Q3 2016 Earnings Call

Company Participants

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

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Bart Horsten, Analyst
- Benoît Pétrarque, Analyst
- Matthias de Wit, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Conference Call for the First Nine Months of 2016. I'm 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 remain on listen-only mode, and afterwards, there will be a question-and-answer session. Please also note that this conference is being recorded.

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

Bart Karel De Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen, and thank you all for dialing into this conference call and for being with us for the presentation of the nine months 2016 results of Ageas. As usual, I'm joined in the room by my colleagues of the executive committee, Christophe Boizard, CFO; Filip Coremans, CRO; and Antonio Cano, our COO. Our Investor Relations team is, of course, also present in the room.

Ladies and gentlemen, I can be brief as our third quarter is marked by a very solid and fairly stable set of figures confirming the trends of the first half. Therefore, I propose to go briefly over the key figures, after which I will hand over to Christophe for a short overview by segment.

And I'm on slide 3. Firstly, our nine months Insurance results amounted to €803 million with a net profit in the third quarter of €196 million. The group net results year-to-date turned back into positive at €118 million.

If we look at the underlying key performance indicators, I would highlight, first of all, our Non-Life combined ratio being at 97% year-to-date, with a very strong ratio in third quarter at 93.2%. Corrected for the terrorism events, the year-to-date ratio would even end up stronger at 95.7%. Especially, Belgium is clearly doing very well and this the most, to a large extent, the group ratio.

Secondly, I would highlight the Life operating margin, Guaranteed being at 97 basis points year-to-date. You will recall the proportionally high ratio in Belgium as a result of the high level of capital gains recorded in the first half. This already leveled out somewhat in the third quarter and might further normalize in the latter part of the year, but the ratio remained strong and is above our target level.

Thirdly, I'd like to mention our Solvency II ratio. The Group and Insurance ratio, end of September, were respectively 199% and 181%. Our Insurance Solvency ratio remained fairly stable, while our Group ratio came down compared to the previous quarter and compared to end of 2015.

Maybe it's good to highlight here that on Insurance level, after expected dividends, the impact from decreasing interest rates over the first nine months was compensated by a number of scope changes and model refinements, mainly related to our real estate investments.

The Group Solvency II ageas ratio was down from 212% at year-end to 199%. And while the SCR benefited from model refinements, the own funds decreased from €9.4 billion at the end of 2015 to €8.4 billion at the end of September; hence, exceeding the total Solvency capital requirements by €4.2 billion.

The main drivers of this decrease relate to some impact of market movements, but mostly to the legal settlements, the M&A transactions throughout the year, the share buyback and the expected dividend, which is exceptionally high due to the divestment in Hong Kong. Although the ratios remains obviously very comfortably above our target levels, if you look at the movement over the last quarters, we should acknowledge that the EIOPA volatility adjustment mechanism does not work properly and does not offset the adverse spread movements that we faced in Q3. Whereas during the first half of 2016, there was some overcompensation.

Hence, change in Solvency ratio simply is an illustration of the inherent volatile nature of the Solvency framework, and also shows there is a need for further improvement, not only of the framework, but also on the disclosures. And in that context, I wish to draw your attention to the initial disclosure regarding the Solvency sensitivities where we now provide the breakup with respect to corporate and government spreads.

With respect to the settlement agreement, I can let you know that we have just finalized the information process with respect to the mandatory hearing that is foreseen in the context of the WCAM procedure on March 24, 2017. Overall, we are on track with the execution of the procedure, and we will, as always, keep you informed on the next steps.

I would like now to pass over to Christophe for additional details on the financial results.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart, and good morning, ladies and gentlemen. As usual, I will comment on the operating research by Insurance segment and then the General Account.

I am on slide 4. As Bart already mentioned, our net insurance result for the first nine months amounted to €803 million. Excluding the capital gain of €199 million related to the Hong Kong sale, we are at €604 million, which is almost in line with last year's net result of €613 million.

To assess the quality of the results, we should take an underlying view, and there, we can definitely qualify the performance of this year as intrinsically much better than the one of last year. We have, indeed, more negative one-offs element this year.

First, I would mention the currency rate evolution, negative by €17 million; and then, the €60 million combined impact of the adverse weather in Belgium, €27 million; and in the UK, €13 million; and the terrorist impact in Belgium for €20 million, same amount as in Q2.

The amounts of net realized capital gains are at the same level in both years. We had significant real estate sales in Belgium this year, and we are already in the range of our annual objectives there. And an exceptional financial result in China last year, the two amounts being comparable.

Inflows, including our consolidated entities at 100%, are at €24.7 billion, 8% up from last year, with a negative FX impact of 4%. The non-consolidated entities showed a growth of 12%. While in the consolidated entity, Belgium stood out, but there, we have observed some stabilization in the first quarter for Belgium.

Maybe, also good to note that the Guaranteed rate in Belgium has been further brought down to 0.25% from the 1st of November. This is the third Guaranteed rate reduction this year. Bart already commented the operating margin and combined ratio. So, I suggest to immediately move to the comments by segment.

First, Belgium, I am on slide 5. AG Insurance reported a net result of €309 million versus €264 million last year and a year-to-date combined ratio of 97.1%, which would have been at 94.3% when excluding the Brussels terrorism event. The level of prior-year release is comparable from one year to another, around 9%, with stable reserving methods.

Let's take now the Q3 result alone. It amounted to €103 million, of which €63 million for Life, with almost no capital gains this quarter, and €40 million for Non-Life. The Non-Life results benefited from an outstanding operating performance, marked by a combined ratio of 89.6% and this, with a prior year reserve release of only 1.8%.

The UK, I am on slide 6, with a net result of €54 million, suffered from an adverse currency impact of €6 million and an adverse weather cost of roughly €13 million.

Excluding the impact of the floods, the combined ratio would be at 98.6%, so very similar to last year. The higher claim cost is offset by lower expense ratio as well. Realized net capital gains are slightly higher, but level out against additional cost related to innovation project.

Continental Europe, slide 7. The net result came down to €60 million, but benefited from a very good third quarter at €24 million. The positive contribution from the acquired Ageas Seguros Life activity and a good performance in other entities explain the better result. But year-to-date, in Life, we have the positive contribution of Ageas Seguros Life of €6 million, but we also booked last year a non-recurring deferred tax assets of €5 million in France.

In Non-Life, the net result suffered from integration cost in Portugal for €7 million, mainly linked to the rebranding of the former AXA company, but it benefited from better results in Turkey where the combined ratio is now below 100%. Altogether, the net Non-Life result is still at €6 million behind last year.

Let's go to Asia on slide 8. Net profit of €378 million over the first nine months and €49 million for the third quarter. If we analyze the change in the year-to-date result, we can say that 2016 benefited from €167 million net contribution from Hong Kong, and this amount is the balance between the capital gain of €199 million and the lower net result contribution compared to last year of Hong Kong and for obvious reason, it disappeared from the consolidation scope.

In addition, for Asia, we had an adverse currency impact of €10 million. The comparison with last year remains complicated because of the exceptional capital gains in the second quarter of last year, followed by equity impairments in the third quarter as you might remember. The net amount, at the end of Q3 2015, was in the range of €70 million.

Gleaning (12:47) the results for all these items and excluding Hong Kong, we see a better performance, especially driven by China and Thailand. On the startup front, it is worthwhile mentioning that we obtained our license in Vietnam. We can (13:06) really launch our commercial activities now.

To complete the segment review, our internal reinsurance company, Intreas, realized the net profit year-to-date of €3 million, in line with our plan.

With respect to the General Accounts, slide 10 in the pack, I will be very brief, the net result in the third quarter was €11 million negative. The positive result from Royal Park Investments and a positive net interest balance was compensated by a slight increase of the RPN(i) liability and corporate cost which included non-recurring components more specifically costs related to the share plans in force.

On the shareholders' equity, slide 11, I'd like to give you the breakdown of the forex impact of €458 million negative. So here, Hong Kong €196 million; UK €174 million; and China €52 million, all these impact being obviously negative.

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

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. So this concludes the introduction, and I would now like to open the call for questions. May I ask you as usual to limit yourself to three questions so that everybody can ask us questions. Thank you.

Q&A

Operator

Thank you. We will now begin the question-and-answer session. The first question is from Ashik Musaddi of JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Good morning, Bart. Good morning, Chris, and hello, Frank. So three questions. First of all, on your Solvency II ratio, it looks like looking at the sensitivity on slide 50, which is the new sensitivity you have provided, it looks like the sovereign spread widening has a bit of negative impact on your Solvency ratio. But is it fair to say that, ultimately, what that would mean is a higher capital generation going forward? Is that a fair commentary, i.e., it's kind of a zero-sum game, the spread widening or spread tightening? So that's number one.

Secondly is, in your Belgium Life, I've noticed that you mentioned that your technical reserves were up 1.8% ex shadow accounting. So is that a fair way to look at the growth in the Belgium Life business, i.e. you're still growing at 1.8% year-to-date? And should we be expecting that to continue or even a flat Belgium Life business?

And thirdly, in Asia, I think, Chris, you mentioned that Asia had a negative one-off of €10 million in this quarter. So it looks like you're trending towards like 15%, more than 15% growth in Asia on the earnings basis. So should we continue to expect that or is there any sort of normalization we need to do on the Asian earnings? That would be good. Thank you.

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

Okay. Thank you, Ashik. Filip will take the first question, and I will then take two and three. Thank you.

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

Indeed, Ashik. You are correct, and you know that we have provided the split-up of the sensitivities to allow the analysts to better assess the moves throughout the quarters. Indeed, of course, when spread goes up and the underlying fundamental risk does not realize, it will yield higher returns in future. That is correct.

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

Okay. Then, Belgium Life results. So yes, you see the inflows in Belgium growing, but if you look quarter-after-quarter, it's clear that the growth and mainly, the growth is coming from the investment products, was strongest in Q1, a bit lower in Q2, and Q3, the premium income, if you look quarter-on-quarter, is relatively stable which is, of course, also linked to the continuous reduction in Guaranteed rates.

As Christophe mentioned, we moved from 0.75% end of year to 0.50% in the course of the third quarter. And we now announced as of the 1st of November that the Guaranteed comes down to 0.25%. So we expect, in any case, that with this reduction of Guaranteed rates, the volumes will not increase at the same pace as before.

And let's be clear, we steer this business starting from the margin to be achieved, and it's not an objective as such to have growth at whatever price. So there, we stay quite aligned with our strategy of working towards the margin. Of course, in the meantime, our Technical Liabilities continue to grow, and this is within the gross (18:27) margin a source for the growth of profits.

Then, for Asia, first of all, we have to look through the scope of scope comparison. So last year, we should take out Hong Kong, also be a bit prudent towards the exceptionally good result last year with some exceptionals in China but again, in the region where we have strong growth of Technical Liabilities of volumes and this year, the proportion of regular premiums has moved up to 75% of our inflows. So this is, of course, normally, let's say, an underlying element for future increase of the profits, I would say, over the cycle.

Q - Ashik Musaddi {BIO 15847584 <GO>}

And the continuing growth in Asia would slow down, at least, at the moment looking at the results. So there's no such thing that we should be anticipating, because I think there are some concerns in the market around your Asian growth numbers.

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

The growth numbers in gross written premium you referred to?

Q - Ashik Musaddi {BIO 15847584 <GO>}

No. I mean in terms of earnings, because earnings is trending very well like around 15% growth even on a normalized basis in Asia. So there is no such thing that we should be thinking, no, no, it's not possible, et cetera, going forward?

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

Well, let's say, we invested in the region in order to have a compensation and for the more mature markets in Europe and it's...

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah.

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

...clear that we expect from Asia an increase of earnings over the coming years.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Okay. That's clear. Thank you.

Operator

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

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning, all. A few questions from my end. First one, on slide 49, on the movement in the Solvency II ratio. On the model refinements, the 13 points (sic) [13 percentage points] (20:30), can you maybe mention how much of that was in Q3 standalone? And are there any more refinements you're potentially working on?

Second question is on the capital gains, which were indeed quite lower this quarter. If I remember correctly, in the first half, you had some exceptional real estate gains and was at the time mentioned that it could come on top of the normal, let's say, the €60 million to €80 million run rate. So can we read into that that may be in the fourth quarter, there could be again some sizeable real estate gains?

And my final question is again, also on slide 49, on the expected dividend, your 8 points (sic) [8 percentage points] (21:13) deduction. Is it fair to assume that basically you're signaling that the dividend will be over €2 and also that, apart from the Hong Kong special dividend, on the €1.65 that you paid last year, we can also expect some underlying growth up to €1.65 and then add to that the Hong Kong gain, [ph] those would (21:32) be helpful to have some color there. Thank you.

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

If you start (21:37).

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

Okay. Thank you, Albert, for your question. Let me start with the first question first. The actually only material model change that has been made is in pillar II. It's the real estate internal model which we have finalized, including recognition of the value of our parking concessions. You know that we have a large group of parking concessions, which so far we have not included at any value in our base. So the majority, if not all of it, relates to Q3.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yeah, okay.

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

I can immediately also answer maybe the 8% (sic) [8 percentage points] (22:17) dividend deduction. Every quarter, we deduct, as we always had, the expected dividend based on the year-to-date result from our Solvency ratio, and that is the 8% (sic) [8 percentage points] (22:29). That is obviously based on the third quarter result including the additional dividend, indeed, that we foresee that we will pay out of the proceeds, Insurance results of the Hong Kong sale transaction. So that is correct.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you.

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

Christophe, capital gains.

A - Christophe Boizard {BIO 15390084 <GO>}

Yes, I take the question on the capital gains. So first, as I mentioned in my speech, the level of capital gain this year around €110 million is quite similar to the one we had last year. But this year, the amount of capital gain is mainly driven by real estate where it was not the case last year, but this year, we did three operation, one where we issued a press release and so that's completely public for the Ellipse building, and we booked a capital gain of €42 million and then two other operation, and all-in-all, we are in the range of €70 million to €80 million. So on real estate, we are on target for the full year.

Then I would not give you precise indication about Q4. As you know, real estate operation are longer, so it's a long process. Sometime it happens, sometime you have delays, but so far, end of Q3, we are already on target and for the future, we'll see.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yeah. But I understood that back then on the conference call it was mentioned that one of the gains was somewhat exceptional, so we – and client basically that you (24:13) indeed will be somewhat materially over the €60 million to €80 million run rate.

A - Christophe Boizard {BIO 15390084 <GO>}

So to be a little bit more specific on this and to take the historical view, you remember that last year, we had in mind the Ellipse sale and it was delayed, and we booked it in 2016. But then, we did some compensation with the equity portfolio for 2015, and then, the sale of Ellipse was taken into account this year. So I wouldn't qualify the sale of Ellipse as exceptional. And for the year 2016, it will be in the – it will count for our objective for €70 million to €80 million. Let's say that 2015 was below the objective.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Okay.

A - Christophe Boizard {BIO 15390084 <GO>}

And some compensation with the equity portfolio.

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

So I would also maybe add to that comment of Christophe that when he referred to the margin in the Guaranteed business, that is quite high end of Q3 that, as Christophe said, we expect that to be lowering down a bit, but to end within the range, we foresee and one of the reasons also that we don't expect in Q4 big impact from capital gains.

On the other hand, it has been communicated officially in the press that the new sale has been realized, but it will only be closed early 2017, real estate gains. So you could say that we already have some availability of cap gain for next year.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you very much.

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

Albert, I still owe you an answer to the second part of your first question, in fact, whether there are other model refinements, which we are looking at, which are in the pipeline. I would say, yes, indeed, there is. We are studying the ineffectiveness of the EIOPA volatility adjuster, and we are not the only one in the sector who are looking at that. Various alternative solutions are being studied. We investigate, and that's predominantly also in pillar II, because, of course, in pillar I, EIOPA has these restrictions.

But so far, we used the standard to EIOPA volatility adjuster, and we are investigating whether more company-specific or country-specific volatility adjusters would be more suited to reflect the true evolution of our exposures. That is something which we study, but we have not decided to move on that, because we want to keep some alignment with the regulatory view.

Other than that you know that we have in our Solvency II internal approach, still some conservatism, and we have NCPs which we don't include. We have these diversification benefits, which we still deduct from old funds. We have the put option executed now, and the diversification benefit is also something that we look at.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yeah. Okay. Thanks very much.

Operator

The next question is from Matthias De Wit of KBC Securities.

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

Hi. Good morning. Also, three questions, please. First is on the Solvency II ratio in Q3. If I compare the Insurance level with the group level, it's flattish on the Insurance level, because the model impacts offset the market volatility. But on a group level, you show a decline of 10 percentage points quarter-on-quarter. Is that purely linked to the buyback or what else is driving that, please?

Secondly, you provided the sensitivity to a drop in the yield curve on the group Solvency II ratio. Could you provide the same for 100 basis points increase, please?

And then, my last question is on the combined ratio in Q3, which improved quite strongly, especially if we look at the current year combined ratio. To what extent is this structural, for example, because of pruning, mix, pricing, expenses or anything else? Thank you.

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

Thank you so much, Matthias. This is Filip Coremans again. Let me first give you a bit more insight in the Q3 movements, indeed, because we have provided additional information on the year-to-date. But in Q3, most of the decline in the Solvency ratio that you noticed is, obviously, happening in Q3. That is clear.

The model improvement was materially in Q3. So that is a positive and we did not have that many capital moves other than, indeed, the share buyback and an increase in the expected dividend, which was material. So these two offset partially the model improvements.

Still there remains quite a large impact in Q3 of two components. Specifically, over Q3, the impact of spread was almost 10-point negative. And what we also did, remember at the end of Q2, I mentioned that spread and interest rate offset each other. We were actually benefited a bit from that. So Q2 was slightly higher by that, but we also divested quite an amount of equity in our Belgium portfolio in anticipation of Brexit. I mentioned that at the Q2 call. We have now reinvested that, and that creates also a difference between the quarters of 6% in the Solvency ratio.

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

And is there any – so I look at the group level, because at the Insurance level, it's flat whereas on the group level, it declined 10 (30:06) percentage points on the previous quarter. Is that a dividend accrual and the buyback or is there anything else I missed?

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

That is mostly the dividend accruals and the buyback. Of course, the model improvement played there. And there are two other – to be completely transparent, there are two other cosmetic (30:23) changes or three that you may want to be aware of. First and foremost, we did invest. So we issued some subordinated capital to our UK operations, which will come back through dividends, but in order to optimize the capital structure there, that had some impact which is positive in Insurance and, obviously, on group is neutral.

Aside from that, indeed, we irked up the expected dividend a bit more at the group level. And other point is that the FX risk charge, we do recognize that at group level rather than at the Insurance level, because we want to keep the Insurance ratio closer to the reality of the Solvency ratio in the regions. I'm not sure whether that is completely clear, but rather than putting the FX risk charge on Insurance level, we put that now on group level. That has also a bit of a dampening effect on the movement in Insurance where that is not there for the group.

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

Okay. Thank you.

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

Okay. Then the question on combined ratio in Belgium, you'll take it, Antonio?

A - Antonio Cano {BIO 16483724 <GO>}

Yes, hello. Good morning. So on the sustainability of the combined ratio, well, obviously, before I say that it is sustainable, bear in mind the weather and other exceptional circumstances. Apart from that, you could say that it is, we believe, structurally sound.

We did, as you will remember in the last year, quite some pruning in our workmen's comp portfolio in Belgium in our third-party liability portfolios (32:16) strengthening, we've done re-pricing, et cetera. So going forward, I will say yes, we stick to our targets of a combined ratio structurally below the 97%.

Coming back to 2016, and I mentioned the weather, as I said also in the previous call, we have certain reinsurance treaties in place that certain types of weather events could protect us also for Q4. So also, in 2016, we're pretty comfortable that the combined ratio will end close or slightly below the 97%.

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

Okay. Thank you. And maybe on the sensitivity of the capital position to rising rates, please.

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

Okay. Looking at what is happening over the last weeks and you have now the extended sensitivity table, first and foremost, rising rates, if they don't go too fast and at the pace they are going, we are obviously happy with that, because you know that the lower interest is more a challenge to the insurance sector than interest rates going up. And in Belgium, and in the majority of our portfolio, you know that through the market value adjuster, we are protected against surrender in case rates would go up. So positive impact from the yield, from the swap increase.

Then, the rest depends on the spread movement, on the government and the corporate. As you noticed, when the corporate bond spreads go down, that does not necessarily help us. But when they irk up a bit, that will help us. So you can assess that now better. And the opposite is true, obviously, for the government bond.

So if I look at the situation over the last month-and-a-half, you can see that the swap curve has moved up. Well, it changes every day, but around 40 basis points, that you can expect a positive impact from that. The corporate bond spreads have remained a bit lower and they didn't go up that much because of the buying program of the ECB, that has a minor negative impact, the government bond spreads moved up a little bit, also, a minor negative.

But all-in-all, in balance, if you look at these sensitivities, at this moment, it seems to be moderately positive for the last quarter so far.

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

Okay. Very clear. Thanks a lot.

Operator

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

Q - Bart Horsten {BIO 2390919 <GO>}

Yes. Good morning, gentlemen. I've a few follow-up question also on the Solvency II ratio development. If I look to the movement you stated on slide 49, this is the movement on the group Solvency II ratio. Would you say that both for the model refinements and the market movements, this impact would have been the same more or less on the Insurance Solvency II ratio which you guide of 180%?

And secondly, you indicated there the target of 175% which you have for this ratio, what would happen, what actions would you take if it gets closer to this 175% if you don't have many model that's left or your spreads continue to be very volatile?

And the third question on that is your Solvency II ratio in Continental Europe. It's now at 117%. And I was wondering, is that enough or do you consider capital injections there if that's necessary? That's on Solvency.

And then, on Asia, two questions if I may. One is on Non-Life in China where it seems that in Q3, the results were quite good, €10 million on a quarterly basis. Can we consider that as a sustainable run rate which would be quite substantial going forward? And I was wondering whether you experienced any headwinds from political turmoil in some countries where you're active, in Thailand and in the Philippines. Those were my questions. Thank you.

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

Okay. Let me first comment a bit on group versus Insurance year-to-date. First and foremost, the model improvement, obviously, affects both sides in the same way, yeah? What is quite different obviously is the capital management impact, where on the group level, we have the 10% plus; on the Insurance level, you don't have that effect, because the 10% plus comes from a very lucrative transaction that we did with the sale of Hong Kong, which gives a huge, positive support there, that is offset by a multitude of investments that we did, which we mentioned throughout the year.

We bought back the Hybrone. We did the investment in AXA Portugal. We did investments in the non-controlled participations in Asia, EastWest Bank, with Maybank in Singapore, with Taiping in e-commerce, and various other transactions, obviously, also, the share buyback. All these do not affect, of course, the Insurance side, and hence, on the Insurance side, you don't see that positive.

The expected dividend upstream from Insurance is also, this year, relatively high, and that is the same effect, because part of the dividend comes from the Insurance gain we made on Hong Kong transaction. And then, other than that, so if you look at all these non-market and non-operational items at the – or should I say at the group side there, there's slightly negative impact because of the settlement, obviously, minus 20%, which is also not there, on the Insurance side. On the Insurance side, there is rather a plus 5%. That immediately explains the difference in the evolution there, yeah? So that's about the difference between the group and the Insurance movement.

Coming close to our 175% target, let's be clear that the 175%, we are actually quite comfortable still where we are today. We are well above that, relatively stable. If spreads move up, let's not forget that the VA at the end also will dampen to some extent.

We are looking at, as I said, investigating whether there's more efficient models for VA that we could implement in pillar II if we find solutions for that that look attractive and gives a better realistic view, we will look at that. Other than that, today, we are comfortable with the risks we take and with the volatility that we see, because it is completely in line with our risk appetite, and it's a feature that we have commented on before.

On Continental Europe.

A - Christophe Boizard {BIO 15390084 <GO>}

Filip, if I may. So taking into account all these, but after we still have some capabilities to issue sub debt. We are not at the maximum, far from this.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay.

A - Christophe Boizard {BIO 15390084 <GO>}

So we still have room to issue sub debt. The leverage is not that maxed far from this.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay.

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

Your question on Continental Europe, actually, in the previous encounters that we have already commented on the fact that, indeed, Continental Europe, the Solvency ratio is low. If you look through that, you will see that in the Non-Life companies, it's actually high. In the Life operations, in Continental Europe, they suffer from the spread, especially because we also recognize the spread on the government bonds.

So we have always said that we do our capital allocation and dividend policy based on our Ageas model, but we do not feel that we have to inject capital necessarily in the operating entities to all bring them in line with 175%.

If you look in the table on PIM, in fact, which is also in the document, you will see that the regulatory view on the Continental Europe Solvency position is actually quite elevated, because on a local basis, transitional measures compensate for that in, for instance, Portugal. And so, we are comfortable with the Solvency position locally of the operating entities in Continental Europe. However, we are surely not harvesting dividend out of the Life operations in Continental Europe at this moment and we will let them strengthen (40:55) over time.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay.

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

Okay. Then the question on Asia, the first part on Non-Life, we have a profit of €21.2 million. If you look to the press release with the comment on net results, we indicate that there are two exceptionals. One is an IBNR release, the other is the capital gain on the sale of real estate. Both together make something like €6 million, you could say, so that the underlying result is something like €15 million. So the €21 million is not, let's say, a sustainable level unless we further improve the combined ratio. But as you see, it's already quite low with 85%. But the underlying result is more than double of what we had last year.

Q - Bart Horsten {BIO 2390919 <GO>}

Yeah.

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

And then the question with the impact of political turmoil, I would say, if you look the number of countries where we are, take Turkey, China, India, Malaysia, Thailand, I could even say some of the South European countries like Portugal and Italy, also the Philippines, many of them have had some, let's say, turbulence, be it political or economically. And I think that the past has shown that we have always been able to nevertheless sustain or give a decent result in this company, in these countries.

One of the reasons, of course, that we are, to a large extent, in the, let's say, the retail, the Individual Life business where people still continue to invest, they still continue to drive their car to head their home and things like that. So we are less – from an operational point of view, less depending on these markets.

Of course, what we cannot always foresee is the more financial impact of the financial markets locally. And as we have seen like last year and this year in China, for instance, they are, by nature, more volatile than the more mature markets in Europe, also, because we use in these markets our own rules, with respect to capital gains impairments and in most of the markets, we are more severe than the local company. But so we don't see, for instance, at this moment big impacts in Thailand due to the change after the death of the king, and also, in Malaysia, where we have some uncertainty on the political front, we see that our results are even improving.

Q - Bart Horsten {BIO 2390919 <GO>}

Okay. Thank you very much.

Operator

The next question is from William Hawkins of KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, gentlemen. Hopefully, this is one quick question. Your 3Q good combined ratio in Belgium, is there a thing distorting that with regard to reinsurance? So is the better ratio purely a function of good growth experience? And then, Antonio, when you made a fair way (43:51) remark about reinsurance treaties protecting 4Q, were you simply just saying that your normal reinsurance protects you if weather's bad or something or were you referring to a more sort of issue of financial reinsurance treaty that you know is going to help you in the fourth quarter? Thank you.

A - Antonio Cano {BIO 16483724 <GO>}

So going back to your last remark, it is not a financial reinsurance deal. It's a classical reinsurance structure we have in place. And what we have is maybe a bit special compared to some of our peers, is that besides the classical top-notch (44:24) cover for storm, we have also a kind of aggregate cover for floods. And if you remember, actually, this year, Belgium and other parts of Western Europe were particularly hit by floods. So here, this aggregate cover would play if flood will become an issue.

And yeah, the combined ratio, to some extent, has helped in sustaining – sorry, the reinsurance has obviously sustained combined ratio this year, but not in an exceptional manner, not even also like for the terrorism events.

Q - William Hawkins {BIO 1822411 <GO>}

Right. So the good 3Q net figure is not a function of any (45:06) reinsurance, it's genuine good growth claims experience.

A - Antonio Cano {BIO 16483724 <GO>}

Yes.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

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

Q - Benoît Pétrarque

Yes. Good morning, everybody. Sorry. We've been busy, so I'm not sure you've answered the questions already. My first question will be on the slide 52 on the Solvency ratio on the partial internal model. I'm not sure I understand why the Belgium ratio is down from 235% to I think below 200% now, 197%. It looks like SCR went up this quarter. And so, just wondering if you could clarify this.

And obviously, if you look on PIM, I mean at the end of the day, it's also important because it's reported to regulators. You are below 175%. I know you don't have any specific targets at PIM level, but how do you see the Insurance Solvency at 167% now in this context?

And then, I was wondering if you could clarify what is your assumptions on the remittance for the Belgium entity (46:23), including your Solvency II ratio. Thank you very much.

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

Okay. First and foremost, regarding Ageas' view on dividend, upstreaming and capital management. We've both focused on pillar II which is the Ageas' view. And there, we have our target clearly set around to 175%. The 175% is not the target for regulators. Let's not forget that. That's the target that we put based on our risk appetite and our commitment towards the market in terms of capital fungibility and dividend, yeah? The regulators are not expecting 175%. They are expecting solid Solvency ratios, and for most, if not for all, our operating entities, if you look at the table of PIM, we are in a comfort zone from a regulatory perspective, and that is not forming a constraint on our capital management.

Related to the upstreaming from Belgium, which is directly related to our view on the Belgian situation, we are still comfortable, if not 100% sure, that we can commit to full capital upstream of the dividends in the near future. That is what we have more or less also shown by the additional dividend that you can expect still in the fourth quarter, which was recently announced.

Then, there was one other question related to the movement in Belgium specific for the third quarter, let's say, I partially answered that, but I will repeat. In the first half of the year, Belgium benefited from indeed a positive effect of the spread, which was there because of the VA almost – well, in fact, overcompensating the spread moves in Belgium.

It was a very positive effect, which was offset to some extent by the interest rate, and also, in that quarter, and for Belgium similar (48:32), it's a very important impact, there was a material divestment of their equity portfolio in anticipation of Brexit.

In the third quarter, they have reinvested that amount, and the spreads actually moved in the opposite direction. So, the combined effect makes that the operational increase and market movements over the first half year for Belgium were actually very positive, almost plus 20%. But in the last quarter, it was almost minus 28%.

Q - Benoît Pétrarque

First, looking at the PIM ratio for Belgium in the quarter, its SCR going up by €700 million, and the ratio is going down by I think almost 40 percentage points on that. I mean, I get the point on the spread impact, but I think it's mainly on funds related.

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah. But the spread impact also has an impact on funds, because if the spread on the government bonds go up, there is also a direct impact over that on the fund.

Q - Benoît Pétrarque

But, if I compare end of 2015 to end of Q3, you are moving up, while I'm not – I can't – I don't really understand the move for the first nine months here on the SCR, because I think the Brexit effect on spread was kind of more Q2 event.

A - Christophe Boizard {BIO 15390084 <GO>}

It is a positive event in the first half and it's a negative event in Q3. So, year-on-year, if I – I did not – wait, I didn't get the question correctly.

Q - Benoît Pétrarque

Now, the question is more, if I look at the slide 52, the Solvency II under the partial internal model for Belgium, you went down from 234% end of 2105 to 197% at the end of Q3. And I was trying to understand the reason of this decrease. I understand that there have been some maybe more positive market impact from in H1 just ahead of Brexit, but I don't understand why it now moves a lot in the third quarter.

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah. But, in the third quarter, it is, as I said, related to spreads, and it is predominantly on the SCR increase. If you look at it, the SCR increases with almost €250 million, €300 million. It is not the own funds year-to-date, because there, they seem very – they are fairly stable. And that is also due to the fact that Belgium has matched their portfolio. So, you don't feel interest rate impact and so, we'll own the yield funds (51:25). So, they are stable.

But, it is the SCR increase, and most of the SCR increase or 50-50, I would say, year-to-date comes from on one end, indeed, the lower interest rate, the second order effects, which relates to not directly the yield itself, but the effect on the lapse sensitivities in the rate (51:50). And we have also, indeed, a higher exposure because of spreads of about €100 million in the SCR.

Q - Benoît Pétrarque

And just to finalize on this, if I compare the slide 48 to 52 for Belgium, where do we have different sensitivities in the third quarter for the Belgium ratio? Because I will assume the kind of the lapse effect and spread effect are kind of the same for on both bases? Yeah.

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

Yeah. So, I commented on that in the beginning of the call that we did pillar II model changes on real estate. And the parking concessions, they are in pillar II. They are not in pillar I.

Q - Benoît Pétrarque

Okay. All right. Thank you very much.

Operator

Thank you. We have no further questions this morning. I'm sorry, we do have a further question from Ashik Musaddi of JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good afternoon. Just one more question I have is my favorite question around the topic of M&A. Now, clearly, your Solvency II ratio is reflecting the full minority stake of AG Insurance. So, if you get AG Insurance at whatever price, your Solvency II ratio may not really change a lot. So, any update on that M&A thing or what's – any discussion you're having with BNP, or is it just too early on that or any thoughts on your peers? Yeah. Because I still – somehow, it's still very interesting, and I hope that the file is – both the files are not yet close from your end.

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

Okay. As you correctly said, the impact of exercise would not be of an impact on – would not be – would be neutral around Solvency. At this moment, we are not the party that has the key in hand there to start this negotiation. Let me remind that it's about two elements. First of all, there is a put option that can be exercised in the first half of 2018. And secondly, this can or cannot heard, depends, be linked to negotiation on the continuation of distribution agreement with BNP Paribas that ends normally at the end of 2020.

But so, the initiative is more on the side of BNP to start. It's clear that we – as we did with all previous files of big importance that we prepare ourselves and that we will be ready once the discussions start. But, each – the first half of 2018, so you could say we are still 13 months and some days to go. So, it will be – it will be something that we can expect between now and 2018.

Maybe also important to mention that as it's already indicated at Solvency neutral, that of course in terms of accretion on profit, this would be a positive and that we, of course, will – once we enter into discussions, we have, of course, also the obligation of confidentiality and things like that. So, we will maybe one day communicate what the outcome is.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very clear. And any thoughts on Ageas?

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

Ageas is, at this moment, the only thing we can say is that the three governments at our shareholders or have decided or are in the process of – to appoint an investment banker to help them more with the assessment of the potential possibilities of what can be done with Ageas. Secondly, also important to mention that Ageas itself launched a new initiative on the market to buy back or to get rid of a number of their toxic first eight (55:49) contracts where they offered to the customers an upside of 25% on top of the investment or the reserves which is a better offer than the one they did a year ago.

And so, this is in the case that the management and the board try to do everything to make the company cleaner and to go for the standalone future.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah.

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

We follow the file closely and if something comes to the market, it's clear that we will have a serious look at this file.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. That's very clear. Thanks a lot. Stay hopeful.

Operator

Thank you. We have no further questions.

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

Okay. Then, ladies and gentlemen, I would like, on behalf of the full team, to thank you for your questions. Let me maybe summarize the main messages of our nine months results. First of all, our overall set of data published remains very solid and we are able to maintain, overall, a high level of operational performance. If you make abstraction of the adverse events that hit Belgium and UK in the first half, our Non-Life results are exceptionally strong. And in Life, Belgium and Asia, in particular, performed very well.

With respect to the Solvency II results, we have perhaps surprised you a bit, but, however, volatility is inherent to the framework, and we have to get used to this. But, all-in-all, the ratios remain strong and within the ballpark range that we have set for ourselves in which everything remains okay.

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

Operator

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