Q2 2014 Earnings Call

Company Participants

- Bart Karel de Smet, Chief Executive Officer & Executive Director
- Christophe Boizard, Chief Financial Officer
- Filip Coremans, Chief Risk Officer
- Frank Vandenborre, Investor Relations Contact

Other Participants

- Albert Ploegh, Analyst
- Antonio Cano, Chief Executive Officer
- Ashik Musaddi, Analyst
- Benoît Pétrarque, Analyst
- David T. Andrich, Analyst
- Farquhar C. Murray, Analyst
- François Boissin, Analyst
- Jason Kalamboussis, Analyst
- Matthias de Wit, Analyst
- William H. Elderkin, Analyst
- William S. Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the conference call for the Ageas' Six Months Results 2014. 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 begin.

Bart Karel de Smet {BIO 16272635 <GO>}

Thank you. Good morning, ladies and gentlemen. Thank you all for dialing in into this conference call and for being with us for the presentation of the first half 2014 results of Ageas. As usual, I'm joined in the room by Christophe Boizard, our CFO. And I also welcome Filip Coremans, our new Chief Risk Officer since the first of July. He was formerly our CFO and CRO in Asia. Furthermore, we also have Antonio Cano, the CEO of AG Insurance, in the room. And of course, our Investor Relations team is present as always.

Ladies and gentlemen, the first six months of this year have definitely been marked by a few rather exceptional weather-related events. The storms and the floods hitting the UK badly in the first quarter received quite some press coverage. But also in the second quarter, severe hailstorms left their mark on Belgium, causing a significant cost. This type of events are typically moments where our customers want to be helped immediately and want to have professional and high-quality support.

In total, almost 50,000 families in UK and Belgium have been held by our colleagues. In spite of the costs related to the adverse weather, our net insurance results came in above last year's level, helped by very good Life results and the nonrecurring tax credits in Belgium. So, all together, I'm pleased to say that the underlying trends are good and should set the tone for the rest of the year. The historically high level of unrealized gains on our fixed income portfolio has further driven up shareholder equity. And this has a negative impact on our return on equity.

Ladies and gentlemen, when browsing over the main headlines of the results announced today, which you can find on slide 1 of the presentation, I would like to highlight a few items. And Christophe will, as usual, provide more details afterwards.

First of all, the net insurance profit amounted to €340 million compared to €320 million last year, with a strong second quarter net result of €195 million. The severe hailstorm hitting Belgium in June led to a net impact on the result of some €25 million, which we already reported at the end of June. The total weather cost, including the UK floods, is at around €60 million in the first half-year.

At the same time, the net results benefited from the release of a deferred tax liability of €23 million in Belgium. And we also realized higher capital gains compared to last year, including the impact of some recalibrations of our fixed income portfolio in Belgium, the latter two being elements you couldn't take into account for your consensus.

Secondly, the group combined ratio improved somewhat in the second quarter but remained for the half year above 100% at 102%, with the adverse weather events having a negative impact of 4.6%. The overall prior year releases decreased to 3.7% compared to 4.4% last year.

Thirdly, Life overall operating margin improved to 85 basis points, driven by a very strong margin on Guaranteed products of 99 basis points, while the margin on Unit-linked products turned around 20 basis points in line which a trend since the end of 2013.

Fourth element is a group result that amounted to €31 million with a negative results in the General Account of €309 million related to the further increase of the RPN(I) liability and the €30 million legal provision related to the FortisEffect case period in The Netherlands.

Fifth and finally, our shareholder's equity increased in the second quarter to €9.2 billion or €41.11 per share, including unrealized gains of €2.2 billion, as already mentioned. I'm also pleased as well to announce a new share buyback program, the fourth program in four years, and I'm now on slide 2.

So the board of directors have decided to increase the size of the program to €250 million. This decision is, I believe, in line with our intention to deploy our net cash for growing our business, and we do not find the opportunities that we meets our target to continue our policy to return cash to shareholders.

I'm also pleased to report progress on the strategic front, which is slide 3 and 5 of the presentation. In June, we acquired the remaining shares in the Portuguese Non-Life entity, allowing us to further develop this business. While keeping an excellent relationship with our local business partners and primary distributor with Millenniumbcp, we now have the possibility to explore all the distribution opportunities allowing us to further strengthen our market position.

And today, we also announced two other transactions. In Italy, where we acquired jointly with BNP Paribas Cardif, the remaining shares in UBI Assicurazioni owned by UBI Banca. This transaction allows us to explore in Italy also other distribution opportunities which should help to strengthen and expand the Italian business.

And in the UK, we agreed on the sale of our local UK Life business, Ageas Protect, with total consideration of approximately €228 million. This decision fits within our focus in UK on the Non-Life market and distribution. And there, we have considerable scale, and we hold significant market positions.

And lastly, before handing over to Christophe, I would like to come back briefly on adjustment we received last week in the so-called FortisEffect case. As you will have read, the court concluded that the sale of the Dutch activities to the Dutch State should be unaffected, but it also ruled that Fortis did not communicate correctly in connection with this matter during the period of 30 September till 1st of October 2008. Meanwhile, we have confirmed that we will launch an appeal with the Dutch Supreme Court, and that we will constitute a provision of €130 million with respect to the period covered by this case.

I would now like to give the floor to Christophe for a more detailed look at the results by segment before we move to Q&A. Christophe?

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart. Further (07:21) to Bart's opening remarks, I will provide you with some additional comments on two things, the operating results by Insurance segment and the General Account. I will not touch upon the investment portfolio as the situation is rather stable there.

So, first, our Insurance operations, and I am on slide 7 of the presentation. Bart already highlighted the net profit of our Insurance operations of €340 million. The Life net profit increased by more than 40% amounting to €285 million. Strong results in Belgium and a 30% higher net profit in the non-consolidated partnerships were the main drivers. These more than compensated for the lower results in Non-Life and Other amounting to €55 million against €128 million last year. This includes the €60 million of exceptional weather-related costs.

Furthermore, poor results in third-party liabilities in Belgium and some results strengthening across the segments also explained the lower overall result excluding the weather. Cost inflows grew by 10% to €13.8 billion, mainly in Life and driven by Asia and Continental Europe. It had become almost a tradition that inflows in China, in Asia, and in China in particular, show amazing growth path. And this year is no exception. The inflow is up by 14% over the same period of last year. Inflows in Luxembourg also grew significantly, driven by strong wealth management sales in Italy. As a result, inflows in Continental Europe grew by almost 20%.

Life Technical Liabilities and I am on a 100% basis here, so something similar to the definition of the gross inflow. So this Life Technical Liabilities continued to grow and amounted to €117.5 billion at the end of June, of which €72 billion in the consolidated entities and €45.5 billion in the non-consolidated partnerships, the latter driven by the continued growth of the business. In the consolidated entities, the higher liabilities relate to, among others, the inclusion of the Fidea Group Life portfolio acquired in Belgium in the second quarter, and the amount at stake is around €450 million.

If I move now to some specific comments by segment, the Belgian operation to start with. So, I am on slide 8 now. So if – our Belgian operations reported a net profit of €193 million, up 21% compared to last year, and with a net Life result of €186 million and a Non-Life result of €6 million. The Life operating result increased by 18%, driven by a solid investment results with higher capital gains on both equity and fixed income.

This resulted in a solid guaranteed margin of 98 bps, partly offset by a lower operating margin on Unit-linked products of 27 bps, margin of 27 bps. The better net result was also helped by higher financial result on the assets backing own fund and the release of deferred tax liability, the latter amounting to €23 million, mostly allocated to Life.

As already mentioned, Non-Life suffered from the severe hailstorms in June having an impact to net result, as already mentioned, of €24 million. It also suffered from the adverse results in the Other segment caused by the aforementioned third-party liability business line and this as a result of claims inflation and some changes in jurisprudence that we have observed.

We have initiated pruning action on this portfolio and rate increases to help remedy the situation. All these resulted in a combined ratio of 105.7% close to 100%, if we exclude the adverse weather impact. On an adjusted basis, Motor and Household would actually have performed very well with a combined ratio of 98.8% and 19.6%, respectively.

Gross inflows were down 3% with an increase in Guaranteed and a decrease in Unit-linked sales. It is worth mentioning here the further reduction of the Guaranteed interest rate on our main products in Belgium as of the 1st of June. And we are now at 1.25%, and we had 1.50% before.

Moving on to the second segment, the UK, so slide 9. We recall that the net profit of €32 million with a net result of €38 million in Q2, and recovering from the negative result in Q1, we were at minus €6 million, this was caused by the storm and floods.

A strong Non-Life operational performance in the second quarter resulting in a combined ratio of 95.5% led to a year-to-date combined ratio of 100.7%. Both Household and Motor remained below 100% despite the first quarter weather with the underlying – and the underlying were at 111.2%. Gross inflows increased by 5%, driven by a positive currency impact.

In Motor, as this is of (14:57) some interest in the UK context, the average price declined by 3.2% year-on-year comparing positively with the market. Finally, the net result in Other Insurance amounted to €6 million, including a positive one-off of the same amount, €6 million, related to a legal settlement already reported in the first quarter.

In our third segment, slide 10 of our presentation, Continental Europe. The net result decreased from €46 million to €37 million, taking into account the fact that last year results included a capital gain of €9 million realized in Turkey in the second quarter. Now you will remember that this capital gain was related to the sale of some building in Turkey.

The Life result of the region increased slightly, taking into account positive tax credit in France in the first quarter and a higher contribution for the partnership in Luxembourg. The Life operating margin on guaranteed products declined, but remained strong at 82 basis point, while the Unit-linked margin dropped to 17 basis point. This – we have same thing – it is like in Belgium; this is in line with the previous quarters.

In Non-Life, the operating performance in Turkey deteriorated due to a higher amount of claims and reflected in a higher combined ratio of 99.8%. You will also remember that last year, Non-Life result benefited from the capital gain realized on real estate in Turkey, and already mentioned, but it benefited Non-Life.

Lastly, Asia, last segment. So, I am on slide 11 now. Too many items. The net result up by 19% and inflows up by 14%. So, two positive pieces of information. The net profit grew, especially in Life, plus 25%, becoming plus 38% at constant exchange rate with a good operational performance in all the non-consolidated partnership, but especially China and with higher net result from Hong Kong, driven by higher capital gains. The Non-Life result was marginally down because of slightly lower realized gains and with a combined ratio of 89.1%, which is absolutely excellent.

Inflows grew by 22% at constant exchange rates, with higher sales mostly coming from China and Thailand. In both countries, we are benefiting from the significant efforts to develop our agency channel as evidenced by a jump of new business through these channels by more than 30%. Renewals were also up by almost 20%. And finally, the mix of regular versus single premium business also moved further in the right direction.

This brings me to the General Account on slide 12. As already indicated, we continue to suffer from an increasing RPN(I) liability, influenced by the market price of the CASHES. The total increase year-to-date amounted to €157 million, of which, €53 million in the second quarter. The liability stood at €527 million at the end of June.

The net cash position decreased to €1.6 billion. The main reasons for this decline are the share buybacks, as you can imagine, and the amount is €103 million, and the fact that some upstream dividend will be received later this year, whereas the full dividend paid to our shareholders was already paid at the end of the period.

The provision now, as already announced by Bart, we have also decided last week to constitute a provision of €130 million for the litigation. This amount is based on the assessment of the terms of the court's decision and on method and assumption commonly used in the market. This amount has been reviewed by our auditors.

Slide 13 and 14, respectively, provides you with the traditional overview of shareholder's equity and solvency. And realized gains on our investment portfolio increased by almost 70% in the first half up to €2.2 billion, part of them are restated (20:44) in the Life Technical reserve. And the impact on shareholder equity is €945 million. You would remember that in the change in shareholder equity, the unrealized – the change in unrealized capital gain and losses is restated with non-controlling interest and their corresponding taxes.

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

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Ladies and gentlemen, this concludes the introduction. And as usual, we open now the lines for questions. As we have a lot people on the phone, we insist on limiting to three questions by person, and by preference, two questions. Thank you.

Q&A

Operator

Ladies and gentlemen, we are ready to take your questions. And our first question is from Ashik Musaddi from JPMorgan. Please go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Thank you. This is Ashik Musaddi from JPMorgan. Just couple of questions. I mean, in terms of deciding a buyback of €250 million, why can't there be a bit of higher number because it looks like you're generating more cash from disposal of (22:23) as announced this morning as well? And your dividend that you have been receiving from subsidiaries has been pretty strong, as well as flagged that (22:30) the full year results? So, any thoughts on that?

And secondly is how comfortable are you with the €130 million of provision that you have set aside for the litigation? Just – (22:43) any thoughts on that? And thirdly, with respect to underlying improvement in Belgium, 98 basis point, can you remind us of the target? And are you still comfortable with this 98 basis point of this quarter or should we be thinking around 90 basis point which you have guided in the past? Thank you.

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

Okay, Ashik. Thank you for your questions. I'll answer on the first; and the third, potentially with some help from Antonio, and Filip will take the second one. The first one, I think with respect to the buyback, first of all, you can imagine that the fact that we launched a buyback, the amount, and the period over which we do it is something that's always a result of a lot of reflections, also a lot of discussion internally with management and ultimately with the board. And that we thought that in, let's say, looking to, on the one hand, our strategy where we each time repeat that we want to keep some flexibility for insurance development, so, M&A on one hand; and secondly, not staying too long with too much cash that is not yielding a lot on our accounts, that we try to find a fair balance.

And we're of the opinion at the end of all these, let's say, reflections that a higher amount than last year – slightly higher was justified. On the other hand, we also did not see the real, let's say, necessity to increase this amount, particularly at this stage. So, that's the reason why we came to this €250 million. And of course, the disposal of UK Life is a surplus in terms of cash-in. On the other hand, we have this cash-out, for a limited amount, of course, in Italy, some €40 million, and we will continue in moving forward with each time assessing all possibilities.

Filip, you take the second one?

A - Filip Coremans {BIO 17614100 <GO>}

Yeah. Okay. Ashik, thanks for that question which is not unexpected obviously given the circumstances and events over the last weeks. Allow me to elaborate a little bit your question by trying to give some color on why so many figures float in the market and where and how we came up with the €130 million from our end (25:20). So, of course, it's also and always a challenge to quantify this type of claims, and hence, therefore, we have so far refrained from it.

But in the context of this ruling, the ruling is very, very specific. And so, the first observation maybe is that this provision is recognized specifically for the alleged effective communication covered in the FortisEffect case, and actually the FortisEffect case period. So, this may in itself already be a difference between some figures floating in the markets and on our provision of €130 million.

So, obviously, since we are a listed company and we are bound by strict criteria when we may quantify estimates such as this, we did not make up our mind overnight. We studied this for quite some time. We have looked very carefully through what type of methods – assumptions have been used in other court cases. We studied what has happened in litigation cases in the U.S., and in fact, also in a few cases in the Netherlands. So, this is not on thin ice.

The most important assumptions that we make, and then without going obviously into the details and the figures, but the most important assumptions that we have to make when we make provisions like this relate to first and foremost an estimate of the number of shares. And I don't mention shareholders, but the shares who qualify or are eligible for damage. And there, I'll come back to that in a second. But that is one important assumption we have to make.

The second one is obviously the relative performance of the share over that period because – and also there, I'll come back immediately because that period was very volatile, not only for Fortis at that time, but for many of its peers. And obviously, there were a lot of contaminating factors. And not to say the least, the events which evolved (27:30) after the week that is covered by the arrest. The nationalization by the Dutch state, let's say, over the Dutch activities of Fortis is not something that in the period of miscommunication we feel that our representatives at that time could have been aware of. And so, that is definitely a contaminating factor, which falls beyond the scope of what we think is included in there.

And finally, another important dimension is the number, the percentage of eligible claimants who then effectively will claim. Also, there we have looked at past cases, what are the average statistics on that. So, this type of assumptions have been included.

Now, we have not done that in Ivory Tower. We have been in contact with, first and foremost, some experienced outside parties who have built models and have been elaborating on these matters for us. We have (28:36) by other and external independent consultants to make sure that we have proper model validation on that. We had obviously – and that is in the context of the approval of our annual or semi-annual accounts, we had a discussion with our auditor who has given his consent to the way we have come up with this provision. We discussed it with our legal advisors both internally and externally. We have a lot of work lately.

So, as far as we can see, we think that this is a fair estimate. What we do not know obviously is how all our counterparts come up with their numbers. But to summarize, we believe that we have a fair estimate at this moment based on what I just said. We also believe or we know actually that maybe three main reasons lie at the basis why you see so many other estimates float in the market. And I can maybe elaborate on that also because the question which otherwise probably (29:43) by the next participant. First and foremost, as I said, we only provided here for the effects – FortisEffect period. So, it is the ruling and the period covered by it. So, we just not include the other popular periods, let's say, the AFM I and AFM II ruling periods.

Secondly, we have been looking at this previous – or should I say, court cases and settlements of similar nature and how the claims there have been substantiated. They have mainly been substantiated by appointing towards the traders rather than the holders of shares. And this is something that we have also taken into account. What we mean with that is we think that predominantly, those claimants who have bought the share at an inflated price or a price inflated or upheld by the miscommunication actually an alleged right to claim.

Let it be that we have standstill to determine damages. But that is the only shares that we have taken into account, so we do not assume that we have to pay every shareholder. We think there is something a normal shareholder who takes his normal risk when he invests in a share. Also, they would – if we would have note that miscommunication, these effects would have been in the price immediately. So, you know the reasoning. I think you are probably as familiar as we are with this type of disputes.

And finally, the third effect, which obviously leads to quite significant differences sometimes with figures you see in the market is the arithmetics of what is – I would say, how they come up with the claim per share. As I said, there is other movements in the markets in that period than just, how should I say, the effects of the Fortis miscommunication.

So, we had a very volatile market. Other companies were going under, so the normal market trends have volatility in that market, of course we have incorporated that as a factor in determining the claim size per share. And as I said before, let's be realistic when we look at what transpired in the week after the three days, so after the 29th, the 1st, and the 30th, that we come into the weekend where everything was hit with a reset button where the Dutch state and all of the states, in fact, started to look at their own turf, when the nationalization of the activities in the Netherlands happened, and hence, we do not think and we don't feel that this is entirely something that the – how should I say, the Fortis management at that time was -- be responsible for.

Now, this is, I think as much as we can share on how we have come up with the provision. I just want to say it is not something that we did as I sat overnight, and we have obviously very, very – well okay. We did our homework, I would say.

Q - Ashik Musaddi {BIO 15847584 <GO>}

(33:01)

A - Filip Coremans {BIO 17614100 <GO>}

Maybe, shortly the – sorry?

Q - Ashik Musaddi {BIO 15847584 <GO>}

No, just saying thanks a lot. That's really a very clear answer. It's been a very clear answer.

A - Filip Coremans {BIO 17614100 <GO>}

Okay.

Q - Ashik Musaddi {BIO 15847584 <GO>}

And very detail one as well. Just one follow-up, you just mentioned, and just to be clear, you mentioned you are mainly looking at the traders, given those miscommunication period and not every holder; so for example, had been – if one person has been holding for one year, you would not have considered that shareholder, right? So, just to be clear on that one, yeah.

A - Filip Coremans {BIO 17614100 <GO>}

Well, to be 100% clear and transparent, we do not mean day traders. We mean people who bought, so traded in the share or bought shares at an inflated price and only sold after the moment that we feel the effects of miscommunication were fully incorporator or out of the market. Yeah.

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

Okay. Then maybe to give also room for other people to ask questions, Ashik. The shorter response on your third question, so in Belgium, it's clear, of course, that capital gains are not equally spread over the years. You can have – (34:06) we have this half year some cap gains on bonds because of our opportunities.

The second element is that profit sharing over the year in terms of provisioning can move, which means that we are quite confident that we will have by the end of the year a margin that is in the range 85 to 90 basis points which is our promise. If for better, we will do better. And also, don't forget that for new business, as Christophe mentioned, we each and (34:36) lower the guarantee if market circumstances change. And so, that also helps us protect and guarantee the margin we are striving for.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thanks a lot. That was very clear. Thank you for this.

A - Christophe Boizard {BIO 15390084 <GO>}

If you want to quantify the one-off, they can be estimated at 15 bps. So, if you deduct 15 from 98, you are well in the range. And so, (35:03) but on 12 months at the end of the year, we will be comfortably within our range of the (35:14) of 85 to 90 bps.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Well, thank you.

Operator

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

Q - François Boissin

Yes. Thanks very much. Good morning, everybody. I have two – let's say, three questions at this point. The first one really is on lit (35:36) risk. Again, you said you just provided for the FortisEffect case. I just wondered when – if and when you would have more visibility on the other claims which, presumably, are quite similar to the FortisEffect one? So, that's question number one. Second question on the Italian JV, you said initially that it would open up new growth opportunities. I wondered what those were. Please provide a bit more details on that. And the third question on the UK disposal, can you highlight what you intend to do with the cash remitted at the holding? Thank you very much.

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

Okay. Filip, you start with question one.

A - Filip Coremans {BIO 17614100 <GO>}

Yes, Bart, I will. So, actually, your question is why did we provide for the FortisEffect case and not for all the cases? And why do we try to validate one and not the others? So, first and foremost, I think under IFRS, you know the rules. More likely, they're not in a reliable estimate. The first step is smooth (36:45). The other cases are, and that this I think the most important thing, are in their very early stages. So, we're not in appeal. We cannot measure. We don't have a specific period, et cetera, et cetera.

So, the second thing is that – so, these cases, it is not only – we have not been completed. We were at early stages. They may be very distant in time and they relate to completely different events. So, one, for instance – one set relates to the AFM I period. Another set relates to the AFM II period, meaning the disclosure when the capital raising happens in (37:40) that was the AFM I period, just to be sure, that was in May and June of 2008, with the communication regarding the solvency situation, where we have an administrative fine, but where the periods and the movement of the share is rather limited. But we have not been convicted in any of the disputes related to that.

The AFM II are contrary where the amount was actually more relevant or the period is more important. That was the disclosure of subprime exposure is in the context of the capital raising where the fine has been annulled. So, I think if we take all that together, I think the reason is very clear. It is long but certain that we will be convicted, and yeah, that's as much as I can say on it. So, there are positive and negatives in there, but we will see where it goes.

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

Maybe as one point, Filip, is that indeed, this is the first time that there has been a decision in an appeal, but also not only there has been a decision like in this case about incorrect, misleading communication during three days, but there is also a link made to the fact that Ageas might be entitled to compensate people who introduced a claim. So, there is a link made towards compensation.

Of course, each of the claimants will have to show that, indeed, he has suffered damages, and the damages have to be estimated. So we consider that that's sufficient to say it's more likely than not in IFRS terms to set up a provision. We've acted in a prudent approach. And okay, going forward, this is a reflection, we will have to make at every moment when something happens in this litigation portfolio, let's say. And that's I think the main conclusion. Second...

Q - François Boissin

Okay. Maybe just a follow-up on this, what is the timeframe – what is the best estimate of the timeframe you're looking at?

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

Let's say, and it's a – of course, it's not mathematical error (39:53). We believe that whatever claim before there will be a decision. It will take one year-and-a-half, two years, and it's clear that then, one or the other party will appeal, so it will not be in the first years.

Q - François Boissin

Okay. Thank you.

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

Then the JV in Italy, so I think what we – when we talk about new opportunities in Italy, it is that as of now, we are in full control together with Cardif of this legal entity and also the whole infrastructure, so we will roll out, and it will start quite rapidly to third parties, including BNP in Italy, so BNL and its subsidiaries. And we also look to other banks in Italy to provide them with Non-Life insurance cover. So, the first ones will be BNL in domestic.

Then, the UK Life disposal, as mentioned in the press release, it's about an amount of above €220 million; €228 million to be precise. A part of it will be used to pay back debt. It's something like a bit more than €30 million. There are, of course, costs for the operations. And the resulting amount will be upstream to Ageas.

Q - François Boissin

Okay. And maybe just lastly, does the regulator have a say on your buybacks in light of bigger risk or where does the Belgian regulators stand on this issue?

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

Well, if you look to the announcement on the buyback, you – and that's what we also did the previous times and what we are expected to do and even that with the UK Life disposal and JV in Italy or the operations in Portugal, we are in quite close and regular contact with the Belgian regulator, meaning that we, every X months go with them through what could be considered strategic decisions. The National Bank always asks the board's – management and board to give an assessment whether a decision is strategic or not, and then gives its approval.

So, the previous buyback programs have been approved by the National Bank. And also, now we informed them quite in time, orally and also officially now, about this operation with the message that Ageas board consider this a non-strategic operation in the context of – for this non-strategic in the Belgian legislation. As a non-strategic would be, for instance, an acquisition of €2 billion, or a merger, or a very huge disposal. But we don't expect any issues from that side. Of course, the two other operations, Italy, UK, they are both subject to local regulatory approval, and that's – let's be clear on that.

Q - François Boissin

Sure. Thank you very much, indeed.

Operator

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

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning, all. Yeah, three questions from my side as well. First one on the upstream of dividends in the first half, if I take out the Millennium transaction basically, it was around €235 million. Last year, on a full year basis, if you adjust for the leverage impact mainly on Belgium, it was around – total of €440 million. You do mention indeed further upstreaming to be expected in the second half. What is your best guess at this stage? Will it be similar basically to the claims of (43:42) €440 million last year or could even be a little higher than that? That's the first question.

The second one is, yeah, on M&A and disposals. Yeah, can you give some color on, let's say, on the pipeline of potential – how deals – is there anything significant in the pipeline, as you might have mentioned in the past? I take from – no comments so far that is not immaterial. And also, on the decision for the UK, are there any other areas that might be potentially refute as well? I'm thinking of, for example, France. Can you maybe give some comments?

And finally, yeah, coming back to the legal angle again, FortisEffect (44:28) I think also on the Dutch side (44:31) that they are open for any form of settlement? I know it's still fairly early stages, but now you have basically set yourself provisions how you're comfortable on the way you calculated it. Is it feasible that you will indeed enter in discussion before, let's say, really the (44:50) case on the conversation starts? That's all my questions.

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

Christophe will take the first one.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay, I can start with the dividend because, as I said in the presentation, in introductory comments, so there is a decrease in the cash position, which is partly explained by the difference between what we paid in excess of €300 million and what we received. So, two elements. First, Ageas, or the main contributor, paid slightly less than last year in term of payout ratio. Last year it was 75%. This year, we accepted 50% payout ratio. And this was aimed at strengthening the capital position of Ageas, which is slightly, and I will insist on this, slightly below the 200%, the group objective. And since we had no stress on the liquidity, we accepted this payout of 50%. That's the first element.

The second element, about what will happen in the second part of the year. So, as already mentioned, we are waiting for some dividends. And to give you a precise example, I don't want to be extremely precise, but the UK didn't pay dividends at the end of June. And dividend coming from the UK is expected in the second half of the year, and the amount is rather significant. So, all in all, what I have in mind is that in the second part of the year, i.e., we will receive something like €100 million as incoming dividend.

Q - Albert Ploegh {BIO 3151309 <GO>}

To be clear, on China, basically, there's basically still I guess no dividends or injection foreseen?

A - Christophe Boizard {BIO 15390084 <GO>}

No. So, two things. First, as regard capital increase, there is nothing anticipated for this year, so nothing. On the dividend, you remember I think I explained this last time for the so-called state-owned enterprise, there is a kind of new rule which states that at least 10% of the profit has to be paid as dividend, which means that out of China, dividend will come. But the amount is rather small. It is in the range of €5 million to €6 million, so something small.

But then, you may argue that due to the fact that it's a fast-growing entity, obviously what we receive will be given back through an increase of capital in the coming years by the same amount. But please (47:40), nothing this year. On China, a small dividend, but frankly as the back half is more increasing, the means of the entity, this will be reimbursed, if I can say, in the following years. So, that is the situation.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yeah.

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

Good. And the second question and I will be short. Pipeline disposals or M&A, we – it's always the same question – response, sorry for that. We look to opportunities that fit with our strategy. I think we took these two opportunities in Portugal and Italy to improve or to strengthen our position, knowing that we know these markets and we see possibilities to be profitable in these markets.

UK, we have been able, I would say, in a quite serene context, not too much surrounded (48:31) in the market to come to a correct deal. I think the buyer, AIG, has the intention to re-enter that market, has seen the quality of our entity, the quality of our people. And so, for them, it's a win. For us, it's a win because it was not of high strategic priority for us and not really fitting in our activities in UK.

So, this is the way we intend to go forward, is to look selectively where we can buy or increasing or decreasing or buying something. Go more to the profile we are looking for, and also of course, by doing so, increase our return on equity. But making public statements about maybe other entities we are looking for disposal would not benefit the operation, and so, we prefer to stay quite discreet on that.

The last one, Filip?

A - Filip Coremans {BIO 17614100 <GO>}

Yeah. Okay. Obviously, as a company, we have to balance the interest of all our stakeholders. And so, if an opportunity comes up to have a sensible discussion with a party to discuss potential settlement of this type of dispute, which obviously reduce the volatility around our share and uncertainty around our company, we would always talk and look at it. But so far, of course, it takes two people to talk. So, (49:58) the fact that you mentioned that (50:01) claim would be interested to talk to us, they have for sure not spoken to us about this yet. But if that were to happen, we will consider that, but with the best interests of our shareholder (50:13).

Q - Albert Ploegh {BIO 3151309 <GO>}

And maybe one follow-up question on the legal side. If you, as a shareholder, basically be represented by the FortisEffect (50:23), do you then give up your shareholder rights also to claim under the – let's say, for example, the Dutch VEB case. It doesn't work like that. So then you cannot get compensation twice, basically, if and if the periods are different?

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah. That, I cannot comment upon like that. But of course, under that, I can just say that if we were to look at settlements, and that is an important in that context, of course, we would like to look at full and final settlements, and not something that is hanging there in midair so that we can claim again. So – but that is logic.

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

But I think it's also quite obvious that you can only – if we are compensated for a proven loss, you can only be paid once, of course, for the same thing. That seems quite evident.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you.

Operator

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

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

Yes. Good morning. Two questions, please. Just to come back on the litigation, if I may, I understand that it's the relative performance of the shares, which matters in setting any compensation. But what might be the timeframe to analyze such relative performance versus peers? I understood it should be quite long, possibly even up to the moment of any verdict in proceedings dealing with compensation. So, if that would be correct, then the damages suffered would be quite limited, considering the points you mentioned that the banking index also went down quite significantly. So, could you provide your view on this and whether or not that reasoning now would be correct?

And then a second question regarding the UK disposal. I have difficulty in reconciling the gross with the net proceeds. You mentioned gross proceeds of €228 million and net of €33 million. Was the delta explained by the internal loan? How big was that internal loan and what this accounted for as an IFRS liability? And will you then – will you therefore benefit from book value increase or any improvement in the deployable capital on top of what the €33 million net proceeds would suggest? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Starting with the second question, I think the gross amount is indeed the amount that has been mentioned, that's the sort of €228 million. The €33 million for the sub debt is a sub debt that was accorded by the UK group, so it goes back to the group there. And at that moment, the remaining amount is free to be upstreamed after, of course, some costs for the whole operation, bankers, legal advisers, and so on. So it means that, you could say that there's something like €190 million to €200 million that will flow back to the General Account.

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

Okay. Sorry, I thought it's €33 million referred to net proceeds, so it's in fact referring to the cost. Yeah. Okay. It's clear. Okay.

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

And then, so you can also estimate that the cap gain is something slightly above €20 million.

The other question, I think on the timeframe and relative performance, it's quite complex. And we also want to avoid to have dull (54:09) reasoning in public. This is something we will bring up in court if we are at that stage.

We have made our assumptions. We'd say not on easy mathematics of paying share price or stakes at the end. It was why the difference is so much. And so, this is what the claimant could claim. We have quite sophisticated matters and I'm almost behind it. And be sure that it's quite intense and detailed (54:43).

A - Filip Coremans {BIO 17614100 <GO>}

Yeah. I think on the legal dispute, if I – this is Filip Coremans again, I may say. We have disclosed I think a fair amount of information today. I don't think we should go, the interest also of our shareholders and our company in much more detail at this moment. Let it be said that it is clear that this – though we have been convicted, the claimants still have to go through individual procedures, and this may take up – one to two years to come up with any quantification on these claims. So, it is a period, a process that will take some time. And so, at this moment, we stick to the factual reading of what you can see in the arrest (55:29) on which we base as we don't speculate on any long or short of periods. I think this is what it is.

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

Okay. Thank you.

Operator

Thank you very much. And moving on to Farquhar Murray, Autonomous Research. Please go ahead. Your line is open.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Morning, gentlemen. Just two questions from my side. I mean, firstly, obviously, thanks for the kind of (55:53) help me trying to give us around the litigation provisions. Actually, my questions still relate to that. Firstly, when you discuss the provision of €130 million, can you just clarify whether that provision covers the underperformance due to – after the stock suspension? So, that would be like almost the middle of October.

I'm just a little bit confused around some of the comments you made about time period. And also, I get the impression you're making some other kind of adjustments within that number, but just kind of understanding if you've gone all the way through the suspension would be quite useful.

And then secondly, with regards to capital distributions and buybacks, what is the risk that litigating parties object to these capital distributions? And have you made any expressions of issues with the distributions you're making at the moment? And do they have any legal routes to objecting to those? Thanks.

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

Permit me to answer quite shortly. I think the first one, I only repeat what Filip just said is I think we have given quite some color about the big lines, how we came to this provision. So, I believe also in the interest of the provision, we don't want to go more in the detail that is clear. That's when we make a provision that is somewhere weighted average of a number of potential or possible scenarios. That's one.

The second, whether there is a risk if litigation parties object against the buyback, okay, we are in a democratic country. Everybody can do what he thinks he wants to do, and it's a question that should be asked to them. In any case, both (57:30) parties should also take into account that a lot of the clients that have opted to make use of them are current shareholders. And I'm not sure that the current shareholders is that pleased with their lawyer opposing something that is considered being in the interest of the company and the current shareholders.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Just a follow-up on that second question, and I mean, when you think about the amount of buybacks you were doing, obviously, the €250 million is slightly higher than the year before, does that have to balance the risk or perhaps (58:08)?

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

I can assure you that the decision or the preparation of decision of the buyback has been taken before we were aware of the outcome of the FortisEffect case. So, we will continue, in all seriousness, looking to all potential elements that, let's say, impact the company, positive, negatively, to take the best decision in the interest of all stakeholders. So, I would say, even without this case, we would, of course, have presented a buyback, and I'm not sure that it would've been for a bigger amount.

Don't forget that our conviction is this €130 million provision is a prudent provision for this case and the period that it relates to. So, we say this is an amount that, of course, we have somewhat to ring-fence in our cash position. It's about €130 million. It's less than 2% if I remember well of our shareholders' equity. We announced a buyback of €250 million. These are not the amounts that fundamentally change the position of the company related to all these elements.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay. Brilliant. Thanks very much, indeed.

Operator

Thank you very much. And moving on to William Elderkin, Goldman Sachs. Please go ahead. Your line is open.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you. Good morning, everybody. Really just two follow-ups. Can we just – from the way the provision (59:40) business has been booked, will that all – whatever happens in the future, is that always going to be charged to the General Account where effectively gross is net? In other words, there's not going to be any tax shield on a litigation costs? How will those turn out to be? And then, completely differently, can you just give a sense of what the capital gain in the Hong Kong business was and an idea of the extent to which that is a one-off versus sustainable in nature?

A - Christophe Boizard {BIO 15390084 <GO>}

And so, the provision in the General Account [by definition, I think the General Account is in front of the top holding and since these litigations are done by fair holding, all the provision and all the potential payments will be made out of the General Account. So that's your first thing.

As regard tax, there is – we already have huge past losses. So it means that there is no relief coming from taxes. And so, gross amounts are equal to net amounts. That simple. And then, as regards the capital gain in Hong Kong, the amount was not huge and it was €4.5 million in the first six months in Hong Kong. And it was plus 3 (01:01:00) last year for the same period. So, the increase is, I would say, negligible €1.5 million. We are – I like to say that capital gain are not – were not – if you take some asset classes like equity or real estate, there is no equity in Hong Kong, but equity, capital gain are business as usual.

Q - William H. Elderkin {BIO 3349136 <GO>}

Good. Thank you.

Operator

And moving on to William Hawkins, KBW. Please go ahead. Your line is open.

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

Hello. Thank you. Hopefully I've got two quick questions. You commented briefly on this, but can you just – the second quarter impact of weather on the Belgium combined ratio, could you just clarify that number for me? And do you think the first half experience makes you more or less comfortable in ultimately attaining the 97%?

And then secondly, (01:01:58) that I'd feel an idiot if I didn't also ask a question on litigation risk. Am I right that in your roll forward of the net cash, you have not deducted the €130 million charge you've just taken? And shouldn't, strictly speaking, you do that because it seems pretty comfortable this is now encumbered cash in some way?

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

For first question, the gross impact of the reinsurance was €49 million, so net €24 million. It has an impact of 5.5% on the combined ratio of Belgium for the first half of the year. And if you would exclude the hailstorm, the combined ratio for Motor would have been 98.8%, and for Household, 90.6%. So, it means that if – A, what we expect in the second half of the year is that we will move to a combined ratio in Belgium, that normally should be below 100%.

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

Second question.

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

Yes. The second question, of course, there is no cash impact because there's no cash outlay. And so, if there would be a cash outlay, then we probably have reached a settlement. But otherwise, it will just be a provision like we have for RPN(I). So there should not be a direct impact on our cash position.

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

Well, I suppose it, if I may follow up on that, begs the question of whether there are other encumbrances on your cash that you're not recognizing in your net cash figure because most people tend to assume that's a totally liquid figure.

A - Christophe Boizard {BIO 15390084 <GO>}

No, I think we always said in whatever communications that we look to the two elements, solvency and cash, in such a way that we avoid to be one day in – what I would call, in position to a solvency or a lack of liquidities. It means, that while we talk about the cash, we always say that we will use it to further develop the group by acquisitions and/or give it back to shareholders. But we also each time repeat it that we, in any case, will keep a kind of a certain prudency level, which does not necessarily relate to litigation in order to be not in short of cash one moment. We never disclose this amount. This is also something that can move over time.

But for this case, you can say that we know that, let's say, the €130 million when we provision it, it will not be a cash-out next year or the year after that because, as I said, we don't expect this to be decided in the first two, three years. But in – on the other hand, from a prudency point of view, we will have to take in account that maybe one day, there will be this amount to pay if we are followed in appeal, probably no amount to be paid. So, that's part of the prudent approach we have with respect to the cash.

You also have the two other liabilities in General Account, the AG – the put option for AG Insurance and RPN(I). Also there, one day, it could be that cash could be used to do the one or the other way or to reduce the RPN(I), whoever knows.

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

Okay. Cool. Thank you.

Operator

Thank you very much. And moving on to Benoît Pétrarque from Kepler Cheuvreux. Please go ahead. Your line is open.

Q - Benoît Pétrarque

Yes. Good morning, everybody. Just first question on Belgium Life, if I look at the pre-tax profit in the second quarter, €160 million, then take out the cap gains of €51 million and adjust for the impairments of €20 million, actual come to a very strong Q2, about €130 million pre-tax for Belgium Life, and we were more used to see around €100 million, €100 million. So is there any pre-tax level – is there any one-off specific items for – relating to the Belgium Life business?

And then, could you talk about your margin on the new business? We have seen gross inflows below the billion this quarter. But what about guaranteed rates going forward? Are you able to lower them? And also, in your margin on this new business, could you talk a little bit about that?

And then, just to come back on the RPN(I) you just mentioned, do you have any intention to come to a settlement? We have seen the price of the CASHES going up significantly. So, it will have been a good deal to actually do a deal a couple of years ago. Now, it starts to be expensive potentially. So, do you have that in mind currently? Thanks.

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

Okay. So, the first question on what you do kind of underlying results for Belgium Life in Q2. I think an element that you always have in the second quarter is the dividends that are based (01:06:56) on the equity portfolio.

So, that's a bit – the investment income over the year is not equally spread, of course, as the case for bonds and real estate. But you have done a dividend season in terms of cap gains. We already commented previously that part of the cap gains comes out of real estate operations. So you cannot spread them over the years. So, I think that's a bit more the explanation for a strong Q2 after, let's say, taking out exceptional elements.

I believe that the main message of Belgium Life is that (01:07:30) and Christophe said that we, in any case, have no indications that we will not be able to achieve over the year a margin between 85 and 90 basis points.

Christophe?

A - Christophe Boizard {BIO 15390084 <GO>}

Maybe on the profitability of new business, some element of context first. So, as I said in the comment, we decreased the minimum guaranteed rate as of June 1. So, we are now at 1.25%, but a way to address the low interest rates. Then, the other element to be compared to this is the yield we obtained on new money during the first part of the year. So the figures are the following. So, we've achieved 3.17% over the first six months. And obviously, we have different figures for Q1 alone and Q2 due to the trend. So, we were at €334 million in Q1, and €280 million in Q2.

So, at the end my comment is the following. We have the investment return on new money, let's take Q2, €280 million, and the minimum guaranteed rate is 1.25%. So, it means that we still have some room. But we have to be honest and transparent. This business is under stress. And we cannot live for a very long period of time if the OLO, the Belgian government bonds at 1.53% on 10 years. And then, in 10 years – in 10 years, I should even take the eight years, which is even lower. So, we are well protected. You know the fact that we have this much duration based off (01:09:29) a lot. And then quarter-after-quarter, we have this good result. But the sector is under stress.

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

For new business?

A - Christophe Boizard {BIO 15390084 <GO>}

For new business. I said well covered on our existing book, but the new business is under stress, even though we have still this margin between the €280 million I've mentioned and the €125 million.

Q - Benoît Pétrarque

But the €280 million, how do you make that? Because I mean, with the OLO at somewhere between 1.5% and 1.8%. I mean, it should be a very big change in the mix currently on the new production. I mean, you were used to invest most of your inflows – I mean, the large part of your inflows in OLO, but how can you reach 2.8% with a similar mix?

A - Christophe Boizard {BIO 15390084 <GO>}

We are not magician and we are not aggressive in the investment management. So, two elements in my answer. First, as I said, the €280 million is the mean of our Q2. And frankly, and to be perfectly transparent, I am expecting a further decrease in Q3 because the trend is there. It's an average. And the latest week were the worst. So that's the first element of answer. Then – but really this relates to asset management. Obviously, we don't invest all our money in government bonds.

And I would say that the allocation in Belgian government bonds is very small on new business. We invest heavily on corporate bonds. We play with the – we optimize the duration. It's a better word. So, on govys, we tend to go longer on the curve, and we are shorter on duration on the corporate bonds. But obviously, the yield on corporate bond is much higher. And so, that's a mix of all. But my conclusion and coming back on the main point, this 2.8% will go down. And we are trying to do our best with diversification, the corporate bonds, the loans.

The loans we are still at something slightly below 4%. So, we are doing our best with this I think good results so far. But again, for the book of business, I think important to underline that the margin is secured further, even taking into account the investment risk. And that for new business, where indeed interest rate (01:12:06) achieved goes down, we'll further adopt the guarantee as we have done over the past two years, six times if I remember well, and profit sharing.

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

RPN(I), Christophe?

A - Christophe Boizard {BIO 15390084 <GO>}

On RPN(I), any intention to come to a settlement, we have – let's say, we pay continuous attention to the RPN(I). But the thing is the following. It's two perpetual instrument. And the real cash burden is extremely small, and you can read it in the different slide. It is – we pay something like 1% or 1.1%. So, it is slightly above €5 million a year.

So, when you have a liability whose real cost – real perpetual liability with a cash outlay of 1.1% a year, a lot of motivation to settle. And I think we have to live with the volatility.

Having said that, that's a constant concern. And if we find adequate solution, obviously, with the other parties, BNP Paribas, we will do it as soon as it makes sense on the shareholders' standpoint.

Q - Benoît Pétrarque

Okay. Thank you.

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

Thanks.

A - Frank Vandenborre {BIO 15168443 <GO>}

Okay, gentlemen, for the sake of time, we still have a few people that want to ask questions. We would really insist on limiting to two questions. And otherwise, we might also need to cut and choose two out of your three questions. Thank you.

Operator

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

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Hi there. Two quick questions. The one is from the expense ratio, you are mentioning that it was – it has gone up notably because you continue to have the UK restructuring in there. When are we going this – to see this changing? I thought that would – the second half will see the expense ratio in the UK coming down. But also, when I'm looking at the Belgium expense ratio, it's one of the highest we have seen. So, there is a clear deterioration at group level. So, could you give the explanations in Q2? And what should we expect going forward because clearly it is quite substantial for you to meet the ROE target?

And the second thing is on the 2015 ROE target, what is your confidence in meeting the ROE targets? Do you feel comfortable that you would be meeting your 2015 ROE target? And do you have – with what element of unrealized gains, if something, you can share with us? That would be great. Thank you very much.

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

Okay, the point one, expense ratio. First of all, expense ratio is a combination of costs and commissions. Commissions are, in many cases, driven by, on one end, market circumstances and market practice, but also the composition of your portfolio. To give a clear example, we are in Belgium, primarily in the household market, where commissions are above 27%. Commissions in motor insurance are 15%. If you balance your portfolio a bit more to household, your expense ratio goes up. That's one.

Secondly, in each of the markets where we are, we try to – we check our cost ratios, which is the cost we really have (01:15:51) at hand. We check them with the peers and see that we take care of the fact that we are in the, let's say, in the top class in terms of the lower cost ratios in that market.

Thirdly, we include in our cost ratios, which is not everywhere in every group, in every market the case, all costs like for IT development, also (01:16:16) development. Most of these are not spread over time. They are taken upfront in our cost. And that can also temporarily that you remind yourself correctly, in UK where we are, for instance, reviewing the – or restructuring the retail activities also, while we are in the aftermath of the group (01:16:36) integration can have an impact.

Of course, we are aware of the fact that in the combined ratio target we've got, there is not only the element of loss ratio but also expense ratio. So, in going forward, in order to arrive at our 97%, which is our goal, which is (01:16:54), we have to take -to stay vigilant on that part, and we will take the necessary actions when they are, let's say, needed or when they are clearly necessary to be in line with competition.

The second question was on the return on equity. If you look to return on equity with or without the unrealized capital gains, and of course, the target we have set of 11% was the one on the shareholders' equity, including the unrealized capital gains of 11%, we are not at that stage. We are at 8.4%. If you exclude unrealized capital gains, we are at 10.7%. So, the continued increase of the unrealized cap gains primarily in the Belgian portfolio is certainly not helping.

But we continue to work toward this 11%. For instance, the divestment in the UK is clearly an element of that. Trying to increase the scale and distribution in other markets is also an element within that. We're working hard to get the combined ratio around the 97%, it's part of it. So, we still have, I would say, 16 months to go.

We would, of course, be extremely helped by increasing interest rates, but don't expect that to happen in the next quarters. You could say, for this year, if we would have excluded the impact of weather and also, to be honest, the tax credit, we would already have been slightly above 9%. With the operation of Protect, we would be more in the range 9.2%, 9.5%. So, I think this shows that we make progress. And of course, the end sum (01:18:46) or judgment has to be made at the end of next year.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you. If I may just add one thing, do you find that – are you satisfied with your Belgium expense ratio at this stage because when you look at some peers, the distance with some peers has actually widened? So, on both sides, you have the weather events which is something (01:19:10) to keep in mind. But specifically on the combined ratio with peers, the distance seems to be widening, and it looks like expense ratio is where the difference is.

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

Okay. I propose to pass to Antonio, CEO of the Belgium operations.

Q - Antonio Cano {BIO 16483724 <GO>}

So on the widening, what's the combined rates compared to our peers, please bear in mind that as Bart was saying that we are relatively large in Households. We have about one-third of the Belgian households. So any weather-related events hurt us relatively more than some others. That's on the claim side front. On the expense ratio, as Bart was saying, it is combination of commission and operating costs.

If we just look at the operating cost, we do benchmark ourselves with our competitors. There, we actually see an advantage in terms of cost ratio that we don't see decreasing. So, we remain that advantage. When you see expense ratio going up, that has more to do with our product mix, again more tilted towards the retail lines and the households where commissions are higher. So you should try to adjust for the portfolio mix when you compare expense ratios.

But again, if we look through that and just look at the costs there, we are today quite satisfied. We can do more. Bear also in mind that we do still have a few large IT projects on the way weighting on the cost ratio that we don't amortize all the time and we take it immediately.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you very much. That's very helpful.

Operator

Thank you very much. And moving on to David Andrich from Morgan Stanley. Please go ahead. Your line is open.

Q - David T. Andrich {BIO 15414075 <GO>}

Hi. Good morning. Thank you for taking my questions. My first couple of questions are on the Life side, particularly with the Unit-linked margins. I was just wondering if you could give a little bit of color on that and how those have developed through the year versus last year. They seem be quite a bit lower, particularly in the Portuguese business. And then second one, I was just wondering in the UK Non-Life market, it looks like you were able to grow in terms of Motor of around 2%, while many of your peers have been shrinking due to the rate declines. And you mentioned a new niche products which you haven't offered (01:21:32) just wondering if you could maybe give a bit more detail on that. Thank you.

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

So if I can (01:21:38) take this first one?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes. On the margin of Unit-linked, so you are right. I'm sure we report disappointing figures, disappointing in term of volumes and in terms of margin. On slide 7, we read that the margin is up 20 bps, which is below what we have as a target. So, the element of explanation: first, the unit-linked market has shift a little bit and the product which were proposed were the so-called structural products where you give to the client guaranteed on the capital, and this is built basically with zero coupon plus calls.

The fact that the rates are so low prevent you from having a sufficient margin when you buy the zero coupon to buy the calls. So, it means that it is extremely difficult to present attractive products to the client. Now, so the product design is very difficult. So it means that since it was the main product offered, we are decreasing the volumes, and where small margin is due is the direct consequence of the very low rates. And where to present with still attractive product, we have to lower our margins. That's it on Unit-linked.

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

It's also a phenomenon in the market. And so, the – although, the return clients can get on savings accounts, on guaranteed business in Life, we do not see in Belgium, in Portugal a strong take-up of Unit-linked, as we don't see it either in mutual funds in these markets.

The second question is the UK Motor. I think that's indeed you're right. On the one hand, we see our volume going slightly up and the decrease of the rates lower than the market. Okay, the main explanation is that we have increased the number of cars that we insure. We are probably – that's a bit our prudent approach, also in segments where the price sensitivity is a bit lower than in that categories where prices are really still far below the normal levels. So, we continue to opt for a profitable growth, but the growth is not the primary objective.

Q - David T. Andrich {BIO 15414075 <GO>}

Okay. Thanks very much.

A - Frank Vandenborre {BIO 15168443 <GO>}

Okay.

Operator

Thank you very much...

A - Frank Vandenborre {BIO 15168443 <GO>}

If there aren't any questions left, then we would conclude or ask Bart start to conclude.

Operator

There are no questions left from the audience. And with that in mind, I would like to return the conference call back to Mr. Bart de Smet.

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

Okay, ladies and gentlemen, thank you for your good questions. And to end the call, let me summarize very shortly the main conclusions. One, solid insurance result without the growing inflows and the net profit impacted by a number of one-offs, but in both directions. The trend is up, and this is positive in the light of our targets. At the same time, we are confronted with increasing unrealized gains, which are having a negative impact on our ROE. But I think we primarily are confident or pleased with the fact that the net profit on its own is increasing quarter after quarter.

Secondly, we reported the progress in a number of strategic files, which have structurally enable us to have more capacity to develop our local activities in the case of Portugal and Italy or to focus more and better on the most material part of our business as what is the case in the UK. And lastly, we launched the fourth share buyback program, delivering on our promise to return cash to the shareholder if we consider this to be the best alternative use of cash.

Then I'd like to draw your attention to an Investors Dinner that we will organize in London on Monday, the 29th of September, which is our annual report appointment with the financial community. Contrary to the past years, we have no fixed company themes (01:26:00) scheduled today, and therefore we opted for this formula, which is more flexible, permits us to comment on a subject of actuality at that moment. It should also allow management to have sufficient time to talk to all of you. For further information, you can, of course, contact the Investor Relations team at any time.

And with these conclusions, I wish you all the best. And for those still having some holidays planned, enjoy some time with your family, and we will be meeting soon. Thank you for your time and goodbye. Bye.

Operator

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