Q3 2015 Earnings Call

Company Participants

- Antonio Cano, Chief Operating Officer
- Bart Karel de Smet, Chief Executive Officer & Executive Director
- Christophe Boizard, Chief Financial Officer
- Filip Coremans, Chief Risk Officer
- Frank Vandenborre, Investor Relations Contact

Other Participants

- Ashik Musaddi, Analyst
- Benoît Pétrarque, Analyst
- Farooq Hanif, Analyst
- Jason Kalamboussis, Analyst
- Matthias de Wit, Analyst
- William H. Elderkin, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Ageas Nine Months 2015 Results Conference Call. I am pleased to present Mr. Bart de Smet, Chief Executive Officer; and Mr. Christophe Boizard, Chief Financial Officer. For the first part of this call, let me remind you that all participants will remain on listen-only mode and afterwards, there will be a question-and-answer session. As a reminder, this conference call 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. Thank you all for dialing into this conference call and for being with us for the presentation of the first nine months 2015 results of Ageas. As usual, I'm joined in the room by my colleagues of the Executive Committee, Christophe Boizard, the CFO; Filip Coremans, Chief Risk Officer; and by Antonio Cano, as of October 1, our COO. Hans De Cuyper, the new CEO of AG Insurance, is also in the room and, of course, we are joined by our Investor Relations team.

Ladies and gentlemen, financial markets have proven to be very volatile this year. And after an outstanding first half, the third quarter faced growing concern about global economic prospects, especially in China, which resulted in a worst quarterly market performance since 2011.

This forced us to book a net impairment on our equity portfolio in Europe and Asia for a total amount of €62 million and this partly offset the excellent performance of the first half. Since then, the market has very well recovered, which gives a better outlook for the last quarter of the year. Overall, however, the financial performance remains strong and, year-to-date, we are up compared to last year.

A strong operating performance in Non-Life of the first half has been confirmed in the third quarter. We benefited from a favorable currency rate evolution, but at the same time, we recorded a lower amount of net capital gains essentially because of the high level of impairments on equity.

The main headlines announced today are on slide one of the presentation. Our net Insurance profit for the first half (sic) [first nine months] (02:33) of € 613 million, which is an increase of 6% compared to last year and the net result in the third quarter of €109 million. The latter was below annual expectations and this was why we decided to issue an earlier results release to report on the impact of the equity impairments on our third quarter results.

Our operating performance remained solid for the group. Combined ratio year-to-date of 95.1%, in line with results at the end of June, while our Life Guaranteed operating margin came down to 80 basis points mainly because of the lower amount of realized net capital gains.

The unit-linked operating margin went up year-to-date to 37 basis points. The group inflows, including the non-consolidated partnerships at 100%, were up 8% year-on-year in the third quarter to €6.2 billion and to €22.8 billion year-to-date, which is an increase of 17%.

The group net result increased significantly year-on-year to €599 million, benefiting from a positive result in the General Account in the third quarter as a result of reduced valuation of the RPN(I) liability.

The shareholders' equity declined slightly compared to the end of June to €10.9 billion with the lower level of unrealized gains on our investment portfolio at around €2.8 billion. The Insurance solvency I ratio stood at 231%, while our net cash position including the liquid assets amounted €1.7 billion.

So ladies and gentlemen, I would like now to give the floor to Christophe. I will come back to you for the Q&A and some closing remarks.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart, and good morning, ladies and gentlemen. As usual, I will take first the operating results by Insurance segment and then the General Account. So first, our Insurance operations. As Bart already mentioned, I am on slide two of the presentation. The net Insurance result in the third quarter amounted to €109 million compared to €239 million last year, so a decrease of €130 million. This gap can be explained by the €62 million impairment on equity this year. And as regard to last year, the realized capital gain on real estate in Belgium for €59 million and the legal settlement of €17 million in the UK related to the Retail business.

With respect to the breakdown of the equity impairments, roughly half of the amount relates to the Asian activities, while the remainder is related to Belgium and, to a lesser extent, to Continental Europe. The combined ratio for the third quarter amounted to 94.7%, almost exactly the performance of last year, while the operating margin on Guaranteed business in Life fell from 96 basis points to 61 basis points this quarter, because of the reasons already mentioned.

Slide three, a key slide for this presentation. The slide three gives the year-to-date view of the realized capital gains net of impairments. The difference of €131 million is largely explained by the Q3 impairments and absence of real estate sale mentioned above. But this is an interim position and we have very good hopes to catch up in Q4.

Some brief comments by segment now, first Belgium, I am on slide four. Our Belgium operations reported a net profit year-to-date of €264 million compared to €321 million last year. The higher levels of net equity impairments and lower levels of realized gains – capital gains, which you can estimate at around €90 million; as for the real estate €59 plus half of the €62 million. So roughly

€90 million was mainly allocated to the Life activity, and it significantly impacted the Life contribution. In addition, the Life activities benefited last year from a deferred tax liability release of €21 million.

On Non-Life, I'd like to stress the continued excellent performance with a combined ratio that remained strong at 94.2%, benefiting from a claims ratio 10% point lower than the one of last year. Part of this relates to the prior years, but the current year claims ratio is also substantially down.

In the UK, slide five, the net results year-to-date amounted to €65 million with a €7 million positive FX contribution, compared to €80 million last year for the same period. (08:46) last year including a €23 million legal settlement because this year (08:53) €23 million relates to year-to-date figures whereas the €17 million I mentioned at the beginning of my presentation was Q3 only. So we indeed received several payments in that respect.

The combined ratio of Ageas Insurance Limited improved to 98.3%, mainly because of a good performance in Household; thanks to the absence of natural event until now.

The Motor performance remains challenging, marked by a higher claim frequency and increased claim costs for Third Party damages, but at the same time, we see average premiums starting to rise. The result of our Retail activities reported under Other and excluding the headquarter costs declined to €9 million. This amount includes the project cost related to the renewed Retail strategy, which we are currently implementing.

In Continental Europe, slide six, the net result year-to-date amounted to €63 million, compared to €43 million last year and with a substantial improvement in Non-Life. The third quarter net result was marked by a negative Life contribution as a result of the downward movement in the European equity market, while the Non-Life results remained strong with an excellent combined ratio of 86% year-to-date.

The only negative element remains Turkey where the combined ratio remained above 100% at 103.5% due to bad weather and adverse Motor results. And I remember you here – I remind you here that the Turkey is not consolidated. So the combined ratio of 86% does not include Turkey and the 103.5% is outside of the consolidated combined ratio.

And lastly, Asia, on slide seven of the presentation now, the net profit year-to-date of €222 million, of which €19 million of income a positive FX contribution. The net result in the third quarter is only €10 million, and this to a large extent, because of the already mentioned equity impairments. For the rest, always solid (11:47) ongoing results in Thailand were offset by a lower contribution from our partnership in Malaysia.

This brings me to the General Account, slide eight. The net result in the third quarter amounted to €21 million, mainly as a result of the decrease of the RPN(i) liability by €46 million. This absorbed, to a large extent, a negative result of the second quarter and brings the year-to-date net result to €40 million negative against a loss of €297 million last year.

Staff and other operating expenses year-to-date amounted to €51 million, up €11 million, because of higher legacy related costs and higher personnel expenses as there is a lot of one-offs there, obviously.

The net cash position stood at €1.7 billion, including the €0.3 billion of liquid assets, which is qualified (13:06).

Lastly shareholders' equity, slide nine, shareholders' equity came down slightly to €10.9 billion, or €51.12 per share. With respect to the evolution of shareholders' equity, I'd like to add to that explanation, the positive impact coming from a lower evaluation of the AG put option, now valued at €1.95 billion and a positive foreign currency impact of €111 million.

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

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Ladies and gentlemen, (13:59) and as always, (14:02-14:11) questions.

Operator

This is an operator message. I'm pretty sure that we are ready to ask questions. Just a reminder, that the sound from your line was gone for a couple of seconds. Can you confirm that we are ready for Q&A right now?

Frank Vandenborre {BIO 15168443 <GO>}

Yes.

Q&A

Operator

Thank you very much. Ladies and gentlemen, we are now ready to your questions. Our first question comes from the line of Matthias De Wit, KBC Securities. Please go ahead. Your line is open.

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

Hi. Good morning. Thanks to take my questions. I got three questions please. First on the capital gains, if I understand it correctly, just a timing issue where some of these gains might have been deferred to the fourth quarter. Could you confirm whether that's a correct reading of the situation? And related to this, I also wonder whether there is any reason to expect structurally lower level of capital gains going forward or is that not at all the case?

Secondly, on your holding company cash position, if you look pro forma for the Hong Kong disposal, you will benefit from around €3 billion in growth cash holding. And I understand that you're looking at M&A, but maybe not the entire buffer is earmarked for redeployment. So could you maybe comment whether you see room for extra shareholder returns on top of what you're currently paying out in ordinary dividends and buybacks.

And then, lastly, on UK Retail, I guess, that the market remains challenging. So I just wonder when the earnings would start to improve in line with the – or in the back of the renewed retail strategy? Thank you.

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

Okay. I'll give answers on point two and three and then maybe ask Christophe to give more color on point one there. However, (16:26) you can say that cap gain, as you have heard in the presentation is for us timing issue. If you look to slide three, in the presentation, you can see that for the third quarter the difference between last year and this year was some looking like €131 million less cap gains, including impairments than last year.

We had last year a big real estate sale in Q3, but I will leave it to Christophe to give (16:57) my answer on two questions bit more color. The cash position, first of all, we are in the process of closing the deal in Hong Kong. So as announced, it will be expected somewhere in the first half year 2016. It will increase, of course, our cash position; I would say to an amount bit lower than €3 billion refer to, because at the same time, we expect the cash-out for the acquisition in Portugal. We have the investment in Philippines and also the running buyback program. But in any case, the amount will be somewhere above €2.5 billion.

And today, we can say that our position did not change in a sense that we keep this massage to be repeated. (17:46) first priority is to look to insurance, let's say, opportunities there to expand the business. If not, that we enter in this second use of cash, which is to (18:00) to shareholders. But, at this moment, I would say, there is no specific news to be told on the M&A front.

The third question on the UK Retail business, so as also announced by (18:15) intervention, we have been running cost plus (18:18) here this year. So you could say that the cost to invest in the alignment of the different retail activities is got under one legal entity with one common IT system, is almost finished. And we are in a process of looking how we can better use this capacity. We've got to increase our position towards our end-customers and also to get more business for our own underwriter area (18:46) out of this activity. So this is something that normally should be visible in 2016 in better overall contribution in the Non-Life position we have in UK.

You probably take the first part.

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah. Thank you, Bart. So, on capital gain, the answer is yes, I would say, but this is more timing issue. And as I said in my presentation, we have good hopes to catch up. I would like to make the following comment. We are faced with the, let's say, (19:27) of the recognition of the capital gain in real estate. You know that our real estate allocation in Ageas stands out when you compare with peers. Now we are close to 9% (19:41) so it means that in our investment return, we rely on real estate maybe more than the others.

We run this portfolio with target return, the target return being about 5%. And it means that we need, let's say, something like €70 million to €80 million a year of capital gain. Obviously, this is missing at this moment. But when I said very good hopes to catch up, it means that we have a transaction, which is underway. And very good hope is to realize this real estate transaction we have started the building, we have the buyer, the agreement has been reached. And we are only doing all the regulatory, the buyer is obliged to in regulatory approval. But we are really on the good way.

So, in that case, we will indeed catch up in Q4. But, last year it was Q3, if I remember correctly, the year before it was Q4. What is key at the end is to reach the 5% global return on real estate on a yearly basis and we have good hope this will be the case for 2015 as well. Thank you.

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

Okay. Thank you.

Operator

Thank you very much. And moving on to the line of Ashik Musaddi with JPMorgan. Please go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good morning, Bart; good morning, Christophe. Just a couple of questions. Thanks for the clarity on the capital gains. Just a follow-up on that again. Your target – annual target is around 80 basis points to 90 basis points of guaranteed operating margin, and at nine months, you're running at 71 basis points. So I just want to check. Is that 80 basis-point to 90 basis-point an annual target? Or is it like an over-the-cycle target, i.e., there is a big, big catch-up expected in fourth quarter. So should we remain optimistic about that? Which - you again mentioned in your last comment, but just want to check again.

And secondly, what is going on with Asia, especially, to Malaysian earnings? Can you give us some color on the Malaysian earnings? How should we think about that going forward? Is there any structural issue? Or is it more mainly a bit of volatility that is causing the numbers to look a bit bad at the moment. So these two questions would be great. Thank you.

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

On the first question, Ashik, I think that it's a very good question. We target margins where we - that we go for, of course (22:33) annual base that we have already indicated, I think, also in the past that we also have and certainly in our biggest Life operation in Europe like Belgium, the possibility also to use your profit sharing decision in order to reach target, but to be very clear, and it's in line with what Christophe said.

If we would have realized the cap gain on real estate that we had last year, the similar one this year, it would have been something like a 20 basis points difference on an annual base. And so we stay confident that this year we will be reaching this target margin of 85 basis points to 90 basis points. But it's not the quarterly target. So - because building like last year, you cannot (23:24) parts of the year.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Absolutely, yeah.

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

With respect to Malaysia and there I will hand over to Filip to maybe give some color on the accounting aspects in Malaysia. What we see in Malaysia that is that we have been for a number of years a bit more struggling than in the other Asian markets in terms of top line growth. There has been a period where single premiums were very, very let's say, prominent in the top line in the inflow. And over the last few years, there has been a move to more regular premium and a higher quality of sales to have more impact of renewals. So what we see now is that since two years, for the first time, we see new business in regular premium and also renewals going up. So that's the good side. But, of course, we are a bit below the expectations and the line we had before. On top of that, there are a number of accounting impacts, and there I suggest Filip to comment on this.

A - Filip Coremans {BIO 17614100 <GO>}

Thanks, Bart. Hi, everybody.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hello, Filip.

A - Filip Coremans {BIO 17614100 <GO>}

So the weaker growth that Bart referred to in Malaysia is also partly the (24:47) some economic and political tensions in the country, which has put some weakness in the equity markets and has pushed up a bit the spread (24:57) on the Malaysian bonds. And Malaysia has a very specific accounting treatment, where the fixed income books run mark-to-market through the profit and loss account quite differently from what we have today under IFRS. And the same goes for the liabilities; they're valued at market rate.

Now if spread increases, the spread increase itself immediately translates in a loss in the P&L, because that is obviously not taken into account to discount the liabilities, which are discounted at the risk free rate. Those spread increases and weaker equity markets mostly are causing pressure on the Malaysian results year-to-date. Looking forward, it depends largely on how the macroeconomic environment there will evolve, yeah? And that is a bitter side, the shift in the product mix that we're trying to achieve.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. And just one quick one on Solvency II. I mean, you gave a very strong presentation recently in London. So thanks a lot for that. But I just want to get some thoughts how should we think about Solvency II at the moment? Is there any new material noise that you want to share? Or should we feel comfortable as to what you informed us at the first half level? Should we continue with that kind of view?

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

Okay. I promised during the Investor Day that we will, indeed, start reporting transparent Solvency figures. We actually did during the Investor Day – as from the year-end onwards. So, at this moment, I'm not going to give a quarterly update on it. However, maybe one thing I can add is that we referred during the Investor Day to some uncertainties, which are still potentially going to impact the Solvency figures, although most of them we felt they were under control, but we referred to three discussions, which were ongoing at that time. That was the treatment of bonds and our loans, which are guaranteed by regional governments or local authorities that discussion is still going on.

But, at the moment, what we said is that, indeed, we will not be able to probably treat them as government debt for the timing being (27:27) reconsider that – that's obviously for the whole industry by the end of next year. But that impact is very well bearable. It's about €175 million on the SCR, which is increase of the SCR. But that does not materially change our results.

And then the other big item that we disclosed that during that day was the treatment on what we say as our ancillary services, which related to our parking business – to interparking. And so the combined effect of what is happening there is a minor decrease of about €150 million on the own funds (28:12) the only two tangible developments over the last, let's say, quarter that we will (28:19) only things. Other than that, I think everything is normal and stable.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. So the recent market volatility is not hurting your Solvency II ratios?

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

It will not – well, in all fairness, I cannot to say that yet, because the calculations will be performed are still ongoing. Let's be clear that if you look at what happened over the last months of summer, there has been a strong rebound. Let's not forget that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thanks a lot. Very clear.

Operator

Thank you very much. And the next question is from the line of Farooq Hanif with Citigroup. Please go ahead. Your line is open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thank you so much for taking my questions. Just a few questions. Firstly, on impairments, I know these are just accountings. So we should not get too excited by them. But sometimes, even if markets are flat, you get more impairment just because of the timing of the accounting rules. So I was just wondering, is there anything in Q4 that we should bear in mind on impairments based on the current market level?

Secondly, on the reserve releases, in workers' compen of the businesses, where you're taking actions in Belgium. Again, just wanted to work out how much of the prior year release year-to-date you would say is exceptional, how much is actually just the reserving policy as part of your normal underwriting?

And also, just in the UK, you're seeing obviously lagged effects, but it seems that the pricing outlook's far more positive from what we're seeing that of the UK Non-Life company is reporting. So just wondering when you think that combined ratio profitability picture could get better.

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

Christophe, you take the question on the impairment.

A - Christophe Boizard {BIO 15390084 <GO>}

On the impairment, there is very little room for maneuver. And that's a rule that we apply, that's an IFRS rule. We have to compare the book value, recurring value with the market value at the end of the period, so September 30. What was really sad is that September 30 was really among the lowest point. And when we close the account a few days later, it was even higher. But we had to recognize this. There is no way we can manage.

So it is really the observation of the rules. We apply our rules, which are very similar to other group. The benchmark with other group has been made and it is the 25% figure, and then the decreasing value on the one-year basis. But all these things are very classical. So we have normal hopes and we operate it in an automatic way.

Q - Farooq Hanif {BIO 4780978 <GO>}

But you don't hope – as for the recovery means you're not expecting anything big in Q4 as of today?

A - Christophe Boizard {BIO 15390084 <GO>}

In Q4 since the equity markets are much better, we don't expect impairment. As a matter of fact, we could even reverse some impairment by (31:45) the only way to get rid of impairment is to sell, and in that case, you recover the impairment and maybe (31:55) capital gain. But all the markets are more or less 15% higher than they were at the end of September. So there is larger room to recover a part of this impairment if we want.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you.

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

Okay. Then the question on releases in Belgium with respect to workers' compensation, we don't see specific higher releases than in the previous years. What we have seen is mainly in the first quarter of the year, overall releases in different product lines that over the year, I think, Christophe mentioned it in the Q1 call would come down. And we see the release is coming down from something like 13% in Q1 to now slightly above 8%. You could expect normally that this will be again a bit lower by end of the year. And the main reasons are that on one hand, we have had quite important strengthening of reserves last year in Third Party liability where a number of parts have also been closed in the meantime.

So we see maybe that our extra reserving was from on a conservative view. Also, we have this (33:16) last year where also – most of the files will be closed. So we see the releases this year as more a natural evolution of better experience than what we expected. And so we reconsider the combined ratio evolution in Belgium as positive, of course, also led by good weather events.

Then for the UK, the situation is always a bit more touchy in the sense that the market remains competitive. We are more than positive about the trend we see of increasing rates in Motor Insurance. So year-on-year and it depends on which source you look at. But I would say the most pessimistic sources talk about the 5% increase in rates, where we, on the other hand, see that the pressure now moves more to Households that has benefited from very good combined ratios in the past year – in the past nine months.

So we – okay we stay (34:22) and look how we can keep our position while not giving up too much on profitability. Our combined is now not yet at 97%. We try to work further to reach that 97% level, obviously, in the UK.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. That's very kind. Thank you.

Operator

Thank you very much. And moving on to line of William Elderkin, Goldman Sachs. Please go ahead. Your line is open.

Q - William H. Elderkin {BIO 3349136 <GO>}

Good morning, everybody. Just a couple of questions left. First one is just – can you, kind of, give us a sense of how you're going to book the gain on the Hong Kong disposal, whether that will go into the Insurance results or the General Account result? And then related to that, if it is in the Insurance result, when we're thinking about your dividend or dividend forecast, should we be including or excluding that disposal gain?

And then secondly, just on the UK Motor business, you seem to have some positive prior year experience, but at the same time, some fairly cautious current year developments. Can you just give a sense, is this sort of issues specific your own book or something more market wide, because it just seems as things keep on coming up in your – more than others in my sense? And really what are the steps that you're putting in place to take you to this 97% combined ratio objective?

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

Okay. I'll pass the first question to Christophe. And then, take the second one.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. So the recognition of the capital gain will be a split between the Insurance operation and the General Account. Usually, we book the capital gain coming on the sale in local currency within Insurance parameter and then everything, which is related to FX, is taken by the General Account. But at this moment, I don't have the split. But that's what we did when we sold the product in the UK last year.

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

Okay. Then UK Motor, we don't see a different profile in – for us compared to the market. What we see is again that – we could see slightly going up because the economic outlook in the countries is better and people drive again a bit more. And we also see an impact on the cost of the more big claims. So that's what makes us – it gives us the necessary attention to further try to improve the profitability in Motor, while it's very good in all the other branches we commercialize.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you. Can I just come back, in terms of the gain that's going to – the disposal gain that's going to flow through into the 2016 Insurance earnings from Hong Kong, how should we think about that in terms of our ordinary dividend forecast or...?

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

In terms of dividend, we have a dividend policy and I – normally we present dividend proposal to the General Shareholders Meeting and would expect that we apply as we did in the past, our dividend policy.

Q - William H. Elderkin {BIO 3349136 <GO>}

Okay. All right. Thank you.

Operator

And there are no questions in queue. And our next question is from Benoît Pétrarque from Kepler. Please go ahead. Your line is open.

Q - Benoît Pétrarque

Yes. Good morning. It's Benoît Pétrarque from Kepler Cheuvreux. Just to follow up on the capital gain questions, I was wondering, I mean, do you actually generate capital when you realize those gains especially on the real estate, as I can imagine, it will be pretty large in the fourth quarter? Or do you actually already fair value the real estate in your own capital figure on the Solvency II. So just wondering, if it will be capital buildup or it's just purely a recycling the figure to P&L.

And then maybe on the cap gains of the margins in Belgium, so, okay, you do rely clearly a lot on cap gains to make the 85 bps, 90 bps margin. What do you see underlying? So if you kind of exclude the capital gains from the margin figure and not only look over the past couple of quarters but just on the long run about what do you see in terms of underlying trend, please? Thank you.

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

I will take the second question. And then I give to one of the colleagues the first one. So we have – we scale the business Belgium starting from the margin we want to make and we need to enumerate (39:37) the capital properly. That means that also in all strategic capital allocation, when we include equities and real estate, we of course take to account that this assets have to use certain percentage that is not necessarily made by for equities, by the dividend; and for the real estate, by the rent minus depreciation.

That means that realizing capital gains on equities and real estate are, I would say, a fundamental substantial part of our – the way we do the Life business. And that's the reason why we always count on a certain volume of cap gains in those two categories to reach the margin, which is not the cases in bonds, where we are more in a position buy and hold. And if we make up for gains on bonds, it's more for pure opportunistic reasons or because we pass threshold.

And that's the reason why it's also important to look to, for instance, the unrealized capital gains on real estate that we have because, first of all, these are not included in the sales equity. We use them in our calculation of solvency. But the fact that we have this deprecation on the portfolio and that we – if we would not, from time of time, realize a cap gain, unrealized gains always would continue to grow up.

So you can see, if you look (41:16) unrealized gains on real estate always have been quite flat and that's the combination of depreciation and realization of cap gains. So that is also the reason why we are quite confident that this margin of, let's say, around 90 basis points from the Guaranteed business in Belgium is achievable, not only today, but also in the future.

Do you want to take this (41:43) Antonio?

A - Antonio Cano {BIO 16483724 <GO>}

To pick up on that, the real estate, as Bart said, indeed is not - the unrealized capital gain is not included in shareholder equity except in the solvency. There we do include both in Solvency I and in Solvency II. Solvency I, that is 90% of the unrealized gain, is taken into account in the Solvency ratio. And for this is - this year to-date, for instance, the unrealized gain effect on the increase of the solvency ratio, for instance, in Belgium is about €125 million like (42:21) that. You can see that there is also an increase in the unrealized proportion.

So that immediately - and in Solvency II, obviously, we work with the market - mark-to-market balance sheet, so which included. So realization or not has little capital benefit, maybe as except for the fact that it reduces a bit the risk on the real estate that you have sold, but that is not in capital side, that's in the solvency capital requirement side. So we did included a fairly neutral, when we realize it.

Q - Benoît Pétrarque

Great. Thank you very much.

Operator

Thank you very much and moving on to the line of Matthias de Wit, KBC Securities. Please go ahead. Your line is open.

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

Yes. Thanks for taking my follow-up questions. Just on the recent decision of the government to lower the statutory minimum guaranteed rates in group pensions, do you see any positive implications stemming from that agreement, maybe in terms of releases of provisions or in terms of growth which could come back in the segment?

Then, just on Asia, again, on the associate line, if you exclude the equity impairments booked in this segment, what are the main trends that - you spoke about Malaysia, but maybe you can also comment on China and Thailand, what you've seen during the quarter in terms of earnings? And then, lastly, just a minor follow-up on litigation, could you update us on whether anything is happening at this point in time? Thanks.

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

The first question, Matthias, I'll try not to be too technical, but the reduction in the guaranteed rate for (44:13) pensions in Belgium. And all-in-all, it's a decision that is in the first place important for the employers, because it's not a guarantee that insurer has to give, it's a guarantee that has to be granted by the employer on the pension plans he creates for his employees. But of course, it was until now, 3.25%, impossible to achieve in this environment. As there was a lot of pressure to reduce it, it has been reduced.

The positive for us is that as it's now 1.75%. And we are more in guarantee of 1% (44:50), that - it becomes a bit more affordable for employers to install pension plans. But at the end, most of the bigger companies, medium companies already have pension plans. So they are somewhere bound by the agreement they made in the past. So we don't expect a massive increase of business, thanks to this reduction. And it is still a business line, where we see in our own portfolio that year-on-year, we - every year continue to grow our volumes because there is a mandatory configuration of the expense.

The only positive - the major positive for us is that the offer we gave to employers is much closer to what they are entitled or obliged to give. And that will probably create more positive sentiment for employers than it was in the past. But we'll keep to be very strong in that market. We have a market share of 30%, and we don't see it decreasing.

I don't know whether Antonio or Hans want to add something to that or...

A - Antonio Cano {BIO 16483724 <GO>}

I think the only thing that we might add is that there is also a new rule on how you treat the past and how you continue the guarantee that were required before the change of the weight. And actually this changing regulation is also in favor of the second pillar, group insurance. So all-in-all, we are actually quite happy with the result.

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

Could you – because your provision for these very high statutory minimum guaranteed rates on the back book, might there'll be any release? Or is that not at all the case?

A - Antonio Cano {BIO 16483724 <GO>}

The guarantees of the past for all insurance companies, they are – I would say carved in stone as they continue one...

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

(46:42)

A - Antonio Cano {BIO 16483724 <GO>}

...so there is no release, no business.

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

Okay. And then the question on Asia, I will maybe, may more talk about the business and Christophe can maybe add something on the financial markets. What we see and I think it's also clear in our press release is that the inflows continue to grow and, of course, we have this minor growth in Malaysia, but we see – thanks also say efforts to move more from single premiums to regular premiums, so we see the trends changing. But it will remain tough especially due to the, let say, the observation Filip made more economically and politically.

But besides that, China, Thailand, India, of course, small premiums, high growth rate. If you look to the result from the quarter and you add what has also been said by Christophe, bit more of half of the impairments stood at – I think, don't have it exactly on the million, but you will reach somewhere, let's say, corrected result of €45 million, which is a bit lower than Q1 and Q2, corrected for. But again we don't see it as a negative for – negative sign or an indication of lowering profits. So we remain let's say confident and positive for the outlook in Asia.

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

Okay. Thank you. And on litigation?

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. Update on the legal files, without wanting to sound disrespectful to the proceedings going on. It has been quite busy over the last quarter, but mostly with – I would say, no new events, to some extent. We at the ruling of FSMA appeal procedure, which actually boils down to a slight reduction in the fee or the fine that Ageas has to pay. There are no real new information that came out of that procedure, in fact. So, for us, it's a moderately positive outcome.

The only remarkable fact which was new for us and also let's say that's why we say moderately positive is that the judge ruled or at least explained part of the reduction of the fine with saying that Ageas was not exactly the same as the old Fortis. Of course, we know that that in – let's say, legal proceedings does not carry a lot of rate, but it's good to hear that somebody else has recognized that we have changed.

The older procedure that has been in the forefront and has been captured by the press is the (49:45) hearings, these are actually no more no less than that, these are hearing in first instance, very far and distant away from coming to resolution. And there is also – maybe the reason why there was so much attention for it is because that is the investment holding of one of the families behind the – in that group who at that moment are obviously involved in other proceedings, but also there are little real material or new material was added to the table. This was expected.

That is also the only proceeding where we may, before the end of the year, have – may, I say, yeah, depends a bit on the speed of our court, may see something come as in terms of a judgment.

And the third one which is of course the forefront of the last month where the hearings in the Modrikamen case, you remember Modrikamen, who actually is pleading against, let's summarize it, Belgian State and BNP Paribas or having bought the Belgium Bank in parts too cheaply (50:59) and they think that these parties should agree to pay €5 billion to Ageas.

We are not banking on that yet, because we would like that to be true, but we think is a very, very, very remote, if not zero chance that may have happen. Aside from that is looking for damages from Ageas around €70 million, which of course, in case, it brings is €5 billion, we will happily pay, but that is not what we expect. So also that is proceedings in first instance far away from coming to any conclusion.

Looking forward and you will find our usual overviews on page 51, 52 and 53 of the presentation. Aside from the pleadings which just finished for Patrinvest and are ongoing for Modrikamen, the only judgment we expect before the end of 2015 at the earliest is on Patrinvest. For the first half of 2016, you can see there on page 53 that pleadings will take place in the Netherlands with the VEB cases. This is very material pleadings, very important for us, but also it's in first instance that we may see judgment come on the Modrikamen case and a few smaller cases in the Netherlands, and that we may see also the outcome of the Supreme Court pleadings in the FortisEffect case, you remember, that is about the break-up on the nationalization of the Dutch entities. So that is for the first half and (52:42) latter part of the first half of 2016.

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

Very clear. Thanks a lot.

Operator

Thank you very much. And our next question is from Jason Kalamboussis with Société Générale. Please go ahead. Your line is open.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Hi. Just one question, bit of a follow-up on the Asian earnings. If we take out the impairments, which maybe are probably €35 million, let's say, you are still at a run rate on the quarter in Asia that should be around close to let's say €45 million. Is it something with Hong Kong dropping next year in terms of earnings, should we expect to have – and in general with China doing pretty well, Thailand doing pretty well, should we expect to have a run rate that should be somewhere between €45 million and €50 million per quarter taking into account that Malaysia probably will be stable next year, if anything, and also that your new ventures will still not be producing any revenues next year with investments so we will be producing results only in 2017?

A - Christophe Boizard {BIO 15390084 <GO>}

As you know, (53:55) we don't give outlooks. Reality is of course that for next year, we will have to take out the results for Hong Kong, which is something like, let's say €40 million also looking back to past years. But we – on one hand, we will have increasing underlying books as of technical liabilities move at the highest speed than what we see in Europe. We don't see reduction of margins. We will, of course, have in the Asian segment a number of, let's say, costs like the startup cost in Vietnam and Philippines. But, okay, we in any case, count on the Asian segment continue to have important and increasing contributions taking out Hong Kong, in the coming years.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Okay. Thank you.

Operator

And there are no further questions in queue. And with that, I would like to return the conference call back to the speakers.

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

Okay. Ladies and gentlemen, thank you for your good questions. To end this call, let me summarize some main points.

First of all, it was a third quarter with mix picture, continued strong operating performance in Non-Life and if we correct for the impairments and lower capital gains in line with the year margins we expect in Life, very well tight financial markets in Asia and Europe have resulted in significant activity impairments, but overall, our year-to-date financial results remain solid and we are confident for the remainder of the year. Lastly, our various acquisitions and divestment files are on track to be concluded within the foreseeing timeframe.

And with this, I would like to bring this call to an end. Don't hesitate to contact our Investor Relations team should you have outstanding questions. Thank you 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 very much for attending. You may now disconnect your lines.