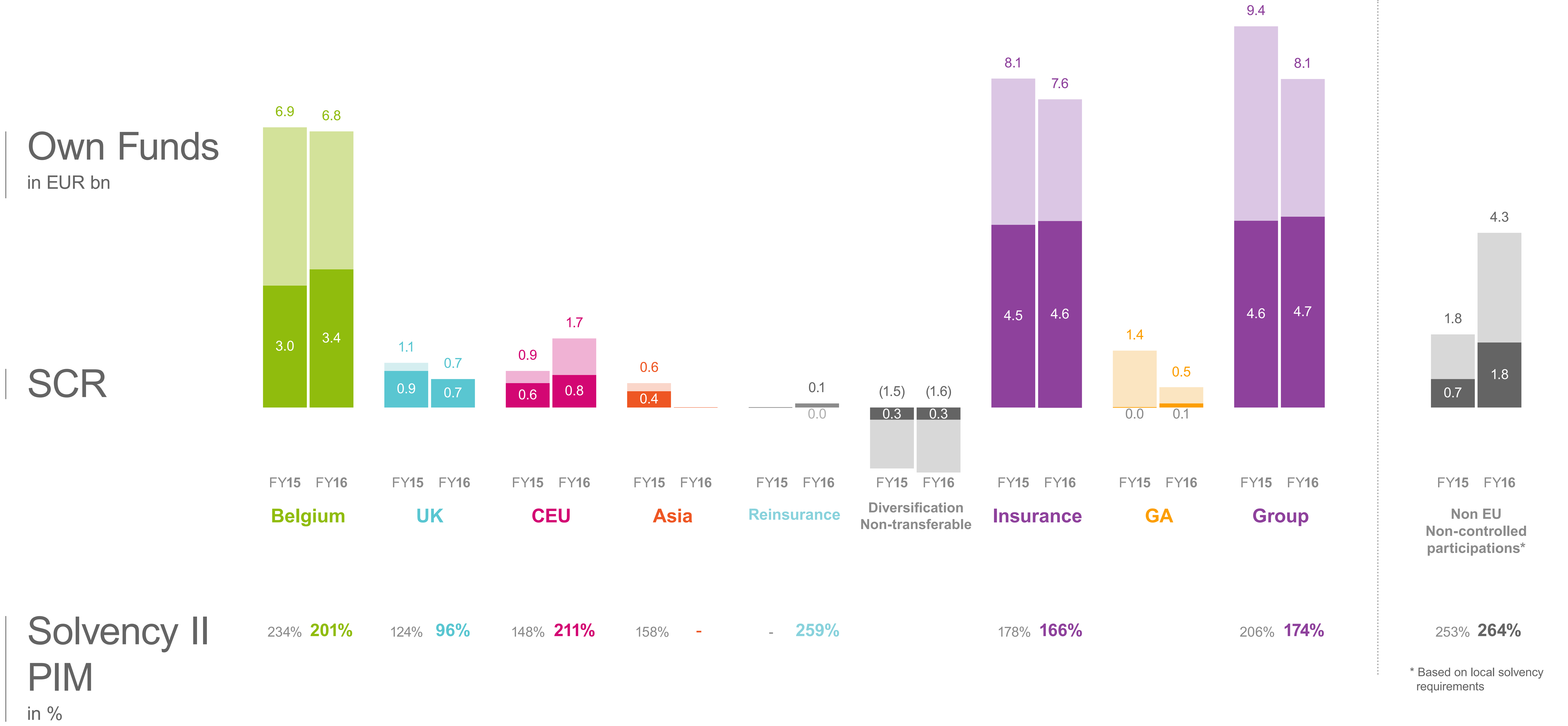
6TH OF JUNE 2017 I LISBON **PORTUGAL**

Frequently Asked Questions

- What's the difference between **Solvency II$_{\text{ageas}}$ and PIM** ?
- How is **VA** impacting your Solvency ratio ?
- You state to have a **prudent approach,** what does this mean ?
- Why do you have such a big impact of **yield curve** sensitivity ?
- Why do you have such a big impact of **sovereign spread** sensitivity ?
- How sustainable is your **LACDT** ?
- What happens with Solvency ratio if the **put** is exercised ?
- How big is your **regulatory hybrid debt** capacity under Solvency II ?
- Conclusion

Solvency II$_{ageas}$ vs. PIM

Solvency II PIM Framework as reported to regulator under **Pillar I**



Major differences

PIM

- **Spread treatment**
  - Corporates: Fundamental & Non-fundamental spread risk included
  - Sovereigns: No spread risk included at all
- **Real Estate treatment**
  - Parking concessions no OF & no SCR
  - Interparking consolidated – third party interest deducted
- **Transitional measures applied in France & Portugal, with impact on group level**

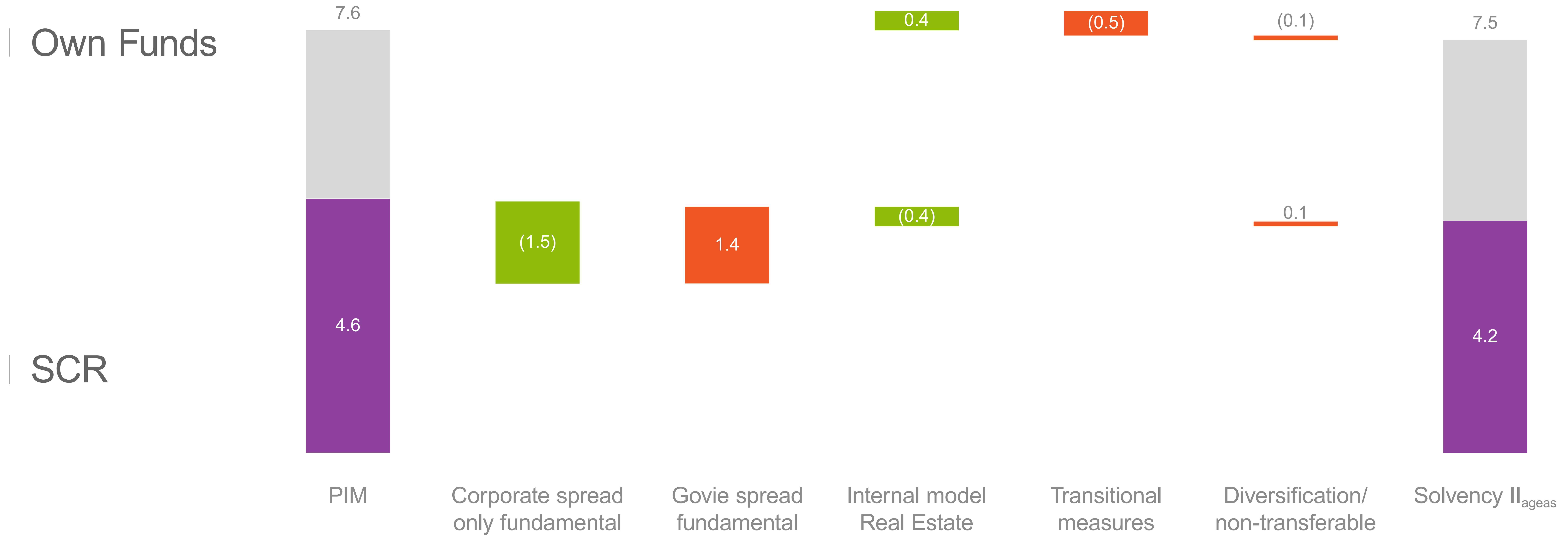
Solvency II$_{ageas}$

- **Spread treatment**
  - Corporates: Fundamental spread risk included
    Non–fundamental spread risk excluded
  - Sovereigns: Fundamental spread risk included
    Non–fundamental spread risk excluded
- **Internal model Real Estate**
  - Parking concessions at market value with associated SCR
  - Interparking proportionally consolidated
- **No transitional measures**

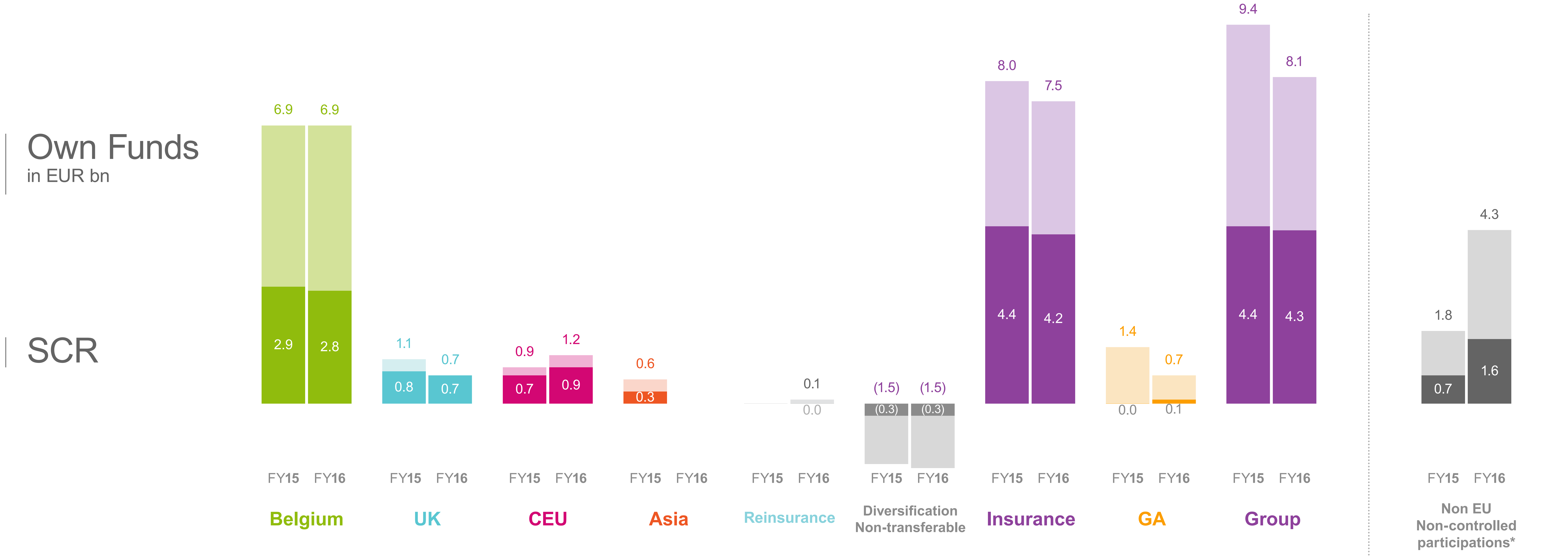
Why we believe more in **Solvency II$_{\text{ageas}}$**

- Treatment non-fundamental spread more adapted to economical reality
- Treatment Real Estate investments more adapted to economical reality
- Preference for prudent view on transitional measures

Major **differences**



Solvency II$_{ageas}$ Framework as reported to regulator under **Pillar II**



	Belgium FY15	Belgium FY16	UK FY15	UK FY16	CEU FY15	CEU FY16	Asia FY15	Asia FY16	Reinsurance FY15	Reinsurance FY16	Insurance FY15	Insurance FY16	Group FY15	Group FY16	Non EU Non-controlled participations* FY15	Non EU Non-controlled participations* FY16
Solvency II$_{ageas}$ in %	242%	**244%**	130%	**100%**	131%	**127%**	179%	-	-	**278%**	182%	**179%**	212%	**191%**	253%	**264%**
Solvency II PIM in %	234%	**201%**	124%	**96%**	148%	**211%**	158%	-	-	**259%**	178%	**166%**	206%	**174%**		

* Based on local solvency requirements

Will we submit **Solvency II$_{ageas}$** to regulator?

- Internal model Real Estate finalized & applied in Pillar II
- Internal model market risk under construction
- Assessment submission to regulator to be done when development finalised
  - Balance sheet volatility (ineffectiveness of Volatility Adjustment) not solved by internal model market risk

How is **VA** impacting your **Solvency ratio?**

MCBS* contains **a basis risk**

* Market Consistent Balance Sheet

Assets

mark-to-market

Total yield

- SWAP
- Non-fundamental spread risk
- Fundamental spread risk

aligned

Not aligned - 2 major issues

Not aligned - no issue

Liabilities

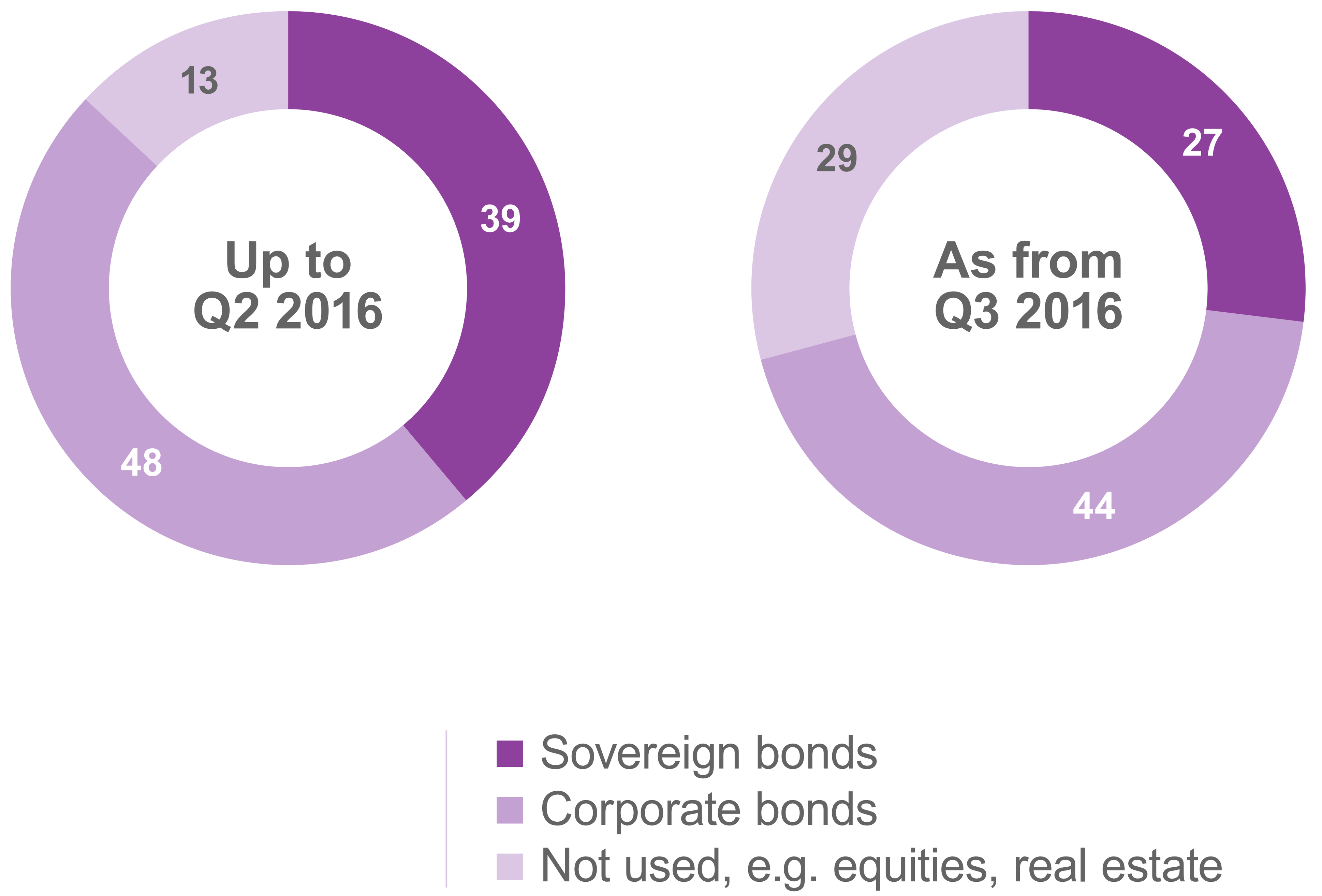
mark-to-model

Initial VA = 10bps

- SWAP rates
- Correction VA to offset non-fundamental spread risk

Issue 1: **Unit-Linked** assets

- EIOPA includes assets backing Unit-Linked products in reference portfolio
- Overall proportion of assets considered in calibration of VA down, reducing also level of VA
- Risk borne by policyholders
- Inclusion in reference portfolio for calibration of VA difficult to justify



Issue 2: Reference portfolio versus Ageas **asset mix**

	Assets – Ageas bond portfolio mix	Liabilities – EIOPA reference portfolio (as from Q3 '16)
Corporate	28%	44%
Sovereign	56%	27%
	Assets – Ageas Sovereign bonds mix	**Liabilities – EIOPA Sovereign bonds mix**
Germany	3%	16%
The Netherlands	2%	4%
Austria	8%	5%
Belgium	50%	10%
France	17%	28%
Spain	4%	10%
Italy	4%	22%
Portugal	6%	1%

- Proportion corporate / sovereign
- Corporates: duration & yield
- Sovereign: ONLY duration, NOT yield

Issue 2:
Reference portfolio versus Ageas **asset mix**
Yield sovereign bonds based on ECB curve

	Assets – Ageas bond portfolio mix	Liabilities – EIOPA reference portfolio (as from Q3 '16)	
Corporate	28%	44%	44%
Sovereign	56%	27%	27%

	Assets – Ageas Sovereign bonds mix	Liabilities – EIOPA Sovereign bonds mix	Liabilities – ECB curve
Germany	3%	16%	11%
The Netherlands	2%	4%	11%
Austria	8%	5%	12%
Belgium	50%	10%	9%
France	17%	28%	13%
Spain	4%	10%	15%
Italy	4%	22%	21%
Portugal	6%	1%	0%

Resulting distortion
from spread widening 50 bps

	Impact on VA	Impact on assets	Impact on Liabilities
Belgium	+1 bps	- 1,035 mio	+ 48 mio
Austria	+1 bps	- 122 mio	+ 48 mio
Portugal	+0 bps	- 74 mio	-
France	+0 bps	- 312 mio	-
Italy	+2 bps	- 70 mio	+ 96 mio
Corporates	+14 bps	- 769 mio	+ 836 mio

Potential solution under **Pillar I**

Align asset mix with reference portfolio

aligned

Client expectation

Product guarantees based on home sovereign performance

Business reality

Asset mix strongly focused on home sovereign bonds

↔

not aligned

Reference portfolio

Majority corporate bonds within fixed income portfolio

Status Align asset mix with reference portfolio is **not an option**

Potential solutions under Pillar II

Country VA

- VA based on EIOPA country reference portfolio
- **CON:** not completely own asset mix; might lead to “inverted risk profile”

Company VA

- VA based on own investment portfolio (excl. UL)
- **PRO:** easy, perfectly in line with own investment portfolio
- **CON:** more difficult for regulator to control; might lead to "inverted risk profile"

Expected loss model

- Projects P&Ls taking into account negative impact of expected realised losses while recognising pull to par effect of spread stress events
- **PRO:** allows to capture illiquidity premium embedded in own investment portfolio
- **CON:** not in line with the pillar 1 requirements

ICS

Several alternatives under discussion

Status SWOT analysis ongoing

Prudent approach?

Prudent approach **eligible Own Funds**

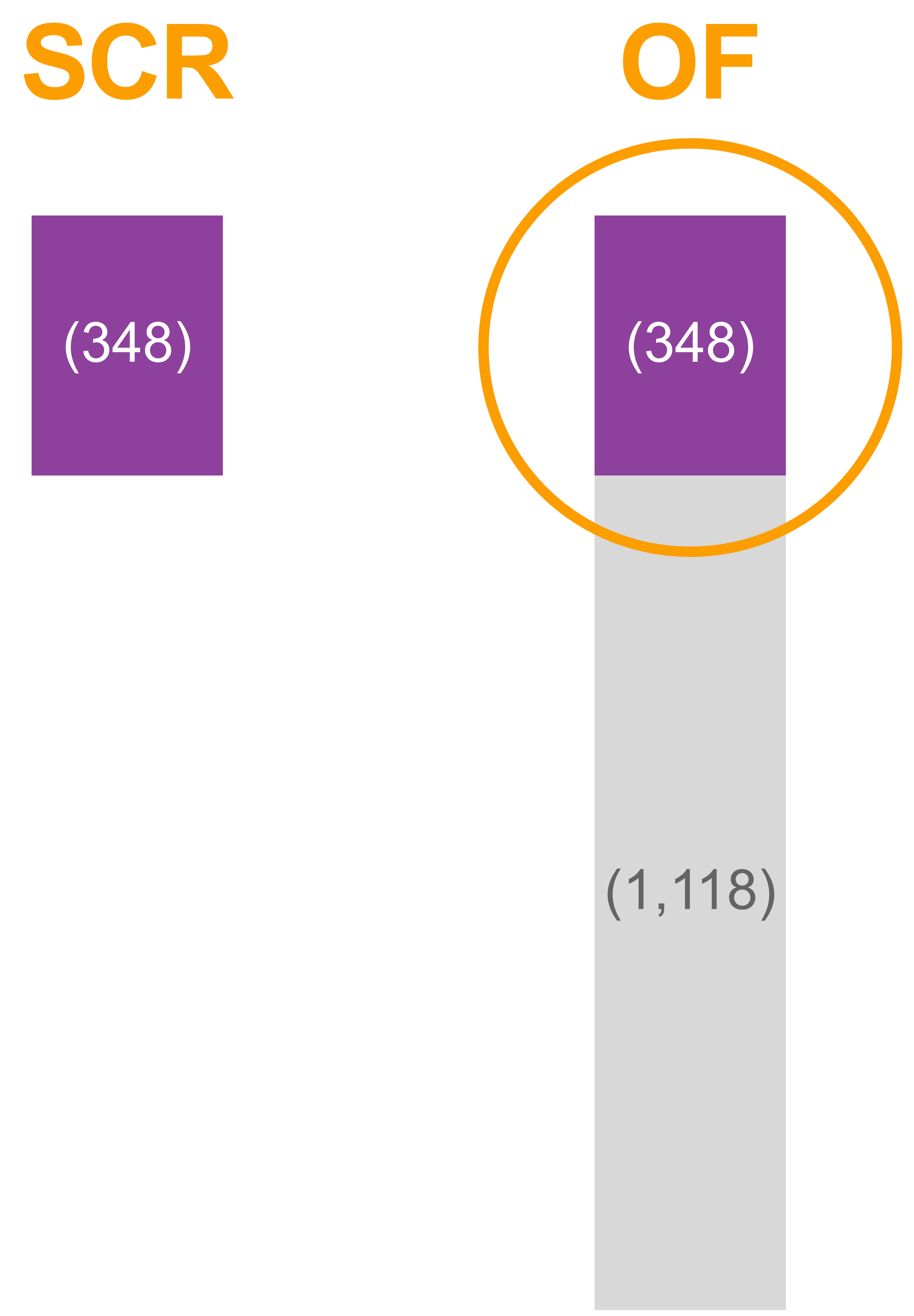
Amount equal to **geografical diversification** benefits between **controlled entities** in SCR deducted from Own Funds

- Prudent element in Own Funds calculation

Free Funds belonging to **3rd party shareholders** in controlled entities

- Obligation to deduct
- No prudency

Estimated impact + 8 pp



Non-European Non-controlled participations **not included** in Solvency II ratio

in EUR mio	Available Capital		Regulatory required Capital		Solvency Ratio	
	FY '16	FY '15	FY '16	FY '15	FY '16	FY '15
East West Ageas Life - Philippines	11		1		-	
Muang Thai Life Assurance Company - Thailand	626	573	156	133	400%	431%
Muang Thai Insurance Public Company Limited - Thailand	18	16	5	4	400%	397%
Mayban Life & Non-Life - Malaysia	622	445	248	220	251%	202%
Taiping Life Insurance Company Limited - China	2,956	737	1,178	326	251%	226%
IDBI Federal Life Insurance Company Limited - India	24	23	6	5	366%	485%
MB Ageas Life JSC - Vietnam						
Aksigorta - Turkey	45	45	39	41	116%	111%
	4,302	**1,893**	**1,633**	**729**	**264%**	**252%**

Estimated impact + 20 pp Indicative impact assuming these companies would have been deemed equivalent

Preference for prudent view on transitional measures

- Transitional measure on technical liabilities (art. 308d)
- Applied in PIM for Life & Workmen's Compensation within Continental Europe
- **NOT** applied in Solvency II_{ageas}
- Deduction technical liabilities will decrease linearly to be disappeared completely at 01/01/2032
- Long-term liabilities with high sensitivity to low yield environment & spread volatility

Solvency I	⟷	Solvency II
Valuation liabilities based on guaranteed rate	**Delta** • added during 2016 • decrease of 1/16 every Q1	Valuation liabilities based on swap rate + VA correction

Estimated impact + 11 pp

Sensitivities

Sensitivities of Insurance Solvency II$_{ageas}$

As per 31/12/2016 Based on Solvency II$_{ageas}$	SCR	OF	Solvency
Base case Before stress	4,182	7,478	179%
Yield curve down Down 50 bps	4,456	7,407	166%
Yield curve up Up 50 bps	3,942	7,452	189%
UFR Down to 3.65% (from 4.2%)	4,235	7,396	175%
Equity Down 30%	3,958	6,954	176%
Property Down 15%	4,079	7,189	176%
Spread Spreads on corporate & government bonds up 50 bps	4,401	6,888	157%
Corporate spread Spreads on corporate bonds up 50 bps	4,054	7,501	185%
Sovereign spread Spreads on government bonds up 50 bps	4,546	6,849	151%

Significant negative impact from **yield curve** stress vs. duration matching in Belgium

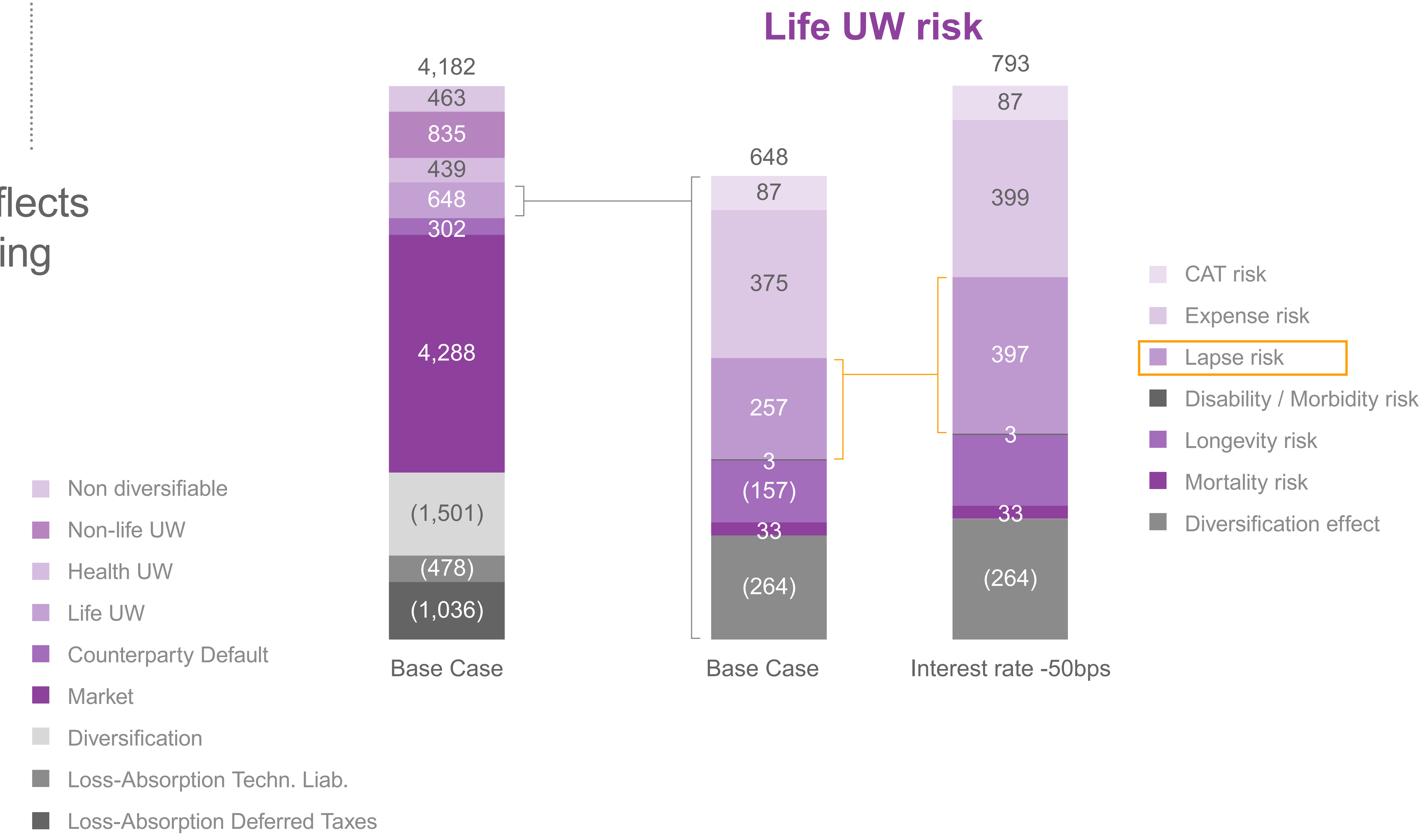
As per 31/12/2016 Based on Solvency II$_{ageas}$	SCR	OF	Solvency
Base case Before stress	4,182	7,478	**179%**
Yield curve down Down 50 bps	4,456	7,407	**166%**

Small impact on **OF** reflects assets & liability matching

Big impact on **SCR** coming from lapse risk

Highest charge for 'lapse down' scenario

- Longer duration of liabilities
- Switch from matched to mismatched situation



Significant negative impact from **sovereign spread** stress

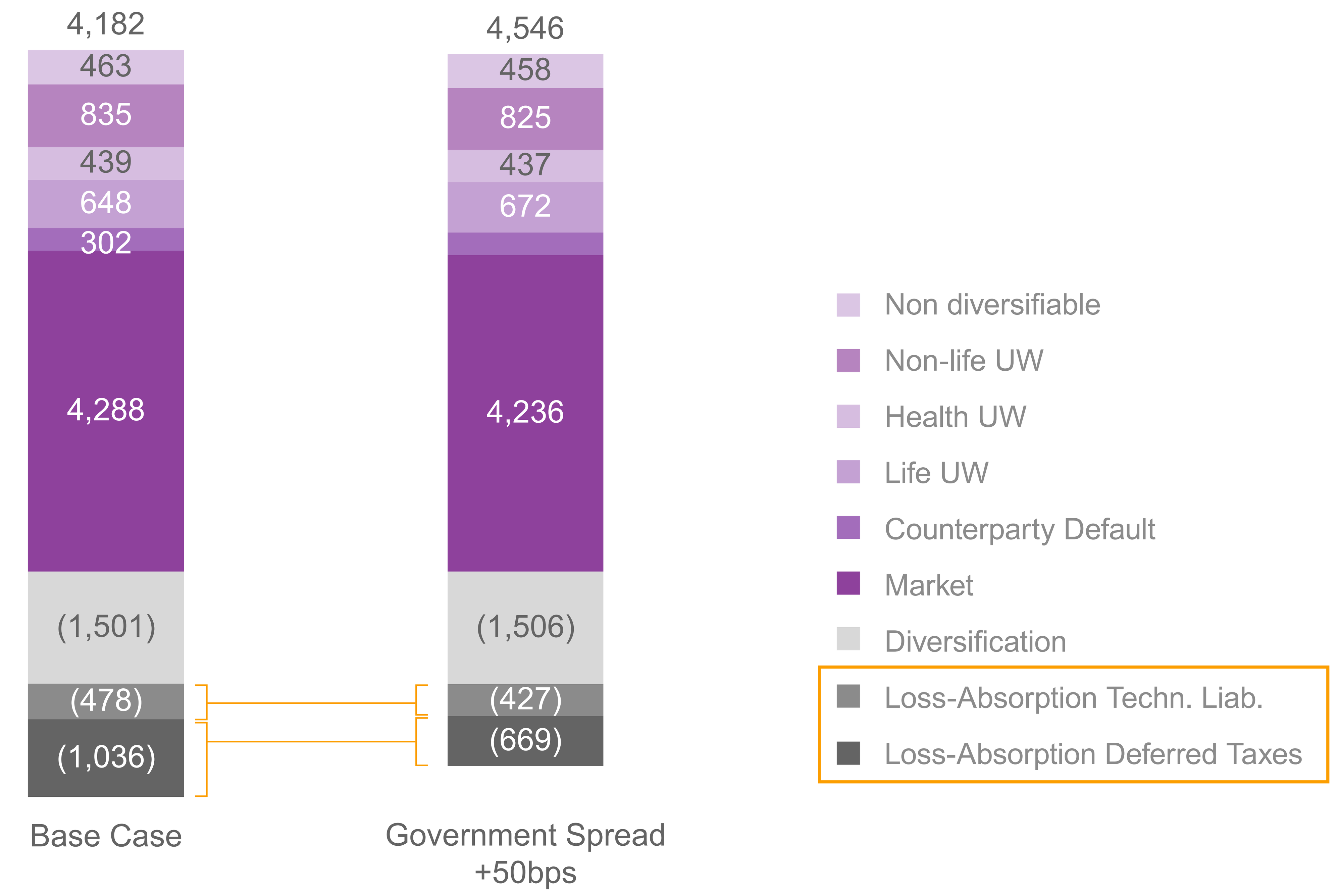
As per 31/12/2016 Based on Solvency II$_{ageas}$	SCR	OF	Solvency
Base case Before stress	4,182	7,478	**179%**
Sovereign spread Spreads on government bonds up 50 bps	4,546	6,849	**151%**

Decreasing OF

Basis risk between assets (own investment portfolio) & liabilities (EIOPA reference portfolio)

Increase SCR caused by decrease in mitigating elements:

- Decrease Loss Absorbing Capacity of Discretionary Benefits - less profit sharing absorption
- Decrease Loss Absorbing Capacity of Deferred Taxes – impact of cap is increasing



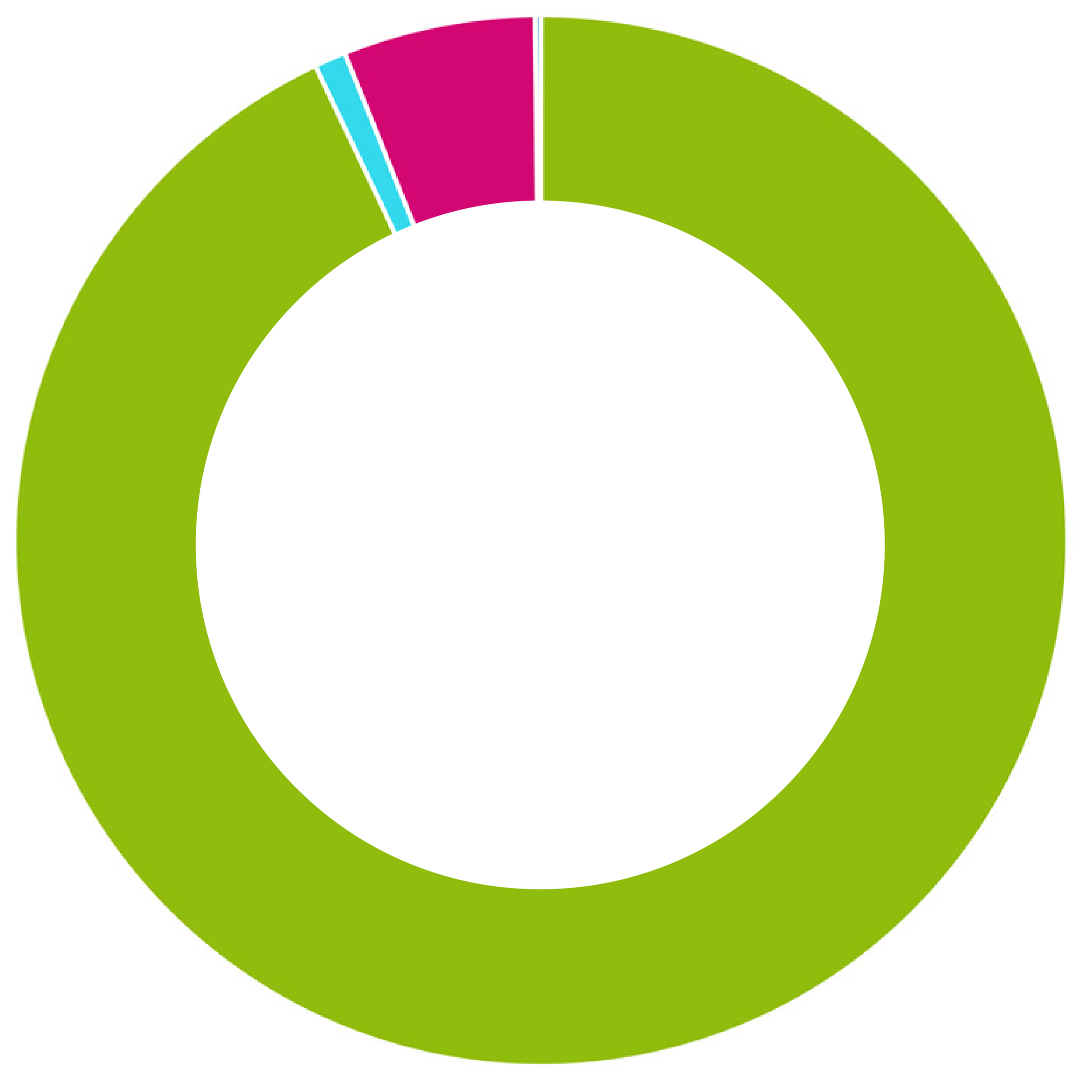
How sustainable is your LACDT?

How is Group **LACDT** calculated?

Loss Absorbing Capacity Deferred Taxes =
$\sum$ LACDT per Opco

- As agreed with each local regulator
- Portugal: capped by future taxable profits
- UK: is based on budgeted profits with DTA already recognised on the balance sheet deducted
- France: capped at DTL in MCBS
- Italy: capped by future taxable profits
- Belgium: **capped at DTL in MCBS**

Biggest part **LACDT** coming from Belgium



LACDT in Belgium capped by **DTL-DTA**

LACDT

Loss Absorbing Capacity
of Deferred Taxes =

33.99%
of gross taxable SCR

Current CAP

DTL-DTA

FY'16
Belgium

MCBS

		OF	**6,944**
FVA	**80,610**	FVL	**72,612**
DTA	**36**	DTL	**1,090**
Assets	**80,646**	Liabilities	**80,646**

LACDT max **1,105**
LACDT cap **1,054**

LACDT	**1,054**
SCR	**2,835**
Ratio	**245%**

What if? Sovereign spread widening of 50 bps

Impact
on Belgium

OF down
EUR **788** mio

SCR up
EUR **398** mio

Cap down
EUR **406** mio

Ratio
down **55** pp

FY '16
Belgium

MCBS

FVA	78,656	OF	6,156
DTA	36	FVL	71,852
Assets	78,692	DTL	684
		Liabilities	78,692

LACDT max **1,106**
LACDT cap **648**

LACDT	648
SCR	3,233
Ratio	190%

New NBB circular on **LACDT cap**

Future cap

Published on 19 April 2017, Retro-actively applicable as from FY '16

Cap LACDT based on

- Corporate tax rate (standard 33.99%)
- Applied on max 5 years taxable profit
- Based on internal strategic plan

Under condition to pass recoverability test

Application @AG Insurance

- Interaction with auditor on recoverability test
- Potential estimated impact **maximum 4 pp** increase in Solvency ratio
- Potentially bigger positive impact on **spread sensitivity**

Ageas **sensitivities** with application new LACDT circular

As per 31/12/2016 Based on Solvency II	Current cap	Future cap
Base case Before stress	179%	180%
Yield curve down Down 50 bps	166%	171%
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UFR Down to 3.65% (from 4.2%)	175%	178%
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Spread Spreads on corporate & government bonds up 50 bps	157%	167%
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Put Option

Treatment of BNP put option

What if Put option **excercised**

Conclusion

Belgium ratio stable
Insurance ratio up
Group ratio stable under assumption price paid equals put

What if Put option **not excercised**

Conclusion

Belgium ratio stable
Insurance ratio stable
Group ratio slightly up under current value put option & non-transferable on Belgium

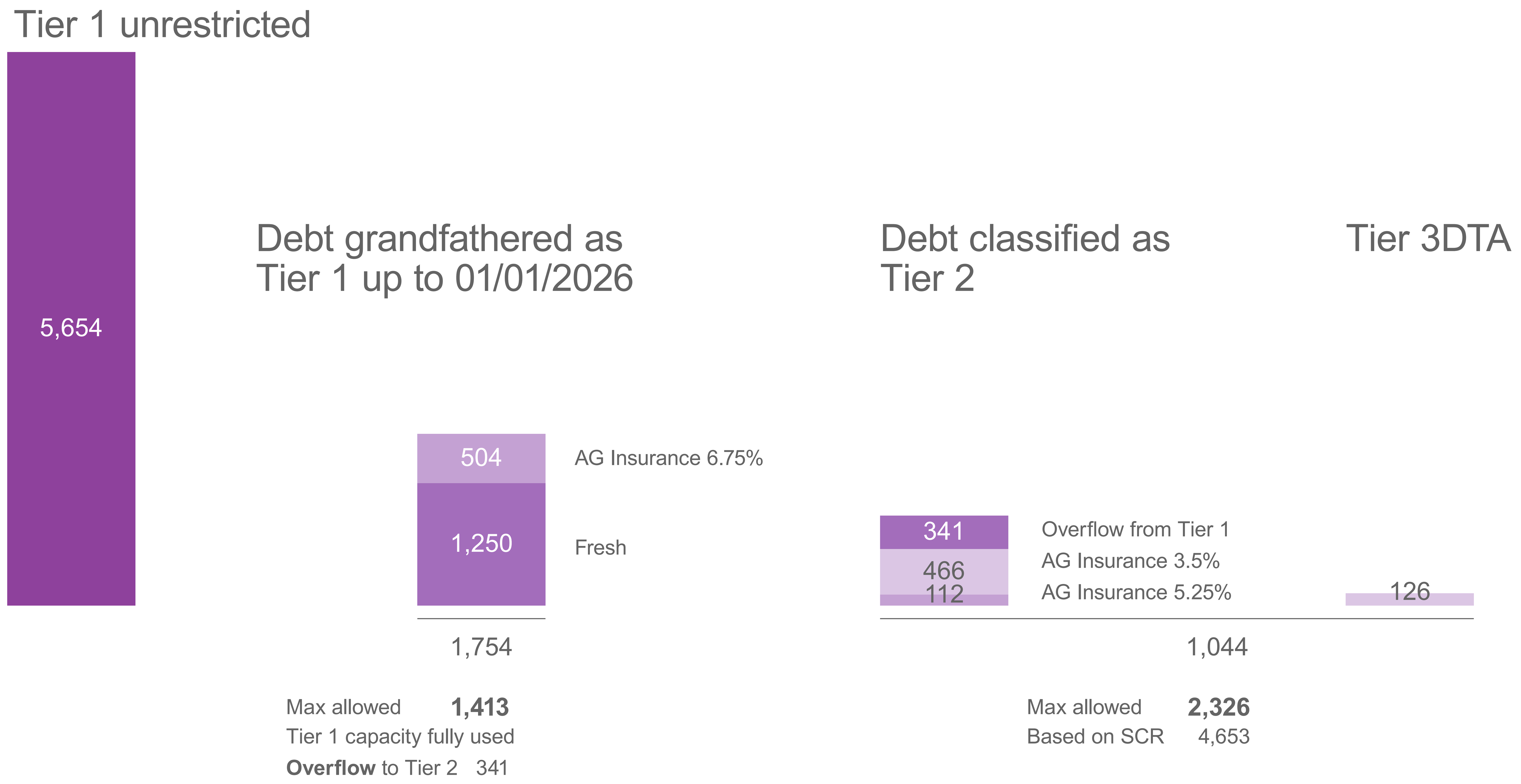
Debt capacity under **Solvency II**

How big is your **regulatory hybrid debt capacity** under Solvency II?

Regulation

- Restricted Tier 1 max 20% total Tier 1
- Tier 2 + 3 max 50% SCR
- Tier 3 max 15% SCR

AS IS FY '16



Conclusion

Conclusion

Good to know
about Pillar II numbers

- Quarterly expected **dividend** deducted
- **Non-European** Non-controlled participations not included
- Extra deduction of **non-transferable** own funds
- Capital charge **sovereign bonds** taken
- Benefit from **LACDT** capped
- **No transitional** measures
- **Put option** potential cost already deducted
- **Real Estate** internal model

Pillar I vs. Pillar II

- Pillar II framework **more appropiate** than Pillar I
  Spread treatment, Real Estate, Transitionals
- Pillar I remains **floor**

Volatility YES

- Mainly due to non-economical **basis risk**
- Ageas economically protected through good **product** design & **balance sheet** management
- **No direct constraint** for business decisions & capital management