Y 2018 Earnings Call

Company Participants

- Antonio Cano, Chief Operating Officer
- Bart De Smet, Chief Executive Officer
- Christophe Boizard, Chief Financial Officer
- Filip Coremans, Chief Risk Officer
- Unidentified Speaker

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Bart Jooris, Analyst
- Farooq Hanif, Analyst
- Jason Kalamboussis, Analyst
- Johnny Vo, Analyst
- Matthias De Wit, Analyst
- Robin van den Broek, Analyst
- Steven Haywood, Analyst

Presentation

Bart De Smet {BIO 16272635 <GO>}

Thank you all for dialing into this conference call and for being with us for the presentation of the Full-Year 2018 Results of Ageas. I'm as usual joined in the room by my colleagues of the Executive Committee, Christophe Boizard, our CFO; Filip Coremans, CRO; and Antonio Cano, COO. Our CEO of Ageas Insurance Company is also present in the room and of course, our Investor Relations team is here as well.

Ladies and gentlemen, 2018 has been a decisive year for Ageas. The base of the Group has been turned with the settlement becoming final. Indeed, given the very limited number of opt out received, we waived in December the termination right. Today the execution of the settlement is ongoing. The handling of a huge number of files is a massive project and several tranches of compensation has already been paid too early fibers. Earlier this month, Ageas has also received a favorable judgment from the Court of Appeal in the MCS case. So today, we really have managed to solve almost all the legacies from the past.

Furthermore, for the first time in a decade, Ageas has been upgraded by rating agencies to A level after Standard & Poors and Fitch, it was Moody's turn to announce three weeks ago, the upgrade. On the M&A front, the sale of our stake in CardifLux Vie was finalized just before Christmas. The acquisition of 40% of the Indian non-life company, Royal Sundaram General Insurance is still on track to be closed during the first quarter of 2019. Both deals confirms our focus on strengthening our presence in existing markets and fast growing emerging markets with a clear preference for non-life activities. So now we really are in full working order to focus entirely on our insurance activities and to execute our new strategic plan Connect21 as 2018 was the final year of our strategic plan ambition 2018. And I'm happy to report that we reached almost all our targets for 2018.

As you know, it has been a challenging year for the equity markets with all major initiatives, ending the year in negative territory. Ageas has nevertheless generated a solid net profit of EUR809 million and an insurance net result of EUR797 million. This was driven by an excellent operating performance and despite EUR52 million negative net capital gain. We are still in the range of our earlier guidance of EUR750 million to EUR850 million. The net capital gains contribution to our results have been quite volatile over the years, but on average we see that we have an annual contribution of some EUR100 million year after year. So when taking into account a more normal level of net capital gains, as well as eliminating the gain on the sale of Luxembourg of EUR15 million, our underlying 2018 insurance net result would amounted to EUR930 million.

Furthermore, the performance has also been solid in terms of inflows, driven by a favorable sales dynamic in Belgium and in Asia in the second half of the year. If you look at our targets and I'm on Slide five, you can see that our combined ratio stood at an excellent 94% comfortably below our Group target. Our non-life result was indeed strong across all segments, despite adverse weather in the first half of the year. Regarding our life activity, not withstanding the impact of lower capital gains, the guaranteed products margin amounted to 88 basis points and remained within our target level of 85 basis points to 90 basis points. The only miss among our six targets was the unit-linked margin, which stood at 25 basis points.

Our return on equity amounted to 11.8%, perfectly in line with our targets, whereas our solvency ratio was firmly above with 215%. Finally, given the strong performance and the solid solvency ratio, the Boards will propose to increase the gross cash dividend to EUR2.2 per share compared to EUR2.1 last year. This represents [ph]EUR414 million , corresponding to a 58% payout ratio, which is in line with our new Connect21 dividend policy of paying out more than 50% of the Group net profit.

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

Christophe Boizard {BIO 15390084 <GO>}

Thank you Bart, and good morning ladies and gentlemen. As usual, I will first comment on the key figures which are on Slide seven. As mentioned by Bart, we reached this year an insurance net result of EUR797 million. In Q4, so Q4 alone, our net result amounted to EUR133 million compared to EUR274 million last year. Last year results included a EUR77 million capital gain from the sale of Cargeas, our former Italian operation, while this quarter we had a EUR15 million capital gain from the sale of CardifLux Vie in Luxembourg. The remaining EUR20 million being booked in the general account. The lower performance this quarter is fully due to equity impairments, leading to EUR72 million net capital losses, compared to [ph]EUR31 million net capital gain in the fourth quarter of 2017. So a negative change of EUR103 million. This comes from Asia as it could have been expected. For more details on the impact of net capital gains in the results, please refer to Slide eight.

As usual, I will give you some details by segment, now. Slide nine, despite EUR17 million lower net capital gain, Belgium generated an excellent net result of EUR415 million, compared to EUR438 million in 2017, which as you may remember, had been an exceptionally good year in terms of weather. In Life, the guaranteed operating margin remained at 85 bps, the same level as last year. The lower investment income was offset by an improved underwriting results. In Non-Life, the combined ratio stood at an excellent 93.4%. Our Belgium operations also benefited from an outstanding sales momentum with inflows up by 8%, which is well above the market growth. This performance was driven by a strong growth in Life and touching for the first time, the EUR2 billion mark for Non-Life.

In the UK, on Slide 10, the net result strongly improved to EUR87 million, illustrating the strong focus on profitability through pricing and underwriting discipline and also optimization of our operations. As a result, the combined ratio decreased to 96.8% despite adverse weather in the first half of the year. The increased result would still have the positive effect on the solvency ratio, it has gone up significantly from 147% to 167%. This focus on profitability weight on the inflows, which was down by 11%. But now, that our UK operation has made a clear recovery, we will look for a renewed balance between both, mainly in the direct business and profitability.

In Continental Europe, Slide 11, the net result amounted to EUR118 million, including EUR15 million capital gain from the sale of our operation in Luxembourg. Last year, the results included a EUR93 million contribution from Cargeas, EUR77 million of capital gain, and EUR50 million of P&L contribution. Scope-on-scope excluding capital gain, the net result increased by 3%. The lower operating result in Life was offset by an excellent performance in Non-Life with inflows up 19% scope-on-scope at constant FX. Constant FX, remember that Turkey is in that segment and a combined ratio of 92.4%.

In Asia, on Slide 12, the net result was federally affected by impairments, compared to 2017, the difference in net capital gains amounted to EUR250 million. We had EUR776 million positive contribution last year compared to EUR154 million loss this year. But that should not hide the fact that our operational performance is really strong in that zone and has improved significantly over the year. For instance, the dynamics of sale in China rebounded sharply after first quarter, impacted by the discontinuation of single premium products.

And lastly, on Slide 13, we come to the result of our Reinsurance segment, it contributed EUR8 million to the Group net profit with satisfactory combined ratio of 82.6. As from next quarter, this section will also include the quota share reinsurance activity underwritten by Ageas SA/NV, the holding of the Group, that will become an operating entity. The Group net result for the full year, including the general account amounted to EUR809 million compared to EUR623 million in 2017.

As you can see on Slide 14, the general account generated a positive net result of EUR12 million, which included the positive contribution of EUR89 million from the RPN(I) this year compared to a negative impact of EUR173 million last year. It also included a EUR20 million capital gain from the sale of CardifLux this year. You may also remember that in 2017 there was a EUR100 million additional provisions for the Fortis settlement. Still regarding the Fortis settlement, the provision for the settlement has been reduced to EUR812 million compared to EUR1.1 billion last year, following the first payments already made.

Our total liquid assets amounted to EUR1.7 billion at year end, including EUR182 million from the sale of CardifLux we received as the amount before the end of the year. EUR0.7 billion is ring fenced for the settlement and EUR186 million will be needed to pay for the acquisition of our 40% stake in our new Indian joint venture. The Group Solvency II ratio, I'm now on Slide 16, stood at a strong 215%, which represents a 19% increase compared to last year, supported by the expiration of the put option, the divestments of Luxembourg, and the increase fungibility of capital, as a result of obtaining the reinsurance license. The solid operational performance cover the expected dividend, as well as the share buyback.

Slide 15, now this is confirmed by a strong operational free capital generation for the full year 2018 of EUR629 million, including free capital generation from the Solvency II scope company and EUR99 million dividends from our non-consolidated partnership. So we are fully in line with the guidance we gave at the IR Day of EUR500 million to EUR540 million for the Solvency II scope company. The lower than average contribution of the fourth quarter, on the free capital generation, is mainly related to the increase of SCR in Continental Europe, due to high business volumes and changes in asset mix, and a temporarily high cash exposure into the general account linked to the settlement execution and the sale of Luxembourg.

Ladies and gentlemen, I leave now room for questions.

Questions And Answers

Operator

Ladies and gentlemen, this concludes the introduction and we now open the call for questions. May I ask you to limit yourself to three questions. The question-and-answer session will then follow. (Operator Instructions)

We have the first question from Mr. Ashik Musaddi from JPMorgan. Sir, please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, good morning Bart, good morning Bart, and so good morning, Chris. I have three questions, first of all, I mean, on one of the slide I noticed that you're calling back a debt, which is sitting with the AG Insurance. And what's your plan for that? I mean are you trying to (technical difficulty) that at the holding company or how would you do that and what is the benefit of that refinancing. Any thoughts on that would be great.

The second thing is, I mean there is a bit of M&A related noise, that is on Bloomberg that you're looking to buy something in Portugal Tranquilidade. Any thoughts on that would be great, because it looks like Tranquilidade doesn't have a lot of capital at the moment. So how would you maintain your capital, I mean, M&A discipline, any thoughts on that?

And lastly, the combined ratio is around 94% at the moment, which is pretty good. I mean, is this a sustainable number you think or we should still go back to 97% that your target -- that's your target? Thank you.

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

Okay, Christophe will take your first question?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes, I can start with the call indeed, and AG announced the call of USD denominated instruments at 6.75%. This, I would say is normal (inaudible), first, because there is quite significant step up close in this instrument, so the interest rates that would have been paid after the first call date would be around 8%. And considering the very high solvency ratio of AG and the very high solvency ratio of the Group, it makes perfect sense to make this call.

Having said that, you will remember that all our plan regaining the rating at the Group level was aimed at changing the way we finance the Group and to increase the financial flexibility of the Group. So as already announced during the IR Day, in case we decided to issue new instrument that would be done out of Ageas SA/NV, that's the plan, nothing new. But at this stage, no decision, so we are with -- only with the call and we have really the choice, we have no pressure, solvency is very high. But in case something happened, it would be out of Ageas SA/NV.

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

Okay. The second question Ashik on M&A and more precisely Portugal, I think that we've been already for some time quite clear on our potential M&A ambitions where we say, in Europe, we look to potential participation and consolidation in the markets where we are strong, mainly Belgium and Portugal. So if files come to the market in those countries, we will in any case look at them. And judge them on all the merits, being the strategic rationale, the capacity to integrate and of course, a bit pointing to your impression that capital might -- of Tranquilidade might not be that strong, and then the levels capitalization of companies is of course something we take with us in the assessment of files if that might be really concrete on the table. So, but as you know, we don't further comments on rumors in the market and when things become concrete, we communicate (technical difficulty). Antonio?

Q - Ashik Musaddi {BIO 15847584 <GO>}

I just have a follow-up on that. I mean if I remember correctly, you have always mentioned that the ROE hurdle is still very important for you, 11% to 13%. Now obviously when it's about Asia you can relax the ROE hurdle that, okay it might take more than five years to get to that number as it goes, we are getting, basically positioning yourself in Asia, but would you approach it in a similar manner that, okay you stay with a lower ROE for next five years ahead might be the case that sixth, seventh year ROE goes up and that's fine for particularly for an acquisition in Portugal? So, would you be -- no, no, I mean I won't like 11% ROE in two years' time?

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

No, no, I think if we -- if there is a difference in the ROE view for, let's say, start ups or growth markets and more mature markets, and let's say somewhere the advantage we've got as well in Belgium, as in Portugal is that our position is already strong. So we will look at opportunities, but we are not desperate about acquiring whatsoever in these countries. So it always we'll have to be in line with our strategic and financial requirements. So we will not do aggressive -- too aggressive steps in these countries.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thank you. And just on combined ratio.

A - Antonio Cano {BIO 16483724 <GO>}

Antonio here, I'll pick up the question on the combined ratio. So 96% is our target and remains at, obviously we all work hard to do better than that. On the sustainability of the current low combined ratio, just bear in mind that the weather was rather benign in the second part of the year, particularly in Belgium it was not so over the first part of the year. So there are no fundamental reasons to believe that this is not really sustainable. But there's always a bit of a climate volatility, but just to be clear the target remains 96%.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, that's very clear. Thank you.

Operator

Thank you. Next question from Albert Ploegh from ING. Sir, please go ahead.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes, good morning all. Thank you for taking my questions. First one is a bit on the UK, I noticed I think in the media there was also some talk about some further optimization of the organizations and maybe you can give some more color there. And also in terms of what to expect for 2019, I think in the end UK results turned out to be quite okay over 2018, I think a little bit better than in the beginning you indicated and what can we maybe expect in terms of the different contribution to the Group in 2019? So basically the first set of questions is on the UK.

The second one is more in terms of the overall cash flow upstreaming from the units. I think last year you provided some kind of guidance on what to expect over 2018, maybe I missed it, but I did not see that in the pack today. But I guess it should be probably around this level or maybe slightly high. So let's say, kind of 60-50 -- EUR650 million kind of upstream is, is that the kind of capacity you would feel comfortable with for 2019. That will be helpful.

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

Okay. On the first question, UK indeed, indeed we indicated in the course of last year a target EUR60 million, EUR70 million, we exceeded it. Thanks to -- okay. I would say, normal weather event, bad in the first half, but good in second half. There also are some minor, let's say, what we would point as exceptional benefits, they get something like EUR10 million. And so for the coming year and years, we stick to our target for the UK to move up in the scale from EUR70 million to EUR90 million. I will immediately afterwards give the word to Antonio to explain a bit the effect of prior-year leases, because that definitely will be a question that some of you might have. So we are pleased with the progress made and we are confident and as a consequence of the -- on the one side, good result in UK also the strong improvement in solvency ratio, it's clear that UK will contribute next year or this year over 2018 with a dividend, which brings me to your second question.

Last year, the upstream of dividends from the operating company exceeded EUR600 million, that's an information we gave in the course of the year. We will give the guidance of about more precise expected amounts in Q1 when we have also the local decisions in the different boards. But you can expect without any doubt that upstream dividends will be again a EUR600 million plus which will permit like last year to cover the dividend, the corporate costs and certain part of the buyback that we also promised in our new strategic approach.

Q - Albert Ploegh {BIO 3151309 <GO>}

And then maybe one small follow-up in that, let's say overall upstream, in terms of Belgium, is there any objection to upstream more than 100% given the solvency levels because directly you upstream 100% and optically doubting the net profit slightly down year-on-year. So I wonder how you would ascribe that?

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

You know that our dividend policy is clearly that if a company is above its target level that we upstream 100% of the profit and not more and do not forget that Belgium is our flagship company where we have a lot of corporate clients. So having a strong solvency is important as well for the rating and for the -- let's say, the reputation towards a big International corp is actually [ph]ensuing mainly the pension business, so we are no -- we have no reason to increase the dividend paid out. Also remember that with the call of the loan and that has been discussed earlier by Christophe, there will be a reduction in the solvency. So as such, you will have a kind of additional reduction on top of the normal evolution. (Multiple speakers) on last year, the upstream we had from the operating companies was EUR632 million. So if you then make a big picture with the additional dividend upstream from UK and overall good operational results, you can easily imagine that the upstream will be at least EUR600 million in 2019.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay, thank you.

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

Antonio?

A - Antonio Cano {BIO 16483724 <GO>}

Yes, maybe two words on UK, first you referred to the announced restructuring of the UK business, that's indeed the case, so we have announced the closure of two sites, one will take place in the sum of this year and the second would be in 2020. I cannot give you a lot of details of what that would mean in terms of staffing, this will obviously have to respect the consultation process that is now ongoing. It will have some impact on staffing levels, but there will also be some people that will be offered the possibility to move to these sites [ph]involvement on Italy where we have concentrated the activity. So that's in the UK restructuring.

Then maybe, Bart was already alluding to the Ogden rates, because I guess it's a question that will pop up. So I'll try to give a bit of color on the previous year releases and the extent to which, call it, the Ogden effect has an impact from that or not. So, bear in mind that we're still reserving all our claims in IFRS accounts at minus 0.75. That's also the case for the new claims that are being opened.

So obviously, we are closing claims of previous years at a rate that is higher than minus 0.75. And if we make a calculation of the impact that that has on the previous year's accounts. So the difference between minus 0.75 for which we are on the books and say the 0% which is kind of the best estimate that the actuaries are working now, that -- the impact of that on the previous year results would have been around EUR18 million. But having said that, the impact of provisioning at minus 0.75 compared to zero has a negative impact on our current year claims ratio and that's actually slightly higher amount. It is more in the order of EUR25 million. So you could actually say that this, call it, Ogden effect had overall on our accounts rather more like a negative impact than a positive impact. Just a bit of a color on Ogden.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes, that's very helpful.

Operator

Thank you. Next question from Steven Haywood from HSBC. Sir, please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Good morning everyone. Can you -- just following up on that Ogden rate, you are setting it on your best estimate at 0%. Is that your best estimate? Is that what you're seeing from an industry sort of opinions as well? And has there been any update from the regulators on this?

Secondly, the reinsurance that you're going to be doing from the holding company, can you give a bit more color about what the potential is to use the holding company to do your reinsurance activities and how you can continue the internal quota share agreements. What sort of benefits that give to the company and how much of your carry-forward tax losses can be used here?

And then finally from me, I just want to get an idea of the current run rate of your head office and regional office costs? I can see, obviously in the go-forward of the General Account, there is negative items for these, but if you can give me a sort of normalized run rate, that would be very helpful. Thank you.

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

So I'll pick up the follow-up on the Ogden rate. So the 0% that is based on the work that has done by our actuarial function, which remember is an independent function, so they look actually at the runoff triangles and say, well, 0% seems to be the best estimate. Again, I reiterate on the IFRS accounts, we still provision is minus 0.75, the difference being additional risk margin. As to the market with all kinds of opinions, I wouldn't go really to give a lot of details, but it is around 0% to 1%, what we hear, but it's just rumors.

On the regulation, also you said, well, it seems that probably around August we will have the clarity on the new Ogden rates that is as far as I can see how the process is going in the UK.

A - Christophe Boizard {BIO 15390084 <GO>}

On reinsurance, so you remember that as from the January 1st of this year we will have two section, the first section will be the traditional business which was underwritten by Intreas and this was -- you'll remember the participation into the protection program of the controlled entities, which will be moved to a Ageas SA/NV as well and Intreas will disappear. And then we will start this famous quota-share which were announced during the IR Day and you'll remember that this gave us the opportunity to obtain the upgrade and (inaudible).

Then going to the essence of your question, what are the financial impact, what are the main figures here? Let's start with the level of written premium. On a recurrent basis, because we will have the one-off effect in premium on the first year. But on a recurrent basis we will be slightly below EUR1 billion -- EUR1 billion of accepted premium at the level of Ageas SA/NV, and for 2019 we will be more in the range of EUR1.6 billion, something like this because we have to take into account the loss portfolio transfer we have organized from some subsidiaries, but it will be a one-off. So recurrent basis EUR1 billion.

Then, the impact on results. First, we have kind of ramp up period, over set for years, because for some entities we don't have the NPT, so it means that we start quota-share with new business only. So we will have to wait until the ramp-up period is over. But even at the end of the ramp up period, the positive contribution put by the reinsurance will not reach the level of the cost at holding level. So it means that we will still increase the level of past losses, so we will be below the level of cost and by the way, I renew the indication of the -- on heightened cost between EUR70 million and EUR80 million, so we will be below that level. So the net result of Ageas SA/NV would still be negative. But we -- in any case have a positive effect, because these positive tax base even if it is below -- is as if some cost at the holding level became tax deductible. So the effective tax rate of the Group will slightly go down, that's the effect we will see.

So, in a nutshell, because I have the impression that it was complicated explanation, in a nutshell, the positive contribution at this stage with the first step of our plan, which is the non-life part and then please remember that we have a Life license as well. The expected result is below the cost of the holding. So we don't start to eat quote-unquote the past losses, but we will have a better effective tax rate at the Group level. I hope this is clear, but in any case at the end of Q1 since we will have actual figures, we will elaborate more on older reinsurance, I guess it will be a highlight of the Q1 2019 result.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. That's -- sorry --

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

And -- sorry, go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

I think it's very helpful and I just wanted to -- about the regional office costs as well?

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

Yes, so somewhere Christophe already answered that when he talked about run rate EUR70 million, EUR80 million. You also have to be careful like you see in the figures for this year, where we entered EUR87 million is also because there are some additional cost from the old execution settlement and as we are still in execution mode in 2019, so there might be some fluctuation. But it may be also a good moment to give some -- the overall figures, where we in the past indicated that we expect the normal insurance to be between EUR750 million and EUR850 million. I believe we can now state that for the coming years that range EUR750 million to EUR850 million, moves from EUR850 million to EUR950 million. So in insurance result EUR850 million to EUR950 million is what you should expect from us to be in that range.

If you then take let's say operational costs of the corporate center EUR70 million, EUR80 million, that means that you could expect the Group result -- total Group result between EUR800 million and EUR900 million and that's also the basis for the dividend -- future dividend, so we said that we will pay out at least 50% of this Group result and this year we are at the payout ratio of 57%.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, that's really helpful. Thank you.

Operator

Thank you. Next question from Jason Kalamboussis from KBC. Sir, please go ahead. Sir, your microphone is open, can you -- your microphone is open Mr. Jason Kalamboussis.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, hi, sorry. Good morning, gentlemen. The first question is on the Asia, looking -- excluding the impairments, you have a big jump from 2017 at EUR270 million roughly to circa EUR320 million in 2018. So it's a very good underlying run rate and a very good growth. Is it something that you could see continuing growing or now you're happy that the underlying level will continue in 2019 for Asia. And also small precisions underlying, fourth quarter was around EUR50 million, if we exclude impairments. So it was in line with 2017. So I felt it was a bit of a flat quarter, if you have any color you can give that would be great.

The second thing is on the Non-Life. You do have reserve releases that are about 1.5% higher versus 2017. So again, could you talk, I mean I don't know here if this -- the UK is part of it. But could you give us an outlook on why is that, it's actually 1.7% higher. And also, specifically on the UK, the reserve releases in Q4 were 12%. So is that Ogden related and is there a catch-up effect in the fourth quarter.

And third question is just on Portugal, clearly just if you consider this acquisition, I mean the price that was mentioned, the price was EUR600 million, would that affect your share buyback. And also, would you hit any limit of market share notably on the Life side in Portugal? Thank you.

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

Okay, on the first question, the Asia, I think the recollection of figures that you've made is perfectly -- is perfect. So, if indeed you would neutralize for both years, capital gains, capital losses, you would have a sharp increase on an annual basis from a bit above EUR200 million to a bit above EUR300 million. Of course you have to be -- take into account that sometimes profit sharing can be different depending on the level of capital gains. But I believe it's fair to expect that for the Asian region, we should be somewhere with our net result in the range of, I would say, EUR275 million to EUR325 million. One of the reasons being and you see it on Slide 43 in the pack that the technical liabilities continue to go up, last year with 17%. So, your base on which you can make your margins is increasing.

The explanation for a low fourth quarter, which is again normalized EUR55 million compared to EUR60 million last year, is that traditionally the fourth quarter is lower and the main, let's say, element behind it is China. Because in China, we have a very strong preparation in Q4 for a jump-start in the next year. So, there are a lot of recruitment of agents, training of agents, investments in the new business of the next year, and that's a bit the reason why your Q4 is always below the other quarters. But I would say we expect growing profits coming from Asia and a range EUR275 million to EUR325 million should be an acceptable one. And then maybe for the releases, Antonio, you take it.

A - Antonio Cano {BIO 16483724 <GO>}

Yes, on the releases, I could -- if we just focus on Belgium and the UK, I think for Belgium, it is fairly stable, it is slightly better this year, mainly in Motor and some third-party liability, but there's nothing really special there. In the UK, so there is an Ogden impact, but if we really focus on Q4, I think that was where question it was focusing on. The higher than normal release in Q4, that's not really Ogden related, it is more related to legacy book that we actually sold, it was in the old book of reserves, with the old Lloyd's pools that we're glad we commutated. So we sold that off and that generated a positive run-off previous years, out of the 12.3% which we show in the slide, a positive run-off, about 6% of that is explained by the sale of this book. So that's -- that you could say, this was one of the exceptionals that Bart was also referring to when he mentioned the EUR10 million exceptional results in the UK for the year.

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

So, the third question on Portugal, first of all, I repeat that we do not comment on -- in general on rumors and you referred to a EUR600 million, which is an amount that cannot be taken for our account. So, we've of course -- in line with what we indicated in our Connect21 strategic Investor Day, we would have them, I insist on what would have an operation of EUR600 million that might be considered as a sizable M&A impacting the share buyback, but in that case, we would also expect that an operation of that kind would strongly increase the net profit of the Group and also the dividend upstream capacity and as a consequence, the dividend payout. But let's not jump to conclusions, we are far from concrete on this file and we stick to our opinion that we will see what happens and cannot give further comments at this moment.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you. If I can just two follow -- a quick follow-up. On Asia, on the impairments, are we -- is it possible to have the split of trigger one and trigger two, or at least, any color on it. And on the answer on the UK, I mean actually looking more specific about the Group, the Group has reserve releases of the whole year 1.7% up, now we have 7.7% release releases for the year. So is it something that we should expect next year or we should go back to the, whatever 6% that was in 2017?

A - Christophe Boizard {BIO 15390084 <GO>}

So, Jason on the question, the break down between the triggers and something we don't disclose. But I will give you some indication. So if you -- obviously this comes mainly from China, if you take the equity market, the equity market in China were down by almost 25%. So you may guess that it is mostly trigger one, which is the one we have a threshold of 25%, which plays most important role. So trigger one, vast majority.

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

And then the short follow-up on -- so on the Group previous years, I think you should, going forward, go back to the runrate of around 6% indeed.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Fantastic, thank you very much.

Operator

Thank you. Next question from Matthias De Wit from Kempen. Sir, please go ahead.

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

Hi, good morning and thanks for taking my question. The first is on the revised guidance for the insurance net result, where you now expect EUR850 million to EUR950 million, what is the main driver of that increase? So, what triggered the guidance uplift? And why does the guidance for remittances in capital generation not changed at the same time. So -- may be because it mainly China, what's driving the uplift. So any additional color would be helpful.

And my second question is on Asia. Can you remind me how the impairments are dealt with under the zero regime. So if your equity exposure carries the market value or not. Is there anything you can say on the local solvency ratio as well.

Just final question, a very small one on capital generation. I know that quarterly numbers are volatile, but Q4 was notably weaker than the other quarter. So, is there anything, I think, it's meaning the own funds, is there anything in particular you could highlight on what was driving that decline quarter-on-quarter? Thank you.

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

Okay, the first question, Matthias, the main driver is, it's a combination of that, first of all, we have the improvement that has been realizing over the past years in the combined ratio and where we see that this is becoming more and more a structural, thanks to a number of initiatives taken in terms of underwriting pricing and also technological support.

Second is, of course, the fact that our Life books continue to grow and that with stable margins on this growing portfolio also have an additional contribution. You could see the third element is of course the expected continued improvement in contribution from the Asian region where we have, first of all number of start-ups that were in the first years more indirect and that will come to positive results. And then of course also volume effects in the more mature markets. So that's -- and actually we are at a new period of three years, we thought it was helpful to adjust these figures.

A - Christophe Boizard {BIO 15390084 <GO>}

Maybe I can take the free capital generation question. So, on -- you are right that the quarterly figure on the operational impact is weak. If you take Slides 50, 55 of the book, you have the quarter taken alone and we show a EUR55 million, whereas the guidance is more in the range of EUR130 million, EUR135 million, which by the way is reached when you take the annual issue. So we suffered from some very specific impacts during Q4, mainly related to the SCR. So the reasons are related to an increase in the SCR, an increase in the SCR with the fact that we compare to our target capital, all the difference in SCR multiplied by our target capital, which is EUR175 million, and so you have these kind of complification of the effect when you have an increase in SCR. So this comes from two segments, the first one being Continental Europe, now you see that the operational contribution is even negative. So, on this we -- and whichever difference, both by the SCR, the exceptional could be assets at around EUR80 million to EUR90 million. It was due to a counter-party before risk and higher volume, all these being related to the cash and the cash being in some banks with rating and rating is such that the counter-party risk against these bank is high.

And then on the General Account which stands out as well, we have again things that are related to cash. First, we received the positives of the sale of Luxembourg shortly before the end of the year. And then on the FORsettlement mechanism, and the way we pay the claimants for the litigation, we transfer cash from our account to the foundations and we have under the Solvency II effort to recognize the counter-party risk on these foundations. So it depends on the amount of cash they have and the dynamics between the cash they have and the basis -- the level of payments they make. So, this will improve and it's real exceptional. Again and impact could be assessed at around EUR30 million. So I said EUR80 million to EUR90 million on Continental Europe, and EUR30 million on the General Account, we could restate the EUR55 million by adding this EUR80 million, EUR90 million plus EUR30 million.

A - Filip Coremans {BIO 17614100 <GO>}

I might -- this is Filip Coremans. Relating to your question on the Asian or more specifically [ph]CROs impairment --

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

I can barely hear you, Filip, sorry.

A - Filip Coremans {BIO 17614100 <GO>}

Hello, is this better?

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

A bit better. Thank you.

A - Filip Coremans {BIO 17614100 <GO>}

So relating to your question on CROs impairment triggers and the solvency situation in Asia, first and foremost, the structure of CROs impairment trigger is actually not different from what we apply. So certainly trigger two, which is the year-on-year, it's actually completely the same as what we apply, but on trigger one, where we apply a cut off of 25%, they look at a cut off of 50%. So that is the essential difference.

Now on the solvency ratios and overall on the NCPs you can see it on Slide 16 of the presentation. The average -- the weighted average of the solvency ratios for non-controlled participations is still at 241% which is still by all means comfortable. And specifically on China, and there I'll speak to Q3. The solvency ratio of China Taiping was at 232% and I can already tell you that it's not very materially down for Q4, but there we await the announcement by our partner CTIH when they announce their results. But you can already feel that, since over the Q3 to Q4 on the NCP, the average lend only down from 248% to 241%. It gives you some guidance that that impact is not severe, nor worrying.

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

Okay, thank you.

Operator

Thank you. Next question from Farooq Hanif from Credit Suisse. Sir, please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Firstly on the new holding reinsurance arrangement, can you tell us if three is going to be any impact on Group Solvency II, that's all from diversification, but if there were any change related? Also is there any improvement in fungibility of capital over time? And will you also have a 25% roughly quota-share in Life when you set that up? That's questionnaire number one.

And then question two, in the UK, clearly you're signaling the payment of a dividend potentially this year because of the improvement in solvency ratio. Can you give us a guidance of kind of what range of payout ratios you have. So, is there a minimum payout ratio when you hit a target level 50%, or whatever your payout ratio guidance is for UK upstream, that would be very helpful, thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. So I will answer on the reinsurance. So don't expect a lot of impact of Solvency II at Group level, why? Because these are internal operations. So when you consolidate, most of it is (inaudible). So what is left, we have a small benefit on the taxes side and on the tax side, this will materialize in -- I would say, marginal own fund improvement, but don't expect a lot of impact, this is not really material the reinsurance.

Then on the fungibility, this was already recognized at the end of Q2 when we obtained the license. You'll remember we obtained the license in June and at the closing of Q2, we indicated an increase in solvency due to the improved fungibility that in the future at this moment nothing is expected. So Solvency II, I would say quite stable, don't expect a lot.

Then on the Life side, it is really too early to say anything about Life. Of course, we have a Life license and of course we want to use it, but the way we will use it is still under study, but not to come this year, the plan being to have a plan by the end of the year on the Life side.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can I just quickly return before you go to the next topic, just on fungibility. I think what I was asking was more about actual physical upstreaming of cash. So, I mean will presumably the quota-share will result in higher cash holding and liquidity than before. Is that correct or am I thinking of it wrongly?

A - Christophe Boizard {BIO 15390084 <GO>}

To two, you are right, but I would qualify this more as a second order effect on the long-term. It is true that instead of receiving dividends which are subject to some limitation on distributable reserves et cetera et cetera, with our quota share we have direct access to the operational cash flow. So there is an improvement in fungibility that I would qualify this as second order and to be confirmed.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you.

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

Second question, so on dividends from UK, indeed as mentioned, UK will pay dividends in 2019 over 2018. The -- I'd say the internal methodology we use is that for each of the operating companies we have a kind of a target policy ratio depending on its risk profile and we then look to the position of the solvency against this target and that difference indicates where we have to payout of 25%, 50%, 75% of 100% of the profit. So but we don't disclose this individual targets, the only thing I can indicate is that having a strong improvement of the solvency ratio of the UK and a very good result that will be in any case, a substantial dividend paid by the UK.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, that's helpful. Thank you.

Operator

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

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

My question is mainly on the M&A war chest. I think your slides indicate you have a EUR900 million of free liquidity to spend. You already alluded to refinancing the hybrid of AG Insurance at the Group level, which could add another EUR500 million, so that will get you to EUR1.4 billion. I was just wondering how much of that's also considering to India acquisition you announced previous quarter. How much of that are you willing to use in a potential M&A deal? That's the first question.

The second question. I'm still a little bit confused on the free capital generation. I think if I listen to you correctly, you highlight EUR80 million to EUR90 million of exceptionals in Continental Europe, and another EUR30 million within the Group account -- just the Group, sorry. If I add that back to the EUR55 million, again quite a bit higher than the run rate. So I was just wondering why are you sticking to the run rates if you get to the run rate and on a full-year basis due to these large exceptionals. It seems like the last three quarters at least you've been running at a higher level in the lining. And I was just wondering, I mean parking cash at a bank that increases your SCR, but that might seem strange. So just wondering if you could talk a little bit more about that.

And the last question is again on the quota-share. So I was just wondering in what timeframe are you expecting to fully offset the cost there? Thank you.

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

The first question, we have as announced cash EUR1.7 billion at the end of the year, out of which EUR0.7 billion is ring fenced for the litigation, so that makes EUR1 billion. If you then take the EUR185 million to be paid for the Indian file and then let's say another EUR100 million for the running buyback and you deduct that, you have something like a EUR0.7 billion, so EUR700 million real free cash that you can then increase with some EUR800 million potential debt issuing. So you could say that this brings us to something like EUR1.5 billion, EUR1.6 billion firepower to -- or go into acquisitions or to use it for buybacks. So that's with the situation.

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

So and then maybe to follow up on that. So if you have a deal that's within those limits, you would never go to an equity solution and if your deal is smaller than that, you can continue the buyback path you basically indicated at your Capital Markets Day?

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

I think with respect to the buyback, we have been clear and of course have said that we will continue buybacks of $150 million, if there are no sizable M&As. We have done this M&A in India for an amount of EUR185 million and that did not impact -- and we also said that, that would not impact our buyback policy going forward. If of course tomorrow there would be file of EUR600 million, EUR700 million, we will review it and it might be a different situation. But at this moment, with everything we know, the promise to launch a buyback of EUR150 million at minimum is normally sense and will be respected.

A - Christophe Boizard {BIO 15390084 <GO>}

I will come back on the capital generation, you are right. If we add up the EUR80 million and -- EUR80 million/EUR90 million plus what I gave, the EUR30 million on the General Account, we are well above the runrate. But in that case that you have to enter into more detail and to highlight the fact that we have positive one-off in Belgium and in the UK as it is indicated in the Slide 55. And for instance in the UK, we have an Ogden effect since from a solvency perspective, we already took into account the assumption of an Ogden rate at zero percent, so that is a plus and coming on the UK, which is at around EUR40 million. So all-in-all, we are not yet ready to change the guidance on the free capital generation. We -- I highlighted some minuses, but we have some pluses as well.

Then I will come back also on the quota-share, so even after the ramp up period which will last, I would say, four years -- three years to four years, we will not reach the level of the cost of the General Account, so if we want to go beyond this, we need to put in place Life operation, and that's what I said, we have to come with a plan -- plan by the end of the year and in that case with the help of Life activity, we will be above, and in that case, we are a positive net tax base, we start to use the best low season. We can't even think of activating some DTAs in that case, but that's a little bit early. As I said, I would prefer to come back on this end of Q1, where we have the actual figures on the quota-share and more end of the year for more news on the Life side.

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

Okay, thank you very much.

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

One small follow-up on your question on tax accumulation at the end of the year and why we didn't split it. Let's say that this is a coincidence. We had two events coming more or less at the same time that is the settlement of the deal in Luxembourg, where we had substantial cash inflow. At the same time, we had to pre-fund the foundation for the disbursements that were foreseen in January, February. And then we had an extremely strong commercial performance in Portugal, in fact in the Banca channel. Where also cash was accumulated in the last weeks of the year. So overall, these three, I would say, coincidentally coincided and led to an increase of our exposure and concentration in banks. That will -- that -- that actually impact on the solvency ratio for Q3 of almost 3%. So, but that will be reverted because by now, of course, everything has been deployed and invested. So it's a, let's say, a coincidence, but not necessarily worrying.

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

Very clear.

Operator

Thank you. Next question from Johnny Vo from Goldman Sachs. Sir, please go ahead.

Q - Johnny Vo {BIO 5509843 <GO>}

Just three quick questions. In the past you talked about a -- you didn't need to have a central buffer in terms of cash. Can you go to zero or do you -- would you like to keep a buffer within the center holding company?

The second question just comes back to the reinsurance again, given that you're going to be about EUR1 billion of premium, I guess capital consumption from that business, I guess is somewhere between EUR200 million to EUR400 million, is that a fair guess?

And the third question is, just in terms of the bond redemption, I mean, did you discuss this with BNP and effectively if you were to raise, it seems like you're going to raise for a deal. I guess you have flexibility given your solvency ratio is pretty good to either issue senior or hybrid, can you give us a little bit more color on that? Thank you.

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

Okay. With respect to your first point, we never have fixed and, let's say, a minimal amount of cash that we want to have, the message we give and try to consistently apply is that, on the one side we have strong cash generation in the operating companies that is reassuring an upstream that permits us to pay the dividend and to cover the corporate costs and that is an issue we have shown that, it creates a capacity to fund a big part of the promised EUR150 million buyback.

So it means that this picture also relate to figures that I gave on expected insurance profit for the future is something that is very solid and so having at this moment, a free cash of EUR700 million is not at all an area where we should be worrying about to what level may that cash be reduced in order to be in a zone where we become less confident about future commitments. So we are more than convinced that the whole picture, dividend policy, cash generation and upstream of dividends from the operating companies, covering corporate costs and promise on future buybacks is solid and so we have no minimal buffer of cash that we did -- that we want to hold.

A - Christophe Boizard {BIO 15390084 <GO>}

Again, on the reinsurance, you are perfectly right and our estimate on the SCR at Ageas SA/NV is EUR300 million, so right in the range you indicated EUR300 million. This is Ageas SA/NV alone, because as I said on the Group level, there is not a lot of changes. So EUR300 on Ageas SA/NV, but Ageas SA/NV becomes an operating entity and benefit from all the concern we have there. So the local and the solvency ratio of Ageas SA/NV is very, very high in the range of 400%. So even taking into consideration this SCR, so there is absolutely no pressure and by the way, this is the reason why the rating agency granted this upgrade to A and despite the fact that it was declared growth, the strength viewed from the solvency ratio is extremely high. So, (Multiple Speakers) EUR300 million, but 400% local solvency on Ageas SA/NV.

Q - Johnny Vo {BIO 5509843 <GO>}

Yes, should you deduct the cash for the EUR300 million?

A - Christophe Boizard {BIO 15390084 <GO>}

Why do you want to deduct the cash? No, we don't.

Q - Johnny Vo {BIO 5509843 <GO>}

Because it's incumbent for capital for the reinsurance business.

A - Christophe Boizard {BIO 15390084 <GO>}

No, at the stage, so we will do some analytical split within Ageas SA/NV to isolate the reinsurance segment and the General Account segment. But for the solvency perspective, it's a whole. So we take the whole thing. So it means that all the assets of Ageas SA/NV are eligible.

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

There is no cash impact. It's a pure capital charge which is transferred from the operating entities to the holding, where we have sufficient capital available, and then consolidated, the effect will actually be zero.

A - Christophe Boizard {BIO 15390084 <GO>}

It is solvency calculation.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay.

A - Christophe Boizard {BIO 15390084 <GO>}

And then on -- you said on the debt, on the sub debt, senior debt or sub debt. So we have room to issue sub debt and the room is at around EUR800 million. So I think that it will be more sub debt and we have enough room to do so. No, issue.

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

And on the question of discussions with BNP, (inaudible), maybe you can --

A - Unidentified Speaker

Well, yes, indeed because, I should note Peppermint, the loss held by AG Insurance, so the decision for a call of Peppermint is made by the Board of Directors of AG Insurance and BNP's representatives. So it has been well-discussed and they are very well aware. And again on the refinancing, we look of course at the flexibility, which is at Group level.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay. Thank you.

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

Thank you.

Operator

Thank you. Next question from Bart Jooris from Degroof Petercam. Sir, please go ahead.

Q - Bart Jooris {BIO 3470300 <GO>}

Basically two remaining questions. You say that you will look for a balance between growth and profitability in the UK. Does that mean that you are prepared to let combined ratio rise a little again, that you will be willing to offer some margin there? And then I saw on a slide that you increased the guaranteed yield at AG on 1 March from 0.25% to 0.5% in some specific products. Is that a sign of some margin pressure in Belgium, could you give us some indication on that?

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

First, Antonio, you have been commenting on the UK.

A - Antonio Cano {BIO 16483724 <GO>}

Well, obviously we'd like to grow our UK business, but the whole trick and science or art or whatever is to do that while maintaining the profitability that we have today. So for the UK, we are satisfied about the profit, underlying profitability and against those parameters we want to grow.

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

Maybe shortly add there, that the -- a big part of the restructuring in UK has been to take into account a further decrease in the broker market where we have been working on, let's say, cleaning of portfolio. We have strongly reduced our presence in partnerships that were in many cases or loss making or too small. And we have stabilized that to a certain extent by a growth in the direct business through aggregators where we see promising combined ratios. So, if we go back to take-up with growth, it will be mostly in that segment where we see that the combination of lower loss ratios and lower cost ratios permits us to be at a lower combined ratio than in the partnership businesses.

A - Antonio Cano {BIO 16483724 <GO>}

On your question in the rate increase on one specific investment type product in Belgium, first of all, it was not in the last part, we did that already earlier. Well, two explanations there, the first one is, yes, we do have the margin on the new money rate. So there is not an issue at all there. So this is not giving any pressure on the margins, but it's more a re-balancing in total return for that product between guaranteed rate and profit sharing. It should not affect our margins.

Second reason why is that this was a type of product which looked a little bit strange to the end customer under the new transparency rules with the low guaranteed rate combined with the premium taxes. And so that's why we re-balanced actually between total return profit sharing and guaranteed rate. So it is more a marketing way of better presenting the product, but it should not affect at all our margins. These new money rate would decrease or margins would tend to fall, we will immediately lower the guaranteed again.

Q - Bart Jooris {BIO 3470300 <GO>}

Okay, thank you very much.

Operator

Thank you. Next question once again from Mr. Ashik Musaddi from JPMorgan. Go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. And thank you. Sorry, just a couple of more of follow-up questions. So, I mean, if we take a step back, if I listen to all the commentary you made today, I mean earnings it looked like it's moving up, you're clearly guiding EUR850 million to -- sorry, 750 to 850, now 850 to 950, so earnings are moving up, capital, you're not worried about it. So how should we think about dividend? I mean you have a guidance, I get it right north of 50%.

But if I think about just year-on-year, you have like a 2%, 3% positive on [ph]DPF just from the lower share count because if your buyback. So should we expect that you would still aim to grow the dividend with the underlying business at least or if underlying business is getting better, the dividend should grow up north of just the share count benefit. So that would be my first one.

And second one, I'm sorry to go back to the cash and M&A topic again. Just one thing, I mean you mentioned that if you do a sizable deal, you will look to cancel the buyback. I guess it's to do with the conservativeness rather than [ph]MAT because I mean you have leverage capacity, you have cash at the holding company. So when you say you might think about canceling the buyback, is it just because what uncertainty the deal brings in? What comes with the deal because if you buy an unlevered company versus a levered company things will be completely different. So, any thoughts on that would be great. Sorry to come back on this question again.

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

No, no problem, Ashik. On the first point, dividend, on the -- first of all, next to the fact that we have this renewed dividend policy of paying out 50% at minimum of the Group results. And so I gave this guidance of EUR800 million to EUR900 million for the Group result. We also have a -- it's not a written commitment that I think we've had a history, and we also mentioned it in answers to questions that the Group of course also will always try to never decrease the dividend. So it means to keep it stable of have it growing, which is also something we've been delivering over the past 10 years. We also have added in our targets an earnings per share growth promise of 5% to 7% over the period where 2% comes from buybacks and you could say and the remainder from just the natural own growing of the earnings. So, I would say, don't expect those because it's also -- is up to the Board and then the shareholders meeting to decide on it, but you should expect from us that we will do -- we will try to have our dividend growing in the coming years, in line with the way we expect the Group profit to grow.

The second one on M&A, I believe that we have taken this caveat saying, okay we go for a promised EUR150 million minimum buyback for the next period, two years, unless we have sizable M&A. I would say this is a kind of prudency method we added in order not to be -- not delivering on the promise and every time, we will have an M&A we will announce like we did with the Indian file at the moment that we announced that we signed, we will say, okay, is this -- will this impact the future share buyback policy or not. But, okay, it's very difficult to give more guidance on that. For instance, if you would have a very big M&A, we sometimes referred in the past to file like [ph]ATS , at that moment, okay, we will be needing a lot of cash and we will need debt to make that material. And so it seems quite evident for me that that moment you cannot continue with buybacks, but you will replace this by increased earnings, increased dividend upstreams, increased dividends, which is in principle than an increased dividend for the future years.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, no, that's pretty clear. I mean doing M&A is -- I don't think there's any problem in that demand, because earnings season we've got, so thanks, I think that's very clear. Thank you.

Operator

Thank you. There are no more question in queue. (Operator Instructions) There are no further question. I would like to return the conference back to the speakers.

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

Okay. Ladies and gentlemen, thank you for your questions. To end the call, let me summarize the main conclusions. We have now sold almost all the legacies from the past. We have reached five out of six of our ambitioned 2018 targets and we are in full working order to execute the new strategic plan Connect21. Despite the net result impacted by impairments, 2018 has been a strong year in terms of operational performance. And given the excellent underlying results, the Board will propose an increase of dividend to EUR2.2 per share.

With this, I would like to bring this call to an end. Do not hesitate to contact our Investor Relations team, should you have outstanding questions. Thanks for your time and I would like to wish you a very nice day.

Operator

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