Q3 2017 Earnings Call

Company Participants

- Bart Karel De Smet, Chief Executive Officer & Executive Director
- Christophe Boizard, Chief Financial Officer & Executive Director
- Filip André Lodewijk Coremans, Executive Director & Chief Risk Officer
- Frank Vandenborre, Group Head-IR & Corporate Performance Management
- Hans de Cuyper, Chief Executive Officer-AG Insurance

Other Participants

- Albert Ploegh, Analyst
- Andy Hughes, Analyst
- Arjan van Veen, Analyst
- Ashik Musaddi, Analyst
- Farooq Hanif, Analyst
- Nadine van der Meulen, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Conference Call for Analysts and Institutional Investors for the Third Quarter 2017 Results. I am pleased to present Mr. Bart De Smet, Chief Executive Officer; and Christophe Boizard, Chief Financial Officer. For the first part of this call, let me remind you that all participants will remain on listen-only mode. And afterwards, there will be a question-and-answer session. Please also note that this conference is being recorded.

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

Bart Karel De Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you all for dialing into this conference call and for being with us for the presentation of the nine months 2017 results of AGS. As usual, I am joined in the room by my colleagues of the executive committee, Christophe Boizard, our CFO; Filip Coremans; CRO; Antonio Cano; our COO. Hans De Cuyper, the CEO of AG Insurance is also present, as well as, of course, our Investor Relations team.

Ladies and gentlemen, similar to the first half, our Insurance activities have reported very satisfactory results over the third quarter. The net Insurance result amounted to €241 million, bringing the year-to-date net result to €686 million, with all segments performing well. Compared to last year on scope-on-scope, the net Insurance results showed a solid improvement. The quarterly result is also pretty clean without major non-recurring items besides benefiting from higher realized capital gains in Asia.

On slide 3, you'll find, as usual, the key figures. The strong Insurance net result is supported by an excellent operating performance both in Life and Non-Life, illustrated by the Life operating margin on guaranteed products that remains above 100 basis points year-to-date at 106 basis points. The combined ratio of the consolidated entities was again very strong in the first quarter at 92.7% and year-to-date ratio of 94.9% includes a 1.6% negative impact of the residual Ogden discount rate review.

With respect to Ogden, we welcome the announcement of the UK government following the consultation by the Ministry of Justice. (02:39) that is currently on table breaks the link with the index-linked government securities and foresees a more regular update of the Ogden discount rate. But it's, however, much too early to talk about concrete results. And based on the most recent information available, we do not expect more clarity before the second half of 2018.

You will also remember that our Non-Life activities in Italy were sold early in July to BNP Paribas Cardif. And this is expected to generate a capital gain of approximately €75 million and a cash add-on of some €2.2 billion (03:18). We still expect the deal to be closed around year-end 2017.

The Insurance Solvency II ratio went up to 194%, compare that to 179% at the beginning of the year. The Group Solvency II ratio increased over the same period from 191% to 193%. The own funds and the general account were affected by legacy-related items such as evaluation of the put option, the increased value of the RPN(I) and the additional provisioning for the Fortis settlement.

With respect to the letter, the parties have been granted additional time until the 12th of December to reach an amended agreement and the additional provision of €100 million should allow to come to a balanced agreement addressing the main concerns of the court on the initial proposal.

Ladies and gentlemen, I will now pass to Christophe for more details on the results.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart, and good morning, ladies and gentlemen. I will comment on the remaining figures on slide 3, where you'll find the key headlines for our Insurance results. The net Insurance profit for the first nine months amounted to €686 million compared to €803 million last year. Excluding the €212 million contribution from the divested Hong Kong activities, this is 16% up on last year.

Material non-recurring negative item this year includes Ogden discount rate review at €40 million, of which €9 million this quarter. Net realized capital gains year-to-date amounted to €173 million compared to €110 million last year. The increase being spread across Belgium, the UK and Asia. You have all the details on slide 22.

Stripping out all what we identified as non-recurring items, we do notice a significant operational improvement of roughly plus 14%. So, not far from the plus 16% without restatement, its progression mainly comes from Asia and Continental Europe, while Belgium repeats an excellent performance of last year.

The operating margin on guaranteed products stood at 106 bps, with the impact of the capital gain on real estate expected to flatten out by year-end. The Unit-Linked operating margin increased slightly to 26 bps, with a 28 bps margin on Q3 taken alone. I would also like to highlight here the nice growth in Unit-Linked inflows, which is up by almost 40% year-on-year.

In Non-Life, and as already mentioned by Bart, the combined ratio remains in unprecedented areas with year-to-date at 94.9% or even 93.3%, excluding the Ogden impact, so a new record performance since 2009. The combined ratio on the third quarter amounted to 92.7%.

The group net result increased to €360 million despite a rather high net loss in the General Account. Its negative result for the third quarter of €165 million is largely explained by an additional charge of €41 million related to the RPN(I) valuation and the €100 million added to the provision for the potential for this settlement. This has already been commented by Bart.

With respect to the balance sheet, our total liquid assets remained stable at €1.7 billion, of which €0.9 billion is ring-fenced for the settlement. This figure includes the dividend receipt from Malaysia in the third quarter, but not the proceeds of the divestment in Italy, which we anticipate by the end of the year. If all goes well, we expect authorization from the Italian regulator. As already mentioned by Bart, the Solvency II ratio at the end of September stood at 194% and 193% for Insurance and Group respectively.

And, lastly, the quarterly update on the operational free capital generation, you will find this from slide 5 to 7, with the disclosures you will recognize from our six months communication. Let's spend some time on them.

On slide 5, the operational free capital generation over the first nine months of 2017 amounted to €636 million. Included in that figure, and as already explained with the half-year result, we have the following one-offs. First, the €122 million related to the stop loss cover in the UK. Second, the €70 million dividend upstream from the non-European NCPs slightly up compared to the half-year number, because of the received dividends from Malaysia during Q3. A reminder here, we deduct this dividend to avoid double counting with the Asian contribution to the free capital generation.

The resulting €444 million, that you can see on slide 5, should then be seen as the European/Solvency II contribution to the free capital generation of the group. And then, just as in August 4, our Q2 result release, we calculated operational free capital generation on the Non-European NCPs until the end of June, so with one quarter delay. This amounted to €249 million on the two first quarter compared to the €56 million disclosed for Q1.

This huge seasonality requires some explanations. The very first contributor is China. You may have guessed this, where we had a huge so-called jumpstart campaign at the beginning of the year, it is usual. Every year, we have this kind of campaign. And (10:59) here is short-term and low value product, and this has an impact on the free capital generation. This results in the very low value for this new business. The rest of the year in China is dedicated to the sale of more profitable products. This is the first explanation. The seasonality in the type of products sold in this market.

Second explanation on China again. The free capital generation is based on the local solvency frameworks, C-ROSS, which presents some significant differences with Solvency II. For instance, it has broader contract boundaries, which tends to increase the value of new business. This is precisely included in the operational component. I think that we shouldn't be concerned with these differences as since we are looking for dividend capabilities. The future dividend capacity of China will indeed be based at least partly on C-ROSS, the local regulatory framework.

As we did last time, you will find on slide 6 a breakdown of the operational impact by segments, but also the impact of the geographical diversification and group elimination. Most of these group eliminations relate to dividends, either internal or paid to minority shareholders. Last time, during the call, we were asked to give more detail on the breakdown on the group elimination, the €632 million. I can tell you today that we have €130 million and €14 million to be allocated to Belgium and Continental Europe, respectively. The rest should be allocated to the General Account and mostly corresponds to the internal dividends. The net resulting contribution of the General Account to the operational free capital generation would then show a negative contribution to the operational impact, which is normal for a holding.

Ladies and gentlemen, for the sake of time and as there are no major events that happened in the third quarter to comment on, I propose not to further elaborate on the segment information, which you can find from slide 9 to 14. Obviously, we can come back on some specific points during the Q&A. That is the end of my intervention now. And I hand over to Frank for the question. Thank you.

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Ladies and gentlemen, this concludes the introduction. We can now open the line for questions. May I ask, as usual, to limit yourself to three questions at a time to allow everybody to ask his questions. Thank you. Operator?

Q&A

Operator

Thank you. And we have a first question from Ashik Musaddi from JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good morning, Bart. Good morning, Christophe. Thanks for the thoughts. I have three questions. Just, first of all, how should I think about your earnings now? If I think about first nine months, you have almost done €700 million of Insurance earnings and you typically do €180 million a quarter. So, that means you'll be hitting north of €850 million of earnings for the full-year.

And if I look at your midpoint of your dividend guidance, it means that the DPS could be anywhere around, say, €1.95 (15:07). And on top of that, I think, you have guided that part of the dividend will – there could be special dividend from sale of Italy as well. So, how should we think about that? It would be the first question.

Second is, in Non-Life, your combined ratio is 92% or something around that versus your guidance of 97%. So, is this structurally measured this improvement or there are a lot of one-offs in that that we should not expect to happen? So, if you can give us a bit more color about what is the recurring Non-Life combined ratio?

And third, on the negative side is, your solvency ratio went backward quarter-on-quarter, whereas there should have been a big benefit from sovereign spread tightening, because in Portugal as well as in Belgium, in third quarter sovereign spread tightened a lot. So, why is that sovereign spread tightening not getting reflected in the solvency ratio? So, these would be my three questions. Thank you.

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

Okay. Thanks, Ashik, for three good and interesting questions. I'll take one and two and then move to Filip for the third one. First of all, as you know, we don't give outlooks, but – and have been very, let's say, pleased with the three first quarter results.

With respect to impacts for – or effects that we have to take into account for Q4 is, first of all, and that's (16:38) I think that we do not expect further capital gains, that have been realized mainly in the first two quarters, but also you can see in Q3, part of them in this quarter.

Second impact that we still will have is the final remaining Ogden impact. And if you remember what we indicated beginning on the year (17:03) scheme, we expect another €5 million impact in Q4. We then also have to be realistic on Asia and more precisely China where the fourth quarter is the one where the new start of the jumpstart of 2018 is prepared, which means that there is a huge effort in recruiting agents which will have an impact in Q4 on their expenses and also reduce a bit the sales volume. So, that's our three elements that we have to take into account that in any case will make that Q4 will not be exactly one-third of the first three – nine months or three quarters.

And then, of course, the unknown element is weather. But I believe that, if we are beneficial in terms of weather impact in the coming, let's say, two months, because we're already in early November – that a solid fourth quarter is definitely not to be excluded. But rather, it would be – I would definitely not give guidance that the fourth quarter will be again a quarter of something like €220 million, that's above what we believe is realistic. And I'm always talking, of course, excluding the capital gain of €75 million on Cargeas. Of course, if that would come, it will definitely bring the result of the year in the area or above the area that you indicated in the beginning of your question. So, not negative, but don't expect Q4 to be exactly one-third of the first three quarters for the reasons I've given.

Secondly, the question on the combined ratios. We stay at our 97% target as being the one where we want to be structurally below. We are far below. I think, we have had, again, compared to last year, a nice improvement. But last year, we had weather events. We had also terrorism. If I look to the different regions, you could say that, in Belgium, the very good combined ratio is one that gives more than confidence that we will stay structurally below the 97% and even not just below but, let's say, at a certain definite and important level below, because the actions taken in the previous years really start to pay off. And the market is also, I would say, a very mature and a disciplined market.

In the UK, as you know, the combined can only become better. So, we are now, if we exclude the Ogden impact, slightly below 100%, but we still want to move towards this 97%.

I think, Portugal is a bit in line with Belgium, very solid ones. We have been able to manage the portfolio acquired from AXA. And there we see still room for improvement to do better. And so, that are the main components. So, I think that we are more and more 100% convinced that the 97% is a combined ratio where we structurally will stay below. Filip?

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

Good morning, everybody. Good morning, Ashik. Thanks for your question on solvency. I think it's a bit harsh that you called it a negative. Actually, if we look at our solvency ratio for the group, end of the quarter, we still had very strong ratio, 193%; Insurance, 194%. And, indeed, over the last quarter, it came down on a group level with 5%, but we have very good reasons for that.

Let's – maybe to give you the one-off and exceptional (20:53) items that I usually point that, we, of course, have the continuation of the share buyback program. And in the wake of the solid results, a rather high component of expected dividend that we deducted. These two items, which is about, let's say, giving back to shareholders, knocked off almost 4% from the quarterly solvency ratio and explain part of the drop.

Next to that and that is also these are one-off items and, as you know, related to the litigation on one end and other legacies, RPN(I), the put option valuation and the provision, if we decide for litigation, they also have about 4% to 5% impact on the solvency ratio. So, if we put these aside, we would have a nice increase in solvency maybe more in line with what you would have expected.

But you also point to a higher expected impact of market. And that is true, on the surface, the market impact for the whole of the group was only 1% this quarter and that can be explained partially by the fact that, one, indeed government (22:12) spreads, they reduced further, and more importantly in Portugal, where we have a huge positive benefit from it, but to a lesser extent in Belgium actually. Government (22:27) spread did not reduce that much further, they did a bit. But also the corporate bond spreads came down and you know that that has this reserve effect embedded in the volatility of ageas (22:37). So, the spread effect for the quarter were notified as one may have guessed.

But next to that and that is probably what closes your estimate with what happened really is in Belgium specifically, if we look at the solvency evolution of the Belgian entity, we see that for the quarter it did not go up actually; it came down. And there, the market impact on the Belgian solvency ratio is minus 3%, but that is consisting out of a positive indeed, but only of 1% due to spread and interest rate, where I said, the drop – further drop in margins on the corporate bonds actually offset the drop in the spread on the (23:24), largely, it's a bit of interest rate positive that is not that much, but we have a bit of reshuffling in the invest portfolio.

And also, let's not forget that the strong market performance in equity has pushed up the, what I call, the symmetric adjustment. The symmetric adjustment to risk charge on equity is now over 41%. So, that is leading to a relative sharp increase in the solvency capital requirements for the equity portfolio at large and that for this quarter has almost an effect together of 4% negative, that is something that is very difficult to predict. It is – so, it's due to the strong increase in the equity portfolio based on the strong performance in equity markets pushes up the risk charge there.

So, from my perspective, not something that we are particularly worried about and not something that is structurally meaning that we are (24:21) solvency. So, we are rather confident at our solvency ratio which after all in Insurance year-to-date is up 15% or something is actually solid and on the right track. And so...

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. If I just need to – if I have to summarize, is it fair to say that it is still working in line with the sensitivities you gave, but because of a sharp increase in equity market, are they something you were not expecting or something like a treatment of volatility adjusted, because the only thing that we have – is a bit confusing at the moment for us as an analyst is, we are still not able to understand how should we think about mark-to-market movement. Because, for example, this quarter I was also forecasting 6 percentage point benefit from markets. But it looks like, you said there's just 1 percentage point benefit?

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

It is correct. The overall – if I look at the overall movement for the quarter in the market component, and that's excluding the impact of the RPN(I), because that's a separate issue, the market impact is only 1%.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

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

And if I look year-to-date, it is about 6%. That 6% is composed of indeed almost 6% coming from spreads, around 6% coming from interest rate improvements on the group, but offset by almost 5% [Technical Difficulty] (25:47), mostly in equity SCR. And that is due to the countercyclical premium on the buoyant equity market.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Maybe we'll touch base on that later on at some point, and that would be great. Thank you.

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

It is probably something that I will keep in mind for next Investor Day where we can give more insight in how these mechanisms affect. It is, indeed, sometimes they're counterintuitive, but they are not creating any worries from our side on our solvency.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's great. Thank you.

Operator

The next question is from Mr. Albert Ploegh from ING. Sir, please go ahead.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning, all. Thank you for taking my questions. The first one is on the capital generation on slide 6. If you compare that with the first half disclosure, it's about, I think, roughly €110 million capital generation for Q3 in isolation. Yeah. How should I look at that number compared to, let's say, I think on an average run rate of €135 million if you take out some one-offs in the first half and also the Asian dividend. What I like to know, is there anything special in this quarter, negative or positive, skewing that number of €110 million potentially? So, that's the first question.

The second question is a bit related to the former question and the explanation related to the equities and the risk charts there. Given the way equity markets moved and looking at your investment portfolio, are you comfortable currently with the equity exposure in there or is there some logic that you might reduce actually exposure a little bit and that could even result in some capital gains. So, is anything planned there for Q4?

And the final question, it's a bit on pricing trends in the Belgium Non-Life market. Can you maybe help us a bit what's happening there in terms of Motor premiums, Household premiums, et cetera. And any expectations going into 2018 already? Thank you.

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

Okay. Thank you, Albert. I will pass the first questions to Christophe and then let Hans De Cuyper explain or talk about the pricing trends in Belgium.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. Albert, on the free capital generation question, so, first, I have one introductory comment before giving you a precise answer. It is a little bit dangerous to take the quarter in isolation because we know that the Solvency II framework is volatile. When you isolate quarter alone, you have kind of exact vision of the volatility of the whole thing. So, we prefer to make the analysis on a year-to-date basis. That would be my first comment. But then since you throw us (28:50) on this quarterly territory, I will give you some element of explanation.

The first one has already been briefly mentioned by Filip. And the fact that the solvency ratio and the operational free capital generation, which is, I remind you, what is related to management actions. This is heavily impacted by some management decision like the asset allocation and we discussed the fact that during Q1, AG has slightly decreased the allocation to equity, but it - here, the intention is to come back. So, you have an SCR release on AG, which is magnified by the fact that we take the target capital at 175% of this. So, any release of the - any release on the SCR, on the free capital generation has an effect multiplied by 1.75. So, it is very volatile.

So, what I would like to do, if you want to compare the first six months figure and the nine months figure, is to restate with this, I would say, AGI SCR effect. And in that case, you end up with a kind of quarterly contribution of, say, to €135 million for the first six months and €128 million for the third quarter. So, let's say that at the end, the run rate is around €130 million. So, that's what we have.

To highlight, in Q3, I would mention, for instance, another one-off but it's a small one, the reserve we have booked for the closing of interest in the General Account. That's another €8 million directly impacting the operating free capital generation, because as I said it's a management decision. So, if I restate by this, I would be at €136 million. So, frankly, quite in line.

For me, the results are quite consistent, but they are volatile and we have to be cautious. But, let's keep in mind this figure, €130 million, more or less, per quarter. And I would say we are slightly above for Q3 if we restate by this small one-off we have in the General Account. I hope this give you sufficient answer.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yeah. That's very helpful. Thank you.

Operator

We have the next question from Mr. Arjan van Veen from UBS. Sir, please go ahead.

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

Actually, we are not done yet. There's still a second and a third question.

Operator

Oh, excuse me.

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

We take the second one, Christophe?

A - Christophe Boizard {BIO 15390084 <GO>}

(31:49) on the question.

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

Yeah. Yeah. Yeah.

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

I'll take the third. Yeah. But let me say just...

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

After the first, we'll take the third one on pricing trends. Yeah.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay.

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

Yes. On the rising pressure of Non-Life in Belgium, well, just on numbers. Last year, I think we have seen premiums in Non-Life growing with...

Q - Albert Ploegh {BIO 3151309 <GO>}

Because I'm (32:09) on a call. Can you just keep the volume down for a second?

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

Sorry? Okay. Sorry. So, last year, we saw the premiums go up with 1.7% in Non-Life market. That means even below inflation, so absolutely no pricing pressure. We assume for this year and going forward a slightly higher increase, around 2.5% to 3%. If I break down into different business lines, then I think Motor are relatively stable. Same trend going on. That means decreasing frequency because of all the safety devices in cars, but increasing average claim cost, so that average gets you to (32:49) stable.

The increasing, well, pricing hikes can be expected in everything what is Health Care, and specifically medical expenses due to the fact of the medical index and the increase of the medical claims cost as well as in liability, and that's mainly corporate liability. So but all in all, to conclude, Non-Life market is profitable today. I think as a market, as all, I see that specifically in the numbers of AG Insurance. So, we do not expect immediate price pressure neither upward but also not downward.

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

And maybe if I may add one comment on Hans' explanation. I think that if you look to the Belgium market, that AG Insurance has come somewhere in the top in terms of combined ratio, so other players have higher combined ratios than we have with two or three exceptions. And at the same time, of course, a number of players struggle much more with their Life results. And as you have compulsory (33:57) insurance, cannot risk to take, let's say, a very aggressive standing in pricing or in dumping on pricing. So, the market seems, as I mentioned earlier, quite disciplined and we don't see immediate reasons why this should change in the coming quarters.

A - Christophe Boizard {BIO 15390084 <GO>}

Albert, I'd like to come back on your second question. Sorry for the hesitation. So, your question was about equities. And is there any option that we realize capital gain in Q4 until the end of the year? I would say, so let's be prudent. So, here, first, element of answer, we don't manage our assets according to solvency or things like this. And we don't – we have not established this kind of backed loop (34:48). So, the investment portfolio is run as it should be in an insurance business.

I think that the amount of capital gain already indicated in my initial comment is high enough. And we can see the impact on, for instance, the guaranteed margin in Belgium, it is high enough. And what I can say is that there is absolutely no need to realize further capital gain. So, I don't expect high numbers for the rest of the year. No need.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay.

A - Frank Vandenborre {BIO 15168443 <GO>}

Operator, you can take the next questions.

Operator

Okay. So, next question is from Mr. Arjan van Veen from UBS. Sir, please go ahead.

Q - Arjan van Veen {BIO 5197778 <GO>}

Thank you. Could you give a bit of an update on the Fortis settlement, the additional €100 million? I know you've asked for an extension in terms of court submission. Can you just maybe give a bit of color to the extent you can in terms of your confidence in ongoing discussion with the claimants and getting to a decision where you think it can be settled?

Secondly, you've increased the BNP put option which keeps - just two questions around that, just one, is it still consistent with the way you've valued in the past or is that - that's just the peer multiples going up has led to the higher valuation there? And can you comment a bit in terms of whether you started discussions with BNP now, given we're getting close to the period in which they can exercise the put option?

And just on the UK business, that's improving. Other people are saying that large (36:42) are getting settled at 0% to 1%. We may have an improvement in the Ogden rate next year as well as (36:48) reforms. So, can you comment a bit to whether that's now starting to improve ahead of schedule or you're still seeing some issues in that UK business?

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

Maybe first on the settlement discussions that are ongoing. You will appreciate that there's nothing much I can tell about that it requires discretion and it is a mediated exercise. So, you will appreciate that I cannot update on the progress there. But all parties are working towards finding a solution that will take into account the main concerns of the court. And, actually, that is why Ageas has decided to put an additional €100 million at that to that budget, in fact, to allow to diminish materially the discrimination between active and non-active claimants, as the court suggested, and we are trying to find the structure to do that in the optimal way with all parties involved. But, you know that we have asked extension and received extension on the timing until the 12th of December. And we will inform the market in due course when we come to conclusions with the others on this. But there is nothing much at this point that I can add to that.

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

Okay. On the second question, with respect to negotiations on the production, okay, the answer is no, and we are not talking with them. And as already indicated earlier, I think, we don't expect it before, if they happen these discussions before early 2018. With respect to the methodology of valuation, I propose that Christophe takes it.

A - Christophe Boizard {BIO 15390084 <GO>}

I'll do. The short answer is that the method used for Q3 is exactly the same as the one we had for the previous quarters. Then we have growing value in this put option. This corresponds to the value allocated to 25% of AG. You remember that we have a Life component, and which is based on the multiple applied to the embedded value. And then on the Non-Life net present value of future profit.

With the outstanding and a rather excellent result of AG, you will not be surprised. But on the Non-Life, the net present value goes up. Then on the Life side, we have - there are two things. First, the value that we disclose in the balance sheet is discounted. So then each quarter since we get closer to the exercise date, there is an unwind effect in the value. And then on the top of this you have a slight re-rating of any Life company in Europe due to, I don't know, expectation on higher interest rates. So, the multiple which is applied on the embedded value is slightly up, always together brings us to higher value which for us is excellent news. And please keep in mind that, for us, we have three times this amount owned by us since we are owner at 75% of Ageas. Thank you.

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

Yes. Hello. Good morning. I'll come back to the third question on the UK. Some words on Ogden. So, we are still pricing and reserving based on the minus 0.75%, so the current Ogden rate. Obviously, we are aware that announcements has been made that this would be reviewed.

Our view is that that will be definitely not before the second half of next year. So, we take there a bit of a cautious stance. The fact that in terms of pricing we're not already anticipating this possible Ogden reduction, means that the policy council on new business we are not – we're not growing. It's actually, we have seen a slow – a limited decrease in policy count indicating that clearly the focus for us is still on restoring the profitability.

In terms of pricing, I think in Q3, in the UK, overall there was a slight decline in the average price of new businesses. That's what we see in here in the market. And also, in home, prices are flat or slightly decreasing.

Q - Arjan van Veen {BIO 5197778 <GO>}

And then just a quick comment on where it's tracking versus your expectations?

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

On UK, the expectations, I think we indicated that we want to have a result of – I think that Bart mentioned that at Investor Day – of €60 million next year. If you look at our Q3 numbers, I think we're well in line to do that. And we still are convinced there is room for improvement in the results. And obviously, everything what happens with Ogden would be on top of that. But again, I would urge people to be rather cautious on the Ogden review.

Q - Arjan van Veen {BIO 5197778 <GO>}

Okay. Thank you.

Operator

The next question is from Mrs. Nadine van der Meulen from Morgan Stanley. Madam, please go ahead.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Yes. Good morning. Thank you for taking my questions. Just a quick follow-up on the Ogden rate comments that you mentioned. If the rate is revised next year to – from the current minus 0.75% to, let's say, 0% to 1%, could you give me indication of what impact that would have? To what extent we can assume charges to be reversed?

And on the UK, previously, you said not to expect dividend from the UK this or next year. The solvency has improved a little. If we assume that this continues to improve, should there be a chance of the dividend next year? And then, lastly, on the BMP production, so quite a few products are sold in Belgium using the BMP distribution channel. If the production is exercised and BMP sells a 25% stake to you, I was wondering around that distribution agreement, what's the timeline for that and would that be renewed or how should we look at that? Thank you very much.

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

So, on the probable Ogden review, indeed the numbers that are flying around are somewhere between 0% and 1%. Again, I would urge caution around this item. And I also would not like to give any numbers and what the positive impact would be because it will depend on when that announcement is made. It would also depend on the speed by which we have been - or are settling the outstanding claims, because if you remember, there was a bit of a slowdown in settlement of claims when the Ogden rate was reduced. We see that coming - gradually coming back to a normal closing rate. So, I think there are too many uncertainties to put any number of that. The only thing that I could say, well, it would be a material number, obviously. But more than that, I would not dare to say today.

On the dividends, so all for the results of 2017, we already indicated that we don't intend to pay out any dividend for the UK. And as probably - well, very probably the Ogden rate will definitely not be reviewed this year, there will be also no reason to do that. Of the results of 2018, so dividends that we'll be paying in 2019, there are obviously some things that that will depend on what the Ogden rate does. So, actually, our position is very much the same as we shared with you at the Investor Day.

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

Okay. Let's say with respect to the UK, a bit in summary, I think we gave guidance earlier this year that we expected for this year something like €25 million to €30 million net profit, so we are now at the end of Q3 at €25 million. So, strongly believe that the earlier indications will be reality. And if you then look to the underlying, knowing that we'll have had something like €45 million impact Ogden this year and also a €10 million beneficial in capital gains, €35 million, so it would mean that the underlying for this year might be between €60 million and €65 million, which is also again in line with our earlier indications.

The last question on Belgium. The put option, so as known, the put option is exercisable in the first six months of 2018. And as of the first of January 2018, BNP also has the possibility to terminate the distribution agreement, but with a notice period of three years. So, at the earliest, the distribution with BNP will cease as of the 1st of January 2021.

In all honesty, we are of the opinion that for both partners as well Ageas or AG Insurance, to be more precise, and BNP continuation of this distribution is the best option for both companies. But, of course, we are only one party in the deal. If there would be an end for distribution agreement, it's clear that we have alternative routes to be sure that the profitability of AG Insurance will not suffer from such a decision.

Next questions?

Operator

The next question is from Mr. Andy Hughes from Macquarie. Sir, please go ahead.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Hello. I've got a couple of questions, if I could. Could I start with the, kind of, operational cash generation stuff? Because I find it a little bit weird that the stock is basically down today because you're talking about €100 million in the quarter, there's €130 million expectations. While at the same time, you disclosed these non-European NCP countries, which is €193 million for Q2 versus €56 million for Q1. So, I guess, can we get our focus on that? Let's say, the first point on the €100 million. Some of the strategic allocation changes, i.e., you've increased the risk in the Belgian business, which should necessarily drive higher cash flows in the future. Is that right? And I think, in the future, could you kind of separate out the impact of asset allocation changes maybe on the cash generation on the core business?

And on the non-European business, (48:26) correct that this is the number on a solvency basis not on a C-ROSS basis? And your comment about C-ROSS having broader contract barriers means, actually, on a local basis, it actually is even higher than the €193 million in the quarter. And, I guess, when I look at this €193 million together with the rapidly improving local GAAP earnings of the Chinese business as reported recently, do you have a strong view for what kind of dividends might be generated out of these businesses at the year-end? Thank you very much.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. So, coming back on the free capital generation, I can isolate two components in your question. First on the European side and then on Asia. Let's first tackle the European side. You said it is a bit weird that free capital generation is only around €100 million. What – in a previous answer, I told that the run rate is more in the range €130 million. So, if you multiply by four, you have a view on what the year could be. So, I don't think that this is disappointing. When I realize this figure, with what that indicated during the IR Day in Portugal early in June where the figure given in conclusion was around €750 million for the group business, so, obviously, taking into account the European component and the Asian component. So, I am not disappointing by the figures since we are very well within the guidance.

Then, Asia, you have difficulty to understand the figures and I can – I realize this. Why? Because we are in a completely different environment, and it is why what I tried to explain in my speech, the fact that all the entities in Asia are – have different regulatory framework. And since we have minority position, it is – we cannot contemplate the idea to impose Solvency II calculation in these subsidiaries.

So, the assumption made and which was explained during the Investor Day was that, in the future, we will rely on the local solvency framework. And we explained that the methodology around free capital generation is perfectly applicable to any solvency framework that can exist. So, it is an aggregation what we show, the figure we show is an aggregation of operational free capital generation of the different countries namely China, Thailand, Malaysia, and India, but this is a small amount. When I said most of these, so it's a simple addition.

I said the bulk of these comes from China, and I explained that this figure is – are very high, should be linked to the specific aspect of C-ROSS, and I gave as an example the fact that the contract boundaries are quite different. So, the immediate consequence of this is that the value of new business, which is part of the operational impact is much higher. And then, I explained that since with the free capital generation, we are trying to have a first ideal of a dividend capacity. It is fair to conclude that the dividend capacity of China is based on C-ROSS whatever the (52:31). So, if C-ROSS is more, I would say, shareholder friendly, good for Chinese investors, we are one of them, and we will take advantage of this.

But it is true that in China we have a huge contribution. Then here I want to warn you to be prudent in extrapolation. As we said, the first quarter was weak of the specific reason I mentioned, the so-called jumpstart campaign. And then, the second quarter was much higher but this was expected. Then, on the following quarter, let's be prudent. Usually, the Q4 quarter in China is a soft one. Why? Because they are more, let's say, preparing the future – the jumpstart campaign, in our case, 2018. So, all this, I hope will give you some element to explain and to better understand this (53:41), but I think they are perfectly explainable.

Q - Andy Hughes {BIO 15036395 <GO>}

I don't know. I guess my question was coming from the perspective of – you're accruing a higher dividend than you were before. I just want to check, which line that high dividend accrual will come through because it feels like you're accruing a high dividend on the basis that you will get a higher and hitting a solvency for something, which you're not taking credit for from China. So, you've got improved solvency in China, which you expect to lead to a higher dividend from China, yet your Solvency II numbers just reflect the higher dividend accrual.

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

Just to make sure there's no misunderstanding. For the non-controlled participations, whether they're in Asia or Turkey, they are not included in our solvency ratios...

Q - Andy Hughes {BIO 15036395 <GO>}

Yeah.

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

...nor in the own funds, not in the SCR. So this one is, to some extent, let's say, a prudent approach. And we show the evolution of the solvency ratio on a local basis of the non-controlled participation separately. So, that also means that dividends from the non-controlled participations are, in fact, not accrued. What you find in our solvency figures is the effective dividends received. Till date, as Christophe mentioned, that is €70 million, yeah? And so, just to make sure that that is well understood.

But, of course, if you look at the solvency ratio development of the non-controlled participations over even Q3 because there you can already have an indication. I'm looking for the page in the presentation where we have the figures. You can see that the ratio for the non-controlled participations, again, has been moving upwards. On page 53 I think, booklet, you can see that the solvency ratio for the non-NCPs have moved up to 259%, which indeed aims to the fact that looking forward you can reasonably expect the dividend paying capacity out of Asia, out of this NCP is going up.

In fact, you have seen that happen over the last two years, and we expect that trend to continue in line with profit growth and a pick up in the dividend paying capacity. It's clear that they are self-funding now materially and that there is little, if no need for capital injections in the core countries other than of course the new investments we did in Vietnam and in the Philippines. So, yes, you can expect an increase there over time, but how much that will exactly be, depends a bit on what our partners and us agree upon, so that we will report when it comes. It's even better than self-funding the growth because the solvency ratio in China has increased over the last quarter.

And by the way, it's one reason for which we have this huge number increase in solvency translated into free capital generation and be aware that the free capital generation gives indication about the potential, so for the future. So, you can hold the conclusion that we have a bright future or a bright potential when this has to be realized, taking into account other constraints that was explained in the IR Day as well. The potential given by the free capital generation doesn't bring the whole story. You have to take into account other constraints like distributable reserves and other things like this, but it is true. But expectations and potential on dividend are good.

Q - Andy Hughes {BIO 15036395 <GO>}

Sorry. Just to follow up, did you say you were to going to guide for €750 million cash generation – overall capital generation this year?

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

Can you repeat, please?

Q - Andy Hughes {BIO 15036395 <GO>}

Did you just mention a few moments ago that you were guiding €750 million of overall capital generation next year? Is that just this year?

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

I think it's maybe a good moment referring to a number of questions, always start with the first one from Ashik to make a kind of an overview that also, I believe, is fully in line with what we said at The Investor Day. I think, first of all, we indicated that we have a net profit capacity of €750 million to €850 million. If we look through the results, we have now – end of Q3, we believe that we will, in any case, be in this range, not taking into account the capital gain on Cargeas. The second element that is crucial in our way we behave is that we go for dividend payout of 40% to 50% of the insurance profit. But this dividend has to be fully funded by upstream dividends that covers the dividend paid to shareholders and the corporate cost. Until now, this year, and you'll see it in the figures, we received €520 million dividends from the operating companies.

So, if you apply a 40% to 50% payout on the insurance result that we might expect, you add something like €80 million to €90 million corporate costs, you will see that the upstream dividend is more than sufficient to pay what we believe will be presented and hopefully accepted by the shareholders as dividend. And the last point is that, I think, we can say that the free capital generation and underlying in a normal year of €750 million to €850 million is achievable and with what we have now, let's say, something like a run rate of €130 million per quarter, that gives you €520 million on a yearly base, not including the Asian free capital generation. So also there, I think, the €750 million to €850 million free capital generation is in any case a potential taking to account that this always calculated with 175% threshold on SCR. So, I think, the picture is quite coherent and sustainable. And the only thing, I think, we should try to keep underlined is that figures can be from one quarter to a quarter volatile, as well as Solvency II, as capital generation as (01:00:28). But I think that the statements we made still stand and should give confidence for the future.

Q - Andy Hughes {BIO 15036395 <GO>}

Thank you very much.

Operator

The next question if from Mr. William Hawkins from KBW. Sir, please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, guys. Thanks very much and thanks for all this detail on Solvency II. It's very helpful. Nothing is (01:00:53) for me. A couple of basically follow-up questions. Oh, no, first of all, the sales momentum in Asia, Bart. I've not gone to the – into great detail on this, but I have noticed in the third quarter, both Thailand and China seem to have had quite a slowdown, but it's in headline numbers. And presumably, sales are getting hit by some kind of currency headwind. So, if you could just help me understand how the momentum is on sales in your two big Asian markets. And then, more importantly, think about the outlook for next year. I mean, China has been doing so well.

I'm kind of assuming at some point, there will just be a bit of a pause from a heavy baseline, but maybe I'm being overly conservative on that. So, could you talk a little bit about the medium-term growth outlook particularly for Thailand and China? And then, secondly, it may have been a slip of the tongue or I may have misheard. But on the point of detail with regards to Fortis, the Fortis settlement, in your opening remarks, I'm thought I heard you say that the €100 million figure was an initial provision, whereas your press release is very clear that your €100 million was the sort of the last word on this matter. Did I mishear you or did you misspeak or can you just clarify just that point of detail? Thank you.

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

Okay. Let's say sales momentum in Asia. Of course, as we have in Asia, on the one side, agency distribution. That covers more than 50% of the sales. And on the other side, bank distributions. That are the two main distribution channels. Your references in China, a very important first quarter every year, and that's why what we already referred to is what they call the jumpstart where mainly the banks sell a lot of single-premium contracts and then later in the year move to regular premiums. So, you have, in any case, in volumes in China always a very, very strong first quarter of the year then flattening down. And, for instance, also sometimes linked to the agency channel measures in terms of volume by the end of the year because these Asians, they have their targets. And if they're already close to the target in October, they will probably sell us in November, December.

But having said that, we, in any case, are confident that, in China, we will continue to have growth in the coming periods that will be double-digit, also because we continue to invest in increasing the sales channels. We are now at something like 400,000 agents. And the next target is to move this up to a number of 500,000. The only remark with China to be made is that a number of products that were sold in the beginning of the year by other players have been reviewed by the local regulator. And so, the type of products that will be sold in the first quarter of next year will be of different kind, which is more profitable, which is positive. But throughout the day (01:03:56), we'll reach the same volumes as the previous ones. That's still to be weighted for (01:04:00). Then, in the other markets, you always have seasonal effects.

To take an example, Thailand, of course, has been hampered a bit by the consequences of the death of the King, which has been a kind of – has an impact on sales in mainly end of last year, beginning of the year and there also some regulatory changes that might have an impact slowing down a bit the growth. But also, there, we still have a huge potential, a huge gap to be filled in. So, we also believe that Thailand will not be growing at 20%, but will continue to grow. And then, a country like India is closing the accounts in March, so you will always see a stronger fourth quarter. So, the summary of all this is that, we have very different profiles country-by-country, quarter-by-quarter. But we are, of course, confident that also with now the upcoming new regions like Philippines, Vietnam, to a lesser extent, Laos, Cambodia, that growth in Asia should continue to have 10% plus profile for the coming years.

Q - William Hawkins {BIO 1822411 <GO>}

Right.

A - Christophe Boizard {BIO 15390084 <GO>}

Bart, if I may. So, on the volumes, I should have mentioned in my comment that there is an FX. There is a negative FX on Q3. If we take the volumes, the FX is around minus 3% on the total. If you take the front page with the KPIs, we have the inflow at 100% at €27 billion. There is a minus 3% FX impact. And obviously, this comes from Asia. And the Asian component to the €27 billion is almost €17 billion. So, it means that it is obviously more than minus 3%. So, in local currencies, the growth is higher.

Q - William Hawkins {BIO 1822411 <GO>}

Right.

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

Will, Filip Coremans here. I did not quite get your final question, but I assume it was whether the €100 million that we put aside is a final addition or not? As from our perspective, this is clearly mentioned also in the press release. It is a final addition to the provision to the budget that we put aside for settlement. That raises it from €1.2 billion to €1.3 billion comprehensively.

Q - William Hawkins {BIO 1822411 <GO>}

Very clear. Thank you, guys.

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

Of course, of course, of which €290 million, as indicated earlier, is coming from the D&O Insurers who contribute to this.

Q - William Hawkins {BIO 1822411 <GO>}

Great job. Thank you.

Operator

The next question is from Mr. Farooq Hanif from Credit Suisse. Sir, please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Thanks, (01:06:54). I just have some follow-up questions. Going back to the non-European free capital generation, you must be getting fed up with all these questions. But, obviously, Q2 was very, very strong and there's a lot of seasonality. Can we expect that actually that kind of level you set, so €249 million for the first half? I mean, how exceptional is that? Can we expect that something like that will be repeated every year? Secondly, on the FX. Could you just tell us what the impact was on earnings major?

So, if we took an ex-FX impact on Asia, what the earnings growth would have (01:07:40) if you take out realized gains, what the underlying growth would be there? And then, lastly, going back to your point about the dividend. Is Taiping now thinking about the C-ROSS capital generation in its management planning for the dividend? Is that how, do you think, they're looking at it or is it still sort of basically Solvency II (01:08:01) ratio on earnings? So, I mean, is there very much a discussion going on in China about maybe taking a function of that capital generation as a dividend-paying ability? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

So, on the free capital generation in China. To the €249 million, your question, if I understood it correctly, is can we draw any guidance for the future? I would say – would say no, and I would stay very prudent on this for the following reason. In my comment, I highlighted this high seasonal effect, the famous jumpstart campaign with low profitable product even with negative value of a new business and then followed by more profitable business based on regular premium. This will change in the future as the local regulators took action again this kind of thing, which is we should recognize not very sound for the market. So, this kind of product will be less present in the future. So, it means that these huge volumes observed in January of each year associated with a low free capital generation will disappear. So, I would say seasonality will be different next year. So, we cannot draw a direct conclusion out of the figure we have just released. So, it is not – no guidance.

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

With respect to dividends in China, I think, it's the third year in a row that we received dividend. The first year it was 10% of the profits. The last two years it was more in the area of 35% of the profit, which is not bad for a high-growth company but also a bit confirming that the quality of the profit permits a combination of high growth, investments in distribution because we, as mentioned, we will add another 100,000 agents in the coming months. And at the same time, the company is offering more dividends. So, there also the picture is complete.

A - Christophe Boizard {BIO 15390084 <GO>}

Then maybe on the FX, you had a question on FX. On the result we have a negative impact on the year-to-date result, it's over €686 million. The range – the negative FX is €8 million. So, €8 million negative FX impact due to the strength of the euro.

Q - Farooq Hanif {BIO 4780978 <GO>}

And just coming back to the point you made about capital generation. So, I get that the timing will change. But, obviously, if the regulator wants our company to sell more profitable products, are you still sort of uncertain about what that means for the capital generation? I mean, do you think there's a very good chance there could be more negative than €249 million by this stage next year?

A - Christophe Boizard {BIO 15390084 <GO>}

So, I would let you draw your conclusions, but you are basically right. What is expected is less volume and better overall value of new business. And so, to be seen what the end result will be on the free capital generation, but I think all the steps taken by the CIRC, the local regulators go in the right direction.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

We have no further questions. We have a question from Mr. Andy Hughes from Macquarie. Sir, please go ahead.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. Just a follow-up question on China. So, if the capital-intensive products in Q1 go away, surely, the capital generation goes up, and the way you're phrasing this, it sounds like you think the €249 million is perhaps exceptionally high. But if the capital-intensive products go away, then surely – you're actually saying it's rather low? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

So, I would honestly say that the seasonality will be less visible, I think. So, the – for Q1, we said €56 million – it should be higher than the €56 million in the future. And then for Q2, it may be slightly lower for less volume. Because this famous jumpstart campaign was aimed at introducing the sale of follow-up and better profitable products. So, at the end, I don't know what the end result will be. So, I think it is more prudent to wait until things happen and then we can draw conclusion, but we have to wait until next year.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. And we got time for a quick question about the dividend accrual, which I tried to get on to before because you said you'd increase the paces dividend accrual in your Solvency II numbers for Q3? Could you tell us what you've done, if possible? Thanks.

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

As I said, dividend accrual in the Solvency II numbers is something we only do obviously for the Solvency II parameter. So, that is related to the European Solvency II entities only. And overall, and I can only give you an indication based on the impact on the total solvency ratio. The dividend accrual year-to-date, I'm looking for the right amount, is about 7% of the solvency ratio.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thanks very much.

Operator

We have no further questions.

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

Okay. Ladies and gentlemen, let's conclude and first of all, thank you for your questions. When I summarize the main conclusion, I think we can talk about the very strong third quarter underpinning a solid year-to-date result. The outstanding operational performance is mainly especially in our home market Belgium, but also the Asian and comparing to Europe segments performed well. And at the same time, we see the results in the UK showing signs of improvement, but we are convinced that we still have to follow-up very closely.

And finally, I reconfirm our commitment to try to find an amended and balanced agreement for the Fortis case. And for this, we have set aside a final additional €100 million, which should allow us to address the main concerns of the court on the initial proposal. With this, I would like to bring this call to an end. I can say that I feel very confident with the free capital generation figures. But then insist on the fact that they will stay and remain sometimes volatile. But in any case, if you have further questions, don't hesitate to contact our Investor Relations team. And thank you for your time. I wish you a very good and nice day. Goodbye.

Operator

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