Q1 2014 Earnings Call

Company Participants

- Antonio Cano, Chief Executive Officer
- Bart Karel de Smet, Chief Executive Officer & Executive Director
- Christophe Boizard, Chief Financial Officer
- Frank Vandenborre, Investor Relations Contact
- Kurt de Schepper, Chief Risk Officer

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- François Boissin, Analyst
- Jason Kalamboussis, Analyst
- Maarten Altena, Analyst
- Matthias de Wit, Analyst
- William S. Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the conference call for the Three Months Results 2014 for Ageas. I am pleased to present Mr. Bart de Smet, CEO; and Christophe Boizard, CFO. For the first part of this call, let me remind you that all participants will remain on listen-only mode, and afterward, there will be a question-and-answer session.

I would now like to hand over to Bart de Smet and Christophe Boizard. Gentlemen, please go ahead.

Bart Karel de Smet {BIO 16272635 <GO>}

Thank you. Good morning, ladies and gentlemen. Thank you all for dialing into this conference call and for being with us for the presentation of the first quarter 2014 results of Ageas.

As usual, I am joined in the room by my colleagues of the executive committee, and by Antonio Cano, the CEO of AG Insurance, and also our Investor Relations team.

Ladies and gentlemen, this first quarter is typically the time of the year during which we can expect negative impact from weather-related events. Definitely 2014 was no exception, and as already announced during the presentation of the full year results, the negative impact of the storms and floods, especially in UK, has been significant.

In such an extreme situation, our first concern is, of course, to provide immediate and continued support and high quality service to our customers. And I can say that up to now, almost 14,500 interim payments have been made to the victims in the UK.

The main headlines of the results announced today are on slide 1 and slide 2 of the presentation. The net insurance profit amounted to €145 million, compared to €157 million last year and including a €35 million net negative impact from the storms and floods in the UK. Remember that we already announced something like €20 million impact in UK during our Analyst Call on February 18, and that since then, the bad weather continued in UK.

We also can announce a good operational performance in Life, which resulted in a 19% increase in the net results to €129 million, which compensated partly for the lower results in the Non-Life and other activities, down from €49 million to €16 million.

The group inflows including the non-consolidated partnerships at 100% were up again and rose by 15% to €7.8 billion. Most of the growth has once more been recorded in Asia were volumes in China and Thailand grew by 42% and 16% respectively, compared to the first quarter last year.

The group combined ratio at 102.6% compares to 98.9% last year and includes the impact of the adverse weather, which counted negatively for around 3.8%. In 2013, we faced very cold winter days, and we had much more snow compared to this year, but all in all, this did not affect our combined ratio last year. And lastly, prior-year reserve releases were lower this year and amounted to 2.7% compared to 4.1% in 2013.

The Life operating margins showed a mixed picture. The margin on the guaranteed products increased to 98 basis points with a positive evolution both in Belgium and Continental Europe, whereas Unit-Linked margin declined to 19 basis points, in line with the trend of the last quarter of 2013 due to lower margins both in Belgium, Continental Europe and Asia.

The Life technical liabilities for the consolidated activities were slightly up on year-end to €70.5 billion, and in the non-consolidated partnerships, the technical liabilities increased more substantially to €43.6 billion compared to €41 billion at the end of last year, these figures being at 100%.

The group results declined from €293 million to €30 million, and this is to a very large extent due to General Account, which reported a net loss of €115 million, and included an additional non-cash charge for the RPN(I) liability of €104 million caused by a further increase in the market price of the CASHES financial instrument.

And finally, our shareholders' equity went up again after the descent (4:50) of last year. It amounted at the end of March to €9 billion or €39.99 per share as a result of an increased amount of unrealized gains on the investment portfolio.

I would now like to give the floor to Christophe to shed a bit more light on the financials, and to provide you with some additional insights before we move on to Q&A.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart. Further to those opening remarks by Bart, I will provide you with some additional comments on the operating results by insurance segment, the General Account and the investment portfolio.

First, our Insurance operations, and I am on slide 3 of the presentation. Our Belgian operations reported a net profit of €87 million, compared to a net profit of €80 million last year. Good operating results in Life compensated for a somewhat weaker performance in Non-Life. The good result in Life was driven by a strong operating result but also by a lower effective tax rate.

The good operating result came from better mortality results and higher capital gains. The operating margin on Life Guaranteed products increased to 92 bps, well above our target. The Unit-Linked margin dropped, as Bart already mentioned, to 26 bps.

In Non-Life, the net result came down by some 20% to €12 million. Motor performed very well with a combined ratio of 96.3%, while the Household activities did suffer from higher claims due to the weather, but remained solid all in all.

Accident & Health and Other lines reported disappointing results due to a number of large claims in workmen's compensation and third-party liability respectively. The overall combined ratio was up to 101.4%. With respect to inflows, it is worth mentioning the renewed customer interest in Guaranteed Life products, somewhat offset by lower sales of Unit-Linked products.

The headlines for our second segment, the UK, can be found on slide 4. As already mentioned by Bart, the UK activity suffered from the severe storms and floods, characterized as the heaviest ones since the early days of the 20th century.

The current net impact on our activities amounted to €35 million, which is the total charge for Ageas Insurance Limited and Tesco Underwriting. As a result, the first quarter net result turned into a loss of €6 million.

With respect to the UK, I would also like to mention that as a result of the implementation of IFRS 10, Ageas can no longer consolidate Tesco Underwriting and reports the company as of now as a non-consolidated partnership.

For your convenience, we have restated all history data. Non-Life gross inflow in the UK increased by 7% to €555 million. Motor inflows grew 3%, mainly as a result of higher volumes in some niche markets. Average premium for private cars declined by some 5% year-on-year, which is at the lower end of the range of what has been suggested by some public indices.

Household inflows grew 7%, and we have kept average premium flat here. Inflows in Tesco Underwriting grew again after a decline last year, reflecting some specific actions.

The combined ratio for the first quarter amounted to 106.1%, including the weather impact accounting for some 9.2 percentage points. This figure, for the reasons already mentioned, does not include Tesco Underwriting anymore. Tesco is not consolidated anymore.

Finally, I would like to draw your attention on the non-recurring income of €6 million included in our insurance and resulting from legal settlements.

On our third segment, slide 5 of the presentation, Continental Europe, the net result increased from €17 million to €24 million. The results were marked by steady figures in Portugal, helped by good margins in the risk business, offset by a reduction of the fee income on Unit-Linked products.

The better net result came mainly from a positive tax credit in France in the Life activity where we activated some DTAs. The Non-Life result benefited from a strong combined ratio, and in particular good results in Turkey where the combined ratio remained low at 90.8%.

And lastly, Asia, so on slide 6 of the presentation, two highlights here. First, significant inflow growth and steadily growing net results. Life inflows were up 32% compared to the first quarter last year and even 37% at constant exchange rate with the higher sales once again coming from China and Thailand. Contrary to last year, growth does not only come from single premium business but also from regular premium, while renewals were also up further.

The net profit increased from €37 million to €39 million with higher net profit in Life, €35 million versus €32 million last year, and a somewhat lower result in Non-Life, €4 million against €6 million last year. A much better result in China compared to last year as a result of higher and profitable sales. The other agency network more than compensated for a lower contribution from Hong Kong.

The Non-Life result was somewhat down because of a negative exchange rate evolution and lower capital gains but remain intrinsically very healthy with a combined ratio below 90%.

This brings me to the General Account on slide 7 of the presentation. Bart already mentioned the net loss of €115 million entirely driven by the RPN(I), which is a non-cash liability. The reference amount moved up again to €474 million as a result of a further increase of the market price of the CASHES to a level of 77.8%.

For the rest, there have been no material movements in the General Account, with a net cash position that came down slightly to €1.8 billion, due to the outflow of the share buyback for about €50 million and for the holding cost and some financing cost.

Slide 8 and 9 respectively provides you with traditional overview of shareholders' equity and solvency. In the first quarter, unrealized gains on our investment portfolio increased by more than €1.7 billion. That's a 30% increase compared to end of last year. And with this, we returned almost to the highest level in recent years, as regards to this unrealized capital gain. The solvency levels remained fairly stable at 209% for our insurance operations and 213% if we include the General Account.

Ladies and gentlemen, I'd like to end my comment here, and hand over to Frank.

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Ladies and gentlemen, this concludes the introduction, and we would now like to open the line for further questions. As usual, may we ask you to limit yourself to two questions. And if you would have follow-up questions, you can go back in the queue and (15:31).

Q&A

Operator

Yes. Thank you very much. Ladies and gentlemen, we are ready to take your questions. And our first question is from Ashik Musaddi from JPMorgan. Ashik, please go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}
Can you hear me?

A - Frank Vandenborre {BIO 15168443 <GO>}
Absolutely yes, we do.

Q - Ashik Musaddi {BIO 15847584 <GO>}
Hello?

A - Bart Karel de Smet {BIO 16272635 <GO>}
Yes, yes, we hear you.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Sorry, a couple of questions. First of all on UK Non-Life, can you give us some color on what's going on with your business because it looks like everyone else in the market is saying that the premium rates are down 10% to 15% whereas you're showing just a 5% drop in premium rates, and at the same time, volumes have increased significantly because overall premiums on a constant FX increased by 3%. That means your volumes kind of grew by 7%, 8%. So what is driving this kind of growth where the entire market is struggling to grow in the UK Non-Life space? So that's the first thing.

Second, can you give us an update on M&A and potential capital return going forward? Where are we? Are there any files that you're looking at, at the moment? How should we think about it for the coming quarters? Thank you.

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

Okay, for the first question on the UK, we indeed have an increase on premium income, but remember that last year not resending the integration of the group portfolio, we had almost no increase, which was a combination of reduced rates in motor but also a quite reduction in premium income for Tesco.

In the course of last year, at Tesco, I would say commercial strategy has been reviewed, extending further on in the clients with the loyalty cards and this is one of the reasons where as of this year, we see volumes coming up mainly due to Tesco. If we now look to the decline in average premium, as you can see in the press release and I think also commented by Christophe, we see a reduction or a decline in average premium in our portfolio year-on-year in the range of 5%.

There are a number of indices in the UK market where the one that we believe is the most useful as a reference is one from the ABI that indicates a decline of 6%. So, we are a bit lower than the average in the market. There are indices talking about 10% to 18%, but some of them are based on quotes and not on really concluded contracts.

And as you know, a lot of young drivers go for a number of quotes, so if they go five times for a quote it, it counts five time in the calculations. So, we are also more in the over 50s clients where the reductions on the average premiums are lower. So, that's the explanation we can give, increased activity within Tesco and a reduction in rates at least on average lower than the market. And also last thing to mention is that in number of cars insured, we have an increase of something like 9% in number of cars insured.

The second question, M&A, okay, I think our objectives with respect to M&A where we look at what our criteria are, are sufficiently known. We stick to them. We have been looking to a concrete file, which has been published in the press that we did not realize. And I believe that one of the reasons was that we really want to be disciplined in the use of our cash when its M&A related. We look to opportunities that exist in the markets. To be honest, they are not extremely numerous. And as we announced multiple times and also at the last Investor Day going forward, if the M&A opportunities do not show up, we have the option two, which is give part of the cash back to shareholders. And so we will continue to follow that discipline.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Just a follow-up on that. I mean if suppose we don't have an M&A, which is based on your hurdle rates, are you still confident with respect to your 11% ROE ambition, because as time passes by, it's getting a bit difficult to see, and if you look at consensus forecast as well, we are like nowhere near to 11%? So, how should we think about that target at this point given that we are not very far from that, it's just like 1.5 years away from that? So, any thoughts would be really great on that. Thank you.

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

If we look to M&A, I would say the contribution of M&A to our 2015 targets is primarily on the, a world I would call more the profile of the group, being more strengthening towards Non-Life and also emerging markets. So the M&A activity starting from a point that we in any case want them to be delivering 11% will not necessarily lift up, okay, it could be marginally lifting up the return on equity.

The move towards the 11% return on equity has to be, to the large extent, be realized within the existing companies we've got, which means that all the actions that we announced, whether it's on the numerator or denominator side, being increasing or maintaining markets on bigger volumes, reducing the combined ratio, increasing the profit contribution, which is underway from the growth markets, together with, let's say, optimization of the capital structure where some things have been done and some others are underway in terms of optimizing solvency levels, upstream dividends, all these should be the main contributors to a move to the 11%.

Of course, an element that we have less under control and that is also impacting this quarter is the – what I would call the not manageable or not easy to manage evolution of the unrealized capital gains on the – that are concluded (22:37) in the shareholders' equity. So M&A would primarily be used to change the profile towards more Non-Life and/or more emerging markets.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you. That's very clear. Thanks a lot for this.

Operator

Thank you very much. And moving on to François Boissin from Exane. Please go ahead. Your line is now open.

Q - François Boissin

Yes. Good morning, gentlemen. Thanks for taking my questions. Two questions, please. First one on the investment spread margin in Belgium. Can you just detail what the realized capital gains were in Q1 and what the underlying margin would have been without the capital gains? That's my first question.

The second question is when it comes to your financial targets, why did you come up with targets based on shareholders' equity excluding realized gains that would less volatile and probably easier to follow by the market? Thank you.

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

I will start and then give over to Christophe for the more precise information. First of all, with respect to realized capital gains, and Christophe will give the figures in Belgium, know that having invested part of our assets in real estate, that something like 10% that are accounted as amortized cost, it has always been and it will remain part of our, let's say, philosophy and also attitude to plan – to budget capital gains as well on real estate as on shares.

We do not budget capital gains or expect capital gains on bonds because that's a portfolio we have more in buy and hold portfolio. So, having an impact in the Life results from capital gains is, I would say, is part of the normal business and can certainly with real estate fluctuate from one year to another because you cannot spread them equally over the year. But Christophe will give the figures.

The second question, we opted to base the ROE calculations on the shareholders' equity as we presented in our figures, in our accounts, which is including the unrealized capital gains. You can see that in our press release on page 2, we also mentioned the ROE excluding the unrealized capital gains. But okay, the target we have fixed two years ago, and that we still try to achieve is the one including the unrealized capital gains. I'm sure that the other solution could have made it easier, but on slide 21...

A - Christophe Boizard {BIO 15390084 <GO>}

Yes, on slide 21, so you have part of the answer and not all the answer. So you are right, François, we have some kind of one-off in the margin for Q1. So if you take slide 21 on Belgium, you can see that basically the impact of the margin is €10 million more with respect to last year. And if you take into account the mathematical results around €50 billion, let's say, but it is roughly 5 bps, so you can decrease by 5 bps, the 92 bps that we have at the end of the first quarter. So, it's not enormous but it is 5 bps.

Q - François Boissin

Okay. That's helpful. Thank you. But I mean just a follow-up question on this. What – so, basically, what was the contribution from real estate capital gains in Q1 and just following up on (26:17)?

A - Christophe Boizard {BIO 15390084 <GO>}

No capital gains on real estate in Q1 and that's – it could be in Q2 or Q3 or Q4 but – and also, last remark is that in Life, in order to go to the margin that we target, we still have also the flexibility in Belgium of the discussion of profit sharing. So, at the end of the year, depending on the total investment income, we are still able to, let's say, to determine the real profit sharing we want to give and to cover maybe a shortage in financial income, but that's not what we expect to be necessary to do.

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

Maybe just to add that, Q2 typically is also the dividend season, so they would also see all of their one-off, yearly one-off.

But to elaborate a little bit more on this capital gain, so this comes from realization of capital gains on equity. So, this is important to highlight because you can connect this with the fact that the effective tax rate is lower. And you know that in Belgium, when you realize capital gain on equity, this is tax free. So, we have a lower tax rate because we realized these capital gains on equity in Q1 and the view was that at the beginning of January, markets were seen as good and it was good opportunity to realize part of the annual budget.

Q - François Boissin

Okay, very clear. Thank you very much.

Operator

Thank you very much. And moving on to Matthias de Wit with KBC Securities. Please go ahead. Your line is open.

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

Yeah. Good morning. Two questions please. First on the €35 million negative impact from the exceptional adverse weather, could you comment whether this amount includes any impact from storms and floods you would normally expect to see in the first quarter, or is this really incremental claims specifically related to these floods which come on top of the normal adverse weather-related impacts you could expect?

And then secondly on Continental Europe, you're currently significantly ahead of the 200% target you're using for the OpCo level. Just wondering whether this excess is fungible and whether you're looking at an upstream to the HoldCo in order to optimize the ROE? Thanks.

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

Okay. The first question, the €35 million of course in one quarter is far ahead of what we normally expect to have, but you could say that if you are looking to go somewhere to a normalized, that you could say when we would have something net effect of €5 million, €6 million, €7 million in a quarter, that would be more in line with normal expectations.

A - Christophe Boizard {BIO 15390084 <GO>}

And for the 200%, the other question, you are right. Continental Europe is overcapitalized. The issue mainly comes from Portugal and we are working on this with different options. But it is true, but it is something that we have on our table. If we are low in Continental Europe, it is not because of the numerator but the denominator. There is something to do on this, and we are absolutely aware of the problem.

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

What are you exactly waiting for then? Is it the regulator, which is opposing any upstream or can you...

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

You know what, it is a partnership, so we are waiting for the outcome of the discussions with the partner.

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

Okay. And just to follow up on the capital position, is there anything you can say on Solvency II, now that most of your global peers are providing some insight at least on the economic capital position of the group. So, maybe you could start to provide some indication.

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

I hate to disappoint you. We can only continue saying what we've said is we have no indication at this moment in time that there would not be a good position for Ageas, on the contrary. But as you know, there are still a number of issues that need to be clarified in terms of what will be the rules.

You know also that there is EIOPA stress test that is being prepared now, where we expect the global outcome to be available in the fall. I think that once we have that stability, we can start thinking about communicating about it. But at this moment in time, I'm afraid you need to do it with what we've said in the past and which we confirm that is that we have no contraindications coming from Solvency II.

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

That's very helpful. Thanks.

Operator

Thank you very much. And the next question is from Maarten Altena with Mediobanca. Please go ahead. Your line is now open.

Q - Maarten Altena {BIO 15898902 <GO>}

Yes. Good morning, gentlemen. Two questions from my side. The first is a follow-up on the UK. I was wondering whether we should expect an impact from the UK flood in the second quarter as well, or was this purely a first quarter event?

And the second question is regarding Continental Europe, I guess what's the amount you recorded for the French DTA in the first quarter, and should we expect more from these DTAs in the near term? Thanks.

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

Okay. I can take the second one because it's the easier one. So on the DTA, we booked €6 million. So the story is the following: we have nicely restructured our French operation which means that we can prove that (32:02) we have profit in the future. Having profit in the future allows you to activate DTAs. And usually, you do this on several years but it is to be agreed with your auditors. And we activate three years, so it is €2 million times three years, and it's a one-off, but each year, we hold for one year. So but it's a one-off. Three years, three times €2 million.

And the first question on the UK is, of course, the question is whether that we expect that in Q2, we will have further impact from the storms in Q1, meaning repletion of reserves or something. I would say we have no indications whether there will be further weather impact in Q2, as we already reach mid-May. Until now, we can say no. And we cross fingers and hope that it will stay good end of the quarter – there will be a good end of the quarter. But so we believe, like always, that the provisions taken and claims paid in Q1, as most of these were January or February, that the position we have taken in Q1 is quite prudent.

Q - Maarten Altena {BIO 15898902 <GO>}

Okay. Perfect. Thanks so much.

Operator

Thank you very much. And moving on to Jason Kalamboussis with Société Général. Please go ahead. Your line is open.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Hi there. I just have a couple questions. The first one is on Malaysia, if you could elaborate more on what is going on there and what we should expect during the year?

And the second thing is on the expense ratio in the Non-Life. First of all, does it include any restructuring in either in Belgium, UK or somewhere? And the second thing is (34:05) at high levels, I hope that you know especially in the UK would start to see an improvement and overall also in Belgium. So could you comment on that one, please? That will be great. Thank you very much.

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

Okay, with Malaysia, when we look to Asia, I think Malaysia is a country that is – the operations we've got are quite mature where we've seen in the previous years quite some important single premiums in Life. We have deliberately worked with a partner as well in the distribution channel with a bank as the agents to increase or to invest more in regular premium which is slowly taking off, and to reduce fundamentally the impact of the single premiums.

Of course, there is also a currency effect that – because in the local currency, there's a positive development if we – or apply the currency effect, it's a negative evolution. But I think as well, the way we discuss very openly with our shareholder or co-shareholders on the way to improve the efficiency in the sales through the bank, as the approach of the agency channel is something that's a current topic on the agenda of the board.

The second question, expense ratio, there are in the expense ratios Non-Life restructuring costs as well in the UK as in Belgium. In the UK, it's more linked to a further improvement of – because the Non-Life and other are to a certain extent combined, in order to increase our efficiency and also to restructure the IT platform, in Belgium for instance where we are investing quite some money in the further development of the health business where we are number two player. And this is the – what we do is we take always all investment costs in P&L so we don't amortize it. And this is one of the reasons why you see a slight increase of cost ratios.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

If I may have just one follow-up on this. Would it be – I mean, some of your peers have been, probably, have initiated specific measures and have been quite clear about what the measures are, what the restructuring is and what the benefit is. Is it something that you would consider for the Non-Life operations since, clearly, that will be one of the key drivers that would get you to your 2015 combined ratio targets and further below – further down turning that to one? (36:53)

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

So, one, we look, of course, in each of our markets where we are in terms of cost ratios because there is cost and commission and commission is highly depending on the mix of your portfolio. But in terms of cost ratios, we assess, of course, in each of our core markets how we stand compared to the competitors. You can say, if you look to UK, the cost ratio is clearly below the competitors and achieving, okay, one of the best cost ratios whereas commissions weigh more in our portfolio than some of the competitors. In Belgium, the cost ratio is amongst the best in the market, but the delta between players in Belgium, between the best and the worst in Non-Life is not that big.

So, our opinion is that we have to put everything in place to contain our costs, to have cost ratios that are on average over the cycle slightly decreasing, and we believe that it's much easier and much more efficient to work on the claims ratio than to try to get 1% cost ratio, (38:07) because in some cases, reducing costs can lead to less performing underwriting or claims handling and has a more than important negative impact in the claims ratio.

So, we are quite confident also in Belgium that the combined ratio target of certainly below 100%, meaning in this interest rate environment, moving to 97% is achievable. And, okay, this quarter is one that's, of course, impacted by a number of specific events that we do not expect to be multiplied or repeated for the remainder of the year.

Maybe back to additional comments on the UK, if I may. The first one being that we still have some extra cost due to the completion or the integration of Groupama UK, the completion is not 100% completed. So, we still have some remaining costs which will disappear. And the second comment is more with the decrease in the premium, you have the mathematical effect of the decrease of the denominator and the net premium being lower, your ratio increase without any even change on the numerator side, i.e. the cost.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you very much.

Operator

Thank you very much. And moving on to the following question, William, please go ahead. Your line is open.

Q - Frank Vandenborre {BIO 15168443 <GO>}

Hi. Is that William Hawkins from KBW?

Q - William S. Hawkins {BIO 1822411 <GO>}

It is. Hello. Two questions please. Your UK motor combined ratio that rose year-on-year, could you talk about the drivers of that? Is it just pricing or is there anything going on, on the claims side? And then you've also, in your presentation, made reference to renewed interest in guaranteed products in Belgium. I'm not quite sure why that would be. So, could you explain what's going on in the market to make people more interested in those again? Thank you.

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

Starting with the second question, so last year, there was a quite strong reduction in Belgium for the – with respect to interest in guaranteed products. If my memory is correct, more than 30% decline, the whole market. The main reasons were double, one was an increased tax – an upfront tax that almost doubled. And the second reason was, of course, the low guarantees that were at 1.5%, coming from 1.2% a year before.

In the meantime, this guaranteed did not change, nor upwards nor downwards. So, it remains 1.5%. But what we see is first of all that there is no further decline and secondly, that the appetite of the Belgium citizens to go for more risky products certainly did not increase. At the same time, the interest that Belgians receive on saving account reduced further, and so going into, let's say, a life insurance contract where they have 1.5% is preferred above – well, of course, they have to commit for eight years at least – is preferred above savings account where they have something like 0.5%.

And don't forget that at this moment, there is something like €300 billion on the savings account in Belgium for a GDP that is in the order of €380 billion. So there is a lot of money very low-yielding, and then a guaranteed product even if it's with a commitment to stay in the product for eight years is something that attracts the interest of clients. We say there is a renewed interest. If you look to the figure, it's not that volumes go up with 20%, it's something like...(42:04)

A - Christophe Boizard {BIO 15390084 <GO>}

(42:05)

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

Yeah. Then with the UK Motor...

Q - William S. Hawkins {BIO 1822411 <GO>}

Sorry. So just to clarify, there's nothing that you guys have done in terms of pricing or commission structure?

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

No, no, no. Commissions did not change. Pricing remained at 1.5%. And of course, on top of the guarantee for the past products, there is a profit sharing. That profit sharing, I look a bit to my right to Antonio, was not the top in the market but it was in the, I would say, somewhere above the average that we reached...

A - Antonio Cano {BIO 16483724 <GO>}

It was 3%, yeah (42:33).

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

It was 3% and (42:34) 3% is a very decent performance when you compare with the Belgian govies. At this very moment, we are slightly above 2% but not by much. So when you give 3% which is what people have in mind, the last thing we disclosed, it's a very good performance.

A - Antonio Cano {BIO 16483724 <GO>}

But the 2% is, of course, not guaranteed. That 1.5% is guaranteed and if you go back to 2011, we only gave 1.5%. And so there was no profit sharing. So, it's not the guarantee but this is a product that is generally accepted or demanded by clients. But the guarantee, to confirm you, did not go up. The commissions did not go up.

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

And here, I'd like to recall the fact that with the whole duration gap, we have a small advantage vis-à-vis the peers because most of the peers, they have a small duration gap, and which means that assets have a slightly lower duration, we are better protected. So, our yield on the portfolio is more resilient than the one of our peers. So, we have a competitive advantage with this asset management choice.

Okay. Then going to your first question, UK Motor combined ratio, first of all, there has been some impact from the weather. We figure it at something like 0.8%. And a second point is there has been a review prior-year reserves for some larger claims. You can see that last year, it was a release of – in Q1 of something like 1%. This year, it's strengthening with 1.4%, so the delta is 2.4%. The two effects together is something like 3.2%.

I think also important to refer here maybe to the very good Motor results in Belgium, where the combined is below 96%. And let's say for the large losses review in the UK, some conclusions have been taken out of that. That will certainly be included in our future pricing.

Q - William S. Hawkins {BIO 1822411 <GO>}

Okay. Thank you.

Operator

Thank you very much. And moving on to Albert Ploegh with ING. Please go ahead. Your line is open.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes, good morning, gentlemen. May I have a few questions from my side? First one on litigation, there have been, of course, some court rulings during the quarter. Do you basically therefore also feel now a little bit more comfortable with the capital buffers, i.e. meaning that you could hold lower capital buffers going forward?

Also a question related to basically follow-up questions, I think, of Matthias. On the optimization of the capital levels of the subsidiaries that you've mentioned as part of the plan maybe to also increase the ROE of the insurance operations, obviously in light of Solvency II, can we expect some outcome to be shared already this year or is it more likely during the course of 2015?

And the final question, on the holding net cash, just to be sure, there has been no dividends upstream from subsidiaries in the first quarter. Will this only happen at year-end with the formal accounts approved or could there already be some upstreaming in the first half? Thank you.

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

Christophe will start, yeah.

A - Christophe Boizard {BIO 15390084 <GO>}

So I'll start with the litigation on the pack, pages 51, 52, you have the description. You're absolutely right. We've seen at the end of last year, beginning of this year a few judgments, where in February the AFM II fine, as we call it, which was related to the period of September-October 2007 has been cancelled. I think we commented upon that. There were various elements in that judgment on one, of course, at the basis, it says that the Dutch regulator did not adequately justify its decision, but the court also clearly said that, according to the court, the risk assessment of Fortis at that time was adequate given the circumstances.

A negative judgment we had just before December 2013, and that's on the Ondernemingskamer which, of course, does not set yet any responsibilities but did cover the full period, so starting 2007 up to the catastrophe in 2008.

And then finally, we had in March 2014, an appeal rejected, so a fine confirmed for the period of June 2008. And lastly, to just be complete, in terms of the uncertainties, there is, of course, this criminal file in Belgium where the outcome is still far, far away because we are still in the very, very initial phases.

So in terms of uncertainties to the future, there has been a positive one which, of course, we very welcome. But I think it is too early to say that that would take away all of our attention towards these cases.

As to financial impacts, we have not provisioned for them, and we have them in our contingent liabilities, where there was a small claim that was announced – what small? Everything is relative. A claim that was announced by RBS, on which we have known use, but which popped up during this quarter. So in terms of numbers, I'll just stay with this general comment and say that this is a continuous attention point for us and no quantification of that at this moment in time.

As to the other question...

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

Yes, I can answer to the question related to dividends. So you are right, we didn't receive dividend during Q1. But that's not, I would say, the season. The season is more Q2 where all of the dividends are expected. Maybe what I can tell is some kind of good news coming from Hong Kong. You remember that last year for the first time, we decided to pay a dividend of €50 million and an additional dividend was paid in April, so will be accounted for in Q2. So, this means that on Hong Kong, we have, let's say, consistent good news and it's a quite a change with respect to the past.

So on the dividend front, everything is expected for Q2 as I said. And by the way, it's the reason why you may see in the cash allocation a slight increase because subsidiaries are preparing themselves to pay the dividend and they need cash. I think of AG, for instance, whose contribution is quite significant.

So that's it for the dividends. Then the capital optimization. So you remember that last year, we put in place the first move on the Belgian side, quite consistent one. We still have this kind of operations on our agenda. To this year, the countries which will be subject to this kind of optimization will be maybe France and Portugal.

So, it means Continental Europe. And as I said, Portugal is overcapitalized, so we will take actions there. And the UK can be a candidate. Nothing from Asia, because the only consolidated entity where we are at 100% is Hong Kong. And this is dealt with specifically with the change in the capital, but without putting sub-debt because there is no tax advantage here. And so for this year in conclusion, we will mainly work on Continental Europe and maybe the UK.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you very much.

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

But something will be done by the end of the year for sure. This is also a good occasion for me to come back on an earlier question and to – for instance, the reason why we have been achieving this high solvency ratio in Portugal is also because in the past two years, we've been consistently looking to the product mix of our entity, which means that we did not go into the high-yield or high-guaranteed savings products. This has freed up of course or reduced the required capital, while the capital is kept in the company. So, we are now at a quite high level and this is the moment, as Christophe mentioned, to reduce that. And that's part of all the actions that we have announced in September to little by little move to this target of 11% return on equity also.

Q - Albert Ploegh {BIO 3151309 <GO>}

So if we could....

A - Christophe Boizard {BIO 15390084 <GO>}

You know that I am always extremely prudent about Solvency II. Every time the deadlines get delayed and delayed again, I think what we need to see before committing to any final date, we need to see that things are being put into legislation, are effective, and technical details are sorted out.

Now if – and this is in bold and underscore, if everything is clear by November, then I would say somewhere in the first half of next year, there might be a possible clearer indication for you. And I appreciate that you'd like to see that earlier, but there is simply too many detailed changes that, to my feeling, are still pending and unclear. But it's still coming, that's good news on that one.

Operator

Sir? Does that answer your question, sir? Okay, since there is a silence, we will move on to the following question from Jason Kalamboussis. Please go ahead. Your line is open.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Hi again. Just two quick ones. On the criminal case in Belgium, you said that it was far away. My understanding it was, I think, the prosecutor that decided that Ageas was not part of the criminal proceedings, that he had to look into some research and that he would – that was asked by other parties, and that he would confirm somewhere in the summer that Ageas probably is excluded, if that's where he goes. And then, there is an appeal that's relatively quick. So I just wanted to – because you were mentioning criminally far away, my understanding was that there is a chance that we see the criminal proceedings reaching the outcome throughout the year.

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

Absolutely not. You could see the start happening relatively soon, but let's not forget that it's – you're absolutely right what the prosecutor said, okay, but it's not the prosecutor who decides who has to go to court. That is a separate dedicated court that decides on who has to go and on which appeal procedures are possible.

So if Ageas would not be referred to court, which is the basic hypothesis, then we would be delighted to see none of the other parties appeal that. But it is not at all guaranteed that that would not happen. I'm just looking at my legal adviser next to me. When I say that outcome is perhaps an idea (55:56) to start early next year, is that still too optimistic as to your feeling on the criminal litigation process?

A - Kurt de Schepper {BIO 6240700 <GO>}

We believe that there is no expectation that whatever outcome on the investigation puts, (56:10) that eventually would decide on which party would be referred to the criminal court itself that eventually will rule over the merits would come to an end any time before next year, given the fact that for the time being, there is still additional investigations going on.

Most of the civil parties in the criminal case have asked for additional investigation steps, which have been granted for the most part and which are now going on. They may go on for several months, so before the end of this year, we would certainly not see the investigation courts come in. That then again, as Kurt said, will eventually decide on who will or will not be referred to the criminal court itself. So, it's a process that is not definitely going to move forward in any significant way before the end of this year.

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

Thanks, (57:20)

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yeah. That's very clear. If anything, it's very good because it means that the criminal is blocking anything on the civil side. So, it's going to take some time. The other thing, it's on the unit-linked side in Belgium, just wanted a quick clarification. I think you are mentioning that you know, there was an interest for individual, that the individual unit-linked sales were decreased. And there was an appetite for open products, but they were held back by structured products. Do you see that reversing? That means, do you expect that the unit-linked sales to continue to be depressed? Or do you find that we will see through the year a cross-over, so we could see some positive momentum in the second half of the year?

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

I'll pass to Antonio (58:08)

A - Antonio Cano {BIO 16483724 <GO>}

If we see a somewhat depressed interest on the structured unit-links in the first quarter, that interest also becomes increasingly complicated to structure them, and at the same time generating a return and an effective return also for the customer.

We see a bit of pick up on the traditional open-linked type of products that you also see in the mutual funds business. Having said all this, we have a few new products in the pipeline also in the structured product area where we hope that the sales will come back to the level – at least, the levels as they were last year.

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

Of course, the proportion of unit-linked sales (59:00) but also in Belgium still remains fairly limited we also – (59:07) the contribution to the net profit there.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Very good. Thank you very much again.

Operator

Thank you very much. And moving on to Ashik Musaddi with a follow-up question. Please go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Thanks. Thanks a lot. I've got a couple of follow-up questions, if I may. First of all, I mean in the past, you have mentioned that you have strict acquisition rules. Now, I just want to understand if anything has changed on that perspective given that markets have changed a lot. And has anything changed or are you kind of still looking at the same kind of matrices when you kind of look at any file for prospective acquisition? That's the first thing.

And secondly on Solvency II, just want to get some sense. Now, how should we think about Solvency II? Should it be on a legal entity basis, i.e. do you need to be Solvency II-compliant on each and every legal entity basis, or will it be always looked at insurance level, the group insurance company level or will it be a big group holding company level? So, how should we think about the Solvency II ultimate number? In the sense, later, what is more important, which tiering is important? Thank you.

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

Ashik, I will give a very short answer on the first question, permitting Kurt to give a more elaborated answer on Solvency II. So, we did not change our metrics with respect to M&A. So, the criteria looking to potential important market positions, meaningful contribution to the group and also return on equity achievable within a short period of time of 11% remained, let's say, the key criteria. And next to that is what we said in the Investor Day, we prefer, of course, to do it in markets where we are because we know then we can create synergies. And on top of that, of course, we look to new positions in emerging markets where we – okay, where we try to repeat some of the successful stories we've been able to realize in Asia.

A - Kurt de Schepper {BIO 6240700 <GO>}

Ashik, the answer on your questions regarding Solvency II is each legal entity in every country that is doing insurance is regulated in that country and needs to have, of course, the minimum levels of solvency and will be looked upon by its regulator. The question for an insurance company is not whether you are at the SCR level, but what is your margin. And in terms of investments, as long as the group margin is adequate, which means that you can shift capital from one to another entity depending on the need, that should be the driver, I think, of those that analyze the situation of the group.

But the – in terms of what do you need to satisfy? Solvency II is an accumulation system. So each regulator remains responsible for what happens in its area. And then, there is a group regulator. In our case, it's the Belgian National Bank, who has to look at the group-wide solvency. I hope that answers your question.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. That's very clear. Thanks a lot for this. Thank you.

Operator

Thank you very much. And moving on to François Boissin with Exane. Please go ahead. Your line is open.

Q - François Boissin

Yes. Good morning, again. Two quick follow-ups. The first one is with regards to workers' – workmen's compensation in Belgium. Can you give a bit more details on what's going on there? And the second question is a follow-up on the capital optimization measures they can take in Continental Europe. Are we talking of a capital reduction in those countries or are we talking of sub-debt injection from the group there? Thank you.

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

Okay. Workmen's compensation, we have a combined ratio of 115%. Important to point to the fact that this is a business with quite high level of reserves, so five to six times of premium. So, it means in this business, the investment income is also of some importance. But having said that, what we have seen in the first quarter is that we have been impacted by a number of bigger claims, that it was more this time in the small and medium enterprises with permanent disability levels.

So, as a consequence of that, a number of actions have been prepared to cope with that. One of them is partly pruning of the portfolio, also rate increases, which is not new. Also, some change in clarification, but also here, reminded that this is a business line that in the years, if I remember well, 2008 to 2010 was extremely profitable, then there has been some worse years. Last year was acceptable, and now we have a better quarter. But the different actions are repeated, tariff increase, changes in the underwriting framework.

There is a specific new committee that has been set up to more assess the willingness to accept or not the corporate clients, and then there are specific pruning actions that are foreseen. And this is something that, which should help us to improve the situation.

A - Christophe Boizard {BIO 15390084 <GO>}

On capital, so you have different cases here. In some cases, the capital is obviously too high. That's the case for instance in Portugal. And as a first step, we want to decrease the capital by exceptional dividend or capital reduction without any compensation, which means that as a first step, there is no sub-debt being contemplated.

Then this is the first move. The second move is once we have reached the adequate level of capital here, we start the optimization. Optimization, we can think of replacing part of the capital with some sub-debt. But at this stage, it's a second phase, and we have not started the discussion with the partner in Portugal. So in Portugal, we are discussing the first phase.

For the other countries, I mentioned and mainly France and UK, the capital position is much closer to the optimum internal of (01:06:06) levels. So here, you can think of the optimization. And in that case, replacing part of the capital with sub-debt. And with this, we would do what we did for Belgium, the same thing.

Q - François Boissin

Okay. Okay, very clear. Thank you very much.

Operator

Thank you very much. And moving on to Matthias de Wit with KBC Securities. Please go ahead. Your line is open.

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

Yes. Two small further questions please. First on the Non-Life investment results, they're up year-on-year but slightly down on a sequential basis. Could you provide some directional comments for the quarters ahead please? And what would be useful is to – if you could provide the current running yield and how this compares to your Non-Life reinvestment yield? So that's the first question.

And then second, just to come back on the optimization and the use of any proceeds. Could you maybe comment on how you see this going forward? And related to that, is there any timing which is relevant for any optimization of the whole company excess capital position? You mentioned during the call that there are no large scale M&A

opportunities fitting your criteria at this point in time. But when will you decide to move in case this remains like this for the coming quarters? Thanks.

A - Christophe Boizard {BIO 15390084 <GO>}

You have two different things. There you have what I call the group optimization and then you have the management of cash, which is something completely different, what I refer to the capital optimization, so potential upstream coming from Portugal, in theory, this would increase the level of cash at the group level in the General Account.

Then same thing, in – so it would increase the cash level for the second step that I mentioned, the capital optimization, where you replace the capital with some sub-debt. It is cash neutral because you receive dividends and you own the right sub-debt, which is cash neutral.

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

But are you more referring to the upstream new plan or you could do from Portugal or France, and the use of the proceeds coming from that exercise?

A - Christophe Boizard {BIO 15390084 <GO>}

So it would, as I said, increase the amount of cash, the €1.8 billion, and then, we are back to the question about what would be the future use of this amount of cash gathered at the holding level. Okay. Then on the investments, the yield?

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

Slide 21 gives you...

A - Christophe Boizard {BIO 15390084 <GO>}

Yes. On the running – and I think what you are looking for is to see what is the yield on asset matching the result. If I understood...

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

...more specifically around Non-Life.

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

Yes, for Non-Life. That's correct.

A - Christophe Boizard {BIO 15390084 <GO>}

So on Non-Life, what we have – so we have the running yield. So what we have on the portfolio. And then you have the yield on new money. On the whole portfolio, we are at 3.8%, more or less, something like this. And on the new money, we are more – we are slightly above 3.3%.

On Q1, which can be seen as surprisingly high, the 3.3%, when you compare to the certain debt levels and the figures I am giving here are the figures coming from Belgium. But as you know, it is significant part of the total Belgium accounts for more or less half of the group.

But if you take the Belgian example, so although it's slightly above 2%, and we achieved 3.30%, which seems high, what we did is we invest for the sovereign debt. We think that's not directly into OLOs but a lot in quasi-government instrument. We have guarantees coming from the region and with this, you have a spread and we took duration slightly above the duration of the asset on this specific asset class compensated on the high yield with shorter duration. So we match the duration being longer on the sovereign side, shorter with the high yields. And on the high yields, we still had some good return, around 4%. So all in all, we achieved the 3.3%. But to be honest, in future quarters, if the rates remain so low, the 3.3% is likely to decrease.

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

If you go down on the Non-Life, Matthias, I think you can find it on – and you probably refer to page seven of the press release where you'll see that the investment result in Non-Life moved up with €1.4 million, while the cap gains were quite stable and the reserves moved up a bit more specifically. But I would say that there is nothing special to say with – as far as I'm concerned, looking to Antonio with Non-Life investment results. Also, the expectation for the remainder of the year is quite stable.

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

Okay. Thanks a lot.

Operator

And there are no further questions in queue. And as there are no further questions, I would like to return the conference call back to the speakers.

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

Okay. Thank you, ladies and gentlemen. Thank you for your questions. I would like to summarize very briefly at the end of this call the main conclusions, there are three. One, steady growing inflows with positive evolutions across the various segments to highlight a few, the sales pickup in Belgium and the trend towards more regular premium in China. Some Life results, with forward contributions from all segments and margins especially on guaranteed products evolving positively. And finally, Non-Life results, which corrected for the exceptional weather-related costs remain good, but where we are conscious some attention points remain and we will work on these.

So all in all, this has been a different quarter but some seasonality and cyclicality is part of life of an insurer. This will not refrain us from continuing to focus on the realization of our Vision 2015 targets. And with this, I would like to bring this call to an end. Don't hesitate to contact our Investor Relations team should you have outstanding questions. Thanks for your time, and we'd like to wish you a very nice day. Good-bye.

Operator

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