Q3 2020 Earnings Call

Company Participants

- Christophe Boizard, Chief Financial Officer
- Emmanuel Van Grimbergen, Chief Risk Officer
- Hans De Cuyper, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Benoit Petrarque, Analyst
- Farooq Hanif, Analyst
- Fulin Liang, Analyst
- Jason Kalamboussis, Analyst
- Michael Huttner, Analyst
- Robin van den Broek, Analyst
- Vikram Gandhi, Analyst
- William Hawkins, Analyst

Presentation

Operator

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

I would like now to hand the call over to Mr. Hans De Cuyper, Chief Executive Officer and Mr. Christophe Boizard, Chief Financial Officer. Gentlemen, please go ahead.

Hans De Cuyper {BIO 17991990 <GO>}

Good morning, ladies and gentlemen, thank you all for dialing into this conference call and for being with us for the presentation of the results of Ageas for the third quarter of 2020. I'm happy to be hosting this conference call for the first time as Ageas new CEO. I'm joined in the room by Christophe Boizard, our CFO; and Emmanuel Van Grimbergen, our Chief Risk Officer. And as usual, Filip Coremans and Antonio Cano are also in the room. And as you may have seen in our press release two weeks ago, their roles within the Group have evolved. Filip is now Managing Director, Asia, while Antonio became Managing Director, Europe. This change, which reflects the growing importance of a dedicated regional focus for the Group, will enable us to strengthen our business oversight within the Executive Committee. Moreover, they will both have transversal responsibilities within the Group. Antonio will remain responsible for reinsurance, which is becoming more and more important for Ageas, and for real estate, more specifically working on how we could expand our strength in real estate to the benefit of the entire Group. As for Filip, he will continue to be in charge of innovation and business development.

Before commenting on our results, I would like to quickly mention the Group news flow, which has been quite intense recently. Firstly, as announced, our AGM took place on October 22 and approved the payment of the remaining part of our dividend, which has been paid last week. Therefore, the gross cash dividend of EUR2.65 per share over the 2019 exercise that we had announced in February has now been fully distributed to the shareholders. The EUR435 million cash-out related to the payment of the remaining part was almost fully covered by the EUR427 million dividends that have been received from Belgium early this month.

Secondly, on the M&A front, we have announced several transactions in the past few months. Shortly after announcing the acquisition of an additional 23% stake in our Life joint venture in India, IDBI Federal Life, we have announced our intent to further expand our successful collaboration with China Taiping through the participation in the capital increase of Taiping Reinsurance leading to a 25% stake. We are very happy about this unique opportunity to partner up with one of the top Asian reinsurance companies with an outstanding track record and a promising growth potential.

We have also announced the divestment of our stake in Tesco Underwriting in the UK, which will enable us to focus on our core business, relying on our strong partnerships in the local market, while further (technical difficulty) business. And lastly, you may have seen our press release yesterday announcing that Fitch has confirmed our A-plus rating with a stable outlook.

So now back to our results. In Q3, we enjoyed a very strong operational performance, undermined by equity impairments. In Life, our result, which amounted to EUR116 million was impacted by EUR35 million negative capital gains compared to positive contribution of EUR56 million capital gains in Q3 last year. This was due to impairments in Asia on specific bank stocks listed in Hong Kong.

In the European consolidated entities, despite the reduced amount of capital gains and the lower recurring financial income, the guaranteed operating margin stood this quarter at a solid 88 basis points, within our target range, thanks to a strong underwriting performance. Over nine months, although gradually improving, the guaranteed margin remains nevertheless still below target following the adverse evolution of the equity markets in the first quarter of 2020 and the COVID-19 impact on real estate revenues. The Group unit-linked margin also improved within the Group target this quarter at 30 basis points.

In Non-Life we recorded an excellent net result of EUR130 million this quarter, as we continued to benefit from lower claims frequency especially in motor. Over nine months, this favorable claims experience fully offset the impact of the adverse weather in Q1 and led to an excellent combined ratio of 90%.

On the commercial front, inflows were 4% up this quarter, recording strong 11% growth in Asia at constant FX, thanks to a full recovery in China, a 7% growth in Belgium from unit-linked commercial campaigns and a 6% increase in the UK. We are currently experiencing a second lockdown across Europe, which brings uncertainties around the financial markets and the overall economy. The resilience demonstrated by our operations during the first nine months of the year gives us confidence on our ability to overcome the second wave of the pandemic. Of course, we have to remain prudent in these uncertain times. However, providing no major negative impact from the financial markets would take place in the coming months, we feel confident in our ability to deliver results close to our initial guidance of EUR850 million to EUR950 million, excluding the one-off -- positive one-off impact from the FRESH operation and the impact from RPN(I). The fact that we expect to end the year close to our guidance despite benefiting from virtually no capital gains so far this year. Compared to EUR197 million for the first nine months of 2019, illustrates the strength of our operational performance. This also demonstrates the clear benefit of relying on a diversified portfolio, both in terms of products and geographies.

Lastly, I would like to emphasize the strength of our balance sheet. We enjoy a robust 194% Solvency II position, comfortably above our target of 175% and a solid cash position, which stood at EUR1.5 billion, of which EUR0.4 billion is ring-fenced for the settlement and EUR0.3 billion is set aside for the ongoing M&A transactions. Furthermore, our operations rely on a solid asset portfolio, which has remained stable over the first nine months of the year. And therefore, I feel that we are well armed to face to continuous turbulent times.

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

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Hans, and good morning, ladies and gentlemen. As you can see on Slide 5, our nine months result amounted to a high EUR994 million or EUR662 million if you exclude the EUR332 million of net capital gains related to the tender on the FRESH securities realized in the first half of the year and will not be available for dividend distribution. Over the period, the COVID pandemic had a contrasting impact on our results.

Our Life activities suffered from equity impairments and from lower recurring financial income, mostly from real estate and dividends. On the contrary, our Non-Life activities with their limited exposure to commercial lines, benefited from reduced claim frequency, mostly in motor. Overall, we estimate that the COVID-19 pandemic had a negative impact close to EUR100 million on our results over nine months as the EUR215 million lower capital gains and recurring income recorded in Life were only partially compensated by the EUR120 million positive impact from lower claims frequency in Non-Life.

As usual, I will give you now some comments per segment. Slide 6, in Belgium, our Life result was up this quarter, driven by a strong operating performance. The Life guaranteed [ph] operating margin stood at 85 bps, above the level of Q3 last year, despite lower capital gains and the reduced recurring income from real estate. Over nine months the guaranteed margin is still below target as it has not yet fully recovered from the impact of the Q1 equity impairments, but quarter-after-quarter, we are catching up, and this should continue into the fourth quarter with the help of capital gains realized in real estate. Three deals are indeed already closed and they will generate capital gains of around EUR65 million.

In Non-Life, we had strong results, thanks to lower claims frequency, mostly in motor, although to a lesser extent in Q3 than what was experienced in Q2. Over nine months, this fully offset the impact of the storms in Q1 and resulted in an excellent combined ratio of 89.3%.

On the commercial front Life inflows increased this quarter, a successful sales campaign in unit-linked boosted the sales and compensated for the lower inflows in guaranteed products. Non-Life inflows continue to be resilient like in previous quarter.

In the UK, Slide 7, in Q3 the results was -- the result was also supported by continued low claim frequency and strong prior-year releases, mainly in motor, while claim related to business interruption, even cancellation of rental insurance, remained very limited. Therefore, the combined ratio amounted to a strong 88.2% despite ongoing sector-wide claims inflation in motor and a volatile pricing environment. Inflows were up this quarter, driven by new commercial deals, mainly in household, while motor inflows remained broadly flat compared to the third quarter of last year.

In Continental Europe, Slide 8, we recorded a solid net result mostly driven by Non-Life. The performance of our Non-Life operations was strong in Portugal, thanks to continued lower claims frequency in motor, which combined with benign weather and a continued focus on expense management, led to an excellent combined ratio of 83.6% over the nine months. A solid result generated in Turkey despite claims frequency back to normal level in Q3, was, as often, mitigated by the adverse FX rate evolution. In Life, our guaranteed operating margin, although impacted by a lower level of capital gains, remained above target this quarter, thanks to a solid underwriting margin and continued efforts on expense management.

With regards to the sales, in the current low interest rate environment, Portugal is shifting its product portfolio to our unit-linked and protection products. However, the growth in unit-linked in the quarter would not compensate for the decline in guaranteed products. In Non-Life, inflows continued to prove resilient with growth in Portugal in all business lines and a strong growth in Turkey at constant exchange rate.

In Asia, Slide 9, the solid operating performance was underlined by negative financial market impacts, such as equity impairment and the unfavorable evolution of the discount rate curve in China. We indeed recorded this quarter EUR50 million negative net capital gains due to the drop in value of some specific Chinese high-dividend stocks at the time of the Q3 closing. Shortly after the closing date, these stocks partially recovered, but we applied our very prudent rules and took impairment this quarter. As you may remember, our impairment rules differ from the ones in place for local accounts and these impairments were not recorded in typing local accounts. Therefore, the hit we took it was not alleviated by any mitigating technical elements, making it more severe for Ageas.

Excluding these market impacts, our result was firmly up in Asia, which illustrate our solid underwriting performance. The better Non-Life result was supported by ongoing lower claim frequency, driven by the continued lockdown measures. The rebound in inflows recorded in Q2 continued in Q3. Inflows were up 11% at constant FX, driven by China where the economic activity picked up earlier than in the rest of the region.

The Reinsurance segment, on Slide 10, recorded a positive net result of EUR37 million this quarter, again, supported by lower claim frequency in the operational entity. Over nine months, this more than compensated for the negative impact of the storms in Belgium, and in the UK.

Moving to the capital position now, as mentioned by Hans, our Group Solvency II ratio, Slide 12, stood at a strong 194%, comfortably above our target level. You may remember that our solvency decreased in the first half of the year following the tender of the FRESH and the negative market movements, mostly on yield and equity. This quarter our solvency was up by 2 percentage point, supported by a solid operational performance and spread tightening.

Our operational free capital generation, Slide 13, which benefited from the strong Non-Life operational performance in Q2 and in Q3 amounted to EUR573 million, including EUR132 million dividends from our non-controlled participations. Therefore, we are confident that we will reach this year our operational free capital generation guidance of EUR500 million to EUR540 million for the Solvency II scope.

And this is the end of my presentation. As a conclusion, I will highlight the kind of unexpected impairment in China. If they had not been recognized, we would have presented record result and this proves that the underlying results are extremely strong, and I will repeat what I said at the end of my Q2 speech, saying that the profile of the Group based on personal lines proved to be extremely resilient in these troubled times, and Q3 is a confirmation of this.

Thank you.

Questions And Answers

Operator

Thank you. (Operator Instructions). We have the first question from William Hawkins from KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, gentlemen. Thank you very much. You've already touched on some of the details, but I wondered if you could just, first of all, help me normalize the nine-month results. I think you've given some of the detail, if you could just kind of list it, that would be helpful. And I suppose behind my question is, if I just adjust the nine months for the FRESH deal, you're at EUR662 million, and actually annualized it is close to EUR900 million. And so, given that you're saying you still expect only to be close to your target range, which starts at EUR850 million, I'm not really sure what the 4Q negatives in particular are going to be. So the question from that is, could you help me normalized EUR920 million for all the things you've talked about, and on the basis of that normalization, why are you still being so conservative in your guidance for this year?

And then lastly, if I may please, on the back of that, could you just talk about your comfort range going into 2021, because in theory, you still got a business plan to be growing your earnings. And so if you are at EUR850 million to EUR950 million for this year and you're expecting you're going to be close to that or could even be in it, should we still be expecting that earnings can grow in 2021, or are there headwinds that we need to be concerned about? Thank you.

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

Okay, thank you. Maybe on the underlying I think the first point I'll give to Christophe. I will come back to you on the outlook for the fourth quarter and related to our ambition level as far as 2021. Maybe first some comments on the underlying.

A - Christophe Boizard {BIO 15390084 <GO>}

Yes. Will, you are right, so the first and the prominent element is obviously the FRESH impact and divided into two operation, as I said, it is EUR332 million. But you are right, there is a lot of other things. The most striking element is obviously the lack of capital gains. There is a slide in the presentation saying that this year we have recorded almost no capital gain, and I think if we had to restate vis-a-vis normal levels, I would add something around EUR150 million. That's something, which would be more in line with our long-term view on capital gains; you remember that it is based on 5% global return on real estate and 7% on equity. So, EUR150 million.

Then on weather impact, we are slightly above historical level or so, it is around EUR30 million. But I'll let you judge if it is worth taking that into account, but then we have some other big elements. And the last one I will mention, taking only the biggest figures, is the VIR effect in China. You know this, the discounting effect on the reserve that flow through P&L, and on this the effect is estimated at around EUR80 million this year. So these other main elements we have.

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

Okay. Thank you, Christophe. On Q4 and our statement related to our guidance, what do we expect in Q4. First of all motor frequency, I think we assume to be performing strongly here, because in some of our markets, Belgium, Portugal, UK, we are in partial or full lockdown. So we assume that these strong results can continue, but on Non-Life, you should also take into account and we have still some uncertainty on that element that some business lines work with usage-based premium, and I'm talking about liability, or workmen's compensation where customers pay an advance payment in the beginning or throughout the year. And there will be a final calculation on, for instance, numbers of employees and all these things will of course be impacted by the temporary or permanent unemployment, to give some examples. So we still have some uncertainty there how the final premium settlement will end throughout the year.

The second element mentioned already for the previous quarters is China and the impact on VIR, which we assume to be in a similar range as it has been over the previous three quarters, meaning something in the range of EUR30 million a quarter. Thirdly, of course, subject to volatility in the financial markets and then specifically looking at two elements, one is further effect on the yields from parking business, which we assume will go to similar levels as we have seen in the first half of the year, as well as commercial real estate, although they are not in a full lockdown, but in some partial lockdown, and then of course the additional risk that remains on impairments.

So these are, I think the key elements. I would say, if all these turn out positively in the third quarter, then I agree with you, we should arrive within range, but with these uncertainties, we want to be slightly more conservative and staying close too.

Last question, 2021, well, budgeting, I think, has never been as difficult as this year, because we have no idea how the COVID will continue next year and how economies will or will not recover the coming year. So we are now in full preparation of budget and business plan cycle, but it is too early to give you any guidance in this respect.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you gentlemen. If I may just come back very briefly, can I assume that the VIR impact that you're talking about for this year, like the EUR80 million you referred to, that just becomes zero next year on the assumption that there is no change in the interest rates, right. These are all one-time changes adjusting for how the interest rate in China has moved, right?

A - Christophe Boizard {BIO 15390084 <GO>}

Let me take that question. William, not exactly the valuation interest rate, as you know, used in China is a 750 day moving average. And while in the fourth quarter, we see it go down with about 10 basis points, there will still be some decline in the course of next year before it flattens out. Of course, the 10-year government yield in China has rebound a lot from the lows in March, where it was even touching something like -- I'm trying to find a figure -- even 3. -- 2.5, it has rebounded to 3.20 to 3.26 now. But the averaging effect will play through. So it has improved, certainly, but there is still a negative effect to be expected next year.

Q - William Hawkins {BIO 1822411 <GO>}

Right. Gentlemen, thank you for that detail. Thank you.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Thank you very much and hope you're all doing well. Firstly, slightly aligned to Will's question, can you help us with trying to sort of normalize Asia, so as we can have a go perhaps at the discount rate impact and we can try to make an estimate of realized gains? But when we strip those two elements out what's the best way to model it? Would you say the year-to-date, for example, profit excluding those items, if we compare that to liabilities, is that a sort of a -- would you say it's a reasonable kind of normalized margin if we do that? And aligned to that also, what happens to the, for example, the banks that you own given that they have recovered under your impairment rules in Q4? So that's question one.

Question two, going to Tesco, can you remind us again of what your thinking was in closing the deal, because you were just getting to profitability, it's obviously an important distribution channel. Just wanted to understand what happened there in making that decision. And then lastly, quick detail question. In 4Q, would you have any exposure to earthquake risk in Turkey? Thank you.

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

The specific point on the three banks. So your question is what will happen to our result if the shares recover. They have already recovered, you know that the impairment threshold is 25%. But they have regained more than half of this 25%. So they are up. The sad part of the story is that there are long-term equity, which means that we cannot hold, but that will be sold in the near future. So they will stay like this and you know that one way to recover impairment is to sell the shares, as it was the case before. But now I think that today we cannot hope to have any recovery on the short term, because they are held for a long period of time and the benefit brought by this share is the high dividend, the dividend is around 7% on the stocks. What can happen in the future, the positive element on the result, but now I am entering into, let's say, more a detailed caution. This will happen next year. If the shares are still under their book price in the TPL accounts, TPL will be obliged to recognize an impairment under the 360 day rule of impairment, and in that case, something will happen because this loss could be at least partially compensated by some, what I call in my speech technical element, for instance, a movement on some profit sharing reserves for instance to compensate for the impairment. So this could occur for Q2, because the first formal closing where this 365-day rule will apply in the TPL account is Q2, since they close their account only twice a year. So the positive could come in Q2 through some compensating mechanism put in place in the local accounts of TPL. That's the precise question.

Well, regarding your question relating to normalization of the Asian result, If you look at the result this year to date, we had recorded or reported EUR258 million -- EUR257 million, and in fact, net-net, the amount of capital gains in there is zero year-to-date, and the impact of the VIR, the valuation interest rate adjustment, as Christophe mentioned, is around EUR80 million, EUR90 million, so underlying. Ignoring these two components, you could say we would have been around EUR340 million on a normalized basis. Now that being said, the fourth quarter in Asia is always weaker than the previous quarters for many reasons, but an important one is that in China they start to focus on the New Year and preparing the year-end or the beginning of the next year campaign. So, traditionally, our fourth quarter results in Asia are not as strong as the US.

However, I'm not going to try to build here a model on the (technical difficulty) forward-looking projections, which is an exercise that is in our budget mix, but the most important drivers are indeed the overall, I would say, growth in the business volume, which has translated, in one hand, in the new business figures which we disclose, but it would be with a quarter delay in our tables, and obviously indeed the assets under management, which gives a balance sheet view. But that is too short, I would say, to the -- cutting the corner. A lot depends on the quality of the new business that is being sold and thereafter, refer to the tables which really close with a quarter delay, which are on our website.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you. The question (technical difficulty)

Operator

Thank you. Next question from (multiple speakers)

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

Sorry, there were still two questions open. Good morning. On Tesco, well, very briefly, Tesco actually indicated that they wanted to end the partnership, which was to end anyway in 2021. So we have anticipated that for one year. And so we arrived at the mutually beneficial deal. So we have closed -- there is no really any other story behind that. I think Tesco wanted to bring their insurance activity and the bank closer together. And as we published, we will realize a small capital gain on that deal. And on Turkey, I can also be very brief, our exposure is about EUR1 million, so it's fairly low.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, that's really kind. Thanks for your help.

A - Christophe Boizard {BIO 15390084 <GO>}

We can just add that on Tesco we also plan to have a cap gain of EUR9 million in the transaction. But that will only be realized next year.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you.

Operator

Sorry for that. A question [ph] from Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. Thank you very much. Thanks. My first question is really, I don't know just very well, so apologies you might have spoken about that in previous investor days, but is there a point in terms of government yields in Europe, interest rates, whatever, where you kind of reach a cliff edge where the Life business does not make money anymore, because I look at these margins and I'm amazed, we have negative interest rates in lots of countries and your guaranteed margin year-to-date 59 bps, okay, in Belgium, but the Q3, 85 bps. Where is the point where you kind of say, (inaudible). And then the second question is, is really simple one, and so like please, please give me some comfort, can you talk about the buybacks for next year? Thank you.

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

Maybe the first one on the investments on the Life side. And then I assume you talk about the Life guaranteed. Well, first of all, main -- our main market, of course, is Belgium. In Belgium, we always manage the portfolio as a whole. So that means that we take the total customer return, so guarantees plus the profit sharing and we look at it compared to the yield of the portfolio. And that includes of course also the high historic yields. Then you add the new business you like to do in the year at the new money rate. The new money rate for fixed income was close to 1.5% for the first nine (technical difficult). So this is not only government bonds. So the new business, or the new investments have been diversified; government bonds, corporate bonds, but also more and more for instance infrastructure financing where you have, or you can benefit some government or some regional guarantees. We also have I think given up a little bit of liquidity, liquidity is not an issue for most life insurers. And so we have I think expanded, for instance, the portfolio in mortgages, which is also a very attractive investment from a solvency point of view. So new money rate just below 1.5% for the first nine months. And then we see in total return, how we can make the margin. An important element in that margin over the year, and there you have some important seasonality is the capital gains. The capital gains are then coming from equities or real estate -- I mean real estate, often these are a few material deals that we do throughout the year and it happens to be this year that actually most of these transactions will be done in the fourth quarter. I can tell you, I think that Christophe just mentioned that EUR65 million of capital gains have been already realized in three real estate transactions this quarter, and there are still a few more in the pipeline and on schedule. So that you put all together to make that operating margin towards the end of the year.

Is there a risk of going off the cliff? Well, the key point of course is that based on the new money rate, you also define your guaranteed rates that you give to customers and that is approaching zero. And that is something we are actively managing. I think it will be complex to sell with interest rates below -- but at no guarantee investing at just below 1.5%, I think we are still in a comfortable position today. And lastly, both in Belgium as in Portugal, we are also mitigating the impact by focusing more on unit-linked business. So we have not announced -- not decided to close the guaranteed business, but we definitely push towards new business. And to give an example AG launched a very successful commercial campaign in August and September together with the Bank on the unit-linked side bringing in EUR250 million new business, unit-linked.

Q - Michael Huttner {BIO 21454754 <GO>}

Very helpful.

A - Christophe Boizard {BIO 15390084 <GO>}

If I may add something. So indeed, we have 1.5% of new money yield on fixed income, and by the way, this is rather stable because this specific quarter, Q3, we did 1.6%. So we don't have a very -- a declining trend. So 1.5% over the year, but on the top of this, we have the contribution of other asset classes like real estate, and on the real estate, the long-term view is 5%. We have a 10% allocation. So this adds 0.5. So all in all, all asset classes together, we are at around 2% new money yield. And the 5% return on the real estate is guaranteed over the future years by the very high amount of unrealized capital gain. So we have an excellent visibility over the future on realizing this 5%, so all the asset classes together 2%.

Q - Michael Huttner {BIO 21454754 <GO>}

Lovely. That's very helpful. Thank you.

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

If you want to see that in more detail that profile, I can recommend you to look at it in the booklet because there you see for Belgium how the assets and fixed income liabilities will evolve as well (technical difficulty). The second question you had was on buyback. Well, the only thing I think we can say now is that throughout the connect [ph] '21 cycle we commit to this statement. That is -- only will be decided I think mid next year, traditionally it will be decided in August next year, and of course, as we always said that is subject to potential M&A transactions, yes or no.

Q - Michael Huttner {BIO 21454754 <GO>}

Brilliant. Thank you very much. Thank you very much indeed. Thank you.

Operator

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

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you. I just have two questions, the first one is a follow-up on the UK. So since you dispose the Tesco channel, would that actually change your overall thinking behind owning UK business at all? So that's my first question. And the second question is on Asia. So, I appreciate it. So the large capital loss is due to a large owning of the Bank. And this sounds like to me is like you are potentially doubling down on your exposure to interest rate, because if interest rate goes down, then your both assets and liabilities will be kind of negatively affected. And so I just wonder, is that the reason. So you think actually the interest rate in China will go up. So you double down, and then kind of maybe behind that, actually how much you are involved in the strategic asset allocation of TPL. Thank you.

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

Hello. On our view on the UK and really to Tesco, as I said when I answered the question on Tesco, it's just -- it is a Tesco Bank decision that they wanted to take over that activity. It doesn't change our view on UK. Still we remain committed to our UK business.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Regarding your question on Asia, on the investment strategy and the reasoning behind this large positions that were taken in the top-tier banks. First and foremost, they were built as an essential part of the long-term investment portfolio in the participating fund. So they're mostly back-profit sharing counters and they are both for the dividend yield. Let's be clear on that. And these specific counters have dividend yields historically between 6% and 7%. In the par front, of course, the liability structure is very long and it's very difficult to find such long-dated fixed income instruments. So they have a place in the strategic asset mix. The reasoning is from that angle very sound. How we are involved in decision making in terms of investment? Well, there are of course it's our partner is there in the lead. But let's not forget that we are very actively involved in the management, the appointed actuary in China is actually an AGS appointee as well as the Chief Risk Officer of Taiping asset management. So we are definitely at the top table when these decisions are made. Of course, partners can have a difference in terms of risk appetite and if the difference is material as we have done in the past, we can take some hedging at the level of the Group. But at this new moment we feel that this is reasonably aligned with what we think is the right asset mix for the par front in China.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you.

Operator

Thank you. Next question from Vikram Gandhi from Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello, good morning everybody. It's Vik from SocGen. Just a couple of questions from my side. Firstly, I appreciate the Belgian guaranteed life margins are gradually improving quarter-over-quarter. I'd just be interested in your thoughts around the leeway that you have in terms of profit sharing for the policyholders and how do you think that is likely to play out at the end of the year.

And secondly, just wanted to a clarification with your comments on motor claims frequency in the fourth quarter, are you assuming it to continue to be lower, or did you say that you assume it at more normal levels for the fourth quarter? Thank you. That's all from my side.

A - Christophe Boizard {BIO 15390084 <GO>}

Hello. On your first question, if I understood it right, you asked about the leeway we have on profit sharing and what the outlook would be towards year-end, and correct me if I'm wrong, if that not was your question. So in Belgium, indeed, profit sharing is discretionary. So we have a lot of leeway and the profit sharing this decision is something we put forward to the Board and the General Shareholders Meeting, or in this case, the number of shareholders are obviously limited, but that's a decision we take towards year-end and considering a lot of factors, but one of the key factors is obviously as Hans was saying, our target margin for guaranteed life in Belgium, where we want to remain between 85% and 95%. And indeed as you're saying, there is quite some discretion in Belgium for that.

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

On your question on motor claims frequency, well, I think we only can try to estimate what the impact is from the previous month experience, and what we have seen is that you see a quite material drop in claims frequency during a full lockdown, but even that I think varies a lot from one country to the other. On the contrary, what we have seen over the summer period is that claims frequency actually went quite rapidly back to normal levels. And that is due to a few elements, first of that is the agility in traffic, which of the drivers is more of the same. After a period of lockdown, also related to trucks, for instance, where trucks are not used to the cars anymore. And there is a number of cars on the road, which is increasing after the lockdown but the speed, the average speed is not yet coming down. So we have seen actually quite difficult few weeks immediately after the lockdown. Now we are in some of the countries back in lockdown, so we assume that we will see, but it's too early to say, the claims frequency improving again during this four to six weeks, but after that -- and that will be then mid-second half of December, when it is winter time and we come out of lockdown, of course it is where we hard to guess what the impact is going to be. So that's a bit the outlook on frequency in motor.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, thank you.

Operator

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

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you, Hans De and good afternoon. Just a couple of questions I have, one is on Asia. Sorry, going back to the Asian earnings again. I mean EUR260 million this year, year-to-date. There is no capital gain in that. So it looks like it is more or less normalized given that the volatility, the VIR impact is going to stay. But how should we think about capital gain on top of this? So you mentioned that at the Group level your assumption is about EUR150 million. Can we get a bit more clarity on China level, on Asia level as well? I'm just trying to get a bit more sense on what should be the Asian earnings going forward with this VIR impact. I mean are we talking about say about 400 type number or are we talking about a bit lower including, capital gain. So that's the first one.

Second one is, you still have about EUR1.5 billion cash. So what are your plans for that? I mean, do you look forward to do any bolt-on M&A anywhere, any thoughts on that would be great. And just a small one on your next year guidance for EPS. I think based on the Connect 2021 plan, it's about say EUR4.28 to EUR5 if we use the 67% growth rate. I mean how confident you are on that EPS number? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Thanks, Ashik for your question. So, first and foremost, having a target range, which we have now put at 300, 350 for Asia this year, obviously this year I would not count on too much capital gains. Let's be realistic. And with VIR impact, we feel that we will be close -- maybe just below that range. That is a reasonable expectation and that we can be a year without capital gains. Now the capital gains in Asia have been quite volatile, as you would, without any doubt have noticed. We tend not to rely too much on it in terms of thinking about our forward-looking statements. But as Hans said before, we are still in the middle of the budgeting exercise, which is complex, but let's be sure that that range will not go down looking forward, but it's a little bit too early to make statements on that, Ashik, you would have to wait till Q1 results.

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

Okay, Ashik, then on the second on the acquisition, I mentioned it already, you can also see it on -- in your deck. And so the EUR1.5 billion cash position we are having today, EUR400 million is ring-fenced for the settlement and EUR300-something million for the already ongoing M&A transaction. So that brings us at a cash position EUR700 million to EUR800 million today. And, of course, we still have some potential debt capacity, as well as a Group if need be. So regarding M&A, the only thing I can say is, you do see some activity in market and we react on that activity, based on our principles of M&A and that we have always been transparent on with a strong financial discipline, but I cannot give you more indication than this.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you. And just on the EPS number --

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

On the EPS, well, same remark and Filip make. 2021, we are now in the midst of the budget plan cycle. So it is too early to give you an indication there.

Q - Ashik Musaddi {BIO 15847584 <GO>}

All right, that's very clear. Thanks a lot.

Operator

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

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, good morning gentlemen. Several questions on my side. So yeah, coming back on the guaranteed business in Belgium, looking at the fall of the gross inflows versus the maturities you expect, is that fair to assume that you will see a net decrease of the technical provisions in the coming years, especially looking at the insurance tax on new money, potentially your lowering of profit sharing, I guess the project will be a bit on the pressure on the gross inflows. And I was wondering if it -- it could translate into a net decrease and by how much potentially, trying to figure out that. On the real estate portfolio, there's is a lot of debate on the market on valuation levels with (inaudible) transactions, obviously. So real estate agents seem to keep the pricing level quite still stable, but I was wondering if you do expect also in Q4 and probably next year a bit more negative revaluations on the real estate portfolio. I don't think that will flow into P&L but that could flow into Solvency II capital.

Third one was on the pricing of Non-Life. Obviously very low frequency on claims. Do you plan to give back part of this low frequency to the clients, especially if you get out of the second lockdown with again low frequency, what is your view on that going into 2021? Then maybe just final on the AG Solvency II at 173%, what are your thoughts on the dividend for 2020, can we expect a 100% payout from AG again this year? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Sorry, maybe I'll take the first question on the technical liabilities in Life Belgium. Well, they could go slightly down, they could go slightly up, difficult to tell, also depends on what the alternatives are for customers to save for their pension, and it would not be a major movement. So I think the best guess would be a stable level of technical liabilities. If you want some delta, it might be a gradual increase. So I'll leave it for that.

On -- maybe on the real estate some comments. Strangely we've -- so the couple of transactions we've already realized in the fourth quarter were at prices that were surprisingly high. So we still see quite some appetite for high -- for quality real estate. So I'm not so sure if really activity has decreased. I don't have a really pan-European view on that. But in the markets we are present, which is basically Belgium and France, we still see quite some appetite for real estate. And on negative revaluations, I think that focus is mainly on shopping center, or retail, valuations for certain assets might come under pressure, but things like warehousing, say logistics or prime office space, we have no indications that evaluations are going down there.

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

I'll take maybe the other one (Technical Difficulty) of the price, you see for example in the UK a gradual price decrease on new business, but in UK, there are also other things playing like the FCA pricing review et cetera. Don't see in Portugal or in Belgium any significant drops in premiums, neither big increases either in motor. So I think, let's not jump into conclusions that COVID will lead automatically to major drops in premiums. There are also other risks more negatively impacted by COVID-like situation. Think about the business interruption, et cetera. There is some spillover on the reinsurance market. So reinsurance prices will harden that will have an impact on pricing of direct insurers. So many things moving there, but I would not jump to conclusions saying the prices will decrease.

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

Okay. Emmanuel. I'll take the question on the Solvency position of AG. So you refer to a ratio of 173% which is a Pillar 1 ratio. And as you know, we manage our business based on the Pillar 2 ratio. So from a capital management point of view, from a risk appetite point of view, but also from a dividend point of view, we steer and we manage based on Pillar 2 and on Pillar 2, AG is still at a very comfortable and high level of 203%. Of course Pillar 1 and there is something where we have been consistently communicated in that way, we have to keep an eye on Pillar 1, but we consider Pillar 1 more as a floor but we prefer and we manage the business based on Pillar 2.

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

Okay. Maybe --

Q - Benoit Petrarque {BIO 15997668 <GO>}

The dividend will be 100% again or?

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

We don't know yet. It's too early, we are not yet at the end of the year. Again, if nothing changes and they apply the dividend policy, yes, then I can confirm. But it all depends how it will further evolve for the rest of the year. It is too early to decide on the dividend, but they have specific rules on the dividend upstreaming, so today, I would say they are still within that ambition.

Maybe on your first question, little bit of additional color, on the liabilities in Belgium actually I refer to slide 23 in your deck, because you see that even in these circumstances AG is able to grow the base of technical liabilities, which I think is very positive. More growth in unit-linked with a small decline on the guaranteed business. I think it is very important to dissect these technical liabilities, because a lot of them are pension-related liabilities, corporate pension schemes, as well as individual pension contributions, which are very, very stable, which is not something you swap overnight and even we see in employee benefits if a company would decide to change plan from guaranteed to unit-linked AG is very well positioned to make that transition in the business. So I'm actually not too worried about the evolution of technical liabilities in Belgium.

And then, besides what Antonio said on pricing pressure in motor, your question was also to real rebates from the COVID crisis. Well, first of all, we don't feel material pressure in any of the markets that we are. In all the markets where there had been some rumors, I must say the regulator has always been very reluctant to accept the pressure, because generally spoken motor is not, I would say in most market, the most profitable segment of the markets, and last but not least, let's not forget that COVID has a lot more impact than this, you have the impact of financial markets. We also had -- didn't have an excellent year on storms. It was a heavy year on storms in the first quarter. So there are a lot of elements that play in the profitability of Non-Life, which I think is very well understood by the regulator.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Thank you.

Operator

Thank you. Next question from Albert Ploegh from ING. Please go ahead.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes, good morning. And two questions from my end, the first one is on the net leverage. On your own definition you're at 17.2% and increase in bolt-on M&A has mostly been paid out of the holding cash buffer, I think, with EUR260 million still to be paid. At what point which you consider again issuing debt and issuing M&A through the debt financing, and what kind of capacity can we currently see that you have also in relation to maintaining a good rating for your reinsurance business? So what's the kind of debt capacity you have? And the second part of the question is on M&A, I mean in the Belgium market, I think there is one trial in play, but probably quite troubled player evaluating [ph] those are the NBB (inaudible) this week as well. Is this something you are willing to look at and what capability could that bring, or is this a company that maybe be able to repair [ph], so to speak? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

So I can answer on the debt. So indeed, capital leverage 17.2%, you know that there are different ways of assessing the capital leverage. What is important to us is to keep this leverage to below the maximum imposed by the 3 rating agencies that we have. So with 17.2% we have a lot of homes vis-a-vis maximum, and we could issue debt. So it depends and the maximum differs from one rating agency to another, but at -- we could easily issue EUR500 million of Tier 2 while being still far from the maximum of the 3 rating agencies, the leverage they consider as a limit. And so we -- EUR500 million. The Tier 2 bucket has still some room The room is close to EUR1 billion, but it's the, what I would call the regulatory room. Then if we refer to the leverage, we can issue EUR500 million. But we would be closer to the limit of Standard & Poor's, but without hitting them, but we could -- being slightly hedged going to twice this amount. So as I said, something close to EUR1 billion.

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

Thank you, Christophe. Albert, on your second question, M&A in Belgium and the (inaudible) indeed you have seen that the National Bank has appointed a special -- how do you call it in English, I don't know -- responsible to manage the company. I understood that he has two clear thoughts. First is to explore the sale of Antegral [ph] with the partners -- with the offers they got in the bidding process, alternatively is preparing and guiding liquidation of the company. I can't be transparent that we did not make an offer. In the first round we found it difficult to meet, I would say, our financial conditions for an M&A file related to this company together with an asset mix that also raised some concerns.

On the other hand, we are very well aware that for the importance of the sector and the important role that AG has in this sector, finding a solution for the affiliates of all these enterprises and sectors I think is important. And so we have always indicated that we are available to help discussing a solution in case of liquidation. But okay, would they have appointed somebody, so we will wait and see what the next steps are.

Q - Albert Ploegh {BIO 3151309 <GO>}

Thank you.

Operator

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

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, hi gentlemen. Probably a couple of more questions at my end. On the UK, you had a charge because of prior year reserve, so you had a prior year reserve release. If you could quantify it or, say, if it was like close to EUR10 million that would be very helpful. And also what are your thoughts on the underlying performance evolution ex the COVID impact for 2021?

And the second question is, Filip almost stole my question with his answers on the fourth quarter. Yes, in China it is weaker, but could it be stronger due to the -- especially versus last year on an underlying basis, due to the fact that we still have this 50,000 additional net agents? And also a bit related to this, do we have any tax one-offs that could come back in there? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

On the UK and the previous year releases, maybe a good hint is, if you go to the pack and slide 33 there, you actually see the previous year releases expressed as a percentage of net earned premium. Now if you do the math, if you see that it's a rather big number, and the previous year releases in Q3 are a big number and bigger than the EUR10 million that you mentioned, I think for motor and that we saw pre-reinsurance would be more in the order of EUR30 million, 3-0, certainly in Q3. And those are -- actually a lot of those claims relate to 2019. As you might remember, we struggled a bit in 2019 with our large losses, so bodily injury-related large losses where we seem to be a bit of the odd one out in the market. Well, it proves that with insight, our claims just were a bit or bit -- or quite conservative on many of those claims that today you actually see unwinding. So that explains the larger than usual previous year positive releases, which are always going to be large in the UK, like they are in Belgium, it's just the very nature of our reserving policy, which is conservative, always leads to significant releases. If you look at that same slide for 2018-'19, we already had something close to 10% of net earned premium as releases. So that's just a part of the business.

And then, your second question, I think you asked for a kind of what our expectations are for the UK. I imagine without any of the special items, well, they remain the one that we expressed in the past and now it's a bit trickier to pinpoint the exact number, because we have the big quota share and LPT business impacting also the UK, but if you bunch them all up together, we will be again around the EUR70 million net profit on a steady base. So I would say fundamentally not a big change.

Right. Regarding your question about what to expect on the, I would say, the commercial side in China for the last quarter, well, I would not directly link that to the bottom line, Jason, if I may. But the commercial activity in China, as you could have seen also from the last quarter, has rebounded quite materially. So we saw a growth held backed by FX of 3% 4% versus last year, which bodes well and indeed, because you may have noticed in the tables we published the value of new business over the first half of the year was not blended, they started late with the year-end campaign last year. Then they went in lockdown, but we see it is not disclosed, but we see strong recovery in Q3, and indeed, the focus is really on quality business through agency. So we expect fourth quarter, as it was in the third quarter, to be of good quality production, but they will be immediately translate that in higher result expectations than what we have been talking about; that will mature let's say after that, because they will be preparing already in December if not half November for the start of the New Year. But the commercial activity in China is back on track.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yeah, I agree. That's very good to hear. By the way, if I do a quick follow-up, sorry there is, first the taxes, if you could also tell me if there is anything there. But also within the same scope, the profit sharing lever, is it -- could it be used against the VIR, because that was something that was mentioned I think about six months ago, and now it was mentioned more as part of the capital gains next year, so I was wondering if it can be used this year.

A - Christophe Boizard {BIO 15390084 <GO>}

Well, first the tax effect, let's be very clear that supported the result in Asia or in China, particularly last year about EUR50 million. This year there is no such thing, that is zero, that is normal business as usual situation. Last year there was a kind of catch-up retroactively, that effect is no longer there.

Then the second part was related to compensation for VIR in profit sharing. I think the VIR effect is mostly related to non-participating business lines. There is no VIR impact on the participating side, there is a different treatment there Jason. So it does not affect, there is no compensation in par.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Okay, thank you very much.

Operator

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

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

Yes, hi, good morning, everybody. Just firstly a quick follow-up on Benoit's question on the Pillar 1. I think in the past you've said that 140 is more of a critical level for AG and (technical difficulty) number. Secondly, on free capital generation, the print is sort of weak. If you look at the benefits from low frequency, which is driven by your SCR increase of EUR40 million, withholding EUR70 million from your free capital generation, seems to be related to asset management actions in Belgium and some scope broadening in the UK. Could you please clarify those actions and what we could expect from that in future occasions?

And sorry to come back on Asia again, but if I look at the clean earnings in nine months 2019, I think it's closer to EUR230 million that you just alluded to, for this year, the first nine months are close to EUR320 million. So that's a 30% increase. Of course, Asia, we expect growth but 30% is quite stellar. So I was just wondering if you could give some commentary on why the growth has picked up and to what extent we should consider that to last also into 2021. And a small one, also related to Asia is Taiping Re, I think it should be s-- the deal should happen this quarter. So should we bake in EUR25 million for '22 -- 2021 already or what should we do there? Thanks.

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

The question on the free capital generation. So indeed, you are right, the SCR increase, and this is mainly due to the asset allocation where we are going to more "riskier assets". So, for instance, in Portugal we have more real estate, we increase equity. In AG, there is a plan to increase the equity with the high yield of long-term equity, strategic equity with a favorable solvency treatment. So this has an impact on the free capital generation and indeed this change in the asset allocation has a weight on the SCR. So what was mentioned in my comment on the free capital generation is that you have two effects going in the opposite direction, you have some COVID benefit on the operational free capital generation. That's for sure, but at the same moment, this effect is more than compensated, because the effect is above the COVID effect, it is more compensated by this SCR increase. And you know that the SCR is multiplied by 1.75 in the free capital generation. So, all in all, this effect is more than offsetting the benefit we have coming from COVID-19.

So asset allocation?

A - Unidentified Speaker

Well on the first question. So the 140% for AG, Pillar I, I'm not so sure whether we have ever yet communicated this so clearly, but what I can absolutely say is that obviously if the Pillar 1 ratio go closer and closer to 100%, of course, we will need to take action. And one of those actions would be a reduce dividend, that's for sure, but again I really want to insist we steer and manage on Pillar 2 Solvency ratio.

A - Christophe Boizard {BIO 15390084 <GO>}

On (technical difficulty) why we had such a strong growth in the underlying result in Asia, maybe good too, because you mentioned 30%, in our mind it's slightly less, but nevertheless it is there. If we take out the effect of capital gains, VIR, and last year taxes and neutralize that as well as the VIR impact this year, we would have gone underlying, let's say, from 260 to 340 year-to-date. So now in the 340 in all honesty, there is also some positive of COVID in the Non-Life lines in Asia. So knock of EUR15 million I would say for that, which is in line. Then you have about 20% growth. Now one of the effects there that comes into play and is also part of the reason of the impairment on the Chinese banks, they were just bought, let's say, in the days before their coupon payments, and that is a massive increase in the dividend payout in Asia, which to some extent is part of the impairment, if you think about it. So that has boosted the result without any doubt, if you neutralize for the capital gains.

So I would moderate that growth in reality down a bit, but nevertheless, the growth indeed has been good. Now what can I say. Almost this is not a growth rate you can project forward. I would be happy to tell you that it would be the case, but I would not do. I would stick to what I said earlier, a bit too early to give clear expectations. Confident that we are not going to lower our guidance range and maybe a little bit, but that will happen when we announce our first year result. Growth in line with overall business volumes, provided that the quality of the book of business that is being written is good, which we do disclose to some extent with a quarter delay should guide you there.

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

Yeah, maybe the question on Taiping Re. So if all goes well with the regulatory approvals, et cetera, we could very well close the deal in Q4 this year. So the impact on the results for this year will obviously be very minimal. If we close in Q4, it will probably in December. And then going forward, I mean the number you mentioned is good enough to start with.

A - Unidentified Speaker

But we are confident on the closing this quarter. So next year we should have a full-year Taiping Re numbers. So that's right.

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

Okay guys, thanks. That's really helpful.

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

Close to certain that the deal will be closed for the simple reason that Taiping Re does need this capital increase to be done by December 31, so that they have their underwriting capacity for 2021.

Operator

Thank you very much. That was the last question for the moment registered. (Operator Instructions) We have no more question for the moment. Back to you for the conclusion.

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

Ladies and gentlemen, thank you for your questions. To end this call, let me summarize the main conclusions. We reported a third consecutive strong quarterly net results, driven by an excellent Non-Life performance. The operating performance was solid both in Life and Non-Life, mitigating some specific impairments on the Asian banks. Our Solvency position was up and well above the target level. And lastly, given our solid result over the nine month and despite the absence of support of capital gains up to now, we remain confident in our ability to achieve a result close to our initial guidance, providing, of course, that no major negative impact on the financial markets would take place in the coming weeks.

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

Operator

Thank you, ladies and gentlemen. This concludes this conference call. Thank you very much for attending. You may now disconnect your lines.