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Operator
Good day and welcome to the investor call interim results a.s.r. H1 2018 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Michel Hülters, please go ahead, sir.

Michel Hulters
Thank you operator. Good morning ladies and gentlemen. Welcome to the a.s.r. Conference Call on our first half-year results. On the call with me today are Jos Baeten, our CEO, Chris Figee, the CFO, and Jos will kick off as customary with an overview of the highlights of our financial results and will discuss the business performance. Chris will then delve into the development of our capital and solvency position and after that, we will open up for Q&A. We have got scheduled till 12 o'clock. And as usual, please review, you know, at a time that is convenient for you, the disclaimer that we have in the back of the presentation on any forward-looking statements. So, having said that, Jos, the floor is yours.

Jos Baeten
Thanks Michel and good morning everyone. Good to have you all here. Thank you for joining us on this call. Ladies and gentlemen, as you have seen from our this morning published numbers, we realised very strong results in the first half of this year and we continue to deliver solid performance. I believe we are well on track to meet or even exceed all of the medium-term targets for 2018. And without further ado, let's turn to the highlights and those are on **Slide 2**.

As you may see at this dashboard, it shows our performance over the first half of 2018 and it has been solid on every key metric. Operating results amounted to € 382 million, almost at the same level as the already very strong result of last year, which we already knew was going to be tough to compare with due to the exceptional favourable claims experienced last year. While in January this year, we suffered from a severe storm that impacted our non-life results with € 31 million. Underlying, our non-life performance continues to be very strong and each of the other segments reported high results in the first half this year, reflecting higher investment margin and good momentum in the fee-based business segments. Our business yielded an operating return of 14.7% on an annualised basis, well over our target of up to 12%. Overall, I believe that this is an outstanding achievement.

Combined ratio of a.s.r. stood at 97.1%, just above our target of 97%. The 97.1% includes the impact of the storm, which is 2.1 percentage points and furthermore, the inclusion of the Generali Netherlands portfolio with a combined ratio of 101.4% in the first half of 2018, which had an impact of roughly half a percentage point on the combined ratio. We remain, as you know, sharply focused on cost levels and are pleased with our achievements. Our operating expenses headline figure increased with € 60 million to € 299 million and it was due to the inclusion of the € 22 million of operating expense from Generali. Adjusting for additional cost base of Generali Netherlands, our operating expenses decreased by 3.2% over the first half year, mainly driven by expense savings within the life segment for € 8 million.

Our solvency II ratio remained very robust, still based on the standard formula at 194% after the interim dividend that will be paid in September. So, basically, we have been able to keep our solvency II ratio pretty stable while absorbing the impact from the Generali transaction for 9 percentage points. Organic capital generation amounted to € 179 million adding five percentage points to the solvency, and there are some other moving parts on which Chris will provide further detail later on in this presentation. Quality of our capital remains high with unrestricted Tier 1 capital alone representing 151% of the solvency II. And then there is still plenty headroom to manoeuvre. In total, we have the possibility to issue almost € 1.6 billion of hybrid capital within the solvency II framework.

Our strong solvency position enables us to remain entrepreneurial. As we have always said, everything above 160% allows us to be entrepreneurial and to pursue profitable growth, which we have proven to do so with, for example, the acquisition of Generali Netherland last year. Speaking about Generali, as you may recall, from the call, which we hosted in June, this is progressing very well. Generali Netherland contributed to the operating results for already € 8 million in the first half of this year. As announced last February, we introduced an interim dividend of 40% of last year's dividend. This amounts to € 92 million of interim dividend or 65 eurocents per share. Together with the full year dividend already paid, we will distribute in total € 321.5 million to shareholders this year.

Let's now turn to our business portfolio and talk about the developments there. That's on **Slide 3**. Starting with our solid back books in box B. In the first quarter of 2018, we finished the migration of two individual life books towards the Software as a Service platform, making the cost more variable, in order to keep cost in line with the decline of the book. The migration of those two books were completed with a total of roughly 215,000 policies. Like I mentioned earlier, strict cost control is key and in the life segments, this led to a decline of € 8 million of operating expenses. This is due a decline of € 5 million within the individual life business, driven by the system rationalisation and a decline of € 3 million within our pension business.

In the top left, in box A, are our businesses that provide opportunity of growing cash flows. In funeral, we successfully migrated the first portfolio of Generali Netherlands to the a.s.r. funeral platform. The migration of 353,000 policies was finished on the 1st of July. In P&C, organic growth was driven by inflow in the broker channel, as well as price increases in the motor segment. Within disability, we launched two new products, the so-called Langer Mee disability insurance in June of 2018. This is a disability product aimed at the blue colour group to offer an affordable disability product for this class with a capped payment for the insurer in case of disability. Initial market response was very positive and already in the first few weeks, we could welcome more than 100 new customers in this product.

Within pensions, we see good momentum in the DC area as employers decide to move to the so-called Werknemers pension. This half-year, we have reached the milestone of over 50,000 active participants and almost reached 3,000 employers, who have opted for a contract with this product. Currently, over € 600 million of assets on the management are in this product group and this is going to grow on a year on year basis. In asset management, there are also very good developments to mention. We see that investors appreciate the recently launched ESG funds and we saw already an inflow of over half a billion. Also, the mortgage funds proved successful with new inflows of € 700 million and the mortgage fund today has now reached over € 1 billion of assets under management. Within the real estate funds, we see continued interest from investors over there. This half-year, we had a withdrawal request from an investor, but we were able to provide liquidity for that investor and actually realised more inflow than outflow.

Let's now move to **Slide 4**. As this slide shows, momentum in our operating results remained high in the first half of 2018; despite the severe general storm, we managed to almost equal last year's result. Higher results from life plus € 26 million, bank and asset management plus € 6 million, distribution and services plus € 2 million, and the holding and other plus € 3 million, almost offset the decline in non-life. We are confident with our performance, but would urge some caution and not automatically multiply by 2 when projecting for the full year, because, as you know, typically we see in the first half-year, seasonality mainly driven by the investment margin because most dividends are in the first half. For instance, half-year 2 dividend could be roughly € 30 million lower than the first half-year's dividend.

Let's have a closer look at our business segments, starting at **Slide 5** with non-life. In this segment, we still see a very strong performance. Despite the storms in January, we managed to keep our combined ratio at 100% sharp. The disability combined ratio improved even further from already very strong levels. Our gross written premium increased by 16.5%, mainly driven by the inclusion of Generali Netherland. Excluding Generali Netherland, the gross written premium increased with 4.5%. So, organic growth of the first half year again was very high with 4.5%.

All of our business lines showed an increase of the gross written premium driven by new sales and in some areas, with price increases within the existing portfolio. We still see good opportunities to grow organically in the non-life segment. Combined ratio, as said, was 97.1% in the first half and slightly above our target of 97%. The storm in January had an impact on the combined of 2.1 percentage points and the inclusion of the Generali Netherlands portfolio had an impact of 0.5 percentage points. When adjusting for those two events, a normalised COR of the portfolio is below 96% meaning that we have a very profitable underlying combined ratio at this moment. As the health business is more regulated, also from a margin and profitability point of view, we also look at a non-life combined ratio excluding health and consisting of only P&C and disability. On this basis, the combined ratio of a.s.r. would be 96.7%. The combined ratio of P&C and disability excluding Generali Netherlands would be 96.0%. So, all in all, a very solid combined ratio in the non-life area.

In the breakdown of the combined ratio, you can see a pickup in the claims as an effect of the storm of January this year. We had roughly 12,000 claims only due to this storm. The increase in the commission ratio is mainly a consequence of the inclusion of the Generali Netherlands portfolio. This portfolio compromises mostly P&C products which in general come at a higher commission ratio. Therefore, the uptake in the commission ratio is a reflection of the change in the distribution mix. If we were to look at the combined ratios for each of the different business lines, you can see good momentum in the disability portfolio. Last year, we saw unfavourable claims development in the absenteeism portfolio, but we took measures over there and resulted in margin expansions within this portfolio.

Let's now have a look at **Slide 6**, the life segment. In life, we saw a strong increase of operating result of € 8.3 million towards € 340 million. This increase was mainly driven by an increase of the investment margin of € 27 million. The increase of the investment margin was driven by a number of factors. First of all, our direct investment income benefitted from the re-risking we have done over the last year of the investment portfolio. For instance, we received € 10 million more dividends. Furthermore, as the individual life book runs off, there is also a decline of required interest, which is positive for the investment margin as investment income remains relatively stable. Generali Netherlands had a contribution of € 8 million, mainly within the investment margin.

We see most of the increase of the life result as sustainable for the coming years. Please bear in mind that H1 is typically supported by dividends, as I just have mentioned. Furthermore, we are pleased with the inflow which we see in the so-called Werknemers pension. Currently, 82% of the new business APE is from the new DC solution, which is a very positive development because it is all recurring premium. The gross written premium of the life segment increased towards € 885 million due to the increase of capital light gross written premium within pensions and the contribution of € 54 million of Generali Netherlands. This positive development was slightly offset by experienced higher lapses in the individual life portfolio.

Let's now turn to the other segments of a.s.r., which are gaining traction and that is on **Slide 7**. Operating result of the bank and asset management showed a strong increase to € 11 million. This was driven by the launch of the mortgage fund and ESG funds, which resulted in additional fee income from third parties for the asset manager and higher fee income from the real estate funds. Furthermore, the operating result of the bank increased mainly due to lower cost. Operating result of the distribution and services segment increased with 20% to € 12 million. This was driven by a strong contribution from Dutch ID and a contribution from the Generali Netherlands distribution companies like ANAC, which contributed almost € 1 million. Holding results were slightly better. This was mainly driven by lower net current service cost due to our own pension scheme for an amount of € 1 million and lower incidental cost compared to last year.

Now, let's move to **Slide 8** to measure our performance against our targets. As said in my introduction, our performance has been strong on all key metrics in the first half of 2018. We have been able to keep our business momentum at a high level and our performance is better than our medium-term targets. As you may know, 2018 is the final year of the medium-term targets and we will present new medium term targets at the Capital Markets Day in October this year. Having said this, I would like to hand over to Chris for further details on our capital and solvency. Chris, the floor is yours.

Chris Figee
Very good, thank you very much Jos. Ladies and gentlemen, please turn to **Slide 10**, where we start to talk about our solvency. Firstly, apologies for my voice. Fortunately, our solvency is better than my voice, but that is still better maybe the other way around. But my voice keeps cracking out from time to time, so bear with me.

Slide 10 shows our book values, IFRS equities and solvency II own funds and we see continued growth in book values, something we like in the long run. We appreciate that, the book values of our company whether measured from an IFRS perspective or a solvency II perspective continue to grow. Growth is slightly less than last year. Growth is around the 1-2% mark year on year due to the fact that in the first half-year, we tend to pay out dividends, we acquired Generali in this first half-year and as you understand in financial markets, the valuation, the unrealised capital gains were a bit less than last year. But in spite of dividend and the Generali acquisition, we continued to grow our book value, interesting to know that the own funds of our group including hybrids touched the € 7 billion, that is not a specific goal in itself, but it is fun to see that we have met € 7 billion just before we paid interims. And the unrestricted Tier 1 level is around € 5.4 billion. Just a bit of background to our solvency numbers.

Then turn to **Slide 11** please, on our solvency level. Solvency II 194% as per the standard formula, after payment of interim dividends before interim dividends at 196%. So, business wise, effectively our solvency stays stable from year end last year 196% to 30th June this year at 196%. And then you take out the interim dividends, you get to 194%. In the appendix E, you will find more data and more intelligence on the development of the required capital; at this point safe to say that we feel strong and confident with the level and quality of solvency. Tier 1 is about 78% of our capital and Tier 1 ratio alone would be 151%. Tier 2 and tier 3 headroom is € 750 million, actually an increase from Q4 last year. a.s.r. does not use Tier 3 capital. We do not have a DTA, we still have a net DTL position on our books. LACDT is stable at 74% and our market risk is at 43% leaving some room to re-risk our business; and it is fair to presume that depending on markets, in H2 of this year, we will spend some of our capital on re-risking our business. So, we feel that and this perhaps has now widened to and around where they have become attractive again. The equity market is stable. So, expect that we must use some of that market risk room to continue to support our earnings, not the entire 7%, but some points of solvency we will spend on our market risks. So, as far as we can see, a solvency good from a level perspective and good from a quality perspective.

Please move to **Slide 12**, on capital accretion. We continue to amass capital. Slide 12 shows a breakdown on the sources and uses of capital generating an accretion of € 331 million or about 9-10% of our required capital. Then after the payment of € 92 million of interim dividends, we get to a retention of capital of about € 239 million or 6% of our capital base. So, 6% retention out of 9% net accretion. That actually is the increase in the fungible and upstreamable and investible capital that we have. And as you are aware, we have a very strong and consistent capital spent framework, but the € 240 million gives additional flexibility for our group to invest.

Slide 13 is our alternative view or the most common view these days on capital generation. It is a solvency ratio movement. Let me give you some further details on this. On this page, you can see how we spend 9 percentage points on the Generali acquisition from 196% to 187%. So, that actually is the base you could initially start with to assess our solvency move through the year, that we moved from 187% to 197%, which is again the 9-10% capitals accretion that I explained in previous page. In this page, we have an operating capital accretion of € 179 million, organic capital generation of € 179 million, slightly less than last year. But if you appreciate the fact that we this year had a significant storm as well to observe, the underlying capital generation ability of the group actually had gone up.

As just explained, the storm chart in H1 was € 31 million in January. Secondly, there was some water damage in May. Last year, we had no large claims in Q1, so effectively in our property and casualty business on a like for like basis, we generated less capital than last year, fully understandable. It is a comparison thing, large claims or it is a storm thing. And if you would just for the storm, you can actually see that the underlying organic capital generation is up. And if you dive deep into the sources of that increase of the structural improvement in capital generation, it is with a lower UFR unwind, which effectively is counted by slightly higher hybrid cost, but it’s higher access spreads, it’s lower cost and higher returns in our disability business.

So, all in all, we feel comfortable with the organic capital generation, € 179 million, but structurally elevated versus last year. And also, of course, Generali started to contribute to that level. Think about the € 5 to 7 million of cap-gen, structural cap generation that the Generali business adds to this number. And if you look at our OCC over the quarters, there is not much point in looking at a quarterly OCC, but in Q2 this year, Q2 ‘18 versus Q2 ‘17, we already have € 9 million higher OCC in the quarter, which confirms that in a quarter, where there is no storm and in normal claims pattern, this group generates more capital than it did last year.

Finally, to pre-empt any questions that are no doubt coming towards us, if we were to align the investment spread to the actual market rates, so it is sort of using long-term investment assumption to market rates, the OCC would increase by about € 7 million. So, we aligned fixed income spreads, we aligned the VA to add about € 7 million. And if we were to put our equity and fixed income with equity and realistic returns, let’s say 7%, you could add another € 60 million to the organic replicable capital generation. Now, again, that is not our policy, but just for your perusal, for your background, aligning to fixed income market rates at 7%, aligning to 7% as an example for equities and real estate adds another € 60 million. But that is for you to assess how you wish to use it.

Overall, we see 10% solvency accretion out of which just 5% is organic, 3% paid out in dividends ending up with a virtually stable solvency ratio in spite of the acquisition of Generali, in spite of the lowering of the UFR, from our perspective tantamount to the ability of a.s.r. to continue to amass capital.

Move to **Slide 14** please, if you wish, sensitivity of our ratio to the UFR. You can see the stock of our solvency with various UFR levels, the flow, the additional, or lowered UFR unwind and the amount of own funds. At this point in time, the UFR is 4.05%. We expect it to be dropping by 15 basis points a year. So, by the year 2021, as far as we can see today, you would expect it to drop to 3.6% at least according to the current market information. Roughly, you know, every 15 basis points drop of UFR costs us 3.6% of solvency, but adds about five million of lower UFR unwind per year. That is also the case in this year. This was the actual development in the UFR contribution and the UFR unwind. So, we have 183%, we are very well able to absorb any lowering of the UFR if they come due.

Furthermore, please note the solvency at the UFR of 2.4%. You may be aware of our more economic view of the UFR where we say that economically speaking, you would like the UFR to reflect your investment income and use that as a more economically consistent solvency metric. The economic UFR would increase from 2.2% to 2.4% reflecting our higher investment income also in line with the IFRS results and operating results that’s just reported in life; I think the investment income is structurally higher than we are used to be, adding 20 basis points to that long-term, more economic UFR, which gives a solvency II ratio at the UFR of 2.4% of a 154%, safely north of our risk appetite of 120%.

And finally, if you were to calculate the solvency excluding UFR and excluding VA, depending how you deal with tiering, think about the number around a 110% and 125% in terms of solvency excluding UFR, excluding VA. So, the impact of LTG measures on our solvency is very, very manageable and very, very under control.

Moving then to **Slide 15**, which is our strong balance sheet, balance sheet strong with ample financial flexibility, you can see again our solvency composition of 194%. Financial flexibility, again, there is no DTA, we only have a DTL on our balance sheet. Headroom has increased so we can actually, you know, we have sufficient financial flexibility if you wanted to further strengthen our capital base.

Financial leverage is at 25%. I think if you did on a more like for like basis compared to industry norms and you would adjust for the shadow accounting reserves that are, you know, not reflected in our book equity, a more comparable number would be around low 20s. So, both from a solvency II perspective and an IFRS perspective, this group has financial flexibility, which is confirmed by the interest cover, which is still, what, 12 times on the basis of IFRS. If you had a high operating results interest cover, it would be 9.4 times versus 10.2 times last year. So, again, whether you take the IFRS perspective or you take the operating results perspective, interest cover is stable to strong. A strong balance sheet with ample financial flexibility.

And last, but not least, our solvency and cash position. Holding cash at the first half-year is € 229 million. Just to reiterate our holding cash policy, we do not strive to maximise cash at the holding. We believe for a company as a.s.r., one jurisdiction, one management team, one regulator, that cash is best placed at the operating entities. That is just the way we do things around here and the way we continue to do things around here. So, we holding cash to cover holding cost to cover hybrid cost and to cover dividends, not so much to optimise a cash flow at the holding, we believe it is best served in the business where it supports our customers for its yields and income. Holding cash at the group, € 229 million, actually comparable to the last year with € 201 million, so up € 28 million from last year. € 195 million remittances, little details, a little note here, the € 195 million is a net remittance. Actually the growth remittance to the group was € 246 million, so we upstreamed € 246 million out of our entities for the group, injected 51 million back into the Generali entities, just after the acquisition, in order to fund some re-risking of the Generali business which gives the € 195 million. So, € 246 million was the upstream of the traditional a.s.r. businesses which is equal – roughly equal to the € 253 million we have streamed last year which is injected cash back to the Generali and when the Generali entities merged back into a.s.r. life and a.s.r. P&C, that cash showed up back into the a.s.r. life business. And it was a small circling out of cash to support the timely re-risking of the Generali balance sheet.

And, again, remittances exceed our operating capital generation, around 70% of the net operating profit. And finally, all our entities this year will contribute cash to the holding, not just life and P&C, but also for example the asset manager, also for example distribution businesses are able and will be able to upstream cash. So, in terms of holding cash, we hold cash to support the operating businesses, and for that we keep the cash in the holdings – in the operating entities. With that, I get to – back to Jos who's going to wrap up.

Jos Baeten
Thank you, Chris. And as I set to wrap up this call, I would like to conclude that we are very pleased with the strong set of results. We were able to match our records of operating result in the first half of 2017 despite the severe impact of the storm in January. Our businesses are all very well-performing and that enables us to remain entrepreneurial. We have shown that we put our excess capital to work. We are pleased with the progress of the integration of Generali Netherlands, but also with its contribution to the operating results and the OCC of a.s.r. Before we open for Q&A, may I remind you of our capital markets day which will be hosted on the 10th of October where we will provide a full update of the strategy and a fresh new set of medium-term targets.

And with that, I would like to conclude this presentation and we are very happy to take any question that you might have.

Operator
Thank you. If you would like to ask a question on today's call, please signal now by pressing star one on your telephone keypad. That's star one to ask a question. We can now take our first question from Cor Kluis from ABN AMRO Bank. Please go ahead.

Cor Kluis
Good morning, Cor Kluis, ABN AMRO. A couple of questions, first of all about the own funds of Solvency II, could you elaborate a little bit more on the category markets and operational developments which is minus € 53 million, and that includes of course the UFR effect of minus € 93 million, but which other components are in that category.

Related to that, also the re-risking, what could be the effect of the solvency ratio of the re-risking in second half of the year. And of course, related to that, the P&L effect of that, how much could that enhance the profit stream. And as we're already in – at the end of – almost at the end of the second month of the third quarter, could you give an update on the Solvency II ratio developments in the third quarter, especially given what's going on in the macro environment?

And the last question is about the bank and asset manager which has quite strong results in the first half. Is this kind of run rate or was this something one-off in it? Those are my questions.

Chris Figee
Great, good point. Chris here, thanks for your questions. I'll take them – all four one by one. On the bucket on market development, indeed it was minus € 53 million. I mean, the key driver of course was the UFR decline. Had it not been for the UFR decline, this thing would have been roughly € 50 million positive. And the rest is really a collection of different bits and pieces; some pluses, some minuses.

On the positive side, we have an increase in the VA that supports this bucket. We have some positive revaluations in real estate especially. On the neutral to slightly negative side, we have impacts on equities in the first half of the year and to some but lesser extent credit spreads widened. There were some tailwinds from rate developments and especially on our DBO on pension plan according to very specific IAS19 modelling.

And then there were some modelling and assumption changes in the life best estimates. We increased our lapse rate assumption. We just talked about the life business. We see a structurally elevated level of unnatural lapses which has to do with a deleveraging cycle that's going through our country. Clients are paying down their mortgages lapse in policies. It's slightly less than what it used to be last year but we think the lapse level in life is structurally elevated. We reflected that in our best estimates.

And finally, we made some modelling changes in our disability business. And here, it gets a bit techie and a bit geeky. But, for example, claims handling cost used to be classified as claims costs. We moved from claims to expenses. And when you expense them, the capital charge for expense risk and NPV of the duration of the disability book is a bit higher. So, we reserve more capital due to the reclassification of claims handling costs. Nothing changed in the business, it's just the charge which goes up. By the way, we've done that pretty prudently. If you would go further, that means the reclassification of expenses would also actually lead to a lower modelling of lapses which should lead to small release of lapse risk which we haven't yet put through.

So, in summary, a bunch of I think very nitty-gritty, almost geeky changes in modelling where we've taken a prudent approach and that together drove a minus € 53 million. But again, if we – it hadn't been for the UFR decline, it would have been a € 50 million plus.

On your second question on the re-risking, I think it depends a bit on the market. When we commenced this year, we had a re-risking ambition. During the first half, we paused it. If you look at the development in markets first of all widening, there's no point in re-risking while the markets are very gibbery. Today, with spreads widening, we think we can continue again. Think about up to five points of solvency. It depends a bit on how the market develops, but think of it, up to five solvency points that we can spend. We'll continue on real estate. We're very comfortable on our real estate business. We'll continue on mortgages. I think we will pick up the tap again on credits, where spreads have widened, and there will be some room to buy equities.

I think the return on solvency capital is today around 12% after diversification, is our estimate. So, if you think about the direct yields that we're going to make on these investments after diversification, it's almost 5%. We think we can make 12% return on capital which will again gradually feed in. So, it's not immediately able to feed in if you, you know, reinvest those – the cash and if the drivers start to contribute to earnings. But it's not the order of magnitude that we're looking at.

Solvency II during the quarter is positive. Markets were still a bit volatile. The VA widened a bit year-to-date. I think the VA is now around 12-ish points. So, from where we are today which is the 29th August, solvency of the group has probably moved up a few points. But again, that's really the weekly lay of the land, the formal numbers will be done on a quarterly basis. But when I look at our weekly monitor, it shows supported developments.

And finally, on the asset manager, indeed we're proud with a significant increase in earnings. We have an increase in fee-based earnings. What I like a lot is that both the asset manager and distribution business together are fee-based earnings are now at € 23 million earnings. So, they're on track to contribute for the full year at least one point of solvency which is where we wanted – we actually like it to go further, but the fee-based earnings adds one point of solvency during the year from an OCC perspective. I wouldn't double the number. I would be careful just to take – full year is twice half-year, but we'll continue to see some growth in the asset management earnings.

Cor Kluis
Okay, helpful. And the 12% return coming back on your re-risking, is that around € 20 million or something in extra profit stream pre-tax?

Chris Figee
No. It's € 75 million of required capital, right, so that if you think about the current solvency ratio 190% – 194%, which means € 75 million of required capital is about up to 5% of ratio impact. So, I think about 12% on the required capital is more like € 10 million to € 50 million.

Cor Kluis
Okay. Okay, helpful.

Chris Figee
It is also enumerated in the denominator effect. If you spend 5% on the denominator, the total ratio, you need to multiply by the ratio itself.

Cor Kluis
Yeah.

Chris Figee
So, 5% is after the multiplication effect.

Cor Kluis
Okay, pretty clear. Thank you.

Operator
Thank you. Next question comes from Albert Ploegh from ING. Please go ahead.

Albert Ploegh
Yes. Good morning. Thank you for taking my questions. I have basically three. One is on the life earnings which clearly were quite strong. In the opening remarks, you already mentioned and also a couple of times not to double for the full year. I recognise the impact of the extra dividends in the first half, but adjusted for the different effects. Can you then underline basically, okay, the second half could then mirror the first half adjusted for the difference? So, that's question one.

On the non-life premiums which, stripping out the acquisition impacts, were still up I think around 4.5% organically, quite a strong performance. So, I guess you're clearly winning market share. I know in the past you alluded that you want to remain very disciplined in underwriting, but, yeah, the low combined ratio gives you some leeway to become also a bit more aggressive on the market share. Is this basically in reflection of that and should we expect this to continue going forward as well?

And then the final question is a bit more related on accounting on IFRS 9 and 17 compared to what you disclosed that you make quite some upfront investment costs already for the implementation. Is there anything in the results of a.s.r. already, and what are your thoughts on the potential impact of IFRS 17? Thank you.

Jos Baeten
Thank you, Albert. I'll take the first two, Chris will answer the last one.

On the life earnings, yes, it's right that we said you shouldn't double it and your assumption that if you take out the dividends and could you double it, then the answer is yes. So, the assumption made by you, that would be a fair way of looking at the life earnings.

On your non-life question, the 4.5 percentage points of growth, we are very happy with that indeed. We however did not change our way of looking to risk. We still are running the company value over volume. But within that, we have identified market parts where we are able to grow our business especially in packages, in individual packages for families. There, we have seen significant growth and that is all within the strict criteria of exacting risks. And, for example, in Q2, our combined ratio was at 96% which is below target – it's better than target. So, we haven't changed our philosophy and, yes, we are growing in market share, but not at the price of getting sloppy on how we look at risk.

Chris Figee
Okay. Albert, on your question on IFRS 9, IFRS 17, to be honest, Albert, the mood in this group is very cheerful this morning, but now that you're mentioning IFRS 9 and 17, it's darkening a bit. But, you know, we'll be facing these two with traditional bravery. No, I mean, in the first half year, we spent about three million on IFRS 9, IFRS 17, so this actually is a costly project. I think we're going to spend – we said three million. I think the second half, we spent at least another three – probably more, five million, in the second half of the year. We'll try to keep our costs as low as possible, be as constrained as possible. That's kind of the realistic perspective on this.

Albert Ploegh
Okay. And any thoughts on let's say actual implications of IFRS 17 or 9?

Chris Figee
Many. Early days, I think we'll spend some time on this in our capital markets day in October. Perhaps not then or to the full extent because we're all trying to retrieve here of what it actually means. There still is debate on a potential delay. I mean, it is discussed and we can't rule out that the IFRS 9 will be postponed by one year or by two years. I mean, our honest perspective is I wouldn't mind a small postponement but not a lot. I mean, if we have to go through it, rather close our eyes and work our way through it and just not continue to postpone it, so one year would be good. More than two – if you actually postpone it by more than two years, you'll find that the cumulative cost will go up. The more you take, the more you spend. But in the CMD, we'll talk about more about IFRS 17. We can give some first colour on what it means. But it depends a bit on what we get and what we learn on the timing.

Albert Ploegh
Okay, thank you. Thank you very much.

Operator
Next question comes from Matthias De Wit from Kempen, please go ahead.

Matthias De Wit
Hi, good morning. And thank you for taking the questions. The first one is on the life business. You referred to the decline due to the acceleration of lapses linked to the mortgage repayments. I just wonder if you could expand a bit on this. And so, what is, for example, the like for like decline in reserves or number of policies, and is there any risk then that this could accelerate going forward to a level, for example, where is becomes more difficult to cover the cost?

And then just linked to that, I remember your update, those ones on the unit cost assumptions in the best estimate liability. Can you update us on these in light of everything, what's happening in the life business? And then just secondly on the non-life business, can you provide the breakdown of the organic growth in the premiums between pricing and volume? And is there anything you can say general on the pricing environment you're currently observing in the non-life business? Thanks.

Chris Figee
On life, the unexpected lapses – indeed unexpected lapses were up. We set to ourselves – we think the book would – when we – when we IPOed our business, we said our book will decline in terms of premiums, in terms of policies by about 9 to 10 – 9 percentage points a year on average.

I think if we compare to our premium levels today as to the IPO, which is now two years back, our premium level is about 5% less than what we expected at IPO, which is two years down the road. So, actual expirations of life policies in terms of premium levels were 5% more than what we expected. So, the unexpected lapses, think about another two percentage points in a number of policies, a number of premium level on an annual basis. That gives you some colour on the order of magnitude.

Now, in terms of competent nuances, actually this level, the unexpected lapses peaked – appeared to peak in Q3, Q4 last year. If we look at the unnatural lapses, you know, Q3, Q4 last year, they really are high. Also in our mortgage business, we saw an increase then in mortgage redemptions since then. So, today as of 1st August 2018 towards H2 2017, the unexpected lapses have got back by another 20 points, 20%, mortgage redemptions have also dropped by another 7%.

So, in the last two years, two percentage more decline in our premium levels per annum that we expect because of unexpected lapses. It's probably structurally at an elevated level. But, you know, calming down a bit after last year's, you know, deleveraging weight.

Second observation is this affects premiums, affects number of policies, it affects much less our reserve base. So, the reserve base in our life entity declines by 2.5 percentage points a year. So, you get to see lapses in the number of policies, lapses in terms of number of clients, but much smaller impact when it comes to the total reserve base and total asset base, which in the long run will have the consequence – our life business becomes much more an investment business. You can see a shift that the investment contribution to a life earnings will gradually grow, the contribution on technical results will gradually, you know, gradually fade away as the book declines.

In the last half of the year, we have been able to keep the technical results stable. So, components vary, you know, mortality and cost results were virtually unchanged for the last year. But in the longer term, expect this to decline, expect the investment result to keep up for longer. So, that's kind of some point on lapses.

Secondly on unit cost. So, the unit cost on life has gone a tiny bit, the cost per policy simply because of its lacking effect. We are using cost in the life business. But when they peak lapse event, you know, you can't just cut your cost as quickly as that. So, our cost initiatives will continue to feed through. I would expect us to take initial cost initiatives in the coming years. That's something we're contemplating. We're moving fast when it comes to the migration of policies. And then the integration of Generali, for example, at scale will ultimately lead to further improvement in the cost per policy.

So, we're responding to this by cutting cost faster into the migration and doing scale deals like Generali where you take up much more cost, so the average cost policy goes down. When it comes to the unit cost assumption in our best estimates, we feel very comfortable that the assumptions in the best estimates today, we can and we'll meet. So, the lowering lapses, we've had some, as you know, reflected in our liabilities, but it's more on a best estimate site than in the cost elements. And when it comes to unit cost and best estimates, we feel comfortable in that area.

Hope that answers your – it's a lengthy answer, but it gives you some colour on the lapse developments.

Matthias De Wit
Yeah. And if I remember correctly, you were – yeah, sorry. Can I just kind of briefly follow up? If I remember correctly, you were assuming rising unit cost assumptions for both funeral, individual life and group life; is that still the case or –

Chris Figee
Yeah. Up to a certain – not eternally – were some reasons. So, counted in 2014, you decide all the costs are one policy. So, this gradual increase up to a certain point mitigated by long-term virilization. But our cost assumptions in our best estimate I would not see them as very aggressive in light of the book developments.

Jos Baeten
On your last question on non-life, organic growth, it was on average 4.5%. All three businesses were able to meet that number. In P&C, it was mainly pure organic growth. Roughly 4% out of the 4.5% was organic growth. And 0.5% was due to price increases especially in car insurance. In the disability business, the pricing in the individual area remains stable. And out of the total growth of 4.5% disability, roughly 3% is due to better market position and 2.5% is due to price increases especially in absenteeism that we have done over the last year. And in health, there we also have seen some growth. There the total growth is due to premium increases that we did last year.

On your second part of the question, pricing conditions in the market. We still see the continued hardening of prices especially the P&C, the storm over the first – in the first quarter has helped to stop thinking about lowering prices in the market. So, we think that is still a favourable development going forward.

Same in disability. There's currently not a lot of downwards pressure on the price level. So, that is also good. And health, we will have to see in the last quarter because health insurance as you may know, Matthias, in the Netherlands is only in December a product where people can make a new choice for their insurance company. So, in general, pricing conditions still favourable in terms of better margins going forward.

Matthias De Wit
Okay. Very clear. Thanks a lot.

Operator
Again, if you would like to ask a question, please press star one. Next question is from Farooq Hanif from Credit Suisse. Please go ahead.

Farooq Hanif
Hi there, guys. Thank you very much. Could you comment again on your plans for internal model? I know it's a pain to do it. And you talked about that in the past. But it seems to me that as you think about growing in organically and given the EIOPA, et cetera, et cetera, you know, it seems to be something that probably has gone up your agenda. So, could you comment on preparations for that?

And on the debt capacity, is your kind of capacity number that you give on slide 15, do they also work on a kind of rating agency framework where you look at financial leverage and interest coverage ratio? So, do you think you could raise much debt and remain within tolerable levels? Thank you.

Chris Figee
Okay, Farooq, it's Chris. On the internal model, a couple of perspectives. If you look at our solvency level today, standard formula, there is no immediate need or immediate benefit to go to an internal model. As we all say, we could report a higher number, but that would materially change the business.

We of course continue to look at the EIOPA rules and regulations. I think the recent consultations paper that they published is reasonable. Although, version 0.1 did scare us, version 0.1 of the consultation paper started December last year had some very, you know, inappropriate ideas on how to calculate solvency for life insurance companies. Luckily, they didn't make it to the final report. So, the final report gives a solvency number that we still see as really appropriate.

We are, of course, always on the lookout for what it would mean and could mean if you were to move to internal model. We've done some, you know, sketches and done some calculations on what it could mean and what it would require. We need to be vigilant to understand that today the same people that would build the internal model will also be the same people that would build IFRS 17. So, we need to think very carefully about capacity planning and where you can do it in parallel.

And finally, when it comes to M&A, I can imagine cases where an internal model might very well – work very well in inorganic growth situations, but it depends of course on that very situation.

So, in summary, not more news to add. There's no immediate obstacle to building an internal model. We need to be careful in capacity planning. I can see the uplift in the numbers from doing internal model, but we have to find, you know, a meaningful way to use the proceeds from that model. And it depends on how the external market develops and depends upon how the EIOPA develops.

When it comes to debt capacity, I go to slide 15. You asked a question about the rating agencies and how they look at stuff. I think from a rating agency perspective, we of course would have room to leverage a business. I think the – there is capital redundancy; from an S&P perspective, we're at a triple A level, whatever that could mean. But basically, we're at triple A level.

I think the formal upper limits for leverage in an S&P environment is 40% and interest coverage between four to seven times. So, with the current level – we could actually add more debt within the current rating then. So, I think within the current rating band, I would think that probably pretty strong in the singular rating then that we have. But again, it also depends what you do with the debt. If you just raise money just for the heck of it, I don't think S&P would see the humour of that. If you create debt to make a meaningful acquisition, make an investment, you know, put the money to work, it makes sense.

So, I think at today's rate and today's balance sheet, there is no constraint from either our own balance sheet or rating agency perspective.

Farooq Hanif
Can I just come back on one thing? Sorry, this is actually a third question. But just on the great development that you've had in bank and asset management and all the fee-based businesses. Have you – what is your ability to grow further inorganically there? I mean it seems that the payback from what you've been doing has been great. So, is that something that you are – is constantly on the radar as well?

Chris Figee
So, Farooq, maybe one more comment on your – on the debt. You know, it's not that we're now just about to do – massively do debt finance acquisitions, but we have the headroom to do it. Of course, it also depends on what you're actually doing with it. You know, if you have a business – suppose if you were to acquire a business completely debt-free, it would make sense to buy with leverage. If you were to buy a business where it has significant debt on its balance sheet, we definitely need to take into account in the funding mix. But I think what we have today is flexibility for multiple perspectives to optimise financing and you then have to take into account what should you do with the money.

When it comes to the asset manager, we were pleased with the fee-based income. It's both in the real estate business and in the capital markets business where the fee has grown up. Today we're looking at mostly organic growth opportunities. We are not at this point looking at massive inorganic opportunity in the asset management space. I think most SMEs are fairly expensive and/or not for sale.

But if you bump into a more niche play or where you can continue on our buy and build strategies, yes, we'd definitely look at it. So, if you look at what we've done, we bought a small LDI specialist, we bought a specialist in many money for government institutions, we have invested money buying a portfolio warehouse we can turn into a fund. Think more about those buy and build type of initiatives rather than pursuing a big stand-on asset manager at current valuations.

Farooq Hanif
Okay, thank you very much. Thank you.

Operator
Next question comes from Robin van den Broek from Mediobanca. Please go ahead.

Robin van den Broek
Hi. Good morning everybody. Thank you for taking my questions. Sorry to come back on the bank and asset management and distribution and services. But last year, you seemed to show quite a bit of seasonality on H2 versus H1. So, I appreciate the comments you made before. But can you maybe explain why that seasonality is there just to give a little bit more understanding what kind of number we should add to the second half of the year?

The second question is on the economic UFR. As spreads and yields have moved up and down quite a bit over the last few years – and this is the first time you've basically changed your economic UFR – so, I'm just wondering why now and how often are you planning on doing this.

Third question is on M&A. I guess, you know, I won't ask too much about VIVAT specifically. But I was more wondering from an operational and financing point of view, I mean you've been talking about M&A for quite a while, there's still lots of opportunity in the funeral market and in the non-life and in the life market. So, I was wondering how would you prioritise M&A from an operational perspective and from a financing perspective. If you could elaborate on that a little bit, that would be very, very handy. Thank you.

And with operationally, I mean basically integrating the asset. Is it a binding constraint that you can only do one or can do more at the same time?

Chris Figee
On the seasonality – I'll tell you bit on the seasonality of the asset management. Jos will take the distribution business. On the asset management, in principle, there's not that seasonality. It depends on how your asset management develop.

So, I think you could see continued earnings growth in H2. It just wouldn't double it simply because if you look at the pipeline of asset management discussion we have, there are a number of significant potential assignments out there, but they need to fall, right? They need to close. And of course, the summer period I mean you get new inflows in the month up to May, June, then July, August is, you know, very few new managers being assigned. So, you have all this seasonality when it comes in.

So, there will be growth in the asset management fees, I just don't know it's something you double because it depends on actually how the pattern of new inflows actually evolves.

Jos Baeten
And in distribution, distribution is commission business. And for us, the inflow is our commissions earned by the distribution company. And it fully depends on how a portfolio looks like. If you, for example, have a portfolio only existing on car insurance and they came in constantly over a year, then there will not be a lot of seasonality. But traditionally, the first quarter and the last quarter, you see more commissions in distribution companies and in the second and in the third quarter, the level of commission is lower because people tend to go on vacation, don't buy insurance. So, it's fully depending on the portfolio of the distribution company. De Van Kampen Group, for example, is more in the P&C business, that's more through the year a consistent picture, Boval group is more in disability. And there it is more loaded in first quarter and last quarter.

That to the seasonality on distribution, Chris, on the economic UFR.

Chris Figee
Well, the economic – the setting and the determination of the economic UFR is actually quite an elaborate process. It's not that our two guys in the room said like let's pick a number. We look at the actual returns we make on the investment portfolio and then we run an extensive Monte Carlo simulation.

So, if we value our liabilities with this new UFR and we run 10,000 risk and return scenarios around it, what – and we just continue our policies distribution products that we have today, what are the odds of that at some point missing our solvency number?

So you stressed your Monte Carlo stimulated for the UFR of 2.4 and then we assess the annual – the underscoring probability. That's what we do in the first quarter every year. So, it's quite an elaborate process. It takes time. So, we do it once a year mostly around the end of the first quarter when the full year results are done, when the strategic asset allocation review has been done, that programme is underway in implementing and that's when we do the annual economic UFR reassessment. So, it's an annual thing done around March-April.

Jos Baeten
And on your last question, the M&A flexibility from a more operational point of view, I think Chris already elaborated a little bit on the room to manoeuvre that we do have financially, it's depending on how the balance sheet of a company looks like whether it is fully loaded with debt or not.

Operationally, it depends on the type of business you require. For example, we already integrated the funeral portfolio of Generali. So, if we could do a funeral transaction tomorrow, the team in Enschede is ready to integrate such a portfolio because they are already done with the integration of all the funeral portfolios we acquired recently.

In non-life, we are in the middle of the integration of the portfolio of Generali. That should be done somewhere over the first quarter. So, that wouldn't withhold us from looking seriously at potential non-life portfolios, same for disability. In life, it's more a matter of building a queue to integrate, to bring over portfolios to our Software as a Service platform.

So, that wouldn't withhold us from buying businesses if and when we could do a very good and a responsible transaction. So, in general, there is no operational reason for us at the moment for not looking at potential transactions in the area of the insurance business.

Same for distribution. Distribution companies are not integrated into a.s.r. We leave them alone and entrepreneurial. So, that wouldn't withhold us in that area. So, in general, Robin, if and when there would be an opportunity, there wouldn't be a lot of operational reasons not to look at it. Having said that, let's assume that it starts the process tomorrow. Normally it takes three to four months to get a signature. Then you need two to four months to close a transaction. So, any integration would start from mid next year.

Robin van den Broek
Okay. That's very helpful. Then maybe, Chris, one follow up on the economic UFR. I mean I guess it's sum zero game between stock and flow. But is there any implication connected to the fact that you've raised it and how you look at M&A as well or is it irrelevant?

Chris Figee
No, it's not linked to M&A. It gives you more feeling on – in essence, it gives you some feeling on our capital capacity, right? If the UFR moves from 2.2% to 2.4% from our perspective, we believe that, you know, if you compare that number 154% to say 120%, there is a good 30 percentage points of capital that is actually, you know, not immediately needed to run the business from that perspective. That gives you more feeling on our capital strength and on our investment policy.

But at less – it's not so much – we do this once a year. We run the numbers. We test it and out comes the economic UFR and we can derive, you know, the number – and give you the feeling of our distribution or investment capacity. It's not – but it's not – that means if that comes first and how we spend it comes later. It's not that the spending plan comes first and then the goal would be how are we going to make up a UFR that's fits this plan, that's not the way we work.

Robin van den Broek
That's very clear. Thanks.

Operator
Next question comes from Andrew Baker from Citi. Please go ahead.

Andrew Baker
Hi. Thank you for taking my questions. Just two questions please. First is on the individual life systems. I know you converted two in this period to the Software as a Service platform. Can you just remind me how many are left in the queue and what the approximate timing and size of these conversions are and if there's any reason to believe that the cost savings associated with the two systems in this period will be materially higher or lower versus the other systems in the queue?

And then secondly, you touched on the EIOPA changes or proposed changes to the standard formula briefly. Are you in a position where you're able to give any potential impacts to your ratio at this point? Thank you.

Jos Baeten
On the individual life systems, the Software as a Service system, Andrew, is a system which we don't own. So, we only pay the variable cost per policy. There are two in the queue currently. One of that is a portfolio of our own and the other one is the Generali portfolio. And they should both be done before the end of next year. And then we might be able to shut down some of the existing systems where – which are all based on fixed cost and that would be a next jump in lowering the cost in our life business.

But that's all projected in our target to lower the cost according to the decrease of the portfolio. So, that's already in the plan, those lower costs.

Chris Figee
On the EIOPA review of the standard formula, Andrew, if you go through the entire report, which I hope you do not do, but if you were to do it; we could be affected or it could impact us, which is the capital charge for rate risk, which is government-guaranteed mortgages and which is LACDT.

On the rate risk, that could be a small negative for us. The existing standard model does not allow for negative rates. And the new model actually does allow for negative rates, which makes all the sense in the world, that we'll feature in over time. There will be a small negative.

In the past six months, we actually did type in our rate exposure a bit. We reduced our interest rate exposure. So, the impact of this change is a function on your interest rate exposure anyway, how much your – you know, lower – or negative rate assumption could affect you. It's going to be a small negative, but not in a huge amount because the rate management is going to actually manage a lot of this.

Secondly, the new EIOPA regulation do actually recognise government guaranteed elements in mortgages, that will reduce the counterparty default element of your mortgage book. That's a small positive.

And finally, there is a LACDT. Today, our LACDT does not require any future fiscal profits to substantiate our LACDT. Our LACDT is fully built up, you know, current year profits and DTLs or run off of the risk margin. So, pure future profits are not in there.

And the way I interpret the EIOPA documentation is that actually there is some more room to include future profits under certain conditions as substantiation for your LACDT. So, it could give some upside to your LACDT if you were to use that component as well to substantiate underpin your LACDT assumptions. Today, we haven't done that yet.

The net of all those three components I would guess it's a neutral, possibly a small positive depending on how far you want to go in your LACDT assumption. So far, we've been quite conservative on LACDT and our – the way we substantiate it. So, depending on how far you want to stretch yourself in the field, it's a neutral to possibly a small positive given the fact that the tightening of our interest rate has actually reduced the small ratio.

Andrew Baker
Very clear. Thank you.

Operator
Last question comes from Ashik Musaddi from JP Morgan. Please go ahead.

Ashik Musaddi
Hi, good morning, Jos and Chris. I have three questions if I may. So, first of all, I mean if I read the press release and your presentation, it looks like you're talking about re-risking your assets versus full year '17. But then if I look at one of the slides, which is where you have shown the market move – the SCR movements, slide number 26, so that says that market risk is going down by € 63 million in the SCR. So, you re-risk your assets, you have acquired Generali's asset portfolio. So, that should have brought some market risk. Whereas this slide shows market risk has gone down. So, what am I missing – because this slide show that spread risk has actually decreased whereas you have moved more into corporate bonds. So, that's one question.

The second question is I may have misheard it, but you mentioned that your Solvency II ex-UFR is 154%. And if we ex-out VA, it's somewhere in 110% and 125%. So, that looks like your VA benefit is not at 30 percentage points. That number doesn't sound – doesn't make a lot of sense to me because if I look at your sensitivity, you have always given that one point VA is equal to one point of solvency. VA at the moment is like 10, 12 percentage points. So, is that understanding correct or I misheard something when you mentioned ex-UFR, ex-VA number?

And the third thing is, can we give some clarity as to your IFRS numbers and Solvency II capital generation is diverging a bit? For the past two years as well in this half as well, your Solvency II capital generation dropped by 7% year-on-year, whereas your IFRS earnings was only down 1%. And in the past two years as well, the similar trend has been visible or 2017 versus 2015. So, any parts on these three questions would be very helpful. Thanks.

Chris Figee
Yeah, this is Chris. I think you referred to page 26. Indeed, you can see our market risk down by € 63 million. That market risk reduction actually is a result of various moving parts. In the first half of the year, real estate risk was up a tiny bit. Equities is virtually stable in that portfolio. Spread risk was down slightly, not because we declined our corporate bond portfolio, but we've shortened the duration of our corporate bonds. And so, basically the sensitivity spread movement was down. So, it's more the duration of credit spreads rather than credit spread itself. But the main driver of the reduction in market risk was a limitation on the rate exposure on rate risk – because we felt that actually, you know, the expected return on the open interest rate position is very small; and given today's rate and market environment, we felt was not very useful to run, you know, some rate risk. So, we have to reduce our rate risk. That interest rate risk component, that was the key driver behind market risk. If you'd net for that, market risk could actually have gone up during the first half. And so, the re-risking we're proposing today will be as […] before solvency per today. So, in the first half, market risk ex-rates went up a tiny bit. It was net negative due to interest rate risk charge will go up again. But that will be on the classical credit, equities and some on mortgages.

Ashik Musaddi
Sorry, just a follow up on that. I mean – sorry, just a follow up on that. You're mentioning that you're shortening the duration of credit and you're taking hedges on interest rate. So, how does that stack up with your duration matching or cash flow matching? Is that not getting changed because if – I mean I think last year as well you mentioned that you have shortened the duration of your sovereign bonds. So, if you keep on shortening your duration, does that match with your cash flow profile or duration?

Chris Figee
No, because you also have a significant derivatives programme. So, the interest rates management is a function of corporate bonds, corporate bonds swaps and swaptions. So, it's a mix of a thing that works, so we tighten the interest rate risk on a total holistic basis in that we shortened corporate credit to some extent, we swapped some traditional government – even for Italian government bonds post the spread widening. And under this swap and swaptions portfolio that is, you know, the rounding to make sure that the total interest rate risk is where it is. But we felt at this point in the first half of the year that was more effectively slightly less duration credit plus more long-dated swaps than the other way around.

Ashik Musaddi
Okay. Cool.

Chris Figee
And on the UFR, you slightly misunderstood – apologies for that. I think the solvency at the UFR of 2.4% is 154%, right? Sometimes you have zero UFR – 2.4% is 154. Our VA effect is around 10% – well, one point of VA is a one point solvency effect. So, if you were to look at the solvency ex-VA, you would move from 194% to 184%. The solvency ex-VA and ex-UFR is 113% to 127% to be very precise depending on a bit on whether you – if you take the simple UFR, you get the 127%. If we would also take a hit for less tiering risk because if the UFR would be taken completely, you would have a tearing issue like most of us have today. If you adjust for the tearing, you'd move to 113%.

So, to recap, solvency 194%, solvency ex-VA 184%, ex-VA, ex-UFR 127%. And if you then take the harshest view on tearing, assuming that there would be mechanical consequences for tearing, I get to 113%.

Ashik Musaddi
Okay.

Chris Figee
So, with the UFR of 2.4%, it's at 154%.

Ashik Musaddi
Yeah, got it. That's clear. Thank you.

Chris Figee
And the third question – on high risk. Actually, on your third question, I think there are various parts. I think that gap between the two are on operating results and solvency capital generation is – or classical shadow accounting. Shadow accounting results to contribute to operating result, or the release of the capital gains reserve does contribute to our operating result but does not contribute to our solvency.

And the cap gen release was effectively stable, is down € 6 million in the first half year, effectively stable. When it comes to headline IFRS numbers, I think that they probably move more in sync. There you see probably less capital gains than we had last year, and a contribution to the Generali social plan cost to fund the reorganisation of Generali.

Ashik Musaddi
Okay. That's very clear. Thank you.

Operator
Thank you. That concludes today's question. I will now turn back to the host for any additional or closing remarks.

Jos Baeten
Well, thank you. Hopefully, this call was helpful to answer all your questions. We were happy to do so. We look forward to meet you all at our capital markets day at the 10th of October. And in the meantime, we continue to deliver on our medium-term targets and we are confident that we will be able to continue the delivery in the way as we have done it until today. So, thank you all and I wish you all a very good day.

Operator
Thank you. That concludes today's conference. Thank you for your participation. Ladies and gentlemen, you may now disconnect.