Q3 2012 Earnings Call

Company Participants

- Bart De Smet, CEO for Strategy & Development, Audit, IR
- Christophe Boizard, CFO
- Frank Vandenborre, IR
- Kurt De Schepper, Chief Risk Officer

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Francois Boissin, Analyst
- Hans Pluijgers, Analyst
- Matthias de Wit, Analyst
- Robin Buckley, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the conference call for the 2012 nine months' results. I am pleased to introduce Bart De Smet, CEO; and Christophe Boizard, CFO. (operator instructions) And I will now give the floor to Bart De Smet.

Bart De Smet {BIO 16272635 <GO>}

Thank you. Good morning, ladies and gentlemen. and thank you, all, for dialing in to this conference call, and for taking the time to go through the nine months 2012 results presentation of Ageas.

As usual, I'm joined in the room by my colleagues of the Executive Committee, Christophe Boizard and Kurt De Schepper; our Investor Relations and Finance Teams; and also Antonio Cano, CEO of AG Insurance has joined us.

Together with Christophe, I will take you briefly through the main highlights of the past nine months, after which we have allowed sufficient time for questions.

Ladies and gentlemen. in line with our results at the end of June, we can announce the strong performance for the past nine months, with another robust Third Quarter across all the Insurance business segments. The results are in happy contrast with those of last year, as the nine months 2011 results was heavily impacted by massive impairments of Greek debt and equities.

Adjusting the nine-month results, both for this year as well as last year, for impairments and realized capital gains, the net Insurance results improved about 25% compared to last year. Let us go somewhat deeper into the key figures.

The inflows in the first nine months amounted to EUR15.5 billion, up 20% both in Life and Non-Life, and helped slightly by a positive currency impact.

The inflows in the Third Quarter amounted to EUR4.6 billion, an increase of 20% compared to last year. In contrast to previous quarters, growth slowed down somewhat across all segments, with the exception of Asia.

Overall, however, volumes remain good, with the highest increase still coming from Continental Europe, where inflows were up by some 40% year on year, which was mainly the result of a change of scope in Luxembourg, and the acquisition in Turkey.

In Asia, a continued focus on recurring premiums and persistency resulted in strong growth in regular premiums, especially in China and Thailand. Today, regular premiums in Asia already represent over 70% of total business. Our non-consolidated partnerships represented EUR7.3 billion over the first nine months.

Our year-to-date Insurance net profit amounted to EUR450 million, compared to a net loss of EUR209 million last year. On slide five of the presentation, you will find a clear overview of the impairments and capital gains.

As you will certainly remember, last year's result was impacted by a total impairment charge of EUR615 million, related to the Greek sovereign exposure and equities. Whereas this year's results suffered from total impairments of EUR57 million, almost all related to equities.

Realized capital gains on equities and fixed income amounted to EUR92 million this year and EUR72 million last year. Adjusting the results for all these elements, the net result amounted to EUR414 million this year, compared to EUR334 million last year, up about 25% compared to last year.

The net reported result breaks down as follows. EUR293 million in Life; EUR143 million in Non-Life; and EUR13 million in Other. The performance in Non-Life remains strong. The net result increased from EUR57 million last year, to EUR143 million this year. And if we exclude the impairments and capital gains over both years, the net result doubled.

The continued progress that we recorded in Belgium and the UK, but also the good results in Continental Europe, doubled the profits year to date.

The overall combined ratio remains strong at 97.9%, with another solid performance in the past quarter at 97.2%. Both in Belgium and UK, the combined ratio stayed well below 100%, with Motor, in particular, continuing to produce excellent results. In addition, Fire improved substantially, with a combined ratio of 97.1%.

In our smaller, but steadily growing, Non-Life markets of Continental Europe and Asia, the underlying ratios were even better. In both Belgium and UK, the net result in Non-Life was supported by realized capital gains, although largely offsetting Belgium by the previously mentioned impairments of equities, but also an adjustment reserves for bodily injuries. The prior year releases, year to date, amounted to 3.8%, compared to 3.2% last year.

The Life activities contributed EUR293 million, compared to a net loss of EUR289 million last year. Adjusting the results once again for impairments and realized capital gains, we see an improvement of some EUR50 million, or about 22% largely thanks to our Asian activities.

There, we have seen strong organic growth, helped also by a few positive non-recurring items, mainly in the first half of the year. In Belgium, the underlying performance also improved, driven by better operating margins.

And finally, the segment Other, recorded a result of EUR13 million, compared to EUR23 million last year. It is important to note that last year's result included an incentive payment from a commercial partner of EUR6 million and this year's result included a EUR2 million restructuring cost related to Kwik-Fit, but also the impact of a highly competitive environment.

At a Group level, our net profit amounted to EUR518 million, with a net profit in General Account of EUR69 million and a net Insurance result, as already mentioned, of EUR450 million.

Year to date, we see a total impact of the legacies of EUR140 million positive, which included, in Third Quarter, a positive revaluation of the call option on the BNP Paribas shares, amounting to EUR57 million.

And finally, the shareholders' equity increased substantially to EUR9.7 billion, but this is largely thanks to the Group profit and also as a result of increased unrealized gains. The solvency remained strong at 214%, while the net cash position amounted to EUR1.4 billion.

And before turning to Q&As, I would like to ask our CFO, Christophe Boizard, to share a number of high-level comments by business and on the General Account.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart. Now let's take a look on the financial performance of the different segments. All the amounts will be in euro.

Let's start with Belgium, where inflows amounted to EUR5 billion and were up by 10% (sic; see press release), compared to last year, a comparable growth number as at the end of June.

Inflows increased both in Life and Non-Life. In Life, we have seen strong sales in individual savings, especially via the bank channel, but also in group life.

Important to mention here is that guaranteed interest rates on new individual life contract was decreased to 2% in August, reflecting lower interest rates that are recorded on the financial markets. In group life, a reduction has been announced as of January 1, 2013.

Operating margins improved both in Life and Non-Life, with a better investment margin in Life; and, in Non-Life, a better underwriting margin. The latter followed the improved combined ratio, which amounted year to date to 98.8% and to 96.9% for Q3 alone, which is a very good performance.

All businesses did well, but fire, property, if you want, deserves a particular mention at 84.7%, which is even better. In the United Kingdom, Non-Life gross written premium, year to date, amount to EUR1.6 billion. Growth in motor remains good, but was offset by lower premium levels in household and travel.

Net profit in Non-Life almost doubled to EUR73 million, driven by the continued good performance in motor, but also, thanks to a realized capital gain of EUR14 million. This more than offset higher weather-related claims in household.

Like in Belgium, the combined ratio remained substantially below 100% at 98.6% and here again, motor fueled this performance with a combined ratio of 96.7%.

In our Life protection business, we have recorded the first-ever quarterly net profit fully in line with its stage of development. On the other retail business, commissions and fees were in line with last year's level and above EUR200 million.

Net profit for the first nine months amounted to EUR13 million with EUR5.4 million net profit in the Third Quarter. As Bart already mentioned, this result includes a restructuring provision related to Kwik-Fit financial services and last year's results benefited from an incentive payment.

This brings me to Continental Europe where inflow, as already mentioned in Bart's presentation, increased by 40% to EUR2.9 billion. However, most of the growth relates to scope changes with the new merged entity in Luxembourg accounting for EUR1.3 billion, while Turkey, which is the second element of restatement, contribute to EUR431 million of gross written premium.

The net profit in Continental Europe amounted to EUR49 million, with a solid Non-Life contribution to net result of EUR13 million, reflecting a satisfactory combined ratio of 89.9%.

The Life net result improved somewhat on an adjusted basis, with lower claims in the risk business and lower costs. Operating costs are well under control and down year on year by 11%.

Finally, Asia; as already indicated, this segment continued the excellent momentum of the first half, with inflow of nearly EUR6 billion, 25% up on last year, of which 12% related to positive currency impact.

The regular premium book continued to grow and already counted for EUR3.8 billion out of EUR5.3 billion of Life premium. Life operations contributed an excellent EUR92 million (sic; see slide 38 "EUR93 million") to the net Insurance profit or 20% of the total net profit of the Group.

Strong underlying growth, some positive currency impact and a few non-recurring items, mainly in China and Hong Kong, explain this overall excellent result.

In Non-Life, the net result remained below last year at EUR6 million and suffered, as you will remember, from additional Thai flood losses booked in the first half of the year.

And to end my presentation, a couple of words on the General Account. We reported a net profit of EUR69 million for the first nine months, of which EUR67 million in the Third Quarter. The Third Quarter result was largely driven by the positive revaluation of the call option BNP Paribas. At the end of September, the value of the call option amounted to EUR174 million.

The value of the equity investment in Royal Park Investments increased slightly, to EUR864 million. For the first nine months, RPI generated a net result at 100% before a goodwill impairment of EUR707 million; and redeemed about EUR1 billion of debt.

At the same time, and based on the quarterly review of the fair value and the value in use, we had to further impair goodwill by about EUR506 million year to date. And I will remind you that, in that case, when we impair goodwill, that's not bad news, if, during the Q&A, I can elaborate a little bit more on this.

As a result, on the EUR276 million of the original EUR2.3 billion goodwill remains; which means that if the market valuation of the portfolio follows the same trend in Q4, we could expend the full -- the complete impairment of the goodwill by the end of the year.

Total staff and other administrative expenses are fairly stable, compared to last year.

As Bart already mentioned, the net cash position in the General account didn't change a lot compared to the end of June, and amounted to EUR1.4 billion.

At the end of September, we already spent EUR52 million on the EUR200 million share buyback program announced early in August. And you will have seen in the press release that most of the figure is about EUR91 million. So EUR91 million compared to the EUR52 million we had at the end of Q3.

Ladies and gentlemen. let me end this short introduction on the results with a few comments on the investment portfolio.

The fair value of our investment portfolio increased by roughly 10% since the end of 2011, to EUR65.6 billion. This increase is driven by volume growth in existing business; new business; and, of course, also, thanks to the yield drop on European bonds.

Unrealized gains and losses on the total investment portfolio in available for sale more than tripled, to EUR5.5 billion, with unrealized gains on fixed income up to EUR4 billion.

And on the top of this, we have EUR1.4 billion coming from real estate, which are not reported in the shareholder equity. Because you will remember that, in our accounts, the real estate is accounted at -- is not at fair value.

So we have this EUR1.4 billion on the top of what we have in the account. So EUR4 billion plus the EUR1.4 billion, and you have most of the EUR5.5 billion.

Here, the difference is given by equity. We have EUR143 million (sic; see slide 41 "EUR142 million") of unrealized gains on equity. I wanted to mention this because it means that on the equity portfolio, after all the impairments we have booked, we have now unrealized capital gain in our portfolio.

Within the framework of the recently announced initiative to finance infrastructure projects, Ageas selected, during the Third Quarter, five projects, for a potential total amount of EUR221 million. And among these five projects, four are coming from the partnership with Natixis.

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

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Ladies and gentlemen. this concludes the short introduction. I would like now to open the line for questions. As usual, we would propose that you limit yourself to three questions max. And so, operator, please start the call for Q&As.

Questions And Answers

Operator

Thank you, Mr. Vandenborre. So, ladies and gentlemen, this is the beginning of the Q&A session. (Operator Instructions) JPMorgan, Ashik Musaddi.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Three questions. First of all, can you give us some color on the impact of low interest rates on your Belgium earnings? Especially given that interest rates have gone down significantly over the last four months, after your first-half results. So how do you see the new money moving, and how do you see the impact of that on your overall recurring yield on the total book?

The second thing is, can you give us some color on what's happening in the UK motor market in the Third Quarter? Is the pricing going down, or is it going up or flat, or something like that?

And third one is can you give us some more color on the trends in RPI in terms of valuation of the asset? How much is it going up from economic recovery perspective? And basically, when do you expect to get some dividend from RPI? Thank you.

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

Okay. I will take the first and second question, and then hand over to Christophe for RPI.

So if you look to the interest rates and the impact in Belgium, we should, as you indicate in your question, separate two parts of the book. First of all, there is the book of business from the past, where we -- and we already gave some indication on that during the Investor Day in September, where we have a quite perfect matching; the duration mismatch of this book of business was about minus 0.2 years.

Take into account the guarantees we offered in the past and also, guarantees we contractually agreed on premiums still to come. And so in that book of business, you could say, and I go for rounded figures, that we have some 4% yield for a guarantee that is, over time, decreasing from, let's say, somewhere slightly above 3% to under 3%.

So you could say there, thanks to the whole restructuring of the investment portfolio, with the moving out of the peripherals, replacing by Belgium and also some other changes in the investment portfolio, we have taken the initiative to not be depending on these changes in interest rates.

For the new business, of course, the investment yield we have on new business is lower, let's say, also to use round figures, 3%-plus. And we took, of course, the actions to reduce the guarantees. So as of November 1, the magnum rate in individual life has been reduced to 1.75%. For a number of products, it's even 1.5% or 1.25%.

And in the group life business, where, for all these years behind us, the guaranteed rate has been, in the whole industry, rather high at 3.25%, that also a decrease has been announced, as mentioned also by Christophe, as of January 1, to 1.75%, for contracts where you offer guarantees on future premiums if this guarantee of future premiums does not[ph] reach 2.25%. So that's the situation in Belgium.

The second question was about motor in the UK. So what we have seen, as far as we are concerned, is that after two years of a rather important and huge price increases, 2012 has been much more flat on average.

So what we do is, of course, continually follow the evolutions in the market; try to price competitively in the segments where we want to be. And in any case, we see that there is some going away of prudency or of severity in adapting prices. But we still do not exclude and even expect that there will be additional rate increases in the coming months and quarters.

Christophe?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes. Thank you, Bart. So on the RPI, first, I'd like to give you some explanation about how it works, the accounting, because I have to admit that it is not very intuitive. As a matter of fact, it is very counterintuitive.

I said, during the -- my presentation, that this big goodwill impairment was good news, and I'd like to give you more explanation about this. You will remember that, on the assets side of RPI, the reference value for the asset is the recovery values.

So it means that we are -- it's the value at which we expect to be reimbursed. So it means that even when market valuation goes up, it doesn't mean that our final expectation goes up.

So when you take the IFRS P&L, the first element is the change in market value, and these go through P&L. But when it comes from the tightening of spread, it doesn't mean that the recovery value will be higher.

And it's the reason why, in the valuation of the Company, at the end, we do the valuation and we deduct the market value. And this gives us the amount of impairment we put on the goodwill. So the fastest the market value goes up, the biggest the impairment is.

And as I said, the fact that we are close to the complete impairment of the goodwill is good news because when we would have impaired with the goodwill at 100%, every increase in market value will be a real increase in the wealth of the Company and this will be booked in the P&L. So I hope that this explanation makes the RPI accounting clearer.

Now coming back more precisely on your question on dividend. It is true that taking into account the good results of RPI, we as a shareholder would be willing to obtain some dividend, but, unfortunately, among the three shareholders, the situations are quite different. We are the only regular shareholder; whereas the two others are in a specific situation and they are involved in the debt side of the balance sheet.

If you take BNP Paribas, they are lender and they lend, at this moment, an amount of about EUR500 million and the Belgian states gives its guarantee on the commercial paper program.

So it means that as soon as you pay a dividend, this dividend will be fund by additional debt, with more commercial paper issuance, and this means that this payment of dividend, theoretically, is an increase of risk. It's the reason why the two other shareholders are a little bit reluctant at this moment, but we have ongoing discussion about what loan to value would be acceptable for them.

I have good hopes that, in the coming months, we will reach an agreement. But to be perfectly honest and transparent, for this year, we won't have a dividend; this is postponed to next year at the soonest.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thanks a lot, very helpful. Thank you.

Operator

(Operator Instructions) Albert Ploegh, ING.

Q - Albert Ploegh {BIO 3151309 <GO>}

I've got a few questions as well. First of all, in the press release, you mentioned that compared to the first nine months last year, the underlying Insurance result was up around 25% when you take out the impairment charges and realized capital gains. What would be the number if you also would adjust for acquisitions you've done over the same periods? That's my first question.

Second one on Belgium Life. What is assumed in the results basically on profit sharing, also to get a bit of feeling whether you may be a bit conservative? So actually, you're basically overcharging for profit sharing that in the end might be lower.

And finally, also on the GIPS exposure to Southern Europe, you uploaded[ph] in the quarter as there were some market opportunities; it's now EUR2.1 billion, I think, exposure for the shareholder. Yes, what kind of level do you see as acceptable for a Group as Ageas? Thank you.

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

I propose to start with the second question, is the percentage of the profit share in Belgium. Of course, what has been done is like all years; it's only at the end of the year that the final or the real profit sharing decision is taken, while the full-year result is known.

But we have -- we usually, every quarter, provision what we believe might be the profit sharing and this is something where we take into account, of course, decreasing interest rates where we have adjusted our profit sharing to such a level that we believe is more than defendable towards policyholders and certainly acceptable also for the shareholders.

Don't forget that over the last year, we have not given profit sharing to a lot of our clients because the results were, as you know, rather negative in Life in the -- due to the impairment on equities and on Greece. So the improvement of the investment margin has been partly helped also by an adjustment downwards of the profit sharing provision.

The question on the reduction of investments in peripheral countries, I'll ask Kurt De Schepper to give some color.

A - Kurt De Schepper {BIO 6240700 <GO>}

Let me just remind you that we have our operations in Portugal and Italy, which imply that we have a natural exposure to these countries. And that for the rest, when we look at the Belgian situation, the Belgian company, that the investments that we have in the peripherals, that they are becoming what I would call in an acceptable level.

We, of course, keep on monitoring the situation and might make use of some opportunities but the need to reshuffle, as we experienced it in the past, I would call that as over in the current circumstances within the market.

That is for the peripherals. Bart, Christophe back to you.

Q - Albert Ploegh {BIO 3151309 <GO>}

Maybe one more question on the peripheral, the reduction. What was the loss rate more or less in the P&L in Q3 from the reduction in the portfolio?

A - Kurt De Schepper {BIO 6240700 <GO>}

It was -- I don't have the number here at hand, but it was not significant, it was a relatively limited amount that we had there.

A - Christophe Boizard {BIO 15390084 <GO>}

No, in Q3, it was ex-revenue[ph] -- (inaudible) we sorted out the Greek position, but it was a negligible amount of EUR12 million, you remember that is what remained at the end of Q2, so let's say nothing.

And then we sold part of the Spanish position at an attractive spread, when the rates were at 5.1%/5.2%, right after the announcement of the ECB program.

Then finally, the first question, we had -- I need some time to find. So compared to last year, you could say that we have now a result of Turkey for approximately EUR4.6 million.

UK retail is similar to last year. It's some EUR23 million[ph] because in the segment, although we have also retail costs. And Luxembourg is -- of course, we have a smaller stake in a bigger entity, but it's not -- so it was EUR3.5 million; now, it was EUR3.8 million last year.

So you could say the impact, if we compare, is about altogether a EUR4 million positive because UK retail was already in it last year and the same for Luxembourg.

A - Kurt De Schepper {BIO 6240700 <GO>}

So, all in all, these are negligible amounts.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes exactly. Okay, thanks very much.

Operator

Robin Buckley, Deutsche Bank.

Q - Robin Buckley {BIO 3596512 <GO>}

Just a couple of questions please. First of all, could you just comment on how your accident year combined ratio has moved in the Third Quarter within the Belgium and the UK operations? And just give some color over what has driven this?

And then secondly, I guess we're still seeing a reduction in the yield on the investment portfolio for obvious reasons. But would you just be able to perhaps give a view as to how you see the yield progressing over the future, just taking into account, I guess, some of the changes in asset allocation that you have previously alluded to in terms of the infrastructure loans.

And then the final question is just related to the Asian Life business. And I guess the associates line that we see coming through there that I guess can be quite volatile quarter to quarter; could you perhaps just give some guidance in terms of how we should expect profitability on that to progress over the next couple of years? Thank you, very much.

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

Okay, the combined ratio evolution in Belgium and UK, so the combined ratio in the Third Quarter was 96.9%, after 95.6% in the Q2, 104% in Q1. So 104% was mainly impacted by wet weather in Non-Life, where we were at that moment at 118% combined with fire, where it was 84.7% in Q3.

So you see a rather stable combined in motor; very much improved in fire already Q2 because we were not really confronted with big weather events. And, of course, the effect of the price increases there, you can say that if the rates in fire, in Belgium and Greece, was almost 10%, that two-thirds of it is thanks to price increases.

And then the third important business line is Workmen's Comp, where the combined, that's gone from last year 190% to 104%. An extremely good First Quarter and a Second Quarter that was worse. So First Quarter was 84%; second, 122%; and the third, 109%.

But there, of course, in Workmen's Comp, a lot depends on a limited number of big claims. So that's a bit the situation in Belgium.

You can see that in -- normally, the results could have been better in motor, but there has been an extra provisioning, as mentioned in the introduction by Christophe, for both the injury where due to tables that are used in -- by the Belgium courts, there has been an adjusted to lower interest rates, and this impact has been fully taken in Q3.

But you could say that the good evolution of the combined ratio in Belgium, the same counts for the UK, it's fully on the account of all the actions that we've taken and a very high focus of all the teams on establishing a combined ratio that is in line with our lower-term targets.

Therefore, the UK, there you could say that the Third Quarter has been a quarter of 98.2%, after 102% in the first and 96% in the second. This is rather good in motor, 98%, 95%, 97%. It is more volatile in fire with 112%, 97%, 95%, so there also, I think there has been weather-related impacts. Net impact was EUR20 million more than last year and, as mentioned also in the comments of Christophe, these have been partly offset by some EUR40 million net cap gains. So, on a more normalized base, you could say the result of as well Belgium as UK are really improving in Non-Life.

A - Christophe Boizard {BIO 15390084 <GO>}

And maybe one word on the fact that we slightly increased the technical reserve in motor in Belgium because the expectation on bodily injury are higher than what we have in our tables. So there is a one-off adjustment in negative. So this is a burden on the Q3 combined ratio.

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

The question was on the yield performing.

A - Christophe Boizard {BIO 15390084 <GO>}

On the yield reduction, yes, I can take it. So on the yield, two things. First, if I take the global return of the assets, obviously, it's very high; we are in excess of 10%. But most of this accident figure comes from the change in unrealized capital gain. More interesting is the yield without this effect. We are at around 3.8% on the first nine months.

Then my comment is that we are trying to diversify the assets. We have already mentioned the partnership with Natixis, where I remind you that we expect something like 300 bps on top of the EURIBOR and as we will swap part of this position, what we expect is a return in excess of 4%.

Then, we have other initiative like investing in high-yield bonds. We have a big allocation on real estate where expectations are at about 6%. So, all in all, we are trying to maintain a decent level of investment return with all these initiatives.

As you can see, we are trying to slightly re-risk a little bit the balance sheet, but it is -- I won't make any forecast for the future. So we will see first how quick the ramp-up period is on the partnership. And if we invest in equity or not, so there is a lot of question mark still, but we are actively working on this, you can imagine.

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

Okay, then we had -- the last question was on the results in Asia. So the volatility quarter on quarter mainly comes from China. The results after nine months is nearly double from last year.

What we see in Q3 is a much better result from Thailand versus last year. Of course, the flooding back in the first two quarters is one of the elements for this. And the other countries were still quite stable.

So if you look to the -- what you call a bit the nonrecurring year to date overall in Asia, we see that last year, after nine months, we had the net profit of EUR59 million, where you could say adjusted for exceptionals was more EUR43 million. And this year, the net profit we report after nine months is EUR92 million, where you could see it adjusted being EUR71 million. And it is all Life. This is about Life.

So the large nonrecurring is coming from China where we had reserve release in the first part of the year of, if I remember well, approximately some EUR15 million.

The net impact of cap gains is low; it was EUR2 million last year and EUR5 million this year over the nine months.

Q - Robin Buckley {BIO 3596512 <GO>}

Okay, that's great. Thank you.

Operator

Matthias de Wit, Petercam.

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

Three questions please. First, on the Belgium's technical results, these came down from the previous quarter. What is explaining this sequential decline please?

Then on UK Non-Life, you mention that the bad weather conditions had an impact on underwriting performance in the quarter. Could you shed some light on these specific events, and possibly quantify the impact these had on the Third Quarter Non-Life performance?

And then lastly, could you shed some light on the organic year-on-year evolution in Q3 gross written premiums please?

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

Okay. The first was the technical results in Life in Belgium coming down. Looking to where I find these figures, because I don't see them immediately.

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

It's on page six of the press release.

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

Refer to our table, that's the easiest one that you go through. There is a page on Belgium?

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

Yes, it's page six in the press release, and the technical results were up to EUR79.4 million from EUR93.7 million in Life at the end of -- over Q2, yes.

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

I think that the -- I believe that the main reason is, putting aside the EUR23 million for the -- no? Actually, Life, sorry. Sorry, I don't know, Antonio, whether you have -- well, a reason could be that in Q2, but we will check it, that's, of course, the dividend season for the shares in the portfolio, and that that has created an impact.

Another element is also that the profit sharing, that has been more stable over the three quarters. But we'll check it, and come back to you. I don't have the answer I need at this end.

The second question was the bad weather impact on underwriting in UK. There I try to look to the detailed figures, where, okay, I think we've been impacted in the UK by weather-related events all over the year. Looking again to the detailed figures.

A - Christophe Boizard {BIO 15390084 <GO>}

And you have in the detail.

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

We have had a EUR29 million net impact. EUR8 million was in January; EUR10 million was in February, so you could say the First Quarter was some EUR18.5 million; and then EUR10.5 million in Q2 June storms; and bad weather in Q3 was for EUR5.6 million.

That's the amount allocated to the four different moments, but it's, of course, not excluded that part of the June storms has been booked in Q3.

And the third question was on the written premium. So what we -- we have, of course, region by region, rather different profiles. If you look to Asia, as mentioned, we see the impact of the proportion of regular premium going up.

So it means year after year, certainly with the high retention, we have had a high continuation of contracts with regular premiums. This will continue to support our organic growth.

In Portugal, as mentioned, we have deliberately decided to bring almost to zero the business in savings, due to non-profitability of these contracts in that market at this moment.

And we try to keep pace with the unit-linked production where we see that this has been -- has dropped last year, but we are more stable compared to last year in that line of business.

And in Belgium, we must say that we have had, of course, in the first three quarters, each time that the rate decreased, and there has been four rate increases, an additional fact of this is that they have been written.

You also have the contracts that are maturing, where 35% at minimum is reinvested. So we are, of course, a bit less optimistic overall. Optimistic is maybe not the right word; we don't expect continuous growth in Life in Belgium as we have seen over the past quarters, and that's, of course, due to the fact that the interest rate decreased substantially.

And knowing that this line of business is the most difficult to get the returns we want to achieve, it's a deliberate choice not to go for volume at any price in that product base.

But we still believe that our target, in the first place, is to increase the proportion of Non-Life will help us also organically to increase our inflows in Non-Life. We expect, over time, a lower evolution of the increase in the pure savings business.

A - Christophe Boizard {BIO 15390084 <GO>}

I think one interesting slide of the presentation is slide 20, where you have the inflow, our share. So inflow, our share, if you take a look at slide 20, you can see that the increase is 12%.

If you take Asia, plus 26%, that's organic growth; there is no change in perimeters, nothing. On Belgium, plus 10% organic growth as well.

So then the only resettlement that we could make are on Continental Europe, where there is the effect of Luxembourg and Turkey, and then on the UK.

But at least on Asia and Belgium, that's organic growth, plus 26%, plus 10%, so I would say that the rough estimation, organic growth should be close to 10%.

Operator

Hans Pluijgers, Cheuvreux.

Q - Hans Pluijgers {BIO 16245530 <GO>}

A few questions from my side. First of all, on the Belgian inflows again, coming back, two follow-up questions. First of all, on the group life, you said you gained some group life contracts. But looking at the guarantee level, what's the profitability on those contracts? Is it not a little bit lower, not some risk there?

And with respect to the inflow we've seen in Q2 and Q3, is there may be partially also a result of an expectation of a reduction in guarantees. Or is there any impact let's say that people who have already ramped up before to benefit from still higher guarantees?

Secondly, on the implementation of IAS 19, if it would be implemented today, what would be your guesstimate impact on the equity side? Could you give some feeling there?

And lastly, respect to -- could you give some breakdown on the run-off gains by the main markets; Belgium and especially UK, that are for me the most important ones?

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

Okay, question one, the inflows in Belgian group life contracts. So, first of all, the group life contracts have a very important component which is risk, so mortality risk, disability risk, which means that you have to look at them as a whole.

You could say that these contracts, even the contracts from the past with the almost perfect magic we talked about, you -- we are in line with this target of 90 basis points pretax margin.

The impact on new business, first of all, and I don't want to go in all the details, but in Belgium, you have to know that the employer who contracts a group pension plan, whether it's in a pension fund or a group insurance, he has to guarantee 3.25% on his contributions and 3.75% on the personal contributions of the employees.

So it means with these rate decreases by AG Insurance and also other such[ph] insurers, that an additional burden is on -- to be taken up by the employer. And this means that we expect that new business will not be very successful in the coming period and it's also not on the new business that we made our growth in the past.

The main growth is on existing plans and even in the single plans, they are always negotiated with unions, so employers cannot stop them from one day to another. So we expect that the current plans will continue to run and to grow.

Also, if an employer would, for instance, think about moving his plan to a competitor due to this decrease of interest rates, he will, of course, get a lower guarantee elsewhere. So it's the same time an environment where the book of business is protected against lapses.

If, nevertheless, a client lapses, all these contracts have market-adjusted value, so then the client goes away not with the accumulated results, but with the market value of the underlying assets.

On IAS 19, that's a change in methodology. The impact will be limited and the order of magnitude that I have in mind is around EUR20 million to EUR30 million.

Then the last question you have, is it possible to repeat it, because we're not sure that we fully understood?

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes, your run-off gains by your main operations, you've given the total number. If you could give some feeling on what happened with the run-off gains, for example, in Belgium and UK especially?

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

You refer to release of provisions?

Q - Hans Pluijgers {BIO 16245530 <GO>}

The prior years. Prior years. Sorry, prior years.

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

Yes. Okay, if you take -- as we mentioned, overall, it went up from 2.8% -- 2% -- 3.2% to 3.8%. That was Ageas as a whole. If we look to Belgium, give me one moment to find my details.

Yes, it -- I give the series of prior-year releases since 2006. It was 7%, then 8%, then 4.2%, then 8%, 6.8%, 7.3% and this year, it's 6%. So it's lower than last year but, of course, it's, amongst others, also impacted by this additional strengthening of reserves that we did in motor for these bodily injuries. So you could say it's not really overall a big change compared to last year. It's even 1.3% lower.

If we then go to the UK, we will have maybe a bit different story. It was an NI of rolling history as of 2010, 1.1%. In 2011, it was almost zero because then we strengthened in the UK the reserves in fire insurance in the First Quarter of 2011. And this year, it is 1.8% release. So you can say 1.8% compared to 1.1% two years ago, so also there, we don't see a very -- a specific change.

A - Christophe Boizard {BIO 15390084 <GO>}

So it means that in the UK, reserves are close to best estimate on the safe side, but not as -- with not a margin which is as big as it is in Belgium for instance.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes. Thank you, very much. Clear.

Operator

Francois Boissin, Exane BNP Paribas.

Q - Francois Boissin {BIO 16045021 <GO>}

Two questions please; the first one on RPI. How should we think of the tax treatment of your investment in RPI? How is the Company RPI taxed and how will dividends be taxed when you upstream them to Ageas?

And your second question -- my second question sorry, is about the combined ratio. You're quite lower than your guidance of 100% combined ratio. What is the outlook for that in the coming quarters? Do you think that there are good reasons for the combined ratio to go up with the pricing outlook, or basically how should we think of it?

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

So maybe I can start with the dividend on RPI. So if you read the statutory account of RPI as the results, it has been positive for quite a while and now they are paid a dividend. So -- and as a matter of fact, when you read the Belgium newspapers, you can read that RPI is among the best tax payers. And I think, but on the top of my head, I am not 100% sure, but they have paid something close to EUR400 million of tax, so that's a huge amount.

In case we will receive a dividend, it is tax free. So we won't pay a dividend -- we won't pay tax on the dividend when we receive it.

Oh there is a reserve, the 5%, but it's a small amount. 5% on the dividend is taxed but as it is received at the holding level and we have huge tax losses carried forward, at the end we will pay zero.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay. But regarding the -- so, basically, regarding future profits that could be generated at RPI, thanks to higher cash flows received than the outstanding debt payments, that would be taxed, indeed, at a rate of what, 30-ish-%?

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

At the level of RPI, yes.

Q - Francois Boissin {BIO 16045021 <GO>}

So the effective tax rate is what, 35% or something like that?

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

That's the full rate. 33.9%, that's the full rate.

A - Christophe Boizard {BIO 15390084 <GO>}

The benefit from the notional interest deduction.

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

And the benefit from the notional interest deduction, but basically, it's like a news or[ph] -- yes, one-third is a good proxy.

Okay. Then the second question is our combined ratio is below 100%. I think our ambition is to be structurally below 100% and, as mentioned also at the Investor Day, in an environment with low interest rates, we will steer the teams and the operating Companies towards a combined ratio so that's not just flirting with the 100% but that is.

In the area where we are today knowing, of course, that you always see that in Q1 and Q4 are the two quarters where you have some seasonality with weather impact, so we've been -- as mentioned when I comment on Belgium, we've been lucky so far and hope that it stays like this.

But on the other side, we also have to repeat again that the combined even would have been better if we would not have strengthened the reserves in Belgium for bodily injuries, something where we can say we have already had this, which is not said for all competitors necessarily.

So we, as in the call mentioned, we want to continue this momentum and we put a lot of emphasis towards all the operating teams to keep this combined around the level we are today.

And, of course, if there are opportunities for further improvement, we will not let them pass. This is the fruit of the decisions we've taken over the past 1.5 years in terms of rate increases, pruning of portfolios and changes in product design.

Q - Francois Boissin {BIO 16045021 <GO>}

Yes. And in terms of outlook for the pricing, what can you say about Belgium and the UK?

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

I'd say we follow the situation day by day, but maybe only one comment on that is that looking to this strengthening that we did for bodily injuries, this is a new given, of course,. And it will again be evaluated against the profitability of motor insurance whether this will be -- have an impact on future pricing or not.

But at this moment, there are no real actions, global actions communicated. There is, of course, a daily taking care of -- caretaking of pricing and due to the evolution we see in the frequency and in the average claims.

A - Christophe Boizard {BIO 15390084 <GO>}

And, Bart, I think we can claim the Belgian market due to our position of leader; we have significant pricing power here, of course.

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

And with the future closing that we expect before the end of the year of Groupama in the UK, also there the market position will be considerably strengthened towards the top five position, where also again, the capability to impact pricing increases fundamentally.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay. Thank you, very much.

Operator

(Operator Instructions) Hans Pluijgers, CA Cheuvreux.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Two follow-up questions. First of all, on China, could you maybe elaborate a little bit what you see going onward with respect to the inflow there has been very strong? What are the main drivers and how do you compare to the market?

Secondly on that, do you expect, in the near future, any strengthening, or in maybe the foreseeable future, a strengthening of the capital position there, so you will have to put in some additional money there because of the strong growth[ph], could you give some feeling there?

Secondly, respect to your joint venture with Tesco, are you already making the hurdles there you have set for that joint venture? And could you give us some feeling what the current returns are there?

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

Okay. In China, we increased our market share compared to a year ago, from 3.2% to 3.4%. So we have noticed a growth of 10%, where the industry is plus-3.6%.

The split between regular premium and single premium is 75% regular, 25% single, so also the evolution of inflow shows that a number of other competitors are much more relying on single premium. And if you see that in the meantime, at the end of Q3, we already have, out of EUR3.35 billion premium, already EUR2.5 billion is regular premium, with a persistency ratio of above 90%. So this means this is our guarantee for future growth.

Single premium is a surplus, but even if there would be a less -- a slowdown in single premium business, where we in any case don't want to go the highest rates on the --

impacting negatively profitability, so even if single premium business would come down a bit, it will not stop us from growing further in inflows.

The capital position, we have said, at a certain moment in time[ph], expected a need for a capital injection in 2012. This is certainly not expected this year, but might be on the table for 2013, in any case if growth grows on like this. And the ambition of the Company is to further grow in the Chinese market.

A - Christophe Boizard {BIO 15390084 <GO>}

We can say that the new management have set a very ambitious objective in China, as well. So we are expecting big growth.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Can you give me maybe some feeling on there on what kind of numbers you're thinking then? Are you talking about EUR10 million, EUR20 million, or maybe some bigger amounts for your side?

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

Well, it depends, because there are also other means if -- to strengthen the capital position. It could be done with (inaudible), but I think this is something that we can only determine in more detail when we have a clear view on the multiyear budget that we will, together with them, work out in the coming months.

A - Christophe Boizard {BIO 15390084 <GO>}

There is no precise figure, because it was -- at the beginning, one year ago, it was expected for this year. It has been delayed, so this has to be confirmed, the amount of capital increase.

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

And the GB Tesco, so we -- net profit for our share was EUR13 million for nine months, so it means that we are close or above 11%.

Okay, we are very pleased with the way we work together with them and are hoping that it's -- and are almost sure that it's also the case for them, because, like in all our partnerships, we have very frequent contact with our partners, try to deliver and delivering is the best mean to have a continuation of the cooperation.

Maybe make profit or make -- take the occasion to give some more details on the question that we were not able to fully respond earlier in the call, was on the reason for the decline in Q3 in the technical result for Life in Belgium.

So we referred already to potential impact of dividend. For -- to give an idea, in Q1, dividend impact was EUR5 million; Q2, it was EUR23 million; in Q2 at EUR8 million. So the difference between Q2 and Q3 is EUR15 million less dividend income.

Operator

Matthias de Wit, Petercam.

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

One last question from my part. Your capitalization of certain insurance subsidiaries significantly improved relative to the Second Quarter, for example, in Continental Europe. Just wondered whether you see any opportunity to upstream capital out of certain subsidiaries to the holding level, please?

A - Kurt De Schepper {BIO 6240700 <GO>}

The situation in Portugal, in particular, profited from the improved valuation of the bond portfolio and, hence, the capital position indeed improved.

You remember that we do not take into account any unrealized capital gains that would be remaining after netting cap gains versus cap losses. But as unrealized cap losses went away a little bit, the position improved.

It is too early, I think, that we would conclude on a upstream from Portugal, but, of course, as you know, we always look at the optimization of our situation and, where possible, we have dividends upstreaming.

So it's too early days to make any firm assessment of that. We'll have to see how things evolve over the next quarter and what the situation at that time will be.

A - Christophe Boizard {BIO 15390084 <GO>}

So we won't give you figures, but I think it is worth mentioning that we have clarified the dividend policy of the Group with a subsidiary, and the Board has accepted a new policy as soon as the capital position is above the target; 100% of result will be paid as a dividend. And when you are slightly lower, you have different thresholds, with 50% or zero, but things have been accepted and the Board has given positive advice on this new capital and dividend policy.

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

So it's not the dividend policy towards the shareholders there.

A - Kurt De Schepper {BIO 6240700 <GO>}

No, it is the same for the (multiple speakers). But we will, indeed seek to finance a full Ageas dividend to be determined later, early next year, by means of upstreaming from all of the subsidiaries.

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

Okay, thank you.

Operator

And there are no further questions in queue. So I will give the floor back to Bart de Smet for the closing remarks.

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

Okay, ladies and gentlemen. thank you for your good questions. To end this call, summarize maybe the main conclusions.

First of all, we believe it was a strong Third Quarter, which confirms the positive evolution that we've seen in the first half. All the key performance indicators moved in the right direction, and as already mentioned in the past, the challenge is to keep them there and to further improve where possible.

Secondly, we outlined our vision for the future during our Investor Day held at the end of September. We communicate a clear target that we would like to realize in 2015, but we will, of course, update you on a regular basis on the progress made.

The acquisition of the Group on our UK activities fits well into these objectives, and will have a positive impact on the weight of the Non-Life activities within Ageas.

And with respect to the future, these results are very encouraging and we remain fully focused on maintaining the momentum.

With that, I would like to bring this call to an end. Please do not hesitate to contact our Investor Relations teams should you have outstanding questions.

Thank you for your time, and I would like to wish you a very nice day. Goodbye.

Operator

Thank you, very much. Ladies and gentlemen, this concludes today's conference call. Thank you, all for attending.