Investor Meeting

Company Participants

- Christophe Boizard, Chief Financial Officer
- Jan Van Rethy, Chief Executive Officer, Intreas
- Joachim Racz, Chief Risk Officer, Intreas
- Unidentified Speaker

Other Participants

- Farquhar Murray, Analyst
- Jason Kalamboussis, Analyst
- Steven Haywood, Analyst
- Unidentified Participant
- Vikram Gandhi, Analyst
- William Hawkins, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Ageas Conference Call. I am pleased to present you Mr. Christophe Boizard, Chief Financial Officer. For the first part of this call, let me remind you that all participants will remain on a listen-only mode and afterwards there will be a question-and-answer session.

I will now like to hand over to Mr. Christophe Boizard, CFO. Sir, please go ahead.

Christophe Boizard {BIO 15390084 <GO>}

Thank you very much and thank you for joining the call. The call is to give you some explanation about reinsurance, and before starting the presentation, I'd like to introduce the people who are with me. So first to the reinsurance team, Jan Van Rethy and Joachim Racz who are responsible for managing the reinsurance operation at the holding level, and then as usual I am joined by the IR team, Veerle, Anais, and Arnaud.

I hope all of you have the presentation and I will start with the first slide with a little bit of history. If you look at -- but something really new, the reinsurance within Ageas. So we started in 2015 with a rather simple concept. We wanted to increase our share in non-life and a possible approach was to participate through the protection program of our subsidiaries, either controlled or joint venture.

So with this we achieved several goals at the same time. So first, we improved the protection of the group for the cat event. We aligned the cession with a group risk appetite because before since we are a decentralized group, all the different entities were responsible for putting in place their protection program there was no real coordination at the group level. So we didn't have really a group approach. And with -- the protection was not calibrated at the group level. So sometime we had some range effect, meaning that we could have some accumulation of risk and we thought of in particular the storm hitting the UK and Belgium, it is likely that when a storm arrives in the UK, it hits the Belgium as well.

And then we achieved secondary goals like saving on the external placement because we had the better purchasing power, putting everything into the same basket at the holding level. So the principle were rather simple. We let the entity put in place their protection program and the intervention at the holding level was only a participation in the allocation of shares, and we put limits at 50%. So we didn't want to go beyond 50% of share in each program. Why? So that we still maintain access to the reinsurance market and that we ensure that the market conditions and the pricing conditions be respected.

Then after this, I would say, successful implementation and all the risk were underwritten through the vehicle which was holding [ph] Intreas directly 100% held by the holdings, which was part of the holding function. But beyond this, we wanted to go further and to play with a new concept, which is the capital fungibility. So the first step, the Intreas approach more participating to the protection program and optimizing the protection of the group, so there was an aspect -- risk management aspect there.

And the second idea -- second what I would call dimension, it was more a financial approach and financing optimization and capital fungibility. And that's what we have called internally the Apollo project. So the idea was the following: once all the entities are protected locally, it has some very obvious advantage to move "part of the business to the holding through the implementation of quota share. So quota share of contracted business which means, by the way, that once we assume this risk at the holding level, we don't need additional protection. So it can be done on a case-by-case basis, but the principle is that we can accept this quota share without putting in place (inaudible). The books accepted are already protected. So we have obvious advantages by doing this and disadvantages relates to the capital fungibility when you put at the same place some operation you have -- you put the capital in one place and you have a better capital fungibility.

So if we go to the next slide, you have more details about -- on how it works. So obviously we can put that in place quota share with controlled entity, with the Intreas approach, the participation to the protection program with the scope was the controlled entity plus the partnership. So it's the reason why, for instance, we have some shares in the Turkish program and in the program in Thailand and in the future we will participate to the Indian program through -- thanks to the new joint venture we have recently signed in India. So the scope was controlled entity plus joint venture.

On the quota share, the scope is limited to controlled entity. So on slide 3 you have the three entities who will be within this quota share arrangement, so starting with Belgium.

We have put in place a 30% quota share with the non-life of Belgium. On Continental Europe it will be a 20% cession plus LPT. I will come back on this. And on the UK, the cession rate will be 30% as well, including the LPT, and Asia is put aside and there is no quota share coming from Asia because there is no controlled entity.

This was possible since July of last year when we obtained the license from the National Bank in Belgium. So formally as from the middle of the year 2018, Ageas SA/NV became reinsurer. We started with pilot as from July 1st with Portugal only to ensure that the administration and all the internal processes were aligned and ready. And we started at full scale from January 1st, 2019.

So this activity comes in addition to the previous one, the one formerly underwritten by in Intreas. Intreas will be moved and there will be -- the business of Intreas will be moved within Ageas SA/NV. So as from 2019, all the reinsurance operation will be recognized within Ageas SA/NV and Intreas will progressively disappear from the landscape and will be liquidated before the end of the year. By the way, we will ask for the withdrawal of the license in the Netherland. So everything will be in Ageas SA/NV.

So maybe (inaudible) about the LPT and to explain the concept. So when we put on this slide, quota share, we mean here quota share of new business. So it means that within the scope of what we call quota share are all the contracts underwritten as from January 1st, 2019. But then if we limited ourselves to this, we have -- we would have a rather slow intermediary period and rather long ramp-up period. Why? Because we have to build scale and to obtain the steady-state status.

So if you want to be at the steady-state status in a quicker way, you have to take into account the existing business and to transfer part of the existing business, and that's precisely the purpose of this so-called LPT. So LPT stands for loss portfolio transfer. And with this the underlying concept here is that we transfer the existing reserves. So when we -- you take the balance sheet at the end of 2018, you take the existing claims, you take the corresponding ceding rate, either 30% or 20% in Portugal and you transfer through a kind of asset and liability transfer this, and in that case it means that as soon as January 1st of the following year, so meaning 2019 for us, you have the new business plus all the accounting effect of the past business, including the reserve release of reserve increases, if any. So that's the explanation on the concept of LPT.

If we go to the next slide, slide 4, here we enter into more detail because for each segment, Belgium, UK and Portugal, we have almost I would say specificity, and we think that it is worth entering into some more detail. Starting with Belgium, so with Belgium, the cession rate was set at 30%. The exact scope is non-life excluding healthcare. Why excluding health care? No big reason except that it was more for operational reasons. It would have been more difficult to include healthcare. So it was excluded for, I would say, commodity [ph] and it is not a big business, and we indicated that big business in the sense that it accounts for less than 3% of the operating result. So the inclusion of lot of healthcare doesn't really change the picture, but it was much easier for us on an administrative standpoint to exclude the healthcare business. So nothing beyond this.

Then there is a very specific element on Belgium is the fact that Ageas doesn't hold 100% of the subsidiary that we have a very significant third-party shareholder BNP Paribas. So what we did is we had a discussion with BNP Paribas to collect their agreement on the participation to the scheme because for us the simple way of approaching this concept was to obtain the participation of BNP Paribas. So that the perfect alignment of interest be maintained. After a long negotiation, the BNP Paribas group accepted and 25% of this quota share agreement will be underwritten by an insurance subsidiary of BNP Paribas, Cardif Risques Divers.

So in a nutshell, we have a 30% cession and within this 30% cession, three-fourth will be underwritten by us, one fourth will be underwritten by Cardif Risques Divers, and the three-fourth, one fourth exactly corresponds to the shareholdership we have in AG. So that was the first, I would say, important explanation.

The second one is why don't we have an LPT in Belgium. And LPT immediately implies, I would say, large figures. I want to start with the quota share for new business, you start with all your accounts at zero on January 1st and then you positively build up your portfolio and you positively build up and increase accounting impact of this. When you transfer existing business and when you put in place LPT, you are immediately faced with big figures because you have to accommodate in your balance sheet, 30% of the claims and the corresponding assets to cover these claims. And this was difficult for Cardif Risques Divers to take its share. Why? Because Cardif is mainly a life group. Their non-life activity is not huge, and they don't have a reinsurance license. So accepting reinsurance for them is acceptable under the French regulation if it is something "minor or smaller" vis-a-vis the rest of the business. So they had some limitation in size and it's the reason why we decided with them to exclude LPT. The consequence is that the ramp-up period is longer. But when we converge to the steady state, we are exactly in the same situation.

I would say it will take instead of being at a steady-state immediately, it will take three or four year to be at full speed on Belgium. That's the explanation. So constraints coming from the partner, but even you know we are modest people, but to put in place such an arrangement when you have a 25% shareholder leaving the capital it's, I would say, a rather decent achievement. So even if we had to give up on the LPT, ideally for us, it's a very satisfactory outcome that we have reached on Belgium, which was -- you can get key elements because since it is the bigger piece, putting in place the reinsurance arrangements on Belgium was a key factor of success for the whole project.

Then the (inaudible) segment. UK, here we are at 100%. So it was an (inaudible) negotiation, and we put in place a 30% quota share, including the LPT. So we are -- the full idea was implemented. And to be precise on the scope, we limited to AIL, and we excluded Tesco underwriting again for obvious reasons. It's a joint venture at 50%, and it was difficult and we didn't even try to convince the partner because it was not, I would say, relevant enough to spend too much effort on this. So we thought that limiting to AIL was very sufficient and was satisfactory.

On Portugal, so since we are on the non-life segment, Portugal we own 100% of the business. So as it was the case for the UK, it was an, I would say, internal negotiation. And here we have a 20% cession rate, and we have the LPT. Two explanations here: why 20%

and not 30%? I have to admit that I don't have strong explanation. We started with 20% and then we let the negotiation go until it's end. We could have done 30%, but we were very busy with negotiation with AG and let's say that we little bit -- I don't know if I should use this word, but we overlooked Portugal in this. 20% was already quite an acceptable starting point, and we left it at 20%. So no strong reason for the 20%, being but this cession rate have to be seen as a starting point, and in the future it is not excluded that we slightly increase the cession rate. And in that case, the ideal will be to align Portugal with the others at least.

And second explanation about the exclusion of workmen comp for the LPT it is more with protection against unexpected reserve development. You all know about workmen's comp in Portugal is not the most profitable line of business. It's something where we really acquired the scale when we bought the AXA portfolio, the workmen comp business. It is a turnaround story and we have to improve the result on this. We are quite on track, but I would say the visibility was not as good as it was on other lines of business. So we excluded workmen comp from the LPT, but workmen comp is included in the quota share. So we will have the ramp-up period on workmen comp but it is the inclusion of workmen comp is I would say more progressive.

Going to the next slide, slide 5, what are the implications on the structure of the reporting, which are not much. So under structure is not much, even if the figures will be changed. So we will keep the present structure with the geographical segment starting with Belgium, UK, Continental Europe, and Asia, the four traditional segments. We already have reinsurance in our reporting but reinsurance so far has been limited to what we call the Intreas scope. So the first approach, the participation to the protection program of the (inaudible). Now the reinsurance segment will include the quota shares. Then we have the General Account and the total will be the group.

Either way you can see here that insurance -- the insurance scope has disappeared. You'll remember that with the fact that litigation are seen are now off the table. We think that we can switch on the insurance view to the group view but we don't need now to understand this sub perimeter, subtotal insurance. So the future presentation will consist of the six segments: Belgium, UK, Continental Europe, Asia, Reinsurance, and the General Account and then the total of the six segments will be the group.

On the General Account, the idea was to maintain the existing scope. So what we call General Account, should be seen as the holding functions. So here you will have the costs of the holding plus all the financing costs, all things related to the holding and the -- with this we maintain homogeneity vis-a-vis the part. So when you will compare in 2019 the General Account with former figures of the General Account in 2018-2017, you won't have to put in place any scope restatement. It will be perfectly compatible because the that attractive business will be recognized in the Reinsurance segment. But, having said that, the "holding" consists of reinsurance plus General Account. So in the Reinsurance plus General Account, you have Ageas SA/NV plus I would say the thing like RPI [ph] or either small entities that on -- so the Reinsurance will be all the holding entities. Reinsurance will be exact the reinsurance business out of the holding entity and General Account will be the rest. And it is in that sense that we are perfectly in line with the previous definition of the General Account. So I think it will be easy for you to track the change and the evolution of the General Account and it will be easy as well to track the effect of this new activity of reinsurance within the Reinsurance segment.

Now I'd like to go to the next slide on slide 6 where we have given illustrative example of how it works with quota share, and please do note that these figures are not real figures even if they are not very far from some reality, but please consider this as an illustrative example and don't take these figures as any forecast or things like this. So I start with the first line. So GWP stands for gross written premium. So when you have 1,000 at the -- at the local segment, so we start with 1,000 on the gross written premium side. Then we have the net earned premium. So net earned premium, here you have the effect of the quota share. So when we have a 30% cession rate, we apply the simple 30% on the 900 of the net earned premium. So we cede 270. So at the end, the net earned premium recognized at the segment level, the geographical segment like Belgium, Continental Europe, or the UK, 630 and we have 270 in the Reinsurance segment.

On the net claim, net expenses, it's rather simple. We apply the 30% cession rate to all this line. Then we have the overrider and profit commission. So doing your quota share means that we take more or less a tranche, I would say, of the technical account of the cedant and all this tranche is recognized in the Reinsurance segment, but there is one difference is the recognition of this overrider and profit commission. We cannot claim that we can acquire like this 30% of the portfolio without paying anything to the cedant. Why? Because -- and the idea and the concept, well known in the reinsurance business is Ageas SA/NV alone couldn't acquire by itself such a portfolio. So we have to recognize an extra remuneration for having this portfolio available to be recognized within the accounts. And that's the purpose of this overrider and profit commission is to recognize something on top of the simple recognition of the general expenses plus commission to remunerate the fact that we have access to a book of business.

And it is where I would say all the negotiation takes place. All the lines are straightforward. You apply the 30% cession rate, and all the economics of the quota share is within this overriding and profit commission. So when you discuss -- the discussion between the cedant and the reinsurer is mainly apart from the contractual terms but all the accounting effect, all the discussions and negotiation is on this overrider and profit commission. That's where the tough discussion stands, and it is where we have to ensure that market prices are used in this transaction. You know that the tax authorities are -- when you have a tax inspection, the tax inspection within the group is very often on the so-called contract [ph] prices. So you can say that it is here that we can make sure that market conditions are used the overrider and profit commission. So it is on this line that we ensure that market prices are used, and for this we used some advisors and we used some reinsurance brokers. By the way, we each -- the cedants and us, each party had its own adviser so that we really had, I would say, contradictory discussion and so that we have a very strong file in case of a tax inspection.

With this we end up with the underwriting results. We have some investment result because we will receive cash flows from the cedant at the holding level, and we will have to invest this and we will receive some investment result. By the way, one interesting feature here is that this quota share scheme are not aimed at changing the way the assets are invested within the group. So with this I mean that at the holding level we will replicate the asset allocation of the cedant. So Ageas SA/NV will run three different investment portfolio, one corresponding to the Belgian cash flows, one for the UK cash flow, one for the Portuguese cash flows, and we will invest this according to the strategic and tactical asset allocation authorized and in place in local entities. And so it means taking a precise example that we will advise on Portuguese debt at the holding level to replicate the asset allocation of Portugal. So it means that on a consolidated basis there is no change on the asset allocation. I think that's something to be noted.

Then we have on the following slide, slide 7, some explanation about the ramp up effect on IFRS, and starting with the LPT impact in Portugal and in the UK, So and here I am trying to give you some guidance about what the Q1 account will look like, without giving figures, but at least the principles. So impact on the local segment. All the gross parameters will be unchanged, either the gross written premium, the gross figure, everything will be unchanged. Then what will appear is reinsurance share in the provision for outstanding claims. So it means that when you take the balance sheet of the cedant, on the asset side you will have the new line which is these provision for reinsurer's share in provision which correspond to what is transferred through the LPT and then on the top of this, the new claim recognized during the first quarter of activity for what we call the new business, the regular quota share. So one quarter of new business plus the LPT if any, so in Portugal and in the UK.

We have -- there are several ways of recognizing the LPT in the accounts and we chose to -- we chose the so-called premium method which means that the compensation for the move in the reserve will be done through premium. So with this concept let me elaborate a little bit more. So on the cedant side we'll cede claim. So it's a big profit for him and this big profit will be compensated by ceded premium, which will be a minus. So the two minor cedes will compensate themselves, and then if you go on the Reinsurance segment, that's contrary. So we acquire a liability on these claims and we are "remunerated" or paid through premium.

The small issue we will be faced with at the end of Q1 is that will have a huge impact on the net earned premium and the net earned premium are the denominator for the technical KPIs non-life and in particular on the combined ratio. So the combined ratio will have a strange look at the end of Q1 and of Q2, Q3, Q4. So that's something we will see more over 2019, but we will provide you with restated figures, and we will give you pro forma figures as if the loss portfolio transfer had been recognized with direct asset and liability transfer which was the alternative. So we will give you a combined ratio which will be comparable to the -- to the usual ones, but the direct calculation will give wrong figures -- wrong figures in the sense that they will not give the right idea of the -- of the result of the business.

Then on the next page, on the contrary, what will be the impact of the absence of LPT in Belgium. Absence of LPT in Belgium means that you will have, I would say, less impact on combined ratio which won't be as strong as it is for the UK and for Portugal. But you will have some effect, effect being the following: all of that we usually have result coming from past period. The previous year reserve release, which is the tradition within AG with significant figures, and here we will have a small disalignment and it will be profitable to AG. Why? Because since there is no LPT, AG will recognize the full reserve release on

100% of its business, whereas on the current business, on the current book, they will be exposed only on the profit side only to 70%, because of the 30% cession rate. And since they have a cautious approach in the current year reserve methodology, you will have more -- you will have more coming from the past because it will correspond to 100% of the portfolio, and I would -- I would call this "burden" of (inaudible) will be less because it will be ceded to the reinsurance. So it means that they will have better result. At the holding level we will have, I would qualify them, starting result with maybe some starting losses, but then what we expect is favorable development over time. But as a start the effect will be that the -- in the script of the result it will be favorable to AG and slightly unfavorable to the holding. But as it is rightly said in the title, it's a ramp-up effect. This will disappear because with the way the current year reserve are set, it is expected that some reserve release will happen, will take place, but it will be later on in -- later on and maybe next year; we'll see.

On a consolidated basis, no change, because all this is internal movement so all these internal reinsurance will be mostly cancelled. So this is more to help you in interpreting the result of the different segments, but not much at the end on the consolidated accounts because these are internal movements.

So we are at the end of the presentation. So as you can see, we don't provide you precise guidance on Q1 and on 2019 because that's our policy not to give very precise and quantitative forecast. But with this call, we tried to give you overall to provide you with all the necessary explanation so that you can first update your model and second understand the results that will be disclosed in May and regarding Q1 where on this first quarter we will have the full ramp-up effect. They will be diluted over time and the ramp-up effect will positively decrease in Q2 -- Q3, Q4 but we will have some significant one-off effect in Q1. And to help you a little bit more, I have to flag the fact that in Belgium, we had the exceptional event, a storm, which means that the technical result of AG on the non-life side won't be, I would say, brilliant [ph] in Q1 because of the storm we had in March. We have a lot of wind. It's a very, I would say, normal event. We are fully prepared and all the protections are in place to face such events. So nothing really striking but -- on Q1 some effects will be seen on the figures.

And with this, I would like to open the discussion, and I am ready with all my colleagues. As I said at the start, the reinsurance team is with us. So we are ready to answer any questions you may have.

Questions And Answers

Operator

(Operator Instructions) We have one first question from Mr. Jason Kalamboussis from KBC Securities. Sir, please go ahead.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Hi, good morning. Thank you for the explanation. The first thing it is that I can understand that you don't want to be very precise on the figures. But if you look at the end of the day through all of this, the benefit is going to be zero tax rate until you cover your holding costs and an 8% tax rate thereafter. If we look roughly through what you have discussed, it is -- we're talking about a small number. So it is a -- let's call it EUR 10 million possibly EUR 20 million. Is it -- am I correct in -- because at the end of the day, you must have baked something in your EUR 800 million to EUR 900 million figure. And it does look to be in general a minor number? That's my first question. The second one is could you specify roughly the percentages for worker's comp in Portugal and in the UK again for AIL? And the third one is looking at your example, the overrider looks like a 2% of NEPs. Is it something that we should be using as a rough guidance going forward? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Sorry. Say again the last question. I have --

Q - Jason Kalamboussis {BIO 4811408 <GO>}

The last one is like if I look at the overrider, it's 2% of net earned premiums. So on your example, is it something that roughly we should be using?

A - Christophe Boizard {BIO 15390084 <GO>}

Understood. So I will answer the first one on the tax benefit, what's the rationale behind, and then I will let my colleague from the reinsurance team to answer on the workmen comp and on the overrider. So first on the -- on the tax benefit. You are right, there's a tax benefit, but please keep in mind that you have two approaches. First, if you take the standalone Ageas SA/NV. So Ageas SA/NV doesn't pay taxes for several reasons. It only receives dividends. So we are not taxable. We have all these past loss season. We will have a positive income for reinsurance, but as long as we don't breach [ph] the holding cost which are at around EUR 70 million, we won't even "eat" the past losses. So it means that we will never pay taxes in Ageas SA/NV. And there is some gain even if the gain is not huge, but it was indeed taken into account in the change of guidance that was given by our CEO, but it was one element. Most hiking one at this stage. But then beyond the statutory tax position on the IFRS side, on the IFRS, you can safely take into account the tax benefit, because that is the first gain. You have the profit. So there is a small gain under IFRS and there is a tax benefit in any case.

Then you said figures are not enormous. It's a first step. As I said, the view is to go slightly farther in cession rate 20% and 30% but not the steady state. We want to increase a little bit. And then keep in mind that we also have a life license. So please consider this as a first step and hopefully there will be a second step by using the life reinsurance license as well. So it is work-in-progress, so lot to see. But then apart from the tax which was not the driving factor at all, the obvious benefit of this would be seen, for instance, yesterday because all this reinsurance is part of a large action plan. And the fact that we obtain the core statutes that we obtain the A rating for the whole thing, it was mainly thanks to the implementation of (inaudible).

And you could see that yesterday for the first time after a long period of absence at the holding level, we were able to issue sub debt at very convenient condition. And I was very happy to see that we issued at a price -- at a lower price than AG, which completely validates all this action plan. And so all this reinsurance makes this possible to have Ageas SA/NV back to the normal hold of holding, meaning financing the group. You have the immediate effect on the tax but not enormous but then you have override in terms of financial flexibility, access to the financial market, et cetera, et cetera. So that's the answer to the first question. And then on the overrider (inaudible) and on the workmen comp, my colleague will give some more details because these are rather technical details. So Jan or Joachim?

A - Jan Van Rethy

Jan. Jan Van Rethy. First of all, on your worker's comp, indeed the worker's comp claims reserves from the past are, of course, an important part of the total claims reserves in Portugal. They represent in the order of 50% of the total reserves. But as Mr. Boizard already indicated, the profitability of the Portuguese worker's comp business is maybe a bit lower than the average profitability of our businesses. And the total expected return from the worker's comp business represents certainly less than 10% of the total profit expected from the Portuguese business. Is this an answer to your question?

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yeah, that's very helpful.

A - Christophe Boizard {BIO 15390084 <GO>}

And the overrider.

A - Jan Van Rethy

Then for the overrider you're asking me want to comment?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes --

Q - Jason Kalamboussis {BIO 4811408 <GO>}

I'm sorry, on the percentage on the UK that means I presume it's more - if we exclude Tesco.

A - Jan Van Rethy

It is not -- yeah, in the UK business there is no worker's comp.

A - Christophe Boizard {BIO 15390084 <GO>}

No workmen's comp in the UK. For the overrider --

Q - Jason Kalamboussis {BIO 4811408 <GO>}

But sorry, you have -- it is -- in the UK you have a percent. You exclude the Tesco underwriting and it's only on AIL, correct?

A - Jan Van Rethy

Yes.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

So this is -- but this underwriting is very marginal I presume or no?

A - Unidentified Speaker

Yes, indeed Jason and you can find the split in our usual reporting. The consolidated inflows in the UK are concerns in the quota share and the part not consolidated entities, that's Tesco underwriting. So you can find that number easily in our usual reports.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Okay.

A - Christophe Boizard {BIO 15390084 <GO>}

And the overrider but first before Joachim starts, it was an illustrative example.

A - Joachim Racz

Exactly.

A - Christophe Boizard {BIO 15390084 <GO>}

(inaudible). Yes.

A - Joachim Racz

And we want to point your attention to the fact that the line in the illustrative example is called overrider and profit commission. So you need to be aware that we combine those two in this illustration. So one element would be the overrider that you pay upfront to the ceding company. And the other element would be profit commission that is only payable after actual underwriting profits materialize. So -- and those overriders, as Christophe Boizard said before, the result of an arm's length pricing exercise that we did and they are different for each portfolio, representing the profitability and the volatility of the underlying business.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you very much.

Operator

Thank you, sir. We have another question from Mr. Vikram Gandhi from Societe Generale. Sir, please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. It's Vikram, SocGen. Three questions from my side. Starting from what Intreas's objective was initially? 50% participation in external cessions. So in a sense, Intreas was one of the reinsurers on the panel, if you like. Now when you introduce this quota share, just kind of clarifying how does this really work. And I think of it like this, Intreas or the Reinsurance segment which is now -- the business is now to be performed by the HoldCo, has two functions. First of all, continue to act as an external reinsurer for the operating entities and then take the 30% or whatever 20% quota share of the net business. And if so, the HoldCo is actually taking more than 30% as it's 30% of net plus the entire excess of loss reinsurance. So that's question number one.

Question two is from an IFRS perspective, what is the impact on the capital of the shareholders' equity for each of the operating companies and also the Reinsurance segment? And thirdly, in terms of choosing the approach between the transfer of assets and liabilities, what is being a premium and ceding the liabilities. Can you explain why you choose the latter versus the former? That's all from my side.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. Thank you. So on your first question, I would say you are completely correct. That's exactly how it is. So we have on the one hand the former Intreas business, which has to do with the group protection and here we take risk. We are part of the panel of the reinsurers. When we take 50% of the cat, we are exposed and the real insurance approach. And then on the second dimension, which is completely different, it is -- with the quota share, it is more and capital optimization fungibility, and we move the part of the business from the sitting entity to the center. But on a consolidated basis there is not a lot of changes, whereas in Intreas, we do assume risk and we have additional premium, additional risk, et cetera, et cetera. So you are right, we -- I gave two things which are of complete different nature. These are two angles of approach with two rationales.

Then on your second question on the IFRS impact, first -- at first approach, there is no change in shareholder equity. That's a technical operation. So there is no change in shareholder equity then for later on in time, what you can anticipate is if you cede business, your capital need will be less at some point because your underwriting risk component should decrease on non-life. So in spite you should expect increased insolvency. And in that case we will apply our capital management policy and I won't say more, but you could have implication.

Since you are on this topic, I'd like to explain something. For instance, I'm taking AG. So on the AG when you see 30% for sure, you cede 30% of the underwriting risk. But the non-life portfolio goes diversification factor because AG has a huge operation in life. So what we gain on the underwriting risk, we lose something on the diversification. So the solvency of AG won't be dramatically changed on the solo basis, locally.

Then if we manage to put in place life cession, the effect will be taken in full in the reduction of the SCR and benefiting the other entity Portugal and the UK for on the UK, we only have non-life operations. There is no diversification effect. So the gain on the solvency is more immediate on the UK, and you will -- we expect a jump in the solvency of the UK. And in Portugal it's a little bit in between.

Then having said that, these are the local solvencies and these could trigger some a capital management operation but this is not contemplated today. We will -- I would simply say that we will apply the capital management policy because all these things are in writing. And then at the consolidated bases most of these things are eliminated since they are internal movements. So the solvency of the group is broadly unaffected by all these movements. You have small effect on eligible own funds and the fact that seems there is a small tax benefit, there is a small increase in own fund by I would say negligible. So first approach, no effect at consolidated basis on solvency and no shareholder equity changes. And --

Q - Vikram Gandhi {BIO 18019785 <GO>}

Sorry. If I can just come back. Sorry to interrupt. If I can just come back on this point. So Intreas where you had kind of initial funding was EUR 100 and now Intreas is no longer going to be in its current shape by the end of the year, but the HoldCo will take up whatever interest was doing plus the additional quota share. So that EUR 100 or whatever the updated --

A - Christophe Boizard {BIO 15390084 <GO>}

The EUR 100 million will be re-impacted within Ageas SA/NV when we liquidate Intreas.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay.

A - Christophe Boizard {BIO 15390084 <GO>}

But it was full read, yeah. So the EUR 100 million will come back. They were in Intreas was funded by the holding and we will have the money back.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. So that EUR 100 million is enough to take on the quota share and the LPT business, so it doesn't need more capital. And in any case the HoldCo has the excess cash. So that should be enough. And then based on what you just said, I'm assuming you're trying to say so we should not be expecting any one-off capital upstreaming from Belgium to the group at the moment.

A - Christophe Boizard {BIO 15390084 <GO>}

No, not at the moment and at the holding level the solo solvency ratio is extremely high. Yeah, we have calculated it at around 400% because you have all the wealth for the group in the holding, so which means that to in front of the STR we have because we have an STR with assumed operation, we have all the wealth of the group, meaning that we own the 25% of Taiping Life, 75% of AG. So when you take all this into consideration, the solvency ratio of the holding is 400%, the local one. So there is no need. We are strong enough. And then your third question, sorry. It was --

Q - Vikram Gandhi {BIO 18019785 <GO>}

It is in terms of --

A - Christophe Boizard {BIO 15390084 <GO>}

(inaudible). We had the choice between the two. The two are possible and when we presented the file to (inaudible) one key element was to show sufficient substance. And with the premium method, we increased -- we have particularly increased the premium at the Ageas SA/NV level. So it was more for presentation purpose. But I think it is broadly indifferent, the two things, apart from the fact that we will be obliged to provide you with restated combined ratio segmental.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, okay, fine. So that's very, very helpful. Thanks a lot.

A - Christophe Boizard {BIO 15390084 <GO>}

Yes. At the end of equivalent month of premium is around EUR 1 billion. And with the LPT, we had another, what EUR 600?

A - Unidentified Speaker

EUR500 million.

A - Christophe Boizard {BIO 15390084 <GO>}

EUR500 million. So optically you will read EUR 1.5 billion as gross written premium by the holding, but only EUR 1 billion will be a recurrent corresponding to the quota share.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Thank you.

Operator

Thank you, sir. We have next question for Mr. William Hawkins from KBW. Sir, please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, thank you. One simple question I hope. Christophe, in the first quarter in the quarterly disclosure, will you still be giving us the divisional numbers gross and net? Or are you only going be giving us the net figures? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

We will give you gross and net. We will give gross written premium and then we will immediately after switch to net earned premium, and all the rest will be presented at net because that's the usual way of presenting the account. So it is after (inaudible) of the segment, you will have a decrease in the figures of AG, for instance, because you will have net earned premium, net claim, net-net-net everywhere.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. So if I take slide 6 that you've shown us, apart from the first line for each of the big business units, we're only going to get the third column. We're not going to get the first column and the second column?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes. You will get local segment post insurance and you will get Reinsurance segment, the two last columns.

Q - William Hawkins {BIO 1822411 <GO>}

Got you. Okay, all right. I'll follow up on that. Thank you. Cheers, bye.

Operator

Thank you, sir. We have another question from Mr. Steven Haywood from HSBC. Sir, please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Thanks very much. The debt you issued at the holding company recently, is that to fund the reinsurance business that you're doing, or will you be downstreaming that to because you were deemed an instrument at AG Insurance recently as well.

And then secondly, on the second and potentially third steps of your reinsurance, when are you looking to increase the quota share? And when are you looking to do more of reinsurance on the life books? Will that be this year or potentially next year? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

So on the sub debt, it is completely disconnected. As I said the solvency ratio is still high at 400% but there is strictly no need to fund anything. So it is self-standing, no need. So the sub debt was issued and the motivation was within the prospectus, and it was for general corporate purposes. So it is to manage the group and to manage the solvency of the group. The new thing we have acquired with it is that we have the flexibility among the entities. In the past we issued out of the strongest entity, and we had -- and when you look at the breakdown of the solvency ratio within the group, AG had 235% and other entities at a much lower level. This was not a very sound situation. So we think that with the issuance out of the holding, we are more free to allocate where there are needs.

And so that -- so the sub debt was really to manage the group from the financial standpoint and there is no relation to the reinsurance which is already extremely well capitalized when you take the solvency ratio. And then for the life book, for the life book this is likely more complicated to put in place reinsurance arrangements on the life side. It is on our -- the study of the file is on our desk for this year and our wish -- but at this stage it is our -- the best case is to have something ready as from January 1st of next year to January 1st of 2020. So that's our plan. We study this year and we put in place beginning of next year knowing that when you put in place quota share or the reinsurance arrangement, January 1st is a good date.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. That's very helpful. I just wanted to quickly follow up on the sub debt. You say you can allocate it to whichever entity you wish to -- no, if you need to. But is there any entities that you need to improve solvency, improve own funds?

A - Christophe Boizard {BIO 15390084 <GO>}

No, at this stage, there is no immediate need. All the entities are perfectly capitalized. So my example was more to say improved flexibility and then M&A is not excluded. So everything relating to the job of holding.

Q - Steven Haywood {BIO 15743259 <GO>}

Absolutely. Thank you very much.

Operator

Thank you, sir. We have another question from Mr. Farquhar Murray from Autonomous Research. Please go ahead.

Q - Farquhar Murray {BIO 15345435 <GO>}

Good morning, ladies and gentlemen. Sorry for dragging out the question a little bit. Just one to two actually quick questions from me. Just I'm a little bit intrigued by the long discussions with BNP around AG. I can obviously understand the reason that they don't have a kind of non-life business and the imbalance there. But what were the kind of other -- were there any other issues, and what were the kind of alternatives that were potentially scoped out? And as a kind of subsidiary to that, is there any possibility that kind of agreement evolves in the future in the way that perhaps you've indicated might be the case on Portugal? And then secondly a very quick question, just on the storms in Belgium. I might have missed it, but would you categorize that quarter is kind of a normal storm loss experience? That was my kind of thinking. Obviously recent quarters have -- winters have been relatively benign. So is 1Q '19 normal or was it abnormally large? Thanks.

A - Christophe Boizard {BIO 15390084 <GO>}

So I will answer the first question on the BNP Paribas discussion and then I will let my technical colleagues review some of the insights on the storm we had in March in Belgium. So on BNP Paribas, we had the long discussion for which reason, and you are right that we could have expected short discussion in the sense that since there are shareholder at 25%, they already -- they hold a risk, which means that it is more moving something from the right pocket to the left pocket, but big groups have intricate organization. So the stake of within AG is held by BNP Paribas Fortis, and the assumption of the risk is done by the insurance arm of BNP Paribas, the BNP Paribas Cardif. These are not the same people and they want to make sure that they make a good deal. It is only at the very top of the organization that things are the same. Not at local levels. That's the first thing.

Second, they have to follow their own procedures within the only possible (inaudible), which is the Cardif Risques Divers. They have policies regarding underwriting. They have to study. So all these things are long and they wanted to review the portfolio. They hired an actuarial firm and all these things. So it's a reason why it was a long discussion, but I would say from the beginning we had the positive behavior and positive advice from the top management of BNP Paribas Cardif. So it was a long but all the management of Cardif was supportive. So that's what I can say. And then Jan or Joachim on the storm in Belgium.

A - Jan Van Rethy

Okay. So when we evaluate storms or the cost of storms, we do that usually talking about return periods. So we have through modeling a good idea on the cost for a storm that we expect every 10 year, once every 10 years, for example, or once every 100 years, or even once every 200 years. Now the storm of March was not in that order, but it's more a storm that we expect to happen for Belgian territory once every six to seven years. So was this a normal quarter for storm? It was unfortunately a quarter where we had the storm that we expect once every six or seven years.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thanks.

A - Christophe Boizard {BIO 15390084 <GO>}

So it was not a very big event, but then when you only have one quarter and -- so it means one fourth of the net earned premium, it -- that drives all the technical indicators up. But then I think that on AG side and since they have aggregate cover, it means that for the rest of the year we are very well protected. But being a quota share, we take the risk upfront and we are not a reinsurer. So the group franchise at the first euro, we have to follow (inaudible).

A - Jan Van Rethy

So the cost or the expected costs for this storm for AG Insurance is around EUR 45 million. This will stay in their retention because they have -- or almost in their retention because they have a reinsurance program that starts from EUR 42.5 million. And they are protected as well for what we call cat events as for the aggregation of all events in the year. Meaning that indeed if there would be further storms within 2019, this would be absorbed almost completely by the reinsurance that AG Insurance has acquired.

Q - Farquhar Murray {BIO 15345435 <GO>}

Great. Thanks for this update.

A - Christophe Boizard {BIO 15390084 <GO>}

(inaudible) on that because you're aware we participate in 50% on the cap protection of AG Insurance, the lower layers, so this kind of loss that we would have seen in March is not held in net retention at Ageas SA. So this is fully retroceded to the external reinsurance market.

Operator

Thank you, sir. We have another question from Mr. (inaudible) from ABN AMRO. Sir, please go ahead.

Q - Unidentified Participant

Good morning. (inaudible) here, ABN AMRO. A few more questions. Firstly, you were saying that you didn't do the -- what is it? The -- not quite sure, but the LPT, you didn't do that in Belgium in AG because French regulation was restricted for BNP Cardif. At the same point, you said that in a few years' time, you will be in exactly the same situation. So how would the French regulation work in that case? Wouldn't it be as restrictive and therefore should we expect a declining quota share for BNP Cardif in the next few years? That's my first question. Secondly, coming back to life reinsurance quota share, what would be the main limitations or the main issues that are being put in place? Is that the same French regulation restriction on BNP Cardif? Thank you very much.

A - Christophe Boizard {BIO 15390084 <GO>}

So on the LPT for Belgium, indeed I said that the size was the triggering factor for eliminating the LPT. And it is true that with the ramp-up period, this will increase. I don't want to elaborate too much on the intentions of BNP Paribas, but I will give you this hint. They are interested by this concept of internal quota share there so -- because we have shared all the concepts, the ideas. They find the concept interesting and it could be something they will consider in the future. But they say we'll have to adapt (technical difficulty). But I don't want to elaborate much. But I think that was the acceptable solution for them and it is on their side that they have to cope with it.

And then on the life side, the limitation is less, why, because it's a big insurer. So in terms of size, the relative size of this kind of quota share would be more acceptable to them, whereas their non-life operation is much smaller than the life operation. So they will have less limitation in accepting your life portfolio.

Q - Unidentified Participant

Okay. That is clear. And if I may, could I also on the tax loss carryforward basically on the holding company, for how long would you have those tax losses? Is there a limitation in time that you can absorb those?

A - Christophe Boizard {BIO 15390084 <GO>}

No, there are no limitation (inaudible) there for forever. But as you know, there is a new tax regulation saying that you cannot accept 100% of your positive tax base with past loss season. So you have a threshold rather smaller one where you can offset 100% of this, but after only a portion of your taxable income can be offset with past losses. But for the losses themselves, there is no time bar.

Q - Unidentified Participant

Perfect. Thank you very much.

Operator

Thank you, sir. We have one last question from Mr. Vikram Gandhi from Societe Generale. Sir, please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. Sorry, I just have a quick follow up in terms of the potential expansion of the reinsurance business in future to include the life element as well, I just wondered what's your thinking around that since the traditional life reinsurance business that we generally see in the market relates to mortality protection essentially. But as most of your life business is the savings business. So just kind of it seems quite different to what the usual life reinsurance business would be? That's all. Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

So on the life, as I said, we are presently starting the study on this, so we don't have precise things to put on the books, but obviously the risk part of the life is the easy one, but you don't have big volumes with this, and we will have to see what can be done on the investment side as well. But you'll know that there are existing solutions you can transfer and you can see on the market reinsurance arrangement involving the saving portfolio. So we are studying all these things, but we cannot limit ourselves to the risk part because of the volumes would be too small.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

Operator

Thank you, sir. We have no further questions.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. Thank you very much. It was a longer call than expected. So it means that you had a lot of questions. I hope that my colleagues and myself were able to provide you with satisfactory answers. In case you have further questions, as usual, you can extend to the IR team. Thank you very much and bye-bye.

A - Jan Van Rethy

Thank you, all.

Operator

Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.