Y 2020 Earnings Call

Company Participants

- Antonio Cano, Managing Director Europe
- Christophe Boizard, Chief Financial Officer
- Emmanuel Van Grimbergen, Chief Risk Officer
- Filip Coremans, Managing Director Asia
- Hans De Cuyper, Chief Executive Officer

Other Participants

- Ashik Musaddi
- Benoit Petrarque
- Colm Kelly
- David Barma
- Farooq Hanif
- Farquhar Murray
- Fulin Liang
- Jason Kalamboussis
- Robin van den Broek
- William Hawkins

Presentation

Operator

Ladies and gentlemen, welcome to the Ageas Conference Call for the Full Year Results of 2020. I am pleased to present to Mr.Hans De Cuyper, 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 a listen-only mode and afterwards, there will be a question-and-answer session. Please also note that this conference is being recorded. I would like to hand the call over to Mr.Hans De Cuyper, Chief Executive Officer and Mr.Christopher Boizard, Chief Financial Officer. Gentlemen, please go ahead.

Hans De Cuyper {BIO 17991990 <GO>}

Good morning, ladies and gentlemen. Thank you for dialing into this conference call and for being with us for the presentation of the results of Ageas for the full year 2020.

As usual, I'm joined in the room by my colleagues of the Executive Committee Christophe Boizard our CFO; Emmanuel Van Grimbergen, CRO; Antonio Cano, Managing Director Europe; and Filip Coremans, Managing Director, Ageas.

In a year that has brought so many challenges and uncertainties, we are happy to report full-year results in line with our initial guidance of EUR850 million to EUR950 million. Indeed, our net result amounts to EUR870 million when excluding the EUR332 million of net capital gains related to the FRESH Securities and the negative impact of EUR61 million coming from the RPN(i) reevaluation. As you know, the COVID pandemic dampened our Life results as the volatile equity markets resulted in equity impairments, while the lockdowns weighted on our revenues from dividends, parkings and commercial real estate.

Nevertheless, we managed to reach our guidance clearly illustrating our strong operating performance and the strength of our well-diversified business model. Moreover, despite these exceptional circumstances, we attained this year, almost all the targets set for our three-year strategic plan Connect21. In Life, the guaranteed operating margin which suffered from the reduced amount of capital gains has been gradually improving over the months and amounted to 90 basis points for the full year in the middle of our target range, thanks to a strong underwriting performance.

The group unit-linked margin also pursued its steady improvement quarter-after-quarter and ended the year at 29 basis points, only 1 basis point below the target wage. In non-Life, the lockdowns led to lower claims frequency, especially in Motor and this resulted in an exceptionally low combined ratio of 91.3%, far below our target of 96%.

Our inflows have also proven to be resilient in this challenging market, with a decline limited to 1%, thanks to a solid recovery in China. In Europe, the decrease was limited to the Life inflows, which suffered from the lockdown whereas non-Life inflows remained resilient.

I would also like to stress the strength of our balance sheet. After the drop suffered in the first quarter, our investment portfolio has now been fully restored and even stands at a higher level than at the end of 2019. In particular, the unrealized capital gains on the equity portfolio, which went down to EUR0.2 billion at 100% at the end of the first quarter are now back to EUR800 million in line with year-end 2019. Additionally, despite the negative impact of the financial markets throughout the year, our Solvency stands at a strong 193%, comfortably above our target of 175%.

Lastly, Ageas received in 2020, an amount of EUR658 million cash upstream from the local entities and our cash position currently amounts to a strong EUR1.2 billion, of which only EUR31 million remains ring-fenced for the Fortis settlement, which provide us with great flexibility.

You may remember that 2019 was a record year for Ageas, leading to an all-time high dividend of EUR2.65, which represents a 20% increase on the prior year. Given, our strong result in 2020, coupled with the solidity of our balance sheet, the Board will, in full respect of the guidance issued by the National Bank of Belgium, propose a dividend in line with last year at EUR2.65, corresponding to a 56% payout ratio.

As for 2021, the COVID pandemic is not yet over, and it will continue to bring uncertainties. However, 2020 has demonstrated the resilience of our business model and with our solid balance sheet, we feel that we are starting the year on a firm footing. We are, therefore, confident in our ability to achieve this year a group net profit, excluding the impact of RPN i), around EUR900 million in the middle of our guidance of EUR850 million to EUR950 million.

Before handing over to Christophe, I would like to mention that in this intense year, not only have we secured the present, but we also have prepared the future. Indeed, we have carried out our strategy to expand in fast-growing markets as we have finalized two M&A operations to strengthen and expand our co-operation with our partners in China and India. As you may have seen, we have also announced yesterday a new transaction. The acquisition of 40% stake in AvivaSa, which is the fifth largest life insurance company and a leading private pension provider in Turkey.

We are already present in the non-Life Turkish market to our stake in AKSigorta, which we manage with our partner, Sabanci. This operation is a great opportunity to enter now the fast-growing Turkish life insurance market and to further strengthen our partnership with Sabanci, which owns 40% of AvivaSa.

Ladies and gentlemen, I will now hand over to Christophe for details on the results.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Hans and good morning, ladies and gentlemen. As mentioned by Hans, our net result amounts to EUR870 million, when excluding the impact from the FRESH securities and the RPN(i). The COVID pandemic had a contrasting impact on our P&L between claim results and investment results. The lower capital gains and recurring financial income had a negative impact of EUR220 million, which was only partly compensated by the reduced claim frequency, which amounted to EUR135 million in 2020.

So overall these high level estimates give a negative impact of around EUR85 million on our results. This impact remains broadly in line with what we communicated earlier in the year. As usual, I will give you some comments per segment and I start with Belgium on Slide 8. We recorded a solid result this year despite a lower recurring investment income from commercial real estate, Interparking and dividends and a reduced contribution from capital gains.

Indeed, the realization of a substantial amount of capital gain in the fourth quarter was not sufficient to fully offset the impairments recorded in the first quarter mid high market volatility. However, despite these exceptional conditions, the Life guaranteed operating margin remained sound, amounting to 77 bps for the full year, but slightly below our objective of 85 to 95 bps. In Non-Life, we enjoyed a strong performance, thanks to lower claim frequency, resulting in an excellent combined ratio of 90.3%. In the fourth quarter, the favorable claims experience in household and Motor was partly offset by an interest rate related review of provision in in liability products, adjusting the balance sheet to this prolonged low interest rate environment.

On the commercial front, due to the lockdown measures, Life inflows were below the exceptionally high level of last year, despite high volumes in unit-linked in the second half of the year. On the contrary, non-Life inflows proved resilient and ended the year even slightly above their level of last year.

In the UK, on Slide 9, the strong net result benefited from low claims frequency, mainly in Motor which more than compensated for the adverse weather. This led to a satisfactory combined ratio of 95.2%. In the fourth quarter, the continued favorable claim experience in Motor was mitigated by an increased provision due to an expected increase in claims inflation. On a positive note, this quarter brought the confirmation that claims related to business interruption, even cancellations and rental insurance have remained very limited. The divestment of our stake in Tesco underwriting drove the inflow down this quarter. However, scope-on-scope, inflows are slightly up this year, thanks to new commercial deals in household, while Motor inflow stabilized in the second half of the year.

In Continental Europe, Slide 10. The solid net result was driven by a strong non-Life performance. The continued focus on expense management combined with lower claim frequency in Motor and Accident & Health, resulted in an excellent combined ratio of 85.4% in Portugal.

In Turkey, the strong performance was as often mitigated by the adverse FX movement. In Life, our guaranteed operating margin, which benefited from a lower level of capital gains, remained however at the high level, even when excluding the impact of the reserve release in Portugal in the first quarter of the year. This illustrates a strong underwriting performance of the country. The unit-linked operating margin has been consistently improving quarter-after-quarter. Thanks to an evolving product mix and this positive trend is expected to continue in 2021.

The current low interest rate environment in Portugal weighted on the sales of guaranteed products as we are shifting our commercial efforts towards unit linked and Protection products. On the top of these products, we have launched a flexible pension product, which contribute EUR181 million in 2021 -- 2020 sorry. Please note that this product which is off balance sheet is not accounted for in the inflows.

In non-Life, inflows increased by 11% at constant FX, with growth in all business lines in Portugal and an excellent commercial performance in Turkey impacted by the adverse FX already mentioned.

In Asia, Slide 11, the solid operating performance was mitigated by the adverse evolution of a discount rate used in China and by equity impairment which as you may remember, were IFRS adjustments due to our prudent impairment rules.

It is worth taking into account the fact that the local result of our Chinese partner, and which is based the dividend we received, was not impacted by these impairments. If you exclude these market impacts, the underlying performance was really strong both in Life and non-Life. The lower Life result in the fourth quarter reflected the negative evolution of the discount rate as well as the early start of the opening campaign in China to prepare the new year so called jump sales.

The rebound in inflow recorded since Q2 continued in Q4 with inflows up 12% at constant FX scope-on-scope resulting in a full year growth of 6%. This quarter also included the first contribution of Taiping Re one month. The reinsurance segment on Slide 12 recorded a high net result of EUR79 million this year, supported by the lower claim frequency in the non-Life operation of the ceding entities of the group.

Moving now to the balance sheet items and capital position. As you can see Slide 13, the total liquid assets stood at EUR1.2 billion at the end of the year. The decrease compared to the beginning of the year is explained by the cash out for the tender of the FRESH and by the EUR435 million payments made to the Fortis settlement.

Today, only EUR31 million remain ring-fenced for the settlement. You might be surprised to see that the settlement provision is still at EUR246 million. The reason for this discrepancy is the time difference between payment we made to the claimant organization Fortis settlement and payment made by Fortis settlement to the claimant themselves. The cash out related to the M&A transactions in Taiping Re for EUR336 million and Ageas Federal Life in India for EUR56 million was more than compensated by the successful EUR500 million Tier 2 debt issued in Q4.

I would like to take this opportunity to remind you that Ageas credit ratings improved in the fourth quarter with S&P upgrading Ageas to A+ and Moody, raising the rating to A2 from A3, while also changing the outlook to positive.

As mentioned by Hans, our Group Solvency II ratio, I'm on Slide 14 now, stands at a strong 193%. In the fourth quarter, the debt issuance more than compensated for the impact of the two M&A transactions outside of the Solvency II score.

However, the group solvency ratio was negatively impacted by market movements consisting of the evolution of the RPN(i), inflation and equity symmetric adjustments. The regulatory PIM, partial internal model solvency ratio, increased to a high 199% following model improvements validated by the regulator.

Our operational the free capital generation, so Slide 15 now, amounted to EUR641 million, including EUR132 million of dividend from our non-controlled participations. With EUR509 million operational free capital generation from the consolidated entities, we ended the year in line with our operational free capital generation guidance of EUR500 million to EUR540 million for the Solvency II scope. Despite the very low interest rate environment, we maintain this guidance for 2021.

This is the end of my presentation, and I hand over to the operator now.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) I ask you to limit yourself to three questions. The first question comes from David Barma from Exane BNP Paribas. Please go ahead.

Q - David Barma {BIO 19957338 <GO>}

Yes. Good morning. Thank you for taking my questions. The first one I have is on the Asian Life result where adjusting for the different factors you've been flagging in the last quarters and years. The result has grown, but not as fast as we could have expected and certainly not as fast as the reserves in China. Can you talk a little bit about the margin trends you're seeing there and what we should expect for the coming years?

That's my first question. And then, the other two I have on solvency and on capital generation. So first, on Q4 operating capital generation, there seems to be quite a few moving parts in Q4, especially on the SCR. Can you help us bridge a little bit the Q4 OCG number, please?

And then lastly, on the PIM and the sort of bounce back of the solvency ratio in Belgium. You mentioned some modeling updates there. Can you talk a little bit about what you've done in -- on your Belgium PIM, please? Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

Okay. Thank you, David. First question, I'll pass to Filip. Then Christophe will take the free capital generation, and Manu will take the solvency.

A - Filip Coremans {BIO 17614100 <GO>}

Yes, very good morning everybody. Yes, Asian result, you can see in many of your headlines that it attracts quite a few of questions. So let me try to be a bit comprehensive on it. First and foremost, indeed, if you look at the Q4 results, SEC, it's not a stellar performance. And the overall result of EUR12 million is actually seasonally low.

Now that is a recurring effect. And if you look through it and it's predominantly in the life market, there are two things that we definitely have to -- three things we have to keep in mind. First and foremost, there is an absolute lack in comparison to normal years of capital realization. There is EUR14 million realized capital gains in there. And secondly, there is the impact of valuation interest rate in China, which weighted on the fourth quarter results for EUR31 million.

Taking these out of the equation and also for the preceding year where the capital gains were EUR33 million. And the valuation interest rate impact was actually a positive of around EUR19 million, the result is relatively flat, but low on the Life side, that we could show an underlying of around EUR20 million.

Now the third component, and that brings me to margins and volumes is related to always the buildup for the year-end campaign or the beginning of the year campaign in China, where from mid-November onwards already, these campaigns are prepared, which reduces the new business volumes booked. But at the same time, put higher pressure on the costs made. And this typically reduces always the fourth quarter result. Therefore, it's probably better to look through the cycles and at the full-year result because you most of the time will find compensation in the first quarter.

If we look at the Asian yearly result, which was EUR269 million, there's only EUR15 million capital gains in comparison to last year, where it was EUR127 million. So it's really low. So let me come back on capital gains also looking forward. Secondly, valuation interest rate impact in there was full EUR116 million this year in comparison to a positive EUR54 million last year. If you take these two main blocks out of the equation, the underlying results, excluding capital gains and excluding where you could call it the naked underlying result of the Asian region, was at EUR370 million.

Then looking forward there are definitely three or maybe four items to mention there. In the EUR370 million, undeniably also in Asia, we had some positive impact of COVID in the Non-Life lines. Roughly you can estimate that the improvement in the combined ratio say, roughly EUR20 million could be attributed to positive effects of COVID in the Non-Life lines, which would bring to an underlying, which is close to EUR350 million, the top most guidance range.

Then the big questions that are there, and I can see that they pop-up everywhere. How will that look, looking forward. So first, related to valuation interest rates. Last year, as I said the overall impact was EUR116 million. And the valuation interest rate at the end of the year, it landed at 3.29%.

Our estimates looking forward for this year, given the current rate that we see on the Chinese 10-year and the evolution we saw over the last three years is that, that rate will go further down to close to 3.15%. That would mean that you could roughly estimate or expect an impact to valuation interest rates for the next year at a level, which is about 2/3 of what we observed this year.

That brings me to the second point, which is capital gains. Last year, we realized in that region virtually no capital gains. Now, you are all very well aware that we took these impairments and that contributes to it. But if you look at the evolution of the Asian equity markets, and predominantly and here the most important one is China. You can see that, that market actually did relatively well. And so the unrealized capital gain buffers. And you can also see that reflected in the evolution of the shareholder equity of Asian region has been more than replenished.

Just to give you a feel is at the end of year, just on the China equity book, the IFRS Ageas share in unrealized gains had gone up to EUR350 million our share. This means that the potential to realize normal capital gain levels for the year coming, looking forward is certainly there.

Thirdly, there were concerns about volumes and margins and the New Year campaign. When we disclosed the six-months the first six-month figures you saw a sharp drop in value new business and APE in Asia region. Now what we have observed in the second half until the year end, is that there has been a strong recovery, both in terms of new business volumes as well as the margins. The new management took charge of the China operations locally has really put a focus on the right product lines.

So, at the end of the year, we'll see that in the additional disclosures we make on Asia region, the APE is down 20% in the end, which shows an overall good recovery in terms of sales volumes, but you can expect when the margins for the region to follow the similar trends. Of course, the full disclosure of this will come, when our partner disclose these figures, but it is very much in line with the APE evolution at the end of year.

That brings me to the fourth point or the third point, if you wish, it's the opening campaign. Since so much depends indeed in China on how much and what is sold in the opening campaign. You have seen or you can see the release of the gross written premium figures by Taiping for the first month. They are up 3%, but that's on the top-line.

Please keep in mind that this is masking a very nice growth in new business sales, because there were some material maturities in the month of January. The new business volumes are up in APE terms over 30%. Also, the exact figure, I leave it to our partner Taiping to disclose, but it's up over 30%. And the margins on the business that has been written, have actually remained very strong and are in line with what we observed in the last -- the second half of last year. So, a good focus on the right products.

And then a final point is, as Christophe mentioned, we have made some additional investments in Asia region. We entered the partnership with Taiping Re and we extended our participation in the life operations in India. The last one will not materially change the needle, but Taiping will contribute reasonably to the results for looking forward.

And in terms of outlook, if you take all that together starting from a EUR350 million naked underlying result of last year, ignoring fair capital gains and COVID positive, we are actually quite optimistic about the forward-looking contribution of Asia region. Even taking into account the expected feed impact, which we believe can be compensated by normalized capital gain realization and a tick-up in the result because of the new investments.

A - Hans De Cuyper {BIO 17991990 <GO>}

Okay. Thank you, Filip.

A - Christophe Boizard {BIO 15390084 <GO>}

So on the free capital generation, I guess you referred to one slide of the presentation, which is Slide 62, where indeed we give the quarterly figures. And when we read that the quarter -- the value for the FCG for Q4 is only EUR68 million. It is indeed below the guidance the EUR500 million to EUR540 million, I mentioned, divided by four. So there is a gap with the normal run rate of EUR130 million.

We have investigated this and I can give you the following explanation. First, as you know, the free capital generation is a result of the two components, change in Own Fund and change in SCR time, our target of 1.75. And one of the big explain -- one of the main explanations for this low figure comes from the SCR. And we have over the quarter an SCR increase of EUR32 million. And if you multiply this by 1.75, you already have good explanation for the gap.

Where does it come from? This SCR increase, mainly from -- it comes from a kind of general trend on our asset portfolio to re-risk a little bit our investment. And you will notice that the weight of the equity is going up. And this is especially visible in AG, which holds most of the equity portfolio, but this can be observed also in Portugal. But let's say, the main effect comes from AG. So it is an increase in the equity allocation. So, that's on SCR, then I will mention but it's a smaller effect. We have an increased counterparty risk due to the fact that we have wire transfer significant amount to Forsettlement foundation, indicated this in my pitch.

Then you have the generation of Own Funds is slightly weak as well, and that's the second explanation. And it comes from AG again. And this is due to some changes in cost assumption and cost allocation in the modal. This is done once a year at the end of the year, and this was done this year. So, partly comes from the re-risking, partly from some cost assumption changes.

At the end, I would like to qualify most of this as non-recurrent when you re-risk it's a one-off effect. So this is not a trend. This is a one-off adjustment. The counterparty risk will disappear with progressive payment to the beneficiaries. And then on the cost review, it is again one-off change of the assumption. So at the end of this may be rather long explanation, I think nothing to be concerned about, and it's the reason why in my pitch, I confirmed the guidance of EUR500 million to EUR540 million.

Maybe Christophe, on the general account, and there is also an element there from the counterparty risk on the ForSettlement payments?

A - Hans De Cuyper {BIO 17991990 <GO>}

It's worth mentioning. Manu?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes. Okay. Thank you Hans. So on the Pillar 1 PIM. So you can see on Slide 64 of the presentation that our Pillar 1 solvency ratio increased from 179% in Q3 to 199% in Q4, which is a jump of 20% over one quarter.

And indeed, there are basically two model changes that impact that jump of 20%. So, the first one is related to the treatment of Interparking. So, and what we, you know that on the Pillar 2, we did already what we call a proportional consolidation of Interparking. On the Pillar 1, we were not allowed to do this by the National Bank in the past. So, we had to do a full consolidation, which means that you have to take the full SCR while we only own 50%, 51% of the company. So we have 51% of the free surplus, but we have 100% of the SCR.

We review the Solvency II regulation in the last months of 2020. And we were convinced that there is an opening to also apply proportional consolidation in Pillar 1. We entered into a discussion with our external auditor and then with National Bank and at the end, the both parties gave their approval to align Pillar 2 and Pillar 1, which means that we could also apply a proportional consolidation of Interparking under Pillar 1. That has a positive impact of something like 7% on our Pillar 1 ratio. So that is only at group level. So, that does not impact the operating company, it's only an impact at group level.

The other one is related to the way that we model profit sharing and mainly at AG Insurance. That one was even at the request of the National Bank of Belgium that we had to review it. So we -- and the way that we have to look at it is but Solvency II, you know that on the Solvency II, you have restricted contract boundaries, which is a sort of runoff portfolio, while in reality, but we know that we have a much more ongoing concern portfolio, where we know that contracts are renewed with renewal rate of 90% of hire, which means that you have to properly model and reflect your profit sharing and your margin in another way than if you are in a runoff portfolio.

So, that was at the request of the National Bank. We did this and that model change has an impact of 10% at group level. So the two together at group level, we have a 10% on the profit sharing and we have a 7% on the Interparking treatment, which account then for something like 17% at group level improvement.

So you can imagine that we are extremely pleased by this, approved also by the regulator. And that's as you know, that we manage and focus on Pillar 2 that allow us to even more focus on Pillar 2 to manage the business moving forward.

Q - David Barma {BIO 19957338 <GO>}

Thank you very much.

Operator

Thank you. Next question from Farooq Hanif from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi everybody. Good morning. A couple of questions on AvivaSa and then a question on reserve releases, if that's okay.

So on AvivaSa, could you talk a little bit about the merging because both Aksigorta and AvivaSa are sort of partnerships with Sabanci Group. And clearly, there's bancassurance opportunities. Can you talk about what you're going to do to put those together to make it a more efficient business.

And the second question is, AvivaSa is kind of mainly what has anyway been mainly a push on the pensions market in Turkey. Do you continue to focus on that? Or do you think actually the life protection size, I think, that you will try to grow the most.

And the third question is on reserve releases. So more in the UK, you continue to have this kind of excess reserve release due to the prudential risk margin in the UK. I was kind of wondering, where you are in that journey? And when do you think it's going to normalize and to what level? Thank you very much.

A - Hans De Cuyper {BIO 17991990 <GO>}

Okay. Thank you, Farooq. I'll take to the first two on AvivaSa. I'll pass one to Antonio for the UK. First of all, you're right. We have two entities now in Turkey, AKSigorta on the Non-Life side and AvivaSa on the Life side. With comparable shareholding, also both companies are listed. And it is also the intention to keep the companies listed at least for the time being, and it is also the plan of Sabanci. We also cannot legally merge them because we cannot create a composite license in the Turkish market.

But that being said, of course, we will look at potential synergies operations wise, but also commercial. I think AvivaSa brings us a solid agency force into our partnership with Sabanci. And of course, both companies do work with Akbank. And so we can, I think, further develop the complete bancassurance relationship, life and Non-Life for instance, the way we know it in Belgium as well. So indeed, we are looking for synergies, but no merger.

On your second question, well, actually we would like to further develop all the markets they are. We are quite pleased, actually, with the quality of the products, with the asset liability management and the way they approach the market. So, we would like to develop all products, also the pension products, which is off-balance sheet products and on the life protection side, specifically, we see room for the partnership with Akbank. The current penetration ratio on MRTA is relatively low in the bank and there is definitely upside potential to be created. And of course, bancassurance's expertise is something that Ageas can bring to the table in this partnership.

And I'll give it to Antonio for the question on the UK.

A - Antonio Cano {BIO 16483724 <GO>}

Yes. Maybe just a follow-up comment just on what Hans was saying for Turkey, and good morning to you all. Our relations with Sabanci Group and AKsigorta has always been extremely fluid. Actually, also the person at Sabanci responsible for AKsigorta. He is also the Chairman of the Board of AvivaSa. So I think collaboration will certainly happen along the lines that Hans was mentioning.

Coming back to the UK and the reserve releases and whether that would stabilize or not, well, a first comment on the additional risk margin. So we had in Q4, a release of that margin in a particular business line, I discussed that at one point in time also with you, which is related to the rental guarantee business, where we thought that what might be indirectly exposed through the court ruling related to COVID and lockdowns, et cetera. So that proves to be less of an issue. So there was a slight release on that business. But on the other hand, we did increase in Q4 this additional risk margin for Motor and related to claims inflation that we see and we expect actually to edge up. So we actually increased our prudency levels in that area.

And then on the releases, yes, we do have very sizable releases from previous years. As we always have shown, you remember that, in particular, for 2019 we had much higher large loss claims being set up. It proves to be that indeed, there was healthy level of prudency in those reserves and actually see that gradually winding down. But fundamentally, we will not really change the approach. So, you will always see relatively high initial case reserves and as the claims are being settled, we see a positive release. So I would not expect that trend to basically change.

If you look back a couple of years, you will see a kind of a break in the trend, but that was more related to the impact that the old saga had on this pattern. But if you look through that, our approach is a basically healthy. Our prudency level is very healthy. We have increased it in Q4. We have a strong balance sheet to look forward to next year for the UK.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can I just quickly return. I mean, I think in the past you said, look, you'll get good reserve releases because of all of these points that you make, but it's probably going to be closer to around 4 points a year. Is that a good way to think about it?

A - Antonio Cano {BIO 16483724 <GO>}

I think if you look back, it would be slightly -- it has been slightly higher than 4%. I would say it's more like the 6% to 7% range. It depends on, if the book increases or not. So it's difficult to give a number that is cast in stone, but it is at least 4%.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, that's very kind. Thank you so much.

Operator

Thank you. Next question from Farquhar Murray from Autonomous. Please go ahead.

Q - Farquhar Murray {BIO 15345435 <GO>}

Good morning, gentlemen. Just a couple of questions from me. Just starting on the Non-Life pricing side, could I just ask how pricing is developing across the geographies you've got? In particular, are you seeing any kind of competitive pass through of frequency benefits, given we've got a slightly more prolonged lockdown now?

And then secondly, on the acquisition of AvivaSa in Turkey, could I just ask whether Sabanci had any reserve rights with regards to who could buy that business? And perhaps could you add some details around the shareholder agreement signed in January, in order to form a basis for the negotiation with Aviva? And in particular, why does Sabanci get three appointments on the Board versus Ageas'2? [ph] And then finally, turning just to capital, as you know, I'm good actually. Just two questions from me. Thanks.

A - Hans De Cuyper {BIO 17991990 <GO>}

Yes. The question on Non-Life pricing. It's mainly in the European market. So I'll pass that to Antonio in a minute.

On your question on AvivaSa, as indeed you're right, Sabanci was already present in the partnership and yes, they did have something to say about the options that Aviva had for the sale. We're not going to comment more on this. But indeed they did have some influence and it's also Sabanci, who approached us to see, whether we were willing, or whether we were willing to expand our partnership in the Turkish market, which I think for me I think is also a very important vote of confidence on the way, we are developing the business in Turkey.

Maybe one element important here to mention from shareholders' point of view that, we also have an agreement that this will be solid dividend paying entities, we will have in the Turkish market, both for AKSigorta and AvivaSa, we will have 50%, minimally 50% payout ratio, which I think is important also for Ageas. And then the Board representation, I think, it's fairly proportional. If you look at the stakes. So it is two against three, Sabanci will control and consolidate this entity. So I think it is quite natural to have this representation in the Board.

I'll give it to Antonio to run through the Non-Life one.

A - Antonio Cano {BIO 16483724 <GO>}

Yes, thank you, Hans. I'll go there very briefly. So, there is obviously a downward trend in prices, talking particularly about Motor. I guess that is what you're referring to. So, the UK, you're familiar with that. I think Q4 was depending on which source you use either the Confused.com index or the ABI indexes, you had a couple of percent off. I think that is to a large extent, due to the lockdown effects.

We also see something like that in Belgium, stable, slightly decreasing. And I would say that in Portugal you have the same trend. So, it's not dramatic. In the sense that you have like 5%, 10% reductions from it. But indeed there is a slightly downward pressure, which is reflecting the impact of the lockdown. If the impact of the lockdowns will diminish, and we'll start all driving again, we'll pick up again with normal inflation related price increases going forward. So for me, it's a temporary reduction reflecting that you can expect still in the first part of '21 lower claims frequency.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thanks a lot.

Operator

Thank you. Next question from Fulin Liang from Morgan Stanley. Please go ahead.

Q - Fulin Liang {BIO 21126177 <GO>}

Good morning, everyone. Thanks. I have three, hopefully, very quick questions. So the first one is on the China remittance. If I got what Christophe just said, So the impairment doesn't change the local accounting, but presumably the interest rate drag will, So what's the outlook? So, we saw that the China remitted a EUR100 million in 2020. So, what's the outlook for the remittance going? It's going to be flat, it's going to be higher? Just a sense. I appreciate that you probably can't give a number.

And then secondly is on the Group guidance that, given that if you're confidence on what was happening in Asia, et cetera, et cetera, would you actually upgrade your guidance for 2021, the second one.

And the last one also, if we look at the unit-linked margin, apparently is the CE, which is dragging the margin in the unit-linked? Is there any measures being taken there to improve the margin? Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

Okay. What Christophe meant here is that the upstreaming from China is based on the local accounting results. And as you remember, in the third quarter, we have taken some impairment based on the IFRS adjustment. It was linked to the investments in three to four core Chinese banks. So, the only thing we can give you now as guidance is that, that will most likely not drive the dividend upstreaming because those impairments have not been taken in local accounting. But what we can expect from -- on China, I think, it is too early to shine some light on this one.

I don't know Filip; you want to add something?

A - Filip Coremans {BIO 17614100 <GO>}

Yes, I can, obviously, not preempt the decision of the Board of China Taiping regarding this and also the guidance coming from Central Government on that. But last year, Taiping, indeed, at a payout ratio close to 30%. Their result, the impairments we took that are not reflected, there are more differences. But the major bulk is around EUR 125 million, let's say, in euro terms, that their results will not be impacted by impairment. So, that gives you some guidance, gut we will have to wait the outcome of the closing of the books in China and their Board meeting on dividend proposals, obviously, that as guidance, I think that is sufficient.

And about -- let me recapitulate on your question on guidance looking forward on Asia. I tried actually to do that in my earlier intervention, but starting again from an underlying naked result for the full year of 2020, which I referred to at EUR370 million, taking out the effects, negative effect of bear, which was EUR116 million and the lack of capital gains there, but I took out also the capital gains. So without capital gains without feeder impact, we were at EUR 370 million.

And then I said there's three main components will drive this forward or four, if you want. One is what will be the effect of valuation interest rates in the year to come. And there, in that we expect that impact to be at the level of around 2/3 of what we saw this year. Because the valuation interest rate at the end of the year was 3.29%. It will come further down to around 3.15%, if rates stay where they are and by comparison.

Secondly, I mentioned the fact that the unrealized capital gain buffers in Asia have not been tapped into last year but have been restoring the Asian markets. And certainly, the Chinese equity market did rather well, where we took impairments, meaning that our IFRS unrealized capital gain position has more than restored to levels that we saw at the beginning of last year, and I mentioned there, IFRS, our share, EUR 350 million unrealized capital gains on that book, which means that there is the potential to have a normalized realization of cap gains. So what you see in a normal average year in Asia region, which would definitely compensate for the bear impact.

And thirdly, I refer to what Christophe also referred to the additional investments that we made in Taiping Re and in India. And then in Taiping Re, this will add to the P&L India that is less material. Overall, that will give a positive uptick. And then I refer to an additional positive impact of EUR20 million COVID we had, which is tapering away because if you look at the combined ratios, in Asia, they are more or less back over the last quarter to where they were. So, that puts, I think, if you add that all up and under bound on our guidance, which is quite at the higher end of where we have been talking before.

A - Hans De Cuyper {BIO 17991990 <GO>}

Maybe one additional comment on the dividend, and coming from China, and it is more is a qualitative comment, not a quantitative comment. The dividend paid by Taiping Life is a key element of the capital management of the Taiping group. It is their main entity. And I like -- I always like to make the parallel with AG and Ageas.

In Ageas, the payment of the dividend of AG is a key component and we have a 25% third-party shareholder, which takes each share. We are exactly in the same situation in China. We take 25% of the dividend, which is a key element of the group. So without giving you some commitment. I am sure that the Taiping Group Management will make all efforts to upstream a very decent dividend. So we are well aligned on this. Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

I can conclude for you on the overall guidance. So as for now, and the year has just started, we stick to our range, the same range as we had last year. That means EUR850 million to EUR950 million, but a bit higher in that range. Your reference base is EUR870 million for 2020. We raised that to EUR900 million. That brings us also perfectly in line with our earnings per share CAGR commitment that we have given in Connect21. Of course, we will monitor this on a quarterly basis and we will come back on this most likely at the end of the first quarter.

Let's not forget that COVID is not completely behind us. And we still have some uncertainties at play also in Europe. One element in there is, what are the, I would say the positive impact from COVID on Non-Life specifically in Europe. We have seen in the fourth quarter that the positive elements in Motor are less than we have seen them in a full lockdown in the second quarter. So it remains to be seen how much of this effect and will play into '21 and for how long will it be three months? Or will it be till summer? Or will it be even longer?

Second, I think Filip already gave some comments, interest rate movements, specifically I think in China where you have then the impact on the fee. And then the last one is on capital gains, but there I can only repeat, which I think, as such, is a success that we were able to close the year with the same capacity potentially in unrealized capital gains, as we have started the year. So I would say I'm less concerned to see a similar capital gains impact in '21, than we have seen in '20, but all this remains to be confirmed once we have a better view on how we will get out of this COVID crisis throughout 2021.

A - Antonio Cano {BIO 16483724 <GO>}

Now I'll take the question that was very specific on the unit-linked margin for Continental Europe. It has actually been edging slightly up. And the main drivers there the Portuguese business. And it's edging up because of the book changes as time goes by in composition, and the book of, say, the older business that was a bit more problematic in terms of margin is actually fading out. And we are starting to sell. We are actively selling quite a lot of more pension-related products with a healthier margin. So, you see unit-linked margin for Continental Europe is actually edging up.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you.

Operator

Thank you. Next question from Colm Kelly from UBS. Please go ahead.

Q - Colm Kelly {BIO 19140684 <GO>}

Thanks a lot. Two questions for me. One on the operating free capital generation. I think for the year it's coming in at 14 points of solvency, which is consistent of what it was last year, and a bit lower than it used to be. It used to be that 16, 17 points.

So based on the guidance, this isn't going to increase, clearly it covers the dividend. But based on the normal activity of the company, which includes buybacks and/or M&A activity, it suggests the free capital generation won't necessarily cover all of these on an underlying basis. So I mean speaking with your peers this dominates the debate on analyst Q&A, because this is deemed to be the best guidance for capital return. Is this important to your capital management or deployment strategy? And if not, why not?

And then also you talk about asset re-risking. Are there other management actions that you're considering to take around solvency going forward?

Then lastly just on the UK, you mentioned the Motor claims review around claims inflation for prudence. Can you just give a little bit more detail on exactly why you've taken that action? Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

So on the free capital generation. First, I would like to remind you that the position, the policy is not to cover dividend plus share buyback. What was indicated is that the free capital generation should cover the dividend payment and there is always a surplus and risk. And we can observe that it partly "finance" the share buyback. But the share buyback was at start more meant to reduce the surplus capital and the surplus cash that we have.

But having said that, I am sure it will not be seen as a very satisfactory answer. But let me explain the free capital generation that we discuss here as I said, is based on the Solvency II scope. We take the full amount. We deduct the dividend and we end up with a Solvency II scope. And here we are on more or less the European part of the group, where the growth is not tremendous, I would say. But please take into consideration the growing incoming dividend coming from Asia and we are on a rising trend. So here, I think it will improve over time. It is we have not yet put in place the full-fledged free capital generation framework in Asia. But it is an objective that we have to align Asia with Europe, so that we have the full-fledged free capital generation framework, and it is where I think we will see most of the growth coming from Asia.

So, at this stage, we are obliged to take the most prudent approach, which is to only recognize the dividend, but there -- you will accept that the dividend is increasing. So conclusion through, but there is not an increase in the guidance, but it is on the -- not much part of the Group.

And on the Asian part, consider the increased dividend inflow and in the near future, my objective is to implement the free capital generation in Asia. Today, we have some hints, but with one quarter delay, which makes it not very convenient to report to you. But after a while my short term objective is to align Asia. And in that case, you will see more favorable figures. And indeed, you could expect growing guidance on the consolidated free capital generation of the group.

But we do cover, I think, for 2020, yes, we do cover with free capital generation. 641 compared to EUR485 million for the dividend and potentially a share buyback to be decided later in the year. I think the numbers match, and we do have adequate free capital generation over 2020 to support this.

I think Antonio, U.K. claims?

A - Antonio Cano {BIO 16483724 <GO>}

Yes. Very specific about the claims inflation and why we think that is -- that could be on the right. I think that was the question. Well, it's basically important inflation that is our view, so general CPI kind of inflation in the UK that we expect going forward. And actually, the way we do that, we just have to increase our prudency level, so our confidence into full level. So there's just more prudency in the reserves backed by arguments that inflation is, let's put it, it's more uncertain. If the pound continues to rise, it might be less. If the pound diminish in value because a lot of these spare parts are imported, inflation could be higher. So it's more related to uncertainty about inflation expectations.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay. That's very helpful. Thank you.

Operator

Thank you. Next question from William Hawkins from KWB. Sorry, please go ahead.

Q - William Hawkins {BIO 17918548 <GO>}

It was right first time KBW. Hello gentlemen. I thank you for the detailed guidance you've given already, and I don't need you to repeat that. Thank you.

I do just want to check a couple of points, so please. Hans, when you were normalizing the 2020 results, you added back the FRESH and you added back the RPN(I). But you didn't add back the COVID impact of EUR85 million. And the way I see it, your baseline is more like in the mid EUR900 million rather than the EUR870 million that you spoke about for that reason. I understand the future is uncertain, but I don't really understand why you ignored that in your normalization for the past. So if you could help me understand that because obviously it's relevant for the baseline.

And then secondly, please on Asia. Again Filip, thank you, you've been really helpful in the detail, and I don't need you to repeat that. But I had a couple of questions, please, to help my understanding. You were very clear about the VIR impact in 2021. Assume interest rates don't change from here, does that impact then become zero in 2022? Or does it continue to have an impact? Again, I'm not sure, are we already starting to average up, given that yields have bounced, or are we taking this impact in '21 and then there's a zero.

And also in Asia, I'm not sure if I'm understanding how the accounting looks. But is there a good chance that the impact of realized gains for Ageas is now materially skewed to the upside relative to Taiping's behavior because if you've already taken the impairments that they haven't, if those impairments come through at some point, then Taiping will be realizing gains, not just on a normal basis, but on an additional basis. So it seems to me, if I understand the accounting rights, that at some point, Ageas could be benefiting from a significantly higher level of realized gains. Point being not just that there's upside in your numbers, but kind of skewed to the upside materially?

And then lastly please, very simple question, Manu. I'm sorry, when you gave the helpful detail about the PIM, you talked about contract boundaries changing in Belgium. And I wasn't clear, if you were talking about life or Non-Life or both. So if you would mind just clarifying the contract boundaries, what that's applied to? Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

Hey, let me take your first question. You are right. If we would add up the EUR85 million that we see if COVID impact the EUR85 million you would arrive at EUR955 million. That would be at the high end, even above the guidance we are giving today. I can only repeat that we still have that uncertainty and we will not see -- we are -- we do not know what we will still, I think, enjoy or suffer from under the COVID impact. And I think the most important part is here that the evolution of the interest rates.

We see the positive elements in Non-Life already reducing in the fourth quarter. They are roughly half of what they were in the second quarter, where most of our countries were with some kind of a complete lockdown. And then on the opposite side, you have the effect of interest rates. And so we hope that we can give you a little bit more guidance at the end of the first quarter.

I agree with you that last few days, we have seen the interest rate jumping around a little bit in the first place in the positive direction. But too early to confirm that, that is I think something that will stay and continue. So, please bear with us, and I think we can give you a better estimate by the end of the first quarter.

A - Filip Coremans {BIO 17614100 <GO>}

Yes, William, thanks for your additional clarification questions. Indeed, it's true. When we look at the curve effects of this in 2021. They will be higher in the beginning of the year, because if you look three years back, you will see that at one point than the Chinese 10-year go with it, 4% ranges and these are disappearing. So, the effect will be more skewed towards the first half of the year and will taper off by the end of the year. And then the year after 2021, it would be mostly flattish. But of course, that depends on the movement. That so, it's something that every quarter we monitor and we will keep you up-to-date on. But it's true that 2022, it should become kind of zero-ish.

Then on the realization of capital gains, yes, of course, since we have impaired and the market rebounded, and we did not realize gains. And Taiping also did not have a lot of turnaround in their books. We have a positive gap with what they have in terms of unrealized capital gains. And indeed, if they ever have to impair, we have already impaired. We lead that cycle.

Now just to give you a feel, because we -- the impairments were on these bank shares, and they've been very transparent about it. It was the positions they took in ICBC, Agricultural Bank of China, and CCB, yes, commercial, and these three names actually. Since we impair them, these stocks have recovered to almost 20% to 25% and for some even 28%. They may not be 100% that they are acquisition costs yet, but we will see. But indeed, if there were to be trades in these stocks, which is unlikely, but if there would be impairment risk to be taken by our partner, and they would compensate that, we would definitely benefit from it without having the burden of an impairment. So you're right, there is an extra buffer in our case, which could lead to substantially higher results for Ageas than in local costs.

A - Hans De Cuyper {BIO 17991990 <GO>}

Another element. Because we were already faced with this kind of problem, it was two years ago. And then we counted on the high turnover in the portfolio to "get the money back" and to realize as capital gain what was impaired. This is not really the case for this impairment, because they are concentrated on long-term holding equities. They have this nice solvency treatment in case of long-term equity. So these equities are not meant to be sold in the near future. So unfortunately, we cannot count on getting back the impairment through realized capital gain. That's something we should mention I think.

A - Emmanuel Van Grimbergen {BIO 18010465 <GO>}

Okay. Then Will, I clarify, probably, I was not clear enough on the contract boundary. So there is no change in the contract boundary at AG Insurance. But on the Solvency II, you have to model certain type of product with what we call a restricted contract boundary. So you cannot assume that they will be renewed in the future. While we know that in the reality, 90% or even more of those contracts will be renewed and that you have a sort of ongoing concern situation instead of one year premium and then more run-off of the portfolio.

So there is no change in the way that we look at contract boundary on the solvency II. But the National Bank of Belgium asked us to model profit sharing and financial margin that we can get based -- not based on the runoff portfolio, but based on an ongoing concern business, which is -- which reflects much more reality. And when we do that --

Q - William Hawkins {BIO 17918548 <GO>}

Sorry Emmanuel, just to be clear, is this Life or Non-Life? Because when you say profit-sharing, I think, of Life, but when you say.

A - Emmanuel Van Grimbergen {BIO 18010465 <GO>}

It's life. It is life. Yes, it is life.

Q - William Hawkins {BIO 17918548 <GO>}

Thank you.

A - Emmanuel Van Grimbergen {BIO 18010465 <GO>}

Yes, it is life. And then -- and when we do this, then we have the positive impact of 10% at group level.

Q - William Hawkins {BIO 17918548 <GO>}

Brilliant. Thank you.

Operator

Thank you. Next question from Jason Kalamboussis from KBC Securities. Please, go ahead.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, good morning gentlemen. I had a couple of questions. The first one is what is the diversification benefit in percentage terms at group level from your UK operations? If you could share that would us, that'd be great.

The second is the UK, EUR11 million for Q4. Could you give us an idea of what you think is the underlying number there? And how should we view the EUR60 million, that means, which is your target. I know that you may come with the new targets in June. But as we stand, do you find that this currently reflects your operations? Or at the end of the day, we should be still thinking about the previous target of the EUR80 million and the EUR60 million is somewhere a temporary target, given what has happened in the UK?

And on Asia, you used to have, in general, I think, capital gains average over the years of about EUR20 million. So, from what I understood that now we should be looking probably at about EUR30 million over the next years, if you could confirm that would be great. Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

So, the diversification benefit of the UK, we don't have the exact calculation, but I'll give you an educated estimate. So, it's all Non-Life, as you all know. And if I use as a proxy, what the diversification benefit would be in the Non-Life book of AG. It's something that we do quantify. So the diversification benefit of the Non-Life book within the AG book, this is a fair enough proxy. It is in the 30% to 35% range. So a reduction of your SCR was 30%, 35%. I hope that's helpful.

Sorry. On the underlying for the UK, bear in mind that the contribution of the UK business to the result of the group, including the 40% quota share and loss portfolio transfer that we did for 2020, it's close to EUR100 million. Obviously there is a part of that related to the COVID benefit. So you could say that for this year, 2020, we are above this target level.

Looking forward, I think '21 will be, again, a bump year in the UK. COVID might be a positive. We have the FCA pricing review, et cetera. But looking beyond just '21 we still stick to a target that's in line with the past. But again bear in mind that we have sold or will be closing the sale of the Tesco underwriting business. So you should deduct that from the target level that we gave you in the past. And so for today, I think the new target will be in the 60%, 65% -- EUR60 million, EUR65 million net profit for the UK, including the results that we generate at the reinassurance account of the quota share LPT, which I remember you, it's 40% of the book.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you.

Operator

Thank you. Next question--

A - Christophe Boizard {BIO 15390084 <GO>}

Sorry. There is a second part of the question was about level of normalized capital gains in Asia. I don't think we have ever mentioned there EUR20 million or EUR30 million, as far as I'm aware. But to give you a feel, the overall Ageas share in the assets under management in Asia region. Let's say, the component on equity in there is about between EUR4 billion and EUR4.5 billion.

If you would have 1% extra return on the equity book would be already around EUR45 million. So, -- but I'm not going to go making a prediction on that. It is extremely volatile, but you can expect, yes, okay 1% to 2% realization of capital gains. It would not be unreasonable over a longer term. But with the caveat, that it's extremely volatile from year to year, obviously. But the overall equity exposure in the our share Asian book is around EUR4.5 billion.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you. Very useful. If I may have just a quick follow-up on Asia, since which I forgot is in Q4, I mean, if you do the underlying numbers, so taking out the realized gains, underlying impact. You seem to be going down every, if we look at it year-on-year, it's actually down. Do you find that there is any reason because I don't -- I just don't understand this year-on-year decrease over the last three years, specifically on the fourth quarter?

A - Hans De Cuyper {BIO 17991990 <GO>}

If I'm honest, because I did that exercise obviously, it's slightly up actually underlying because last year just taking the top-line of this year and 2019, we had a Life result of EUR72 million, this year EUR3 million. The capital gains in there were EUR33 million, this year EUR14 million. The VIR impact last year plus 19% this year, 31%. So that's rather flat.

And on the Non-Life side 0 to 9. There's hardly any capital gain impact, it would have been 5 to 9. So largely flat, I would say, slightly up. But indeed this year, I can tell you and would have to be a bit patient there to see the effects coming in our Q1 announcements. A lot of effort went in China to preparation for the New Year campaign. And that's not only for Taiping, it's also observed throughout the market,. Many of the companies were focusing on a fresh good start of the year, stopped selling quite early and put the sales force really for bulk kickoff of the new year. Which maybe have put a little bit more downward pressure in the last quarter than in other years. But in general, we see it being relatively flat, slightly up.

A - Christophe Boizard {BIO 15390084 <GO>}

And Jason, look at the full year Jason, it's full year is -- if you take out the effect of CARGEAS and VIRs only Life, without COVID impact Non-Life, it's EUR71 million or 27% up. So over the year, we think it's underlying significant improvement.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Okay. Thank you very much for that. And by the way, the capital gains, do we need to tax them much?

A - Christophe Boizard {BIO 15390084 <GO>}

In all fairness, I do not know exactly, but that depends country to country. In certain countries, they will be definitely part of taxable income. In most countries, that's subject to local tax, income tax.

A - Antonio Cano {BIO 16483724 <GO>}

In Belgium, it's no.

A - Hans De Cuyper {BIO 17991990 <GO>}

But in Belgium, it's no but for Asia it's assumed there are mostly, and they would be taxed as income.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Okay. Many thanks.

Operator

Thank you. Next question from Ashik Musaddi from JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, thank you, and good morning, everyone. Just a couple of questions. I mean, so first of all, I think you have given one number in past that, you aim to get EUR150 million of capital gain, overall, in a given year. Is that number correct? And if I look at that, basically, that means you have done EUR110 million this year. Next year, if you do EUR150 million that means itself like from EUR870 million, you easily go to EUR910 million just by doing that EUR40 million higher capital gains. So, would you kind of suggest that the EUR900 million guidance you are giving at the moment is on a very conservative note, just because we are in the middle of COVID even now? Or would you say no, that's a bit more realistic like assuming COVID goes away like in next two three months. So, how do we categorize that?

Second question would be about, say, M&A. I mean, you have done few bolt-on M&As now. So like I think India, you've done Taiping Re, then you've done AvivaSa. How do we think about M&A capacity going forward? Are you just looking to bolt-ons now? Or, are you still thinking about one reasonable sized M&A, like, I think we were discussing about Spain last year. So, are we still on that at the moment?

And then just lastly is on the dividend, basically, you did a flat dividend this year, let's say, it's a COVID year, so not an issue. How do we think about dividend going forward? I mean, do you still stick with that north of 50% payout ratio? Or is there anything more that can be done on that?

A - Hans De Cuyper {BIO 17991990 <GO>}

Okay, thank you, Ashik. Well, we don't give any guidance specifically on cap gains, because this is every year quite a volatile number. Let's not forget that a significant part of cap gains is also coming from real estate transactions, which are most of the time a few sizable transactions, which is I think hard to fix beforehand. But again the question came already is there not upside potential for the guidance, indeed, I think there is, but we want to be more certain about the COVID impact specifically on financial markets, interest rates and capital gains potential before committing to that.

So that, I think, we will come back to you at the end of the first quarter. M&A capacity, where we have a comfortable EUR1.2 billion position of cash, we still have roughly EUR400 million to EUR 500 million potential for debt issuance. So, if we limit to debt, I think we can say that we have an available capacity of EUR2 billion except, of course, if you would go and look for other solutions like raising equity. So that means that our M&A policy for this year has not changed in market consolidation, which is the three cases that you have seen in the last three M&A transactions. There is a market today for this type of M&A because we see quite some important international groups.

We refocusing on their core markets. And sometimes, like in Turkey, that gives us an opportunity to do some in-market consolidation. We do not exclude a sizeable M&A. Remember that we have, still that concept of, can we build a fourth home market, which we have communicated in Connect21. So for this year, M&A strategy is not changing. And first week of June, we will come with our new revised strategy going forward. And of course, we will also look again at our M&A policy in this respect and come back to you at the beginning of June for the years '22 to '24.

And then, dividend, going forward, actually, same response. The Connect21 commitments, which means 50% payout ratio and a potential share buyback, if no material M&A, still stands as our commitment for this year. And also, that one, we will come back to you in an update in the first week of June.

Q - Ashik Musaddi {BIO 15847584 <GO>}

But just one thing on this like this, AvivaSa will not be counted as any material M&A. Is that a fair comment?

A - Hans De Cuyper {BIO 17991990 <GO>}

Yes, we do not judge the acquisition in Turkey. As material to cancel a potential share buyback this year. That's right.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very good. Thank you.

Operator

Thank you. Next question from Benoit Petrarque from Kepler Cheuvreux. Please go ahead.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, good morning, gentleman. Two questions on my side. So the first one is just to come back on the EUR900 million guidance. If you could help me to understand how much cap gains is included in this guidance, just for me to avoid asking a question again in the coming quarters. I mean, cap gains should not be really relevant at the end of the day, and that can move up and down. So it will be useful to get the clean figure, ex cap gains actually.

And then maybe, could you help me to understand how much COVID benefit you have included in the EUR900 million, if you've not included at all benefits there? And then the second one is on the tax on the security accounts in Belgium, which could be implemented it might impact branch 23 products. So I just wanted to get your view on what your expectations, whether that will be voted by the parliament or you think it will be not an issue for branch 23 policyholders? Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

First question, if I may, I'm a bit surprised by your focus on cap gains in the guidance. Because for me 2020 has exactly proven that the underlying performance of Ageas is well diversified and very strong and that we are actually less dependent in the overall result on cap gains, successful years between versus less successful years.

If I look at the underlying performance before cap gains, we had EUR407 million in 2019 and we have EUR579 million in 2020. So, in that sense, I think, the guidance will not be overly influenced by the expectation on the capital gains. For last year for 2020, we had a budget of EUR250 million initially foreseen, okay? We come out lower in the capital gains. But as you can see, it has not really impacted materially our overall performance. So, please don't judge the annual performance of Ageas too much on the realization of (Technical Difficulty).

Operator

Okay. Next question.

A - Hans De Cuyper {BIO 17991990 <GO>}

Sorry, the fortune tax was meant as a fortune tax. But the way it is structured now, that means that all on Branch 23 policyholders might be affected. And so the insurance federation is still in discussion, I think, with the ministry and is also considering potential legal action, because this was not the initial intention on the fortune tax.

As of now, I don't think we see any material impact on the Branch 23. On the contrary, the appetite for Branch 23 compared to guaranteed since the second quarter last year has only risen. So at this moment, I think the impact is fairly limited, but we are waiting for the final legislation.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Thank you.

Operator

Thank you. Next question from Robin van den Broek from Mediobanca. Please go ahead.

Q - Robin van den Broek {BIO 17002948 <GO>}

Yes, good morning, gentlemen. Thank you for taking my question. And I'm sorry to come back on guidance again. I'll be more specific on Asia. I mean if I listen to your building blocks, you start with EUR 370 million. If I listen to your narrative around capital gains. I guess, it's a better level to look at 2019, which is basically EUR50 million ahead, roughly, of the headwind from the China 10 years. So that would add EUR50 million. They have Taiping Re coming in at EUR25 million. And then you'll have some business momentum, which should also support further growth.

So, if I do this math, I guess the implied guidance for Asia should be around EUR470 million already for 2021. So my first question is, is this math correct? Or am I missing something?

Second to that, if you look at 2022, I think, in fact the rate environment will be a bit of a supporting factor in fact. So that EUR75 million of headwind that you have in 2021 will actually go away next year and probably be a small positive, which should support further growth besides the business momentum you have. So I mean, I get that you're giving an optimistic message on Asia. I'm just hoping that these numbers basically make this fit in line with how you were seeing things. And then I guess I can make my own conclusions about how conservative your group guidance is on the back of that.

Then secondly, your previous year claims ratio in Q4 was less than 2 points of tailwind for the combined. Your guidance is 6% to 7% point. I'm just wondering, we talked about risk margin affects you also talked about interest rate assumption in Motor. I was just wondering, did we cover everything that has affected that previous year claims ratio specifically in Q4? Or is there some other prudency you've taken in the quarter?

And lastly, any commentary around the potential of Ageas coming up for sale in Belgium would be helpful. Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

Yes, I'm almost asked to put my budget here on the table, but I appreciate the focus on that because it is indeed a little bit blurred through the past year because of VIR and indeed, impairment. But let me do it again, but with here and there caveat. The underlying where we started from, in my explain, is EUR370 million. That is ignoring any impact of valuation interest rates and any capital gains last year.

I indicated that there is a positive impact of COVID also in the Non-Life operations. In Asia, which is undeniably there, anywhere between EUR10 million and EUR20 million. So please deduct it and I'm starting from a base, which is EUR350 million, which would have been at the higher end of our guidance anyway. And looking forward, I mentioned that we do expect a VIR impact at the level of around 2/3, what we have seen this year. Also, that figure is volatile, because it's actually a curve effect. It's not a one rate. But anyway, it gives a guidance. We are -- an impact there that we see, EUR70 million, EUR80 million, if you would do just the rule of three. It would be a negative.

Then I said, indeed, we are quite comfortable that we see that being compensated, plus or minus, give or take because it's volatile by potential capital gains on our book in Asia, which brings me back to the EUR350 million instead, and we did additional investments, and we have normal growth. So that's why I said that the EUR350 million, which is a top of our guidance range, would be at the bottom of where we are looking at. And from there upward, with the return on our new investments indeed, and the normal growth in the region. But I don't want to go more specific than that. I think this is already quite specific.

Q - Robin van den Broek {BIO 17002948 <GO>}

Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

A bit more light on the previous year runoff, which is indeed for Q4 specifically lower than you would expect. If you look at where that is happening, that's basically the Belgium operations. And that is linked to the reserve strengthening that has been done in Q4 and particularly related to liability claims where we see and expect a gradual increase of the amount being granted by judges related to mainly liability claims. So, that is the main source of the lower previous year releases in Q4.

You might also have had the effect here that is just simply less activity in closing down claims and therefore, realizing previous year's releases, given the lockdown. You might have a slight impact of that, too, which would be just a postponement of that release into the next year. It's a combination of strengthening the balance sheet in liability claims in Belgium and a slowdown in the level that claims are being closed.

Q - Robin van den Broek {BIO 17002948 <GO>}

This is within the bodily injury. So similar to Ogden and the U.K. and what we have seen in the Netherlands last year?

A - Hans De Cuyper {BIO 17991990 <GO>}

It has a smell of Ogden, yes.

Q - Robin van den Broek {BIO 17002948 <GO>}

Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

But at a much, much lower level obviously, but it is linked to both inflation and lower interest rates that fit into these core judgments.

A - Antonio Cano {BIO 16483724 <GO>}

Okay. On your third question regarding ATLs. I think we have always been clear and transparent that ATLs would fit in our M&A strategy and would be an interesting opportunity for in market consolidation. Where we are already leading us, specifically, the position of ATLs in the public sector. But I think you together with me, have read in the press that at this moment, there is no concrete file.

Q - Robin van den Broek {BIO 17002948 <GO>}

Okay. Thanks guys.

Operator

Thank you. That was the last question. I give you the floor for your conclusion.

A - Hans De Cuyper {BIO 17991990 <GO>}

Ladies and gentlemen, thank you for all your questions. And to end this call, let me summarize the main conclusions. In a highly challenging year, we recorded a solid result, thanks to a strong underwriting performance, both in Life and Non-Life, which mitigated the lower contribution from capital gains.

Our balance sheet has been restored to its pre-COVID level and we can rely almost solid solvency and cash position. Given this performance, the Board will propose a dividend in line with last year all time high of EUR2.65. And lastly, we are confident in our ability to achieve a 2021 group net profit around EUR900 million in the middle of our target range of EUR850 million to EUR950 million.

And with this, I would like to bring this call to an end. Don't hesitate to contact our Investors Relations team, should you have any outstanding questions. Thanks again for your time, and I would like to wish you a very nice day.

Operator

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