Q3 2011 Earnings Call

Company Participants

- Antonio Cano, CEO
- Bart De Smet, CEO
- Frank Vandenborre, Head of IR
- Unidentified Speaker, Company Representative

Other Participants

- Albert Ploegh, Analyst
- Benoit Petrarque, Analyst
- Duncan Russell, Analyst
- Farooq Hanif, Analyst
- Francois Boissin, Analyst
- Hans Pluijgers, Analyst
- Marc Debrouwer, Analyst
- Robin Buckley, Analyst
- Thomas Nagtegaal, Analyst
- William Elderkin, Analyst
- William Hawkins, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Ageas event call. I am pleased to present CEO, Mr. Bart De Smet. (operator instructions) Gentlemen, please begin.

Bart De Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you, all for dialing in into this call and for being with us for the presentation of the Third Quarter 2011 results of Ageas.

As usual, I'm joined in the room by my colleagues of the Executive Committee and our Investor Relations team, and a number of other colleagues.

For the first time, we also have Christophe Boizard with us. As you know, Christophe joined us in early September as our new CFO. He has more than 20 years' experience in insurance, has been active in various European countries.

Antonio Cano, the CEO of Ageas Insurance, is also present to answer some of your questions.

Ladies and gentlemen. for a number of quarters now, we have been confronted with significant volatility brought about by the challenging financial markets. It remains difficult to predict how and when this will be resolved and in light of these uncertainties, we took the decisions two weeks ago to pre-announce a number of important decisions with respect to the Third Quarter results.

This included the decision to further impair our entire Greek sovereign portfolio, based on the fair value at the end of September, with a net impact on our Third Quarter results of EUR353 million; and secondly, an impairment charge of EUR85 million on our equities portfolio.

Despite these significant impacts, our insurance solvency and shareholders' equity remains strong at 210% and EUR7.9 billion respectively.

We also confirmed that we would not be in a position to maintain our net result outlook for the full year, or provide any updated forecast due to the impairment charges and ongoing volatility in the markets. But at the same time, we gave a clear indication that we expect Ageas to be in a position to pay a dividend for 2011.

Ladies and gentlemen. today we have released the full quarterly results as planned. Let me elaborate on some of the key headlines.

We announced an insurance net result for the first nine months of EUR209 million negative. However, excluding the impact of the financial turmoil, which year to date amounts to EUR615 million, the insurance result would be up 22% compared to last year at EUR406 million.

From an operational level, I am pleased to report further improvements in our Non-Life performance, with a Group combined ratio remaining at 101.2% and at 100.2% if we exclude Workmen's Compensation.

The inflow levels continue to show a mixed picture. Non-Life inflows are up by more than 30%, while Life inflows are 16% down, which is in line with the general market trend and also reflects our conservative offer in a low profitability market environment. In this context, it is important to note that our funds under management have remained constant compared to the end of last year.

Our Group net results year to date amounted to EUR534 million negative, with a net loss in the general account, which increased in the Third Quarter to EUR325 million. This included a charge of EUR259 million (sic; see slide 2) related to the quarterly fair value adjustment of the legacies. And of this amount, a charge of EUR190 million is explained by the fair value adjustment of the acquired Fortis Tier 1 debt securities.

If we now look to the Third Quarter, we note that the inflows were at EUR3.9 billion, a decline of 5% compared to last year. Life inflows were down 17% at EUR3.2 billion and Non-Life inflows, at EUR1.2 billion, were up 40%.

The insurance net result was EUR320 million negative, including the impairment charge of EUR437 million. On slide three of the presentation, you will find an overview of the impairments on fixed income and equities split by segments and by asset class.

Also in the Third Quarter, we had a net loss in the general account of EUR155 million, including an additional charge of EUR150 million related to the valuation of the Fortis Bank Tier 1 debt securities.

From slide six until 17, you will find the traditional details on our financial performance by segment. Total inflows year to date amount to EUR12.9 billion, which is 6% down on last year, and this figure includes EUR4.5 billion from our non-consolidated partnerships, basically in line with last year.

The insurance net result year to date, breaks down into a higher contribution from our Non-Life activities at EUR57 million and from our UK Retail operations, the other segment, at EUR23 million, and a negative result of EUR288 million in Life.

As already mentioned, Non-Life continues to perform well, with year-to-date inflows totaling EUR3.7 billion. The promising results of our different Non-Life activities across the various regions are evidence of the success of our strategy and, in particular, the importance of having a well diversified business model.

Let me elaborate on this briefly. In UK, inflows are up 86% year to date at EUR1.5 billion. We are benefiting clearly from recent investments, as well as from strong organic growth.

In its first year of operations, the inflows from Tesco underwriting are in line with our original expectations at EUR680 million. Furthermore, the successful migration of customers to Tesco underwriting has been achieved on schedule and according to plan. Today, the Company covers some 1.4 million customers.

But in addition, also Ageas Insurance is performing strongly, with an overall organic growth up 15%. The household activities and our commercial lines are both up 13%.

In Asia and Continental Europe, Non-Life inflows grew by more than 20% year to date. Both Thailand and Malaysia are doing well. And in Continental Europe, I'd like to remind you that our Turkish acquisition, Aksigorta, is included in these figures for the first time for the months of August and September, contributing inflows of EUR66 million.

And finally in Belgium, the inflows continued to grow, fueled by a strong performance in both our motor and fire activities and driven by a combination of higher tariffs and higher volumes.

In terms of net results for the Non-Life activities, our performance improved by 40% compared to last year, helped in particular by the continued strong performance in UK, but also the higher contribution from the Asian operations.

On the business level, motor is the best example of this improved performance, where in both Belgium and UK, the combined ratio has remained substantially below 100%. And on a segment level, the UK reported a year-to-date ratio just below 100%.

Only in Belgium, we do remain above 100%, as explained by the negative weather impacts on fire and the Workmen's Compensation business. If we exclude the latter, the combined ratio would have been at 100%.

The Third Quarter result includes a EUR12 million charge related to the severe summer storms hitting Belgium at the end of August and also an impairment charge of EUR21 million in the Third Quarter. On a yearly basis, adverse weather cost some EUR35 million of exit charges overall, while impairments amount to EUR31 million.

If you exclude these significant non-recurring events and also 2010 for exceptional developments, the operational performance has improved in Non-Life by more than 70%. So all in all, we can be fairly satisfied with the performance in Non-Life so far.

In Life, the inflows amounted to EUR9.2 billion year to date, 16% below the levels of last year. But to put these things in the right perspective, at levels similar to 2009. The decrease, compared to last year, mainly stems from our consolidated activities in Belgium and Continental Europe and is very much a market trend in these markets, reflecting also a more conservative offer in a low profitability market environment.

In Asia too, we have noticed a slowdown, with the exception of Thailand, where inflows have grown by 40%. But in general, we see European and Asian banking partners still being focused on liquidity, combined with the reduced appetite for insurance savings products.

The Life financial performance is, of course, massively distorted by the impairment charges amounting to EUR584 million and impacting, in particular, Continental Europe and Belgium. Adjusting 2011 and 2010 for the impairment charges and realized capital gains and losses, the intrinsic Life performance is actually remaining resilient with, for instance, an improved quality of the Asian results.

And this brings me to our investment portfolio at slides 18 to 21. The portfolio of almost EUR60 billion is fairly stable compared to the end of last year, with no major shifts between asset classes in the Third Quarter. Nevertheless, we see within our sovereign bond portfolio a clear move towards Belgium and, to a lesser extent, Dutch bonds.

The total unrealized gains before tax and including real estate have increased to EUR2.6 billion compared to EUR0.7 billion at the end of June. This is primarily related to the higher fair values in fixed income, both on sovereigns and corporate bonds at the end of September; but also the impact of the impairment charge on Greek sovereigns.

Our exposure to Southern European sovereigns at the end of September amounted to EUR3.6 billion at amortized costs and after non-controlling interest. The fair value of equities came down from EUR2.6 billion at the end of June to EUR1.7 billion as a result of divestments and a lower fair value.

Now with respect to the general account, the year-to-date net result amounted to EUR325 million negative, with a net loss in the Third Quarter of EUR155 million.

The quarterly fair value adjustments of the four legacy issues; RPN(I), the call option on the BNP Paribas shares; the valuation of the equity stake in Royal Park Investments; and the Fortis Tier 1 debt securities explained EUR259 million of the negative result on an annual base and EUR129 million in the Third Quarter.

With respect to the Tier 1 debt securities, you will remember that the National Bank of Belgium gave its consent to acquire these securities in mid August. 95% of the bondholders opted to sell their securities and, as such, we acquired them on September 26 for EUR953 million.

With respect to the valuation of these securities, we decided to take an additional charge of EUR150 million in the Third Quarter on top of the EUR40 million in the Second Quarter. And this results in a valuation of these securities at 80% of par.

To end my overview, let me provide you with an update on our net cash position, the shareholders' equity evolution and solvency. You will find this on slides 28 to 32 of the presentation.

We announced at the Investor Day that we would abandon the concept of discretionary capital, in order to focus in the future on the net cash position. We believe this is to be the best indicator for strategic flexibility of the Group.

The net cash position as at September 30 amounted to EUR0.8 billion, compared to EUR2 billion at the end of June. The decrease in the Third Quarter is mainly explained by the acquisition of the Fortis Tier 1 debt securities; the acquisition price paid for Aksigorta; and the amount expensed in relation to the share buyback program.

Our shareholders' equity bounced back to EUR7.9 billion or EUR3.15 per share at the end of September, up from EUR7.5 billion at the end of June. This reflects the direct impact of the improved unrealized gains and losses on our equity position, partly offset by the negative result of the Third Quarter and by the negative impact of the share buyback program.

And to conclude, there are some words on our solvency position. Here too, we announced a slight change to our reporting methodology. This allows us to align fully with the regulatory view of our solvency by adding the equity positions and by reporting a Group solvency ratio alongside our insurance solvency ratio.

At the end of September, the total regulatory capital under IFRS amounted to EUR9.3 billion, including EUR2.1 billion from the general accounts, compared to a regulatory minimum requirement of EUR3.4 billion. So the solvency excess amounts to EUR5.9 billion, corresponding to a Group solvency ratio of 270%.

The insurance solvency ratio at 210% is slightly up compared to June, despite the impairments taken in the Third Quarter. As in previous quarters, this is a clear illustration of our prudent solvency calculation methodology whereby net unrealized losses are included in the solvency calculation at an early stage.

Well, dear ladies and gentlemen. I would like to end my remarks here and pass the word to Frank, Head of Investor Relations.

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Bart. Ladies and gentlemen. this concludes the introduction and we would now like to open the floor for questions. Maybe we can ask to limit yourselves to two questions and obviously if you have more questions, you can come back in the queue and ask more questions later. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin our Q&A session. (Operator Instructions) Farooq Hanif, Morgan Stanley.

Q - Farooq Hanif {BIO 4780978 <GO>}

I've just two questions. Firstly, on your combined ratio outlook, could you comment again on the one-offs that in your numbers that were negative that could disappear going forward, just give some quantitative direction there?

And also comment on bodily injury claims in the UK, which has been a big issue today with another insurer reporting; so just the combined ratio outlook in the UK, but also one-offs generally.

And the second question is on your Fortis Bank Tier 1 bond (technical difficulty).

A - Frank Vandenborre {BIO 15168443 <GO>}

Hello?

Operator

Hello, this is the operator. Shall I open the line; the line has been closed. I'll open the line from Farooq Hanif. Thank you.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, can you hear me now?

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

Yes, we had the first question. So if you can repeat the second one.

Q - Farooq Hanif {BIO 4780978 <GO>}

The second question was on Fortis Tier 1 debt that you value to 80%. Can you give us some direction on the basis of getting to 80%? And what would be the key factors that might change that valuation going forward?

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

Okay, the first question. If you look to the elements in the results for Non-Life that impacts the year-to-date results, as mentioned in my speech, there are two elements.

First of all is impairments also impacting Non-Life but this is, of course, not impacting the combined ratio. The element is weather-related events and there we can say, if we exclude them, for Belgium the combined ratio would be at 99%.

In the UK, we did not have a serious impact in Q3. There, already earlier announced, we had an impact at the beginning of the year, due to the consequences of the very hard December month. But already without that, we are under 100% in the UK.

For the second part of the question, bodily injuries, we look, of course, to our UK combined ratio, specifically also in motor, taking into account all the elements. What we can say is that the motor combined in the UK is under 100%, at some 98%. And this is due to a reduction in loss ratio of more than 5%, although there has not been a specific support from releases of reserves. On the contrary, the reserves released have been lower than the previous years.

Then the second --

A - Unidentified Speaker

I can take the Tier 1 question. Okay, so on the Tier 1 valuation, the Tier 1 valuation, it's based on two assumptions.

The first one is that the instrument will be called early 2013, due to the fact that it will lose its equity credit under the CRD4 Regulation. So our assumption is that the called debt will be March 2013. This is assumption number one. So it means that we have --

And the second one is on the yield to call. The yield to call has been taken at 13%. Both assumptions lead to a valuation at 88%, on which we apply 8% discount due to the lack of liquidity and that's -- and you end up with the 80% we booked in the accounts. So the Tier 1 instrument, this one is booked at 80% of the (inaudible).

Q - Farooq Hanif {BIO 4780978 <GO>}

And just to follow up, I'm sorry to take so much time, but I'm presuming on the Tier 1 bond there's no -- there'll be no reason during 2012 that you can think of that would really change that? So I mean essentially it's not going to be necessarily a very volatile item.

And also just following up on the combined ratio, could you just tell us the impact of reserve releases overall in your combined ratio in the Third Quarter or nine months. Thank you.

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

Releases, combined ratios, I'll give it for the two main operations, AG and UK. So in -- for Belgium and it's in Q3, it has been 2.8%, so year to date 5.8% compared to last year 5.2%. And in Q3 last year it was 6.9%, so it's less, and that's all together. If you then go to the UK, it was 1.3% strengthening of five years' reserves compared to 1.1% reduction -- release a year ago. So it's about 2.4% less support from prior year reserves.

Q - Farooq Hanif {BIO 4780978 <GO>}

That's in Q3?

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

And in Q3, in the UK, Q3 plus 0.6% strengthening compared to 2.4% release last year, so a delta of 3%.

A - Unidentified Speaker

Okay, maybe to follow up on the Tier 1 question; two things. The first one is that the -- some more details have been given in the financial statement about the sensitivities, but what I would like to highlight is the accounting treatment in the future. If we stick to the -- our assumption, it means that we will have a positive impact in the coming years because we will gradually convert to 100% at the call date. This value can be reviewed in case we have other news regarding this Tier 1 instrument. But without any change in the assumption, we will progressively convert to 100% at the call date, March 2013.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, that's very clear. Thank you, very much.

Operator

Duncan Russell, JPMorgan.

Q - Duncan Russell {BIO 15944951 <GO>}

A couple of questions. Could you give a bit more detail on the Greek bond impairments; how much was in the technical result in Belgium; how much is in the non-technical result maybe at the nine-month stage and also the First Quarter discrete?

And then secondly, the second question was, could you give some indication on the duration of bonds or the term of bonds you're buying with the proceeds from the disposals in Southern Europe for Belgium and the Netherlands?

And then the third question was on the BNP Tier 1 debt, have you looked at ways to hedge out the credit risk associated with that or even to dispose of that asset, given the substantial exposure you now have to BNP?

A - Unidentified Speaker

On the last one it's a very simple question, the answer is no. So we have not contemplated the idea of hedging the credit risk vis-a-vis BNP Paribas. And we've seen the future but it's not our idea at this moment.

Q - Duncan Russell {BIO 15944951 <GO>}

And why not?

A - Unidentified Speaker

Honestly we have not studied the question so far. We have a huge exposure vis-a-vis BNP Paribas. We have some other instruments like the CASHES and it has to be dealt with in another way, taking the whole BNP Paribas exposure. So it's a matter of concern, but it will be taken in a broader range, taking into account the full exposure, which is much larger than the EUR1 billion of the Tier 1. But it's a matter of concern. It's on our radar screen, you can be sure of that.

Q - Duncan Russell {BIO 15944951 <GO>}

Okay.

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

Can you take the other one?

A - Unidentified Speaker

On the Greek bond impairment, so the net impact on the technical result is EUR91 million. You know we -- at 100% -- you have to make a distinction between the part that is in technical result which is affected to specific portfolios, then the operating margin is the rest of the insurance book and the non-allocated result is what is against the remaining part. That's called the equity.

So if we look at the total impact before tax it's about EUR848 million. EUR91 million is in a specific portfolio, so that's in the technical results. EUR581 million is in the operating margin, so that's the rest, bringing the insurance impact up to EUR672 million and the remaining EUR268 million is for the equity part.

If you take that EUR848 million gross net at 100%, it becomes EUR615 million and at 75% it's EUR470 million.

Q - Duncan Russell {BIO 15944951 <GO>}

That's the -- is that nine months or Third Quarter?

A - Unidentified Speaker

That is the third -- nine months year-to-date impact.

Q - Duncan Russell {BIO 15944951 <GO>}

Do you have the Third Quarter at all?

A - Unidentified Speaker

Yes but I would have to look that up for a second. Do I have them in the details? So the net technical result impact would be 40%. The operating margin would be EUR451 million. The profits before tax total EUR629 million and net it would EUR460 million, as Bart announced.

Q - Duncan Russell {BIO 15944951 <GO>}

Great, thank you.

Operator

Albert Ploegh, ING.

Q - Albert Ploegh {BIO 3151309 <GO>}

Two questions from my side. First of all, you took some impairments on the equity portfolio in the Third Quarter, and also I saw you've been lowering the exposures there. Can you maybe give some feeling for what the impact will be given the situation today on the equity portfolio for the Fourth Quarter? I expect somewhat more loss to be realized there also if the markets will not recover.

And the second question is a bit more general one on China in terms of inflows. You're mentioning quite a lot that the bank focus on deposits has hurt the inflows on the insurance side. We should now see some more signs of a soft landing and also inflation expectation a bit moderating. Do you see already some signs that the bank distribution efforts are being stepped up a bit into the Fourth Quarter or is that still too early? Thank you.

A - Unidentified Speaker

On the equity portfolio, of course that's a volatile element and in terms of impact, it's mark-to-market as you know. As for impact on profit and loss, it will only influence if one of our impairment reviews[ph] would be hit again. Let me remind you about those. It is either being for a prolonged period, over one year below the acquisition price, or a 25% decrease.

Now if you look at the general trend with ups and down, I would tend to say it's more a little bit up now than it's down, so up to now I would not expect any major elements on the equity side.

I think that due to our rules that we have two criteria and this is either a significant decrease. So it means that all the hit has been taken at the end of September, most of the hit has been taken at the end of September and the equity markets have been not so stable; volatile but without a trend. So we are not close from where they were at the end of September, which means that at this very moment, we can't expect much impairment or much differences on the equity portfolio, so pretty stable.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay.

A - Unidentified Speaker

Okay, then on China. Maybe first of all, starting with the top line figures because that was the attention point. After three quarters we had some EUR2.7 billion inflow compared to EUR2.9 billion last year and compared to EUR2.37 billion two years ago. So we are, you could say, some 15% up compared to two years ago and some 6% lower than last year.

If we look then to the type of premiums, what we see is that the decrease is mostly in the single premiums where we also have in China, like in a number of other Asian markets, banks are giving more attention to current accounts and to short-term savings products. Whereas the regular premium basis that we have been promoting a bit more because it's also more profitable, is almost in line with last year and there we have this book of business that is increasing year after year.

If we look to the distribution channels, we see that in China the importance in the premium mix from bank insurers has reduced from 70% to 60% because this has been compensated by increased sales by the agency force and more alternative distribution channels.

And finally, also I think an important element is that in terms of retention persistency that we see that both in bank insurance as in agency channels, we have a persistency rate of above 90%, so it means it's a stable business. There are no huge lapses and so we, as we see everywhere, see a reduced appetite in pure bank sales of single premium investment products and we try to focus this on more sales of regular premiums that are upwards of 24%. That's for the whole book.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you, very much.

Operator

Francois Boissin, Exane BNP Paribas.

Q - Francois Boissin {BIO 16045021 <GO>}

Three questions please; the first one on your dividend policy. You mentioned that your results excluding impairments are good. Do we have to assume that for the dividend on 2011 results you will apply a payout ratio of 40% to 50% on your results, excluding impairments?

The second question, just a follow-up question; the Fortis Bond Tier 1 bond, how will it be considered going forward? Will it be an AFS asset mark-to-markets re equity on a quarterly basis, or will it be reviewed at your discretion given -- along with those market circumstances?

And the final question on GIPs. Did you make any significant move in Q4 to date? Thank you.

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

Okay, the first question, I don't think that I have said what you have tried to have me say. So what we said is that first of all we have a dividend policy that is clear, where we say we pay a dividend that's 14% or 15% of the insurance results, stop.

What we said in the release some two weeks ago and repeated in this one is that take into account a number of strong elements, which is the solvency position, the net cash position but also the quality of the underlying profits of the insurance activity that we will present or propose to the shareholders to pay a dividend on the year 2011. I would say nothing more than that. And I think you all believe or understand that it's impossible to make further commitment in that perspective.

A - Unidentified Speaker

On the Tier 1 I can give you the answer. So due to the lack of liquidity of the instrument because we are the owner at 95%, the liquidity will be extremely low. So our choice in the account is to book this instrument in loan and receivables, which means that we won't do a mark-to-market exercise in the future. And that as I said previously, we will progressively converge to the 100% value in March 2013, so no mark-to-market exercise in the future of this Tier 1 instrument.

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

Okay and then the exposure on sovereigns, you'll find it on slide 20 in the ER presentation. So you see that our part at amortized cost has been reduced from EUR5.5 billion midyear to EUR3.6 billion at the end of September. But if you go back to the August

24 announcement, there we already announced additional sales mainly on Italy and Spain between the end of June and that date. And if I remember well, at that moment, you were at some EUR4.3 billion exposure, so the EUR4.3 billion has been reduced now to EUR3.6 billion and this is mainly of course by the impairment and some additional smaller sales.

A - Frank Vandenborre {BIO 15168443 <GO>}

I think the question was did you make additional sales since if it would have been very significant sales we would have communicated on that.

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

Some smaller, no significant.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay, thank you very much.

Operator

Robin Buckley, Deutsche Bank.

Q - Robin Buckley {BIO 3596512 <GO>}

Just a couple of very quick questions. Firstly, just following up on Duncan's question on the impact of the impairments in the Belgian technical result, can I just clarify whether that was -- the numbers you gave were for the whole of Belgium or just for the Life business?

And then the second question is, could you just give the solvency ratio, the regulatory solvency ratio of the Portuguese operations please, as at the end of nine months and also how that's moved over the quarter? Thank you.

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

Okay, the impairments that have been mandatory, the insurance was the whole of Belgium, so it's a like-for-like combination[ph].

A - Unidentified Speaker

On Portugal, we are around 140%, somewhat higher. At Belgium we are -- in the local ratios we are at 108%, so Belgium is more or less equal to the situation we communicate on the second level.

Q - Robin Buckley {BIO 3596512 <GO>}

Sorry, how's the Portuguese solvency ratio moved in the Third Quarter?

A - Unidentified Speaker

It's close to 150%.

Q - Robin Buckley {BIO 3596512 <GO>}

And what was it at the half year?

A - Unidentified Speaker

I would need to check that; I think it was more or less stable. There is no big change there.

Q - Robin Buckley {BIO 3596512 <GO>}

Okay, thank you.

Operator

Benoit Petrarque, Kepler Capital Markets.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Three questions. The first one is, considering Ageas Insurance will probably book a deep loss in the full year 2011, what are your profit-sharing assumptions for the full year, as of today?

And I was wondering if you need any regulator approval in order to pay profit sharing in 2011, if your Belgian subsidiary is loss making? The situation at this time is slightly different than in 2008. So could you just guide me on that one?

And then in the net inflow in Life in Belgium, which was slightly disappointing; at which point do you start to have net outflows there? I think you have EUR900 million of gross inflow, but at which point do you make actually net outflow on your assets under management?

And I would like to have your thought on the risk of the tax reform in Belgium on the Branch 21. What are your assumptions there?

And then finally on Continental Life, Europe, it's a loss of EUR17 million. I think you mentioned you have EUR18 million coming from Greek and equity impairments but just leave us with a small EUR1 million profit adjusted; and I was wondering if there is other negative items impacting this business? Thanks.

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

As we have the CEO of AG Insurance amongst us, I will ask Antonio Cano to give you a short answer on the question you raised with respect to profit sharing. Also, intentions of the regulator, and impact in terms of lapses.

For the potential consequences of decisions on the Belgian level with respect to future tax treatment of life insurance products; first of all, no decisions have been taken, or have been communicated. Like always, there are a number of ideas that are launched also to check.

What is clear is that, also as a sector, we clearly made it a point towards the parties around the table, that after the introduction of a tax in summer 2005, and a deposit guarantee rule that has been introduced last year, that the life insurance sector in Belgium, which is also a rather important investor in Belgian debt, is not at all expecting, even accepting further tax impact on life insurance.

And, as far as I have seen, the ideas around it disappeared a bit. So never say never, but it's certainly that the point has been raised, and that we expect the politicians around the table to take the smart and the right decisions in that perspective.

Antonio?

A - Antonio Cano {BIO 16483724 <GO>}

Good morning. So on the profit sharing, I'll start off with the second question with respect to the regulation. There is indeed a regulation in place. Bear in mind the profit sharing is ruled by local accounts, so it's not the IFRS accounts. And they are not necessarily the same thing. There are also other types of provisions in the local accounts which would allow for a profit sharing.

The rule is that the technical life insurance account, the local accounts, should be positive. If you have that, then you can, in principle, give profit sharing.

The first question was whether we would give any profit sharing at all; I'm exaggerating the question a bit. Well, we still do intend to provide a profit sharing, but the year is not over yet. I would not like to make any very specific remarks on that, but it's not per se the case that given the impairments on Greece, we would not give any profit sharing.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Sorry, just to come back on that one. I'm not a Belgian GAAP specialist, so what do you expect in terms of treatment of the Greek impairment on the Belgian GAAP? Are you going to have a positive or negative technical life results?

A - Antonio Cano {BIO 16483724 <GO>}

On the technical life results, might be positive.

Q - Benoit Petrarque {BIO 15997668 <GO>}

So you are going probably to be able to pay profit sharing, according to the regulator?

A - Antonio Cano {BIO 16483724 <GO>}

Yes. Having said that, the year is not over yet; things can move.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Where are you in terms of profit right now?

A - Antonio Cano {BIO 16483724 <GO>}

Sorry?

Q - Benoit Petrarque {BIO 15997668 <GO>}

Where are you in terms of absolute levels?

A - Antonio Cano {BIO 16483724 <GO>}

On profit sharing?

Q - Benoit Petrarque {BIO 15997668 <GO>}

No, on the technical life results?

A - Antonio Cano {BIO 16483724 <GO>}

That is not disclosed. Actually, those are numbers that are filed only on a six-month basis. And they are public at full year end.

On the inflow, we still have a positive growth; well we have still growth in funds under management, so the net inflow is still higher than say the lapses and the maturities. Except for the unit-linked business, where there is a slight decrease in the funds under management inflow[ph], a net outflow level, that would be the case in the unit-linked business, as we are facing maturities and lapses that are not compensated by inflow.

On the surrender, on the normal business, the non unit-linked business, we don't see any blips. Also bear in mind, if you're worried about a higher surrender rate, we do have here in Belgium, at least for AG, a market value adjustment. So if customers would surrender today, in fact there would be a market value penalty, unlike some other countries.

A - Unidentified Speaker

Then the second question, I hope I understood it correctly, was what the impact has been on the result of Continental Europe from exceptional impairments.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, it was a loss of EUR17 million; I think you mentioned EUR18 million coming from Greek impairment and equity impairments. So it's a kind of adjusted net of EUR1 million, around EUR1 million, which is quite small, actually. So I was wondering it is over items, negative items, in this figure?

A - Unidentified Speaker

So the impact on Continental Europe from impairments on Greek bonds and equities was EUR15 million.

Q - Benoit Petrarque {BIO 15997668 <GO>}

No, just on Q3.

A - Unidentified Speaker

No, that was the whole Q3 was EUR18 million.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Is there more negative, over negative items in Q3 to take into account?

A - Unidentified Speaker

No. But I think if you look, it's EUR50 million net, but gross on the EUR20 million, yes. So it's under EUR20 million, yes, profit sharing, tax and so on.

And for nine months, if you look through the net profit of Continental Europe being negative, you should, after correction, have somewhere normalized in the profit of EUR45 million to EUR47 million, for Continental Europe.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Okay, thank you.

Operator

William Hawkins, KBW.

Q - William Hawkins {BIO 1822411 <GO>}

My first question is back on the dividend. Bart, apologies, I heard exactly what you said, and I heard you say that it was impossible to make further comments.

So forgive me if I'm stretching your patience, but I did just want to double check. Your wording of what you said about the dividend would not, strictly speaking, preclude purely a token or notional dividend for this year; which, in the context of your buyback, your capital position and the rest of it, would be, at least for me, something of a disappointing shock.

So I'm just wondering if you could say anything a little bit more reassuring. Again, I know what you've said on the dividend, but I'm hoping that that does still try and go beyond something that is just a token dividend.

And then secondly, at the very high level, with your insurance results; you've kindly stripped out the impairments on Greece and equities to get us this EUR406 million for the nine months.

I appreciate there's an awful lot of other funnies going on and so I just wondered, do you think we should take the EUR406 million as a base line for judging you this time next year, because all the funnies basically end out as a wash? Or is there anything particularly you'd like us to adjust?

And once we've done that, do you think this is a base line from which, given all your opportunities, you can grow? Or given the headwinds of things like low yields and uncertain markets, and the rest of it, it's a base line from which you'll be very happy to be flat at best? Thank you.

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

Okay, the first question if I understand correctly what you mean by a token dividend --

A - Unidentified Speaker

0.5%[ph].

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

Let's say again, and I'm sure you can understand that we cannot say it will be x euro cent or something, but if we bring this message, it is because we also are aware of the fact that we are a dividend paying share and Company is a point that's appreciated by our shareholders. So this is an attention point, and we do not intend now to give the impression, to give something that will be the minimum minimorum. But again, it will depend on the remainder of the months to come and also on what, at the end of the day, we will present to shareholders, and what shareholders will accept or not accept.

But it's not -- today our intention is to say we go for the minimum we have to give to be somewhere respecting what we said.

Q - William Hawkins {BIO 1822411 <GO>}

That's reassuring. Thank you. There's another --

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

Sorry, there was still a second question, which was more about the EUR406 million, and to what extent this can be taken for future.

So as you know we don't publish official underlying results, but if we look to whether you take the results we have now, corrected for the impairments, or if we really try to make and analyze this past year, this year, taking out exceptional elements last year, this year, you somewhere come to a result for three quarters, about EUR400 million to EUR410 million.

What we can say is that, and I'm sure that you have seen that the tendency is set, that we still believe that improved results in Non-Life are possible, so we see a number of trends that we continue. For instance to increase rates in such a way that it even does really hamper our growth. Also in October, for all business lines, Ageas Insurance announced rate increases of 2.5% and in some products, specific elements, to 20% that will further support the improvement. The UK is in a continuous way to perform better.

The second part is the other, so the Retail businesses in the UK where we are also with some first year integration costs that will give benefits. We expect that this will be able to improve our other Retail results in the coming years. And both should be offset maybe to Life that will not be booming but where we expect that again, taking away all the exceptionals, that due to the volume we've got and new initiatives to bring in new product lines, that we will do slightly better in the future taking into account of course that we have had, due to de-risking of the portfolio, a slight impact on the yield for the future.

So overall, the EUR400 million to EUR410 million on three quarter base, we believe this is certainly a base to project future profit expectations.

Q - William Hawkins {BIO 1822411 <GO>}

Excellent. Thank you, very much.

Operator

Thomas Nagtegaal, RBS.

Q - Thomas Nagtegaal {BIO 6560332 <GO>}

I've only one question remaining. Given that you significantly reduced your periphery sovereign exposure during Q3, do you expect any negative impact on your earnings from Q4 forward due to lower investment yields? Thank you.

A - Unidentified Speaker

No we do not expect any significant impact for the Q4 numbers. You should -- if you look at the numbers, you should of course take into account that we have a significant amount in cash that will contribute to the yield when it is re-invested. And in terms of yield, the impairment does not mean that there is no yield coming out of those assets at this moment. And of course, as we've said before, we have been looking forward and will continue to further improve our investment mix.

And regarding the asset allocation, we are moving to corporate bonds so if you take the yield of corporate bonds, it is very much comparable to the Belgian Government bonds. So it means that this move will allow us to maintain the deal in the future. So there is no real concern regarding the yield in the coming months.

Due to this move regarding the cash, our intention is to buy and to invest in corporate bonds so that this amount of cash will be significantly reduced by the end of the year.

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

So I think to summarize; three elements. First of all, the fact that we have a considerable amount in cash that you could say this could be about EUR30 million net result for shareholders when we re-invest it. Secondly, that we, due to the de-risking of the portfolio, also moved in some countries to shorter maturities where (inaudible) anticipating expectations on increasing rates. And then the further reorientation of the investment portfolio that Christophe talked about should be preventing us from considerable yield losses.

Q - Thomas Nagtegaal {BIO 6560332 <GO>}

Thank you, very much.

Operator

Hans Pluijgers, CA Cheuvreux.

Q - Hans Pluijgers {BIO 16245530 <GO>}

From me, I have two questions remaining; the more detailed question first of all. You were already talking about inflows in Belgium and the tax which still is uncertain if there will be any changes there. But does that uncertainty also have an impact on the inflows in the near future; could you a little bit elaborate on that?

And secondly was respect to the RPN(I), in your calculations you have assumed dividends of 6.1% yields on Ageas shares. First of all, what is the basis for that assumption and what would a reduction of let's say 200 basis points have on the value of the RPN(I)? Could you give us some feeling on that one?

A - Unidentified Speaker

Okay, the first question inflows in Belgium. So what we see maybe has not been highlighted, in any case not in this call, is that the area where we are most behind to what we expected in last year is more the unit-linked business; two reasons.

First of all, the reduced appetite of customers for votes[ph] where they have to take themselves part hold of the risk. But second is also that in July, the FSMA, so the Belgian authority that's looking after the interests of the policyholders, so the consumers, asked the whole sector to enter into a kind of moratorium where new products that are considered to be complex would not be launched unless approval by the regulator before they are launched. And so this has also stopped a bit the launch of new products in Third Quarter.

We do not expect, and this is of course without tax changes, we do not expect considerable increases in inflow in investment products in Belgium. But neither do we expect further decreases. And of course the team in Belgium is looking at alternatives to compensate what we can expect also in other areas, in other countries, a reduction in the pure investment products in Life towards more products with additional features where also the profitability can be improved.

I take the question on the RPN(I). So on the RPN(I) there is no real uncertainty on the dividend or other factors. But the price of the CASHES, this is the main factor; you have more detail in the financial statement. This is not note 19 in this, but what I can tell you is that really the main rival is the price of the CASHES.

And to give you some flavor about this, you may have noticed that at the end of September, the CASHES were very lower at 33.2%, it's the reason why the RPN(I) amount is so low. In case we had a price of the CASHES at 43.2%, so plus 10percentage points, the impact of the RPN(I) is more than 60%. So it is extremely sensitive.

It means that from EUR145 million including the set guarantee, it would have -- the change would have been up 60%/61% so that's the main rival. So when you reap the price of the CASHES you have a direct impact on the RPN(I). All the other factors are of second order.

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

I also would like to come additionally to the first question, but even in a broader sense than Belgium because we have also some consequences of the lower decrease in what we call savings business mainly through banks. First of all, this has as a consequence that all the funds under management development is lower than if you have a continuous increase in inflow. So lower funds under management or reserves also means that that consumes less capital.

Secondly in terms of valuing new business, the pure savings business is not the most important in terms of value creation. It's clear that mortgage-related insurance complex, also insurance complex on the longer term with savings. Plus also a Life component create a higher value. So that is something where the teams[ph] as well as Belgium, Portugal, also some Asian markets are working on. And the Group Life business, which is a very important part in Belgium not in the first place in volume, but in profitability, is rather stable and is a bit more forecast to have a further growth.

So all that together will have a flattering effect, where of course as assets under management would increase less or go down. This will undoubtedly also bring attention to lowering cost ratios, or lowering costs to maintain the low cost ratios we already have today in Life.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Just coming back on my question on RPN(I) because on page 25 you have a 6.1% dividend yield. I assume it's just taking the current market consensus on dividend on Ageas, or is there any other (inaudible) because above the 5% it would trigger some support agreements.

A - Unidentified Speaker

The answer is yes.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay, thank you.

Operator

Marc Debrouwer, Petercam.

Q - Marc Debrouwer {BIO 2406451 <GO>}

I presume you take into but could you confirm, you take into P&L the interest in account[ph] from Greek bonds on full nominal[ph] as long as it is paid. When the EU exchange in principle at 50% take place, could you confirm then the loss of yield?

A - Unidentified Speaker

The answer to your first part of your question is indeed correct; we do take those into account. As for what will happen after the possible change, we'll have to see what that possible change is going to be and it's only then that we can react. That could trigger different reactions of course if that would turn out to be much better than the current market expectations, then you could even have a possible revaluation going through our accounts. But that would be an -- that would then have to be a new credit event, and be recognized as such, of course.

Q - Marc Debrouwer {BIO 2406451 <GO>}

Yes. But today you receive a certain interest rate on the full nominal, and after that it's difficult not to believe there won't be any loss of yield, as the exchange is -- would be -- is in principle based on 50% of nominal.

A - Unidentified Speaker

I fully agree. That's why I mentioned it in my first response.

Q - Marc Debrouwer {BIO 2406451 <GO>}

Thank you.

A - Unidentified Speaker

I think what we can say that we are in comfortable positions, because as we decided to heavily impair the Greek bonds, at this moment they are at 38% of par, so it means that we have the margin vis-a-vis whether what can happen in the futures (inaudible) to the comfortable position with that[ph].

Q - Marc Debrouwer {BIO 2406451 <GO>}

Thank you.

Operator

(Operator Instructions) William Elderkin.

Q - William Elderkin {BIO 3349136 <GO>}

Just a couple of questions remaining. First of all, on the UK Non-Life side, can I just confirm that the Tesco's JV is probably roughly performing at break-even at the moment? When can we expect that to reach a target level of profitability?

And secondly, on UK Non-Life, can you just confirm that you're relatively comfortable with your motor bodily injury provisions which have been causing some problems elsewhere?

And separately, in terms of the Belgian Workers' Comp business, I see you've made some price increases and other operational changes. When can we expect to see material improvements coming through in that line of business?

And then finally, on the RPN(I) and BNP relationship; given the very sharp fall in valuation of that liability, and the confidence you seem to express that the core Tier 1 instrument will be called in 2013, are the chances of providing some overall resolution to these rather unusual and volatile items any closer? In other words, could we expect some kind of discrete transaction between you and BNP over the next 12 to 18 months?

A - Unidentified Speaker

Okay. First question, UK Non-Life Tesco. So at half year it was EUR1.7 million negative, so in meantime it's break-even and you have to know that we have a kind of a target return for Tesco that is by the (inaudible) some guarantee to us over the period of five years.

So I would say, from a top line point of view, we are very pleased. From a bottom line of view it is in line with the expectations, the budgeting we made. And from an operational point of view, in terms of client satisfaction, operational performance, it's really a huge success.

Life -- no, UK bodily injury. I already answered that in the UK we look to the overall profitability as such, that we have seen a very sharp improvement in Motor combined ratio, and that of course has been mainly realized by increases of rate. And I just repeat, 21% overall in 2009, 26% in 2010, and by the end of Q3 another 11% increases. So this brought us, together with a very low cost ratio, to be very competitive in the market. And if there are changes, (inaudible) changes, we will of course react accordingly.

There was also a question on Workmen's Compensation. On Workmen's Compensation I think we are not at the stage where we say this is for us an acceptable situation. What we have done is, a combination of actions have been included in the renewal of a part of the portfolio that took place -- that will take place on January 1, (inaudible) conditions have been negotiated with clients in the month of September, is on the first place everywhere a minimum increase of 2.5% of the rates; and you have to add that the indexation, because it's based on salary, and salary are indexed in Belgium.

And then on the more corporate side, it has been a rate increase on an injury[ph] base, on top of the 2.5% between 2.5% and 15%. There have been also some pruning actions, so where structurally non-profitable contract F4[ph] they have been cancelled or there have been agreement on preventions.

And so all this together should bring us to the combined ratio, as we already mentioned earlier, not of 100%, because you have huge reserves and thus financial income in Workmen's Compensation, but where we said two years ago that 115% is a combined ratio where in Workmen's Compensation you have a return of 12%. In the meantime, due to the reduction of yields, you could say that the target should be more going towards 110% combined ratio for Workmen's Compensation.

We are not there yet, we follow it very closely, like we did in the other product lines, and we are confident that this is possible in the coming quarters.

So on your question regarding all the links with BNP Paribas, you -- as you know, we have a lot of instruments, we have the production, we have the RPN(I), we have the Tier 1. So a lot of things to -- with BNP Paribas. We are (inaudible) so you will see we are really monitoring this very carefully. It's a matter of concern. We have a commitment to (inaudible) our operation, but these instruments are extremely volatile. Things change from one day to another, and even though we have a lot of banks visiting us on a quasi daily basis, we cannot say that we have reached -- we have attractive solutions.

What we can say is that at the end, each of these instruments is very volatile, but all in all you have some kind of natural hedge. If you have the (inaudible) and the Tier 1 on one side, compensated by the RPN(I) when the market go up and down, so it is true. But it's a matter of concern. There is not a feeling of urgency, but we have this definitely on our radar screen, and if the market conditions improve, and if BNP Paribas is willing to reach an agreement with us, something will be done; but nothing in the foreseeable future.

Q - William Elderkin {BIO 3349136 <GO>}

Thank you. Very clear.

Operator

Duncan Russell, JPMorgan.

Q - Duncan Russell {BIO 15944951 <GO>}

One quick follow up, which is, what tax rate do you assume -- did you assume on the Greek impairment? What was the specific tax rate? So the EUR503 million net charge, what tax rate is in that, please?

A - Unidentified Speaker

We're looking. It's -- if I remember well, and I'm getting confirmation here, it's roughly 20% of the gross impairment.

Q - Duncan Russell {BIO 15944951 <GO>}

Thank you.

Operator

(Operator Instructions) Gentlemen, there are currently no more questions in queue.

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

So I propose to give some closing remarks very shortly. Ladies and gentlemen. thank you for your very good questions. To end the call, I would like to summarize the main messages.

First of all, significant impairment charges have impacted our results in the Third Quarter, but nevertheless I would like to stress a good underlying performance from our insurance activities. Excluding the impairments, our results would be up considerably versus last year.

At a Group level, we see that the volatility remains significant as a result of the fair value movements related to the legacy issues.

And lastly, we decided, with respect to the net result, not to maintain a 2011 outlook provided earlier, or to provide an updated forecast because of the significant impairment charges and the uncertain financial markets. However, Ageas expect to be in a position to pay the dividend for 2011.

And with this message, I'd like to end the call, and would like to thank you for your support and interest in the Company. Please do not hesitate to contact our Investor Relations team should you have outstanding questions.

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

Operator

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