S1 2013 Earnings Call

Company Participants

- Antonio Cano, CEO, Belgium
- Bart De Smet, CEO
- Christophe Boizard, CFO
- Frank Vandenborre, IR

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Benoit Petrarque, Analyst
- David Andrich, Analyst
- Farquhar Murray, Analyst
- Francois Boissin, Analyst
- Jason Kalamboussis, Analyst
- Maarten Altena, Analyst
- Matthias de Wit, Analyst
- Steven Haywood, Analyst
- William Elderkin, Analyst
- William Hawkins, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the conference for the half-year results 2013 of Ageas. I am pleased to present Bart De Smet, CEO; and Christophe Boizard, CFO. (operator instructions) Mr. De Smet, the floor is yours.

Bart De Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you, all for dialing in to this conference call and for being with us for the presentation of the six months 2013 results of Ageas.

As usual, I'm joined in the room by my colleagues of the Executive Committee, and by Antonio Cano, CEO of AG Insurance; and also, of course, by our Investor Relations team.

Ladies and gentlemen. the Second Quarter has confirmed and reinforced the positive trend already observed earlier this year. Like in the past five quarters, we have once again good and stable insurance results. And what is reassuring to me is that these results are well diversified across all business segments.

You will also have noted that we have published a separate press release today announcing a new share buyback program of EUR200 million.

After solving a number of legacies in April, and having already received a large part of the cash, we felt the moment to be right to implement this new program, the third program, in three years' time.

I will take you now to the main elements of our results, after which Christophe will spend some more time going over the Insurance result by segment and the general account items.

Coming back on our Insurance result, it is fair to say that the first half results were marked by solid and increasing inflow levels, and by a further improvement of the operational performance across most of our segments. The main headlines of the results announced today are on slide two and 3 of the presentation.

The Group inflows, including the non-consolidated partnerships at 100%, amounted to EUR12.5 billion, which is 16% up on last year. Inflows quarter on quarter came down slightly, but they remained above the levels of the same quarter last year.

This evolution was expected after the steep increase of sales in the first month of the year in Asia, specifically in China. The sales in China in the first half went up by 70% year to date, while also in Thailand we noted a 30% increase driven by strong renewals. And if we were to report our first half inflows at Ageas part, they ended close to EUR7 billion for the first time ever.

The net Insurance profit amounted to EUR329 million, with a contribution from the Second Quarter of EUR172 million, well ahead of the Second Quarter result last year.

The Life net results remained slightly below last year's performance and amounted to EUR201 million, down 2%. The segments Non-Life and Other contributed EUR128 million to net results, benefiting from an overall strong operating performance. Most of the improvement comes from the excellent Household results in Belgium and the UK.

Motor overall remains somewhat behind at 102.2%, partly due to negative one-offs, but we will have to continue our focus to improve profitability.

And the Non-Life result also benefited in the second from a non-recurring net capital gain on real estate in Turkey of EUR9 million.

Following this strong operational performance, our Group combined ratio at the end of June stood at 97.8% compared to 98.3% last year, marked by a strong Second Quarter of

96.1%.

The overall prior-year releases fell from 4.8% to 3%, which highlights even more the excellent current year performance, improved by 4.9 points.

As already mentioned, Household performed extremely well, with an overall combined ratio of 91.3%, partly offset by Motor at 202.2%.

Both in Belgium and UK, the biggest Non-Life markets in the Group, the overall combined ratio improved to 97.5% and 98.5% respectively.

And as already noted in the First Quarter, due to less favorable weather conditions in Portugal, the combined ratio in Continental Europe increased to 95.5%, but it is still well below Ageas' targets.

The Life Technical Liabilities saw the consolidated activities were almost stable on year end at EUR68.7 billion. In the non-consolidated partnerships, Technical Liabilities increased more substantially to EUR40.6 billion, up 12% on year end, mainly because of the growth in Asia.

Then the Group net profit. Well, this Group net profit amounted to EUR472 million for the first half, with the net profit in the general account of EUR143 million.

The bulk of the net result was already included in the First Quarter and resulted from the outcome of transactions with respect to Royal Park Investments and the call option on the BNP Paribas shares.

And lastly, as usual, a word on the evolution of the shareholders' equity and solvency.

Shareholders' equity came down to EUR8.8 billion, with lower unrealized gains on the investment portfolio, the dividend paid more than offsetting the positive Group net result, and an impact with respect to the AG put option.

The Insurance and Group solvency ratio amounted to 206% and 226% respectively, nearly flat on last quarter.

And on slide 4, you will find the evolution of our net cash position, which has increased, as already mentioned, to EUR2.1 billion. Besides the proceeds from the transactions related to Royal Park Investments and the call option on the BNP Paribas shares, you will also note that we have had an upstream of dividends from our operating companies, more than offsetting the dividend paid out to the shareholders over 2012.

Before handing over to Christophe, I would like to give some additional comments on the new share buyback program we also announced this morning. Please note that this share buyback program is getting to start on Monday August 12, and can run up to August 5, 2014 at the very latest, but we expect the program to be executed sooner.

Like in the previous two buybacks, Ageas has again mandated an independent broker to execute the program. And as usual, Ageas will keep the market informed about the progress of the share buyback, fully in line with applicable regulations.

And last but not least, please note that we have the intention to formally ask shareholders to cancel the bought back shares. I believe that with the dividend of EUR270 million, the capital reduction of EUR230 million and the new share buyback for EUR200 million, we have given proof of our intention to our shareholders.

Christophe, the floor is yours.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart. So in addition to Bart's presentation, I will now provide you with some additional comments on three things. First, the operating results by Insurance segment; second, the general account; and then, the investment portfolio.

So first, our Insurance operations, and I am on slide six of the presentation now.

Our Belgian operations reported a net profit of EUR160 million, 11% up on last year, with a Second Quarter net profit of EUR80 million, exactly in line with the First Quarter. Both Life and Non-Life performed better than last year.

The inflow levels were 13% down to EUR3.1 billion. We saw a continuation in the Second Quarter of the trend observed in the First Quarter. Inflows in Guaranteed[ph] Life are driven by individual savings products, ended 29% below the levels of last year.

As already mentioned last quarter, the low interest rates and government decision tempered the appetite of Belgian clients for this type of product.

On the other hand, we have seen sales of individual unit-linked products further increasing by 138% compared to last year.

Coming back on the net result now, the Life net result amounted to EUR121 million, 9% up from last year. A better operating result and lower taxes, following the different mix of investment results, was partly offset by higher impairment on our investment portfolio compared to last year.

You will also note on slide six that the operating margin on Guaranteed Products in the Second Quarter remained almost stable, and amounted year to date to 84 bps.

In Non-Life, the net result amounted to EUR38 million, up 17%, and its good performance; followed the excellent overall combined ratio of 97.5%.

The improvement in the combined ratio mainly comes from Household being at 93%, which is excellent. This performance was partly offset by the combined ratio in Motor, which stood at 104.6%, but this figure includes a non-recurring additional reserve for a fuel hatch[ph] claim for an amount of EUR11 million. During the Q&A, we can come back on this, if you want.

The headlines for our second segment, the UK, can be found on the following slide, so slide 7. The net result improved there to EUR58 million. Just like last year, we benefited from a good Second Quarter, contributing EUR35 million to net profit.

Like in Belgium, the net profit benefits from the continued improvement in Household, having a combined ratio of 87.6%, which is this time again an excellent figure; but also from the inclusion of the Groupama UK activities acquired last year and contributing EUR8 million.

Similar to Belgium, we were confronted with a combined ratio in Motor going up to 100.7%.

With respect to the gross inflows which amounted to EUR1.2 billion, we are marginally up, plus 1%, as you can read on the slide. We are up 4.5% without the currency effect, which was not favorable this quarter.

This figure, however, includes EUR200 million from Groupama UK, which was offset by the lower average premium and volume levels, especially in Motor. As you are certainly aware, this is a market phenomenon.

The Retail segment now. So the Retail segment realized an income of EUR122 million and contributed EUR9 million to the net result, including a one-off deferred tax benefit of EUR3 million.

Let's go to the third segment now. So we are on slide eight of the presentation, Continental Europe.

The net result rose to EUR46 million, 35% higher than last year, and including, as Bart already mentioned, EUR9 million net gain on the sale of real estate in Turkey. The subsidiary sold its headquarters.

Inflows were up 13% to EUR2.4 billion, with higher contribution from Portugal and France, especially in Life business.

In both countries we were successful in selling unit-linked products. Gross inflows in Non-Life were 3% up to EUR0.6 billion. In Turkey, where we decided to adopt rather strict commercial and pricing discipline, and that is as you know a little bit contrary to the general trend of the market, inflows were, despite this, up 6%; so once again, a very good performance for Turkey.

With respect to the net result, beside Turkey, the contribution of the other countries was slightly up, or almost stable. In the Portuguese Life business, the lower underwriting result was partly offset by an increased investment margin, and we benefited overall, like in Belgium, from a lower average tax rate.

In Non-Life, the combined ratio deteriorated to 95.5%, which remains very good. One of the explanations comes from the bad weather in Portugal earlier this year. But if we take Turkey, for instance, the combined ratio improved to 88.6%, benefiting from excellent underwriting results. I think we can safely say that 88.6% in Turkey is really an outstanding achievement.

So that's it for Continental Europe. Lastly, Asia, and I am on slide nine now.

So the trend, both in terms of result and inflows, was identical to the First Quarter. Inflows year to date are up 47% to EUR5.9 billion.

In China, we reached EUR4 billion of inflows; all figures being at 100%. That's our usual definition of inflow. And this is achieved thanks to very strong new business premium, up 142% to EUR2.3 billion.

As referred to when we published our First Quarter results, we saw an extraordinary growth of single premium in the first half of the year, but noted a strong shift to regular premium for the new business in the Second Quarter.

Besides China, inflows also grew by 30% in Thailand to EUR900 million, also driven by strong new business premiums.

The total net Asian result slowed down to EUR66 million compared to EUR74 million last year marked by a lower contribution from the Life activities.

Important to note here though is that last year's result included a positive non-recurring adjustment in Hong Kong, and a net positive one-off impact in China. And these one-offs were bigger than the decrease of the result that I indicated before.

So excluding those from last year result and taking into account the higher business trend[ph] cost in China, we can consider the performance to be overall in line with last year.

Non-Life contribution improved substantially as last year we had, you will remember, the impact of the floods in Thailand.

Results in Malaysia and Thailand further improved compared to last year, well on track to realize an ROE which is largely above our 11% target. Actually, on Malaysia and Thailand, we had excellent result ahead of our expectations and budget.

So this is it for Asia, and this brings me to the general account, slide 10 of the presentation.

Bart already mentioned the positive net result of EUR143 million, of which EUR7 million in the Second Quarter. The bulk of the result was generated in the First Quarter as a result of the transactions on RPI, Royal Park Investments, and on the put option on the BNP Paribas shares.

We also noted a year-to-date increase of the value of the RPN(I) liability of EUR6 million, and the value of this liability is now at EUR171 million.

Going to slide 11 now, you have here the breakdown of the evolution of the shareholders' equity. Besides the lower contribution from unrealized gains, we had a drop compared to end of last year, and this is obviously on the sovereign and corporate bond portfolio. We had the 2012 dividend payout and the revaluation of the put option of the 25% of AG Insurance.

So all these elements more than offset the positive half year net result. But in the Q&A, we can come back on this as well, if you want, for further explanation.

With respect to the investment portfolio, slide 12, we have noted a slight decrease in the total value also related to lower unrealized gains.

All in all, not too much to report on the asset allocation, except that we have small and progressive increases on equity and loans. So these are the highlights for the investment portfolio. But asset allocation is moving slowly and safely to what we have on our action plan.

Ladies and gentlemen. I'd like to end my comments here and hand over to Frank now.

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Ladies and gentlemen. this concludes the introduction. Let's now open the call for questions. And, as usual, we'd like to ask you to limit yourself to three questions. Operator?

Questions And Answers

Operator

Ladies and gentlemen. we'll now start the Q&A session. (Operator Instructions) Albert Ploegh, ING.

Q - Albert Ploegh {BIO 3151309 <GO>}

Basically, two questions from my end.

First of all, in relation to the announced share buyback program of EUR200 million, in the press release, you also mention that on September 18 there will be provided more color on the allocation of the net cash position. But can you maybe give some more color on the assumption already to use now EUR200 million for the current buyback program and how to stack it up with the remaining net cash balance? That would be, I think, helpful.

Second question is on the Life segment. Basically, if I do the analysis by stripping out the capital gains and impairments and the profit sharing impact, if you do that on Q2 this year, you basically get roughly EUR91 million net profit still compared to roughly EUR51 million last year. So in the Second Quarter, the contribution of capital gains was actually quite low suggesting a very good underlying performance. Can you maybe give somewhat more color what has driven this strong performance year on year, but actually also q on q?

Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. The first question, I gave a bit in my short summary the reason why we thought it was now a good moment to announce the EUR200 million buyback. It was indeed looking to the cash flow received in the first part of the year.

And we indicated, and it is an invitation that's been sent out, you will find more color on the specific website for the Investors' Update Day on September 18 that at that moment we want to provide to you, to the market, more explanations on two topics.

The first one is how we organize ourselves, how we believe we will reach the 11% return on equity target that we have announced; and secondly, how we in the future will make use of our cash.

So that will be a message for that moment. In the meantime, the only thing I can repeat, and it's an explanation I give each time, is that nothing changes at this moment in the order of priorities to use the cash, which is first invest in business; secondly, give it back to shareholders; and in third place, maybe use it towards the debt.

Looking back to the past, I think we have been active in the three areas, certainly, looking each time to the opportunities at the moment where we take decisions. And I also indicated only this year with the EUR270 million dividend and EUR230 million capital reduction that will come in the last quarter, if the shareholders approve it. And this buyback, we talk about EUR700 million that we give back to shareholders in one way or another.

So I cannot give, and I don't intend to give at this moment, more flavor on the message we intend to give at the Investor Day.

The second question was about the Life results. I think, as most of the Life business, certainly in the consolidated entities, is in Belgium, I would pass over to Antonio for more detailed explanations.

But the main point is, of course, that we continue to focus on the margin we want to make, and which is between 80 and 90 basis points. And that the Second Quarter is, of course, also a quarter with traditional income from dividends on shares.

Antonio.

A - Antonio Cano {BIO 16483724 <GO>}

Yes, I've not really a lot more to add. The analysis that the person asking the question did, that's not an obvious one to do it correctly, taking into account all types of cap gains, impairments from one period to the other. But as Bart was saying, typically Q2, if you strip out all the capital gains, all the exceptionals, is always better because it's dividend season. So we have a proportionally large part of our dividends coming in Q2. But fundamentally, the margins in Life for Belgium are stable.

Q - Albert Ploegh {BIO 3151309 <GO>}

If I can make one small follow up on that. If I look at the investment margin in Belgium, they went up, I think, 3 basis points from 70 basis points[ph] in Q1 to 73 basis points[ph]. So it seems that if it's only dividends, what's the underlying in the investment margin? Is it still stable or slightly down actually q-on-q without the dividend?

A - Christophe Boizard {BIO 15390084 <GO>}

I'd like to add something on the investment side. Actually, we are doing rather well on the investment side.

If you listened to the call at the end of Q1, I was asked to give some view on the return on the new investment. So -- and this quarter, for instance, when I take Q2, the overall expected yield on interest bearing instrument is close to 4%.

Q - Albert Ploegh {BIO 3151309 <GO>}

4%?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes, 4%, which can be seen as high. We did some alteration[ph] in real estate with some (inaudible), etc. But all in all, we have achieved over the quarter 4%, which is a good performance, I think. You'll remember that last quarter, it was slightly less.

And then I think that on the new business, we benefit from the fact that we were among the first to lower the guaranteed interest. And if you take our -- one of our main products, we're at 1.5%. So it gives room to have a very decent margin on the Life activity.

So the indicators are not a threat at all during Q2. And you are right that there is underlying improvement on both the asset side, and the fact that we have lowered[ph] the guaranteed interest rate.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thanks. That's very helpful.

Operator

Ashik Musaddi, JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Three questions. First of all, can you give us an update on the M&A; i.e., what businesses you're looking for to get into the M&A at this point? Is it more focused towards developed market, or are you still focusing more towards the emerging market? So any color on that would be really appreciated.

And second question. Is there any magic formula to arrive at this EUR200 million buyback number, or is it just -- it's just your decision? Any formula to arrive at this number? So some color on that.

And thirdly, given that interest rates are rising slightly, at least at this point, is there any pressure to again increase the guarantees in the Belgium business? You mentioned like you're the first one to lower the guarantee to 1.5% on one of your products, so is there any pressure of increasing this guarantee again at this point?

Thank you.

A - Antonio Cano {BIO 16483724 <GO>}

Okay. The first question, update on M&A. What we look at is first of all, we prefer in market France so where we can concentrate[ph] -- I'm now mostly talking about Europe. There, we look to markets where we are, where we've got a strong position, where we can benefit of knowledge of the market, of synergies, and if possible, distressed situations of the seller referred to Groupama.

We of course, in line with the strategic update we gave a year ago, prefer expansion inorganically in Non-Life and of Life.

And the third criteria is -- and then we move more to maybe Turkey, but primarily Asia, that we also indicated we'd like to increase our shareholders' equity invested in emerging markets.

So it means that in Asia, we look within the markets where we are, but we also look in Asia to new markets. New markets, that's a bit -- I would say the characteristics of the ones we are in being relatively low GPD per capita with an expectation that it will grow, and with low insurance penetration.

In Asia, let's say the opportunity we look at in a number of cases is also done in collaboration with our local partners. That's now after 10, 11, 12 years. I have full confidence in the way how we work together, and that are not -- are quite eager to look with us to opportunities.

When we look to Asia, a lot of these potential files could be financed locally, out of the existing DVs[ph]. So it's in market, Non-Life, emerging markets.

The second question -- and, of course, we will give there also much more flavor at our investors' update in September.

The second point whether there is a magic formula for the EUR200 million, I would like to say, yes, there is a very magic formula. But as we are transparent and honest, I have to admit that there is no magic formula. It's more in the context of the total package of dividends we pay, capital reduction, share buyback.

And also, to be honest, having launched a buyback of EUR250 million two[ph] years ago, EUR200 million a year ago, when the conditions, the rationale was even much bigger than today, it would have been a bit counter natural to do it now for a much higher amount.

And then, the last point --

A - Christophe Boizard {BIO 15390084 <GO>}

Maybe I can add something. If I may add something. So there is, of course, no magic formula. What -- so several considerations, the first one being that we want to maintain our M&A capabilities, because as Bart mentioned, it's still ranked number one in our priority list. But in the meantime, we want to deliver to the market (technical difficulty) of, let's say, (technical difficulty) capital management.

So it is to give the idea that we are very attentive to the cash position, but (inaudible) M&A is ranked first, we want to treat the investors and the shareholders frankly.

All in all, we add up all the different operations done during this year. We think that we have been generous and we reach a return of nearly EUR700 million. So EUR200 million was a trade off with a lot of different considerations; the priority to M&A; still signed off[ph] good discipline on capital management; and being nice to the shareholders.

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

Okay. And for the last question, whether the rising interest rates puts pressure on highering[ph] guaranteed rates, in any case, we have no intention at this moment to raise these guarantees, and we don't see a lot of appetite in the market to do that. Mostly, all competitors are at a rate of 1.25%[ph] to 1.75%[ph], so it's quite stable.

And, okay, if interest rates would continue to rise, there is always this means of discussion of profit sharing to correct, but we don't expect immediate moves in that area.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. All right. Thank a lot for this. Very clear.

Operator

Francois Boissin, Exane BNP Paribas.

Q - Francois Boissin {BIO 16045021 <GO>}

Just a few questions, please. On the Life side, can you clarify the assumption you make in terms of overall crediting rates for 2013? Or in other words, what was the actual crediting rates that you paid in 2012? And do you make a different assumption for 2013?

Second question is on China. Can you give a bit more detail on the ROE you're able to achieve in China and when you think you'll be able to return, or let's say, to repatriate cash from China?

And finally, on the general account, can you give a bit more detail on the Q2 '13 profit, what actually drives the profit in Q2? And also, give a bit more detail on the rationale to increase the value of the put option that BNP has on 25% of AG?

Thank you.

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

Okay. The first question, crediting rate in 2013. As mentioned, this is discretionary. It's decided at the end of the year, based on the overall results of the year. And as we manage our Life business based on a margin expectation, it depends on different elements.

It's the investment income received, it's the guarantees given, the cost expense loss or gain, and underwriting results. And in function of that , looking to the margin we want to achieve, crediting rates are fixed by the end of the day[ph].

Of course, there is some look around to what competitors do, but it's in any case nothing where we can give any clear indication today.

But I can pass you[ph] the previous years, AG Insurance always has been I would say somewhere in the upper group but never the number one. That's not what we aim for.

The second question --

Q - Francois Boissin {BIO 16045021 <GO>}

Just to follow up on this, what was the actual crediting rate in 2012?

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

2012 was 3%.

Q - Francois Boissin {BIO 16045021 <GO>}

On average reserves?

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

So the guarantee plus the profit sharing.

Q - Francois Boissin {BIO 16045021 <GO>}

Yes, okay.

A - Christophe Boizard {BIO 15390084 <GO>}

Maybe I can take the general account.

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

Yes, there was still another question which I can --

And for China, let's say we are indeed at this moment at the lower level of profit in last year, knowing of course that, as Christophe mentioned last year, there was an exceptional positive of somewhere between EUR10 million and EUR15 million.

What we have seen -- what is the strategic choice of Taiping Life, and so it's shared by both shareholders, is that we want to grow the Company to double the size as well in terms of inflow and profits in a period of three[ph] years. The first half of the year, and primarily the First Quarter, has been impacted by quite high acquisition costs.

You have to know that in China, the acquisition costs are fully taken at the moment where a company is sold, so there is no deferred acquisition cost. So it's an immediate impact on the P&L of all costs that exceed the cost of this integrated in the premium. And so we expect that the growth will not continue at the same pace of 70%, but that the profit on the other hand will increase.

Don't forget that we doubled the number of agents in one year time from 50,000 to more than 100,000, so all these costs of recruiting, training, is in the figures. So we expect that the profit in China will come to normal levels where we have been in the past that we turn on axis[ph] for China above 10%.

With respect to your parts of the question about when will cash be up streamed, this is a high growth business in a high growth region, so we are still more in a situation that we will have to keep the profit in the Company to support a growth, and that we can expect from China in the near future cash being up streamed; whereas for instance in Malaysia and Thailand, the situation is different. We have had dividends in the past and we expect dividends in the future because there, the growth is not at the same pace as China.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay. So basically, this year, you invested, or let's say you injected something like EUR100 million capital in China, if I'm correct. Sorry?

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

EUR78 million I think in Q1.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay. Do you anticipate to continue at that pace going forward?

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

At that pace, certainly not necessarily, but you can expect that there will be additional injections of capital in China, which is also in line with our strategy to invest more of the shareholders equity in emerging markets.

Q - Francois Boissin {BIO 16045021 <GO>}

Fair enough.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay, the general account. So I think two things. First, on the (inaudible) and the general account. The good surprise of the quarter was the additional result we obtained from RPI, and you will see on slide 10 that there is EUR42 million additional result coming from RPI, whereas as we booked the transaction at the end of Q1 we could have expected a flat result.

But in RPI account, it booked a DTA based on the fact that the transaction in itself triggered a loss in the statutory account, a loss because we sold below the recovery value, and this loss was -- it was possible to recognize it in the 2012 account and we were able to book EUR66 million DTAs. And with our share of 44% we have this nice EUR42 million coming. So that's the main thing, the DTA on RPI.

Then on RPI, one last word. The structure will be downsized dramatically. What will be left is the management of the claims. And in the future, we will hopefully receive the proceeds of the litigation for the former RMBS portfolio against the US court.

So in the future, we can have positive result; no negative, only positive, and we'll see what happens. But some good surprises may pop up in the future on RPI again.

Q - Francois Boissin {BIO 16045021 <GO>}

What timeframe are we looking at for this?

A - Christophe Boizard {BIO 15390084 <GO>}

Frankly I don't have a precise timeframe. The only thing I can tell you is that you have kind of time bar from this, six years, and all these things relate to 2007. So it means that we have reached the time bar, meaning that the number of plaintiffs is now well known and nobody can join the (process) now. And this means that settlements, at least discussions on possible settlements can start now, and so it means that maybe we can have good news in the near future.

But let's put one year as a timeframe to have -- but we have entered a second phase, maybe starting the negotiation and the more active things on these litigations.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay, that's very clear. And finally on the put option?

A - Christophe Boizard {BIO 15390084 <GO>}

So on the put option, and the obvious impact of the put option can be found on slide 11, on the shareholder equity, where you can read that we booked a loss of EUR254 million. So some words of explanation.

We have -- keeping the same methodology, we revalued the market value of the 25% of AG. This is seen now at EUR1,065 million, up EUR68 million compared to last year, so end of December.

Normally, you remember that this increase is normally compensated by the write down of the non-controlling interest, but unfortunately this quarter, there is no compensating effect. On the contrary, there is an adding effect for EUR186 million.

So you have the breakdown of the EUR254 million is EUR68 million increased put option, and you have EUR186 million coming from the non-controlling interest going in the wrong direction.

So two words of explanation. The non-controlling interest are based on accounting figures, book figures. And unfortunately, this quarter AG Insurance suffered from a decrease in its book value, the shareholder equity, due to the unrealized gains and losses. So it means that compensation doesn't work. But I tend to say that the minus EUR254 million is a pure accounting effect.

Q - Francois Boissin {BIO 16045021 <GO>}

Yes, indeed.

A - Christophe Boizard {BIO 15390084 <GO>}

You remember that the put, you assume that the option is exercised. So when you take as a liability the value of the underlying asset, the 25% of AG, in the meantime, you write down your non-controlling effect because you are supposed to be the owner of this 25%. So you have less non-controlling interest.

So normally there is a compensating effect, but this time, you have divergence between the fact that the market value is based on embedded value not affected by unrealized gains and losses, whereas the accounting value which supports the non-controlling interest calculation includes the direct impact of the decrease in the unrealized gain and losses. And this is the reason for the divergence.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay. So basically, should we -- when we look at shareholders' equity for you guys, should we basically completely ignore the movements due to the put option? Because in the end, this will converge, right? There is no -- this is just accounting noise. It doesn't really make sense.

A - Christophe Boizard {BIO 15390084 <GO>}

I tend to say it's accounting noise, but if you restate, please restate from the beginning, because in the -- during the First Quarter, when we start recognizing this, we had positive effect, and I remember, I already indicated that it was an accounting effect and this effect can disappear.

Let's imagine that we exercise the put -- that we are exercised on the put, the shareholder equity will -- the positive effect that we had in the past will completely disappear and we could take the hit on the shareholder equity.

So you have noise, but this is a reduction of something we took in the past unduly, I would say.

Q - Francois Boissin {BIO 16045021 <GO>}

Yes, okay. And do you show somewhere the kind of --?

A - Christophe Boizard {BIO 15390084 <GO>}

It's accounting noise, you are right. I agree. But from the beginning, so please restate from the beginning.

Q - Francois Boissin {BIO 16045021 <GO>}

Yes, but do you show somewhere the stock, or let's say the whole value you have on the put and the whole value you've adjusted for the minorities? Yes? In the general account I guess?

A - Christophe Boizard {BIO 15390084 <GO>}

It is in the interim financial statement and you have a chapter to explain. There is a dedicated chapter for the put option.

Q - Francois Boissin {BIO 16045021 <GO>}

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

Operator

Farquhar Murray, Autonomous Research.

Q - Farquhar Murray {BIO 15345435 <GO>}

Just two questions if I may. Firstly, on Belgium Motor, you refer to non-recurring additional reserving for large claims which you quantified at about EUR11 million. Please could you just confirm that that is a pre-tax figure?

And perhaps could you give some color on what drove the additional reserving and how it compares to large claims reserving in previous years?

Then secondly, turning to the share buyback question, please could you clarify why you feel able to make the decision on the buyback separately from outlining the broader approach to capital management in September?

And in particular, what I'm trying to understand is should we regard the buyback program as somewhat distinct from managing the excess cash position? For instance, you referred to cash flows with reference to the buyback there.

And what really it comes down to, it's probably Ashik's question about the magic formula. When we think of how you arrived at the buyback, should we think of it as being tied to the flow of cash from the subsidiaries or the stock of excess cash within the holding?

Thanks.

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

Okay. The first question. In Belgium, there have been in Motor two effects impacting the result in Q2 and so in the first half. One was a correction on existing -- no, an increase of importance of a number of claims, which is, of course, a unique effect. But that's not the one we refer to when we say that there is a non-recurring effect of some EUR11 million. That's more the update of a number of claims. And it's pre-tax, so it's at 100%, EUR50 million[ph], so our stake is sometimes like EUR11 million[ph], which is mainly due to a speed-up of a process of re-evaluating the prior year results.

But I have again Antonio Cano next to me who can maybe give a bit more color on that.

A - Antonio Cano {BIO 16483724 <GO>}

Yes. It's actually something that's finalized now, hence that's why we are pretty sure that it's a one-off. And as Bart was saying, it was actually a change of the procedure in which claims that will probably evolve towards bodily injury claims, in the past we used to wait a while and waiting for the claims to stabilize to have a more clearer picture. Now, actually, we don't wait any more and we start already booking. So it's speeding up of the process.

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

So and if we correct for that effect, only that one, okay, the net combined ratio would have been 99.1% instead of 104.6% for Motor in Belgium.

A - Antonio Cano {BIO 16483724 <GO>}

Correct. And you also see in the numbers we've shown that the ratio of claims reserves to premium has gone up in Motor and that's the main explanation.

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

So you can hear in that answer also a belief that Motor combined ratio should smoothen and go down in the second half of the year.

The second question is, first of all, you refer to is this linked to something about cash coming from the operating companies or more the cash in general account.

I think the principle we strive for and that we have been able to realize this year and intend to do it in the coming years is that the dividend we pay to the shareholders and the costs of the corporate center are fully covered by the up-streamed dividend.

So this decision to do a buyback for EUR200 million is not at all linked to what we expect of being up-streamed from operating companies. It is indeed referring a bit to the cash position we've got, the belief in the capacity for the Company to develop; also the belief that we still can under strict criteria further develop the insurance activities of the Group.

And the why decide it now is not because it's completely separated from what we intend to bring to you in September, but it's clear that preparing the messages we want to give for September that we have included the decision to now do a buyback of GBP200 million in the full story that we want to bring to you.

But I don't think that there is -- it could have been EUR150 million, it could have been EUR250 million. We opted for EUR200 million. It's a choice we made like the past year and two years ago.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thanks very much indeed.

Operator

Maarten Altena, Mediobanca.

Q - Maarten Altena {BIO 15898902 <GO>}

Three questions from my side. The first is on the claims ratio which came in extremely strong, while the cost ratio disappointed in all areas and normally is more predictable. So I was wondering whether you could comment on the sustainability of both the claims ratio, and especially the cost ratio going forward, or whether there are any particularities in there.

The second question is briefly on the asset allocation. You mentioned that equities rose by 17%[ph] to EUR2.8 billion due to increased positions in the first half of 2013. However, should we read here a re-risking of your asset allocation, or was it just fully the market that led to this appreciation?

And the third question is basically on China. You earlier already answered my question on the sustainability of inflows, but I was wondering whether you would be able to provide more color on the average duration of products sold and any lapse experience you noticed so far.

Firstly, what I would like to know is whether it makes sense to settle[ph] acquisition costs aggressively as I can imagine there is a high level of churning by agents as well. Or is that protected by surrender charges already incorporated in the price?

Thanks.

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

Okay. The first question is about expense ratio. If you look to the different segments, you will see that the main segments were the expense ratio is increasing and that is impacting the overall expense ratio is the UK.

So if you look in Belgium, the expense ratio -- and I repeat, expense ratio is costs plus commission, and so the biggest part is commission to the distribution partners, then the real costs of the Company. So in Belgium, it is in the same area, some basis points up, but we also -- part of it is an investment in a new IT system for healthcare.

If you look to Continental Europe, the costs are a bit higher, but that's -- it's mainly in the UK where we have an increase with some -- compared to last year with some 5%.

This can be explained primarily by the fact that we see that the average premium in our Motor portfolio is going down, so also the net earned premium is going down. With a number of car insurers that's going up.

So it's a much lower average premium caused by two reasons; first of all, the overall reduction of rates in the UK, but also a move to another what we believe more profitable segment.

One of the most feasible parts in the portfolio where this happened is Tesco, where we moved from an offer to all Tesco loyal cardholders to the loyal cardholders that have the highest credits that are considered the best clients and so we have a decrease of 30% in premium although the number of cars insured is not going down more than 2% to 3%. And so we still have the costs that are -- okay, they're aligned, we try to reduce costs where possible, but we have still the running costs on. And today, lower average premium on a similar number of cars. So this is one element.

A second is that also the commission has been increased in the UK. So the distributors have the possibility to adapt to a certain extent the commission. So it's more in that area than in the area of the own costs that we run.

So as mentioned in my introduction, for us, Motor is an attention point. We've already covered motor in Belgium where we believe that's primarily due to this exceptional additional reserving and that we are quite hopeful for the coming quarters.

In the UK, I can also assure you that this is more -- primarily a Tesco turnover of a portfolio from all segments to more selective and what we believe more profitable segments, but where we still have of course the runoff of the portfolio of last year. So we also in the UK believe that we will be able to come to the normal[ph] bank ratios in Motor as we expect them to be.

Q - Maarten Altena {BIO 15898902 <GO>}

Okay. So basically, we should expect that the costs will remain rather stable, and that the claims ratio was, well, very benign this quarter and might go up going forward a bit?

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

That's not what I intended to say. So we believe that the claims ratio, because we move to more profitable segments and we still have -- and you see it in the prior-year effect -- we still have in the portfolio, let's say, a client that we prefer not to have in the portfolio any more. So the loss -- the claims ratio certainly should not increase. But we believe that we will be able to work further on the expense ratio and get that down again.

Q - Maarten Altena {BIO 15898902 <GO>}

Perfect. Thanks.

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

The second question on the assets?

A - Christophe Boizard {BIO 15390084 <GO>}

On the asset side, so you are right. I think that it is true to say that we try to re-risk a little bit the portfolio, but I am saying[ph] a little bit so everything is done in a very cautious way.

We have basically two things here. We have the equities first where we progressively increased the allocation on equity. If you take the slide 12, we were at EUR2.4 billion; we are at EUR2.8 billion.

But the real increase, this is accounting definition of equities, that the real equities, we increased by EUR200 million.

What we tried to do, we tried to do it progressively so that we build up some unrealized capital gain which is a buffer to go further. But there is a trend and the real equity allocation could go up to 4% in the future.

So that is a slow trend and we try to build unrealized capital gains to have a good buffer vis-a-vis market events.

And the second theme is on loans. You could argue that the real results so far are a little bit modest with the amount, but I think we have a lot of setup[ph] time and setup operation, and we think that in the near future we will really gain momentum.

And if I take the loans, all in all in terms of commitment, so not yet recognizing the account, we have something close to EUR1.5 billion of commitment of loans, so significantly higher than what you can read in the accounts.

So we are gaining momentum here. So these are commitments for sure. And then if I take our partnership with Natixis, for instance, I can tell you that in terms of Letter of Intent, we are at EUR1.2 billion with Letter of Intent. That's the early stage. When you put this kind of operation in place, you for sure have to apply a success rate which could be seen as 25% to 30%. But only to tell you that we are very active.

So conclusion, yes, we are progressively re-risking a little bit the portfolio; some more equities, real equity, but very progressively. And on the loan, you can argue that it is re-risking the balance sheet in the sense that we trade spread against liquidity, because obviously, all these loan arrangements have basically no liquidity.

So equity and loan trade between spread and liquidity.

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

Okay. And the third question with respect to China. First of all, we have a combination of single premium contracts and renewal contracts with yearly premiums; in many cases, very long durations.

On the single premiums, the average duration, or let's say the products we sell, have a five-year duration. And it's mainly sold through the banks we work with. There has been a specific action in the first four months of the year to push a lot on that for two reasons. First of all, because it is helping to get the attention in these banks to afterwards move more to regular premiums, which is proving to be acting -- to be happening now. And the second point is also that having this big sales force, it's also a way to get them very quickly involved in the business.

With respect to -- of course, these single premiums normally don't lapse; it's a five-year maturity. And if they lapse, there are the traditional penalties on it.

But if you look to the renewal premiums, the regular premiums, there we have in China what we call a persistency ratio. It means the number of policies sold in the first year that are still active after 13 and 25 months, that is at 92.7%.

So it shows that the lapses on these contracts are quite low. There is a very rigid structure in place where sales of agents and banks are afterwards checked by our own people through a call center to avoid mis-selling. And we see it also in the absent[ph] figures, for instance, where last year, in the first half of the year, we had some EUR1.7 billion regular premiums. This year, we are up to -- more than -- almost EUR2.3 billion.

So this is really the portfolio that goes up at, let's say, a yearly rate of 25% to 30%, and that's also what we like, because this is the most profitable part of the business.

You could see the single premiums more as appeal[ph] products as well to the bank as to the clients of the banks, whereas in the renewal premium, the regular premium complex[ph], that's what we really go for.

Q - Maarten Altena {BIO 15898902 <GO>}

Okay. Thanks for the answers, gentlemen.

Operator

Matthias de Wit, KBC Securities.

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

I have three small questions, please, first on Groupama. The contribution is again relatively weak at EUR4 million in the Second Quarter. Just wondering whether this is again reflecting integration costs. And in case it is, could you provide some indication on these costs in order to get an idea of the underlying earnings power of Groupama?

Secondly, just to come back on China, you mentioned that the expensing of acquisition costs, depressed profitability. Could you quantify this drag[ph] posed by the new business and how would the profitability in other words look like in case you would capitalize all these costs?

And then thirdly, on the interest rate sensitivity, is it possible to shed some light on the sensitivity of earnings, and more importantly, return on equity to rising interest rates; for example, with regard to the 11% ROE target?

Thanks.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. If we start with the Groupama. Indeed, we have a result after six months of EUR8 million. I suppose you would double it. It is not that far from our 11% ROE in the first year, knowing that we still have investments in integration where we believe that by the end of this year, this should be over. So we expect the full benefits from -- on the integration and from the investments in synergies next year.

Also, commercially, we see that the top line, so the inflow, is quite in line with last year; a bit lower, but this is the market trend in UK where prices are under pressure.

And I repeat, acquisition price was EUR145 million. You could say 11% is EUR60 million. We have EUR8 million after six months, so it's -- for the first year in line. And we of course expect better results than this 11% in years to come.

China. To quantify, I would say we normally give this figure. The only thing we can say is that it is sufficient to reduce, for instance, costs there because we are in the investment phase with, let's say, some percentages on the total cost base. And we will quickly recover what you could call the investment made in the first half of the year. And that's why I indicated earlier that we expect also in China that there will be a recovery in the -- partly in the next part of the year and certainly in the coming years.

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

Then the interest rate sensitivity.

A - Christophe Boizard {BIO 15390084 <GO>}

Then the interest sensitivity, I think you don't have a very direct line in the sense that it is more a margin business. So are you able to maintain your investment margin at 80 bps or not? That's the main question, and that's our objective. Because when the interest rates go up and down, you adjust the elements like the minimum guaranteed rate for profit sharing, etc., and we are in a competitive market.

So I think you have compensating elements, but whatever the interest rate, if you have correct ALM[ph] exercise, you can -- and if the design of your product is okay, you will maintain the 80 bps investment margin in the future. So the sensitivity is not that high.

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

And with regard to the Non-Life sensitivity to interest rate movement, because 80% of the Non-Life is coming from investment income as opposed to (multiple speakers).

A - Christophe Boizard {BIO 15390084 <GO>}

I thought you were referring to Life. Not much, except on the proceeds given to the shareholder equity, to the non-allocated investment reserve. On Non-Life, you are right. You have a direct impact because everything belongs to the shareholders.

I don't have precise figures in hand, but you can make quick back of the envelope calculation if you have a month of reserves being 5 times the written premium. If the proceeds on the technical reserves improve by 1%, you can easily see what impact is on the pre-tax result. But the impact is quite large, you are right.

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

But also, I think we have to add, and we have shown it in the past that if indeed the financial income in Non-Life is decreasing, okay, there is no other way out, and then adapt premium rates to come to the expected returns.

A - Antonio Cano {BIO 16483724 <GO>}

Just for the analysts, we did of course look at all this, and the duration of our liabilities is longer -- it's not just one year, two years; so the investments have a somewhat longer duration which also mitigates the effect of interest rates.

And then you referred to return on equity. Christophe correctly stressed the fact that there is little effect on the denominator. That of course is influenced by the interest rate. So if the interest rate goes up in terms of return on equity, that should be positive.

A - Christophe Boizard {BIO 15390084 <GO>}

Yes, because the shareholder equity shrinks, so you have positive effect on the numerator[ph] over time, and a more immediate effect on the denominator, so this is good to the ROE[ph].

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

Okay, that's very clear. Just to come back on Groupama, I think you last year mentioned that the contribution or the earnings power was EUR34 million. You're now referring to

EUR16 million full-year expected contribution. Does that imply that the integrations are actually -- is EUR12 million, or do you see a lower normalized contribution from Groupama relative to the EUR30 million/EUR34 million of last year?

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

No, first of all, we had in that number last year, there were a number of exceptionals. What we have is that -- what we can see is that today, or this year, we believe we will be above our own expectations. And we also look positive compared to our business plan that we made for the future year.

So there are no negative indicators, and the first results that you have seen were hardly impacted by taxes, so a quite difficult or a dangerous indication for the future.

So I think it's better to look to what we have this year, today, and then take into account that we should benefit in the coming years from improvements, thanks to integration investments made during the course of this year.

A - Christophe Boizard {BIO 15390084 <GO>}

But there is no disappointment actually[ph].

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

No. Even more positive surprises than negative.

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

All right. Thanks a lot.

A - Frank Vandenborre {BIO 15168443 <GO>}

Thank you. Operator, may I ask the analysts to limit to two questions for the sake of time and if really needed, go back to the end of the row?

Thank you.

Operator

Thank you, sir. Steven Haywood, HSBC.

Q - Steven Haywood {BIO 15743259 <GO>}

I wonder if you can tell us for the cash that was up-streamed from the operating companies, can you tell us how much came from each region on the operating in cash up-streams.

And also, with respect to the cash return and strategic priorities, targets, do you have any debt level ratio targets or fixed charge cover targets so that you can estimate potential additional returns to the debt holders as well?

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

I'll take the first one, and then leave it to Christophe for the second one.

So we don't give details about the cash up-stream from the regions, but the only thing we can say is that we have dividend policy where we have combined it with the level of solvency in the Company, the profit of course, and also the -- in such a way that it's permitting us to have an application of the Ageas dividend policy.

But you can say roughly that -- I already gave some indicate to that that today, Asia is more self-funding its growth which sometimes I think this year, beginning of the year, the injection in China was an exceptional one; whereas Belgium, UK and Portugal, also due to their importance, are the main contributors in the cash up-stream.

And if you look to the profit of these entities, and you look to the upstream dividend that you can find somewhere in one of the -- on the slides, you can easily come to what percentage of profit is the up-stream.

A - Christophe Boizard {BIO 15390084 <GO>}

But usually, the subsidiaries follow the same kind of policy as ours. So their up-stream -- most of their -- the result, the main contributor, will be Belgium and (inaudible).

A - Antonio Cano {BIO 16483724 <GO>}

You can say upstream is between 40% and 75%, depending on the number of criteria.

A - Christophe Boizard {BIO 15390084 <GO>}

Maybe on the leverage. So at the level of the different subsidiaries, we don't have a lot of leverage. We have small amounts of debt in Asia and in Belgium, but not much. And we feel we are studying the possibility to (incorporate) a little bit of leverage, and it is one for to be able[ph] to achieve the whole year of 11% on the Insurance. But we don't have a lot at the OpCo level.

And we have -- if you take AG, for instance, you have the recent issuance of a hybrid debt, done in March. And then you have either remaining instrument coming from the past. All in all we have EUR900 million in AG, and that's the main carrier, but there is still room for additional sub-debt[ph].

So as I said, this is being studied, and we will give more detail at the Investor Day.

And if you take UK, you have EUR170 million[ph], but it's not a large amount.

But all in all, you are right. It's area interest and we will elaborate more on this at the Investor Day.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you, very much.

Operator

William Elderkin Goldman Sachs.

Q - William Elderkin {BIO 3349136 <GO>}

Two quick questions. One, what was the contribution of Tesco underwriting to this quarter or this half's earnings compared to last year?

And then secondly, in the context of the list of priorities or thinking regarding M&A, I just wonder, where would the put option regarding Belgium AG fit within that list?

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

Can you repeat the second question? Was it about where AG Insurance is in terms of M&A?

Q - William Elderkin {BIO 3349136 <GO>}

No. Where does the put option on AG Insurance fit within that M&A list?

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

Okay. First of all, contribution of Tesco, I don't have the exact figure in mind, but what is clear, and it's also again, coherent with the explanation I gave before, is that there has been a shift with Tesco from, let's say, a quite large client base to the more upper, loyal clients, which means that there is an impact of Tesco that's lower than last year, mainly due to corrections of prior-year reserves for the existing book where the current one is completely changed in terms of quality and also average premium risk profile.

But I don't know whether people have some more information. I don't have the exact figure. In any case, it's lower than a year ago.

M&A, the put option AG Insurance. First of all, this is an instrument that is exercisable in the first six months of 2018. If it's exercised, we will go and buy[ph] or see whether it can be bought by a friendly partner, or whatever you could imagine.

So it's certainly -- AG Insurance is our core Company, so it's key, and we will give the necessary attention to that. But we -- on the other hand, we will not today block all cash that could be needed at a time to wait and see what happens in 2018.

So we keep -- first of all, we have also the confidence of having been able to raise money out of the market, so there are other means than just cash to -- if the option would be executed to solve that problem, or that opportunity, because we see it maybe also as an opportunity.

I have now some figures on Tesco. So the contribution in terms of business inflow, that was GBP317 a year ago, so it now is GBP221, although, as mentioned, the number of cars is not that different, but it's completely different client portfolio.

In terms of contribution it was GBP7.5[ph] million last year and it's GBP2[ph] million, this year, first six months.

Q - William Elderkin {BIO 3349136 <GO>}

That was very helpful. Thank you.

Operator

William Hawkins, KBW.

Q - William Hawkins {BIO 1822411 <GO>}

First question, please. The general account; could you just update us what your priorities are now for the focus of attention in that business?

And then secondly, the unit-linked fee margin in Belgium took a bit of a dip in the Second Quarter, shown on slide 33. I'm wondering, is that just quarterly noise, or is there anything that's worth commenting on in Belgian unit linked?

Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

So I can take the general account. So in fact there is not much left at the end. If you take the list we had two years ago, we have a small remaining portion of RPN(I), but I think due to the market conditions, market conditions meaning the price of the cashes[ph] there is not much we can do, so this will stay in the balance sheet

But you will remember it's a non-cash element so we pay a very small amount of interest on this. So no action plan on the RPN(I).

On RPI, I already indicated that now we are waiting for some proceeds coming from the litigation. And the put option was -- the put option on BNP Paribas shares was sold.

If you take the hybrid instrument, the fresh -- I don't consider that it's a negative, so it's not a pain in the neck to have a fresh part of this. On the contrary. So I would say, but to be a little bit provocative, what will be left is the cost of the holding, and we have now to reduce our costs.

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

There was something on the general account. There are some legacies we are still busy with, Christophe? So in terms of priorities --

A - Christophe Boizard {BIO 15390084 <GO>}

I was only referring to the financial legacies, but you have the other very big items, the claims.

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

For the other question on the unit-link fee, I pass the word to Antonio.

A - Antonio Cano {BIO 16483724 <GO>}

So if you look at the operating margins in unit-linked, bear in mind it's a combination of different types of products. On the one hand, you have what we call the open ended unit-linked products; and then the last years, we have been mainly selling what we call structured unit-linked products where there is a premium guarantee for the customer.

And the margin on the structured unit-linked products, that margin varies normally also in function of the interest rate because, obviously, you have to cover the premium at the end of the contract.

And then there's also a combination of two distribution channels with different cost structures, one being the bank and the other being the insurance brokers.

But still, I think the margins are around 35 basis points. Bear in mind capital consumption of these products is very, very low, and Solvency I is just 1%. So I think these are still very, very decent margins.

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

So indeed, you could say that the margin is -- almost half of the margin is guaranteed business for a capital consumption that is one-quarter. So it's a double return.

Q - William Hawkins {BIO 1822411 <GO>}

That's great. Thank you, very much.

Operator

Benoit Petrarque, Kepler Cheuvreux.

Q - Benoit Petrarque {BIO 15997668 <GO>}

First question is on the Belgium Life. I've actually got a couple of questions there.

First of all, I wanted to reconfirm the reinvestment yields at 4%. And I wanted to check if this includes your investments in govies, especially given we've touched a low point in Belgium in Q2. So 4% looks very high indeed.

And also, I was wondering what is your running yield currently on the portfolio, and at 4% reinvestment yield, whether we should start to stabilize at current levels.

And on Belgium Life again, on new business, so ex profit sharing, you made a reinvestment yield of 4% minus your 1.5% guaranteed rate. This is at 50 bps margin. So I know at the end of the day you will have to decide on profit sharing, but could we be positively surprised versus the 80/90 bps margin guide on self-providers[ph]?

And then on unit-linked, what is the strategy there? We have seen very good sales this quarter versus last year, but we had a very low base last year. So just wondering how you push those projects and are you actually able to push those projects through your distributors, mainly BNP, Fortis/

I wanted to understand the fee structure you put under the product and whether it's actually a good selling product for your network and actually a profitable product for your network -- for your partners, sorry.

And then I just wanted to check briefly. On the page 24, you show capital gains of EUR30[ph] million on Continental Europe. It's under Life. And I was wondering if you included the EUR9 million on Turkey and this figure, or I should include that in the zero, in the Non-Life section.

Thank you, very much.

A - Christophe Boizard {BIO 15390084 <GO>}

So I can help maybe with the investment fee. So as I said previously, we reached 3.99%[ph], but please consider that these are the Q2 figures. So this can be seen as a little bit volatile, as it is related to three months only.

So the 3.99%[ph], it includes the sovereign. On the sovereign part, we were at 2.97%[ph]. On other credit instruments, 2.73%[ph]. On other credit instrument 2.73%[ph]. And then on loans we were at 9.26%[ph]. And I refer to some transaction being done on the real estate side.

And so it included the sovereign reinvestment rate.

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

If we then go to the portfolio, on average, the guarantee of the Life business Belgium came down to 2.82%, whereas the return on the bonds in the portfolio are at 3.98%. Of course, this is not taking into account that this is part in shares and in real estate.

You asked --

Q - Benoit Petrarque {BIO 15997668 <GO>}

So just 3.98% versus 3.99%, it means we are actually at same level right now. So reinvestment yield will not impact the average yield on the portfolio any more?

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

No. Whereas the average guarantee of the portfolio will continue to go down, knowing that all the new business is sold at 1.5% or 1.75% depending on the type of product. And we should have also products with a 0% guarantee.

Again, you also questioned whether this could be a moment to increase the margin above 80 bps. Just remember, today in the guaranteed business, the margin is somewhere 85 bps. So 84 bps and last year 85 bps. So we target between 80 bps and 90 bps, but of course also have to keep the product interesting for the client and distributor.

Don't forget that in Belgium, these products, clients, whenever they get a guarantee of 1.5%, they have to pay an upfront fee of, let's say, 2.5% to 3% and a one-off tax of 2% since this year. So they pay 4.5% to 5% up front for a product where they have a guarantee of 1.5%, and have expectations on profit sharing, products that last at least eight years.

Unit-linked; we of course did much better than a year ago, but a year ago we also expressed that we are quite disappointed about the low levels. So it's much better than a year ago, but our ambition, or expectation, is that we would like this to go up further.

But it's certainly not in a push scenario, because first of all, our primary distributor here is the Bank who is quite attentive to all the consequences of MiFID and not mis-selling.

So that's one of the reasons why we primarily distribute structured unit-linked with a capital guarantee because this apparently what the Bank wants to sell, but also what the clients of the Bank and the clients of the broker in Belgium prefer.

There is still a relatively high risk-averse view of consumers towards whatever investments in Belgium. So we do our best to combine somewhere a certain security with nevertheless the possibility of an upside in an -- let's say for us as insurer, a capital less intensive environment. So that's a bit the situation for Belgium and Life.

And what we see is that in the market although we have a decline that we are gaining market share in new business because the drop in sales in the Belgium Life industry is in the savings products, it's above 50%, five-zero, and in unit-linked also it's not really increasing because there's been one producer that was very active last year and that is less active this year.

And then the last question on Turkey, the EUR9 million capital gain on our headquarter office in Istanbul is not included in the figures on slide 24 because there are no capital gains reported under the Non-Life column. So it's also seen as a quite a specific cap gain. And it's non-consolidated.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Thank you, very much.

Operator

David Andrich, Morgan Stanley.

Q - David Andrich {BIO 15414075 <GO>}

I'm just wondering, in terms of the Non-Life business if you see any areas where there's material claims inflation occurring. That's my first question.

And my second question, I was just wondering, in regards to the legal proceedings around RMBS in the Royal Park Investments, I was just wondering how much has been set aside for that?

Thank you.

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

You take maybe the second part.

A - Christophe Boizard {BIO 15390084 <GO>}

I think it's a very easy answer. Zero. So it will be a net gain at the first euro we will get. So we have expectations about the claim, but you will understand I don't want to elaborate too much on this, but nothing is in the accounts, so all the proceeds will be directly recognized as a result in the general account.

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

And there are no costs[ph], so it's no queue[ph] and no pay[ph].

No queue and no pay. So obviously, if we are successful, the lawyers will be paid out of the proceeds.

A - Antonio Cano {BIO 16483724 <GO>}

I think the basic is we have some claims in litigation where we may one day have to pay in the general account, but in RPI, it's just the opposite. It is us that are attacking the banks for having sold us the wrong products. So there's nothing that has to be satisfied[ph] here.

A - Christophe Boizard {BIO 15390084 <GO>}

We can only have good surprises here for RPI.

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

For the first question on Non-Life, can you please repeat it because it's also not 100% clear for us?

Q - David Andrich {BIO 15414075 <GO>}

Sure, sorry. I was just wondering in terms of the business units, if there was any particular business, Non-Life business units where you saw excessive claims inflation.

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

Not really. I think even-- let's say if you look to the UK market, then you could say that some are already discounted in the prices is that due to all the actions taken with respect to banning referral fees that we not only expect but already see a reduction of claims amounts, because, okay, there is less disputed or negotiated by lawyer firms. And even the costs of the lawyers, if they are involved, has been reduced. So that's not really a fear.

I would say the only area, and that's a very specific situation, is in Belgium where the Government decided to apply as of next year VAT on lawyer fees, which was not the case in the past. So it means that not only for new bills made up by lawyers, or bills for new claims, but also bills for existing claims, as of 2014, the amount of these bills will increase with VAT, which is of course easy to compensate for the future by changes in the rates we apply, which is less evident for the past.

But there, of course, we will take actions to have all the to-be-coming bills for the past services, to have them before the end of the year in order to be able to pay them without this VAT. But that's a bit what we expect, but not more than that.

Q - David Andrich {BIO 15414075 <GO>}

Okay. Thank you, very much.

Operator

Jason Kalamboussis, Societe Generale.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

I have two questions. The first one is on the debt restructuring you're currently doing. If we look at it with what you have done and are planning to do, that would lead to a sharp lowering of your gearing. So what are your plans going forward? Do you want to bring it back up to where you were, which in any case was below average for the insurance sector? Do you feel more comfortable now that you can raise more senior debt at different entities, as you have done with Hong Kong?

And also, you are changing the profile and retiring a lot of legacy issues that are non-Solvency II compliant, so which brings a question on Solvency II. When are you planning to give us an economic Solvency II ratio?

And the second question is a quick one on Turkey. The 88% combined ratio is excellent. So does it contain any benefit from prior-year reserving? And the second thing is do you find that there have been a lot of other companies that had to put up reserves for the last couple of years due to bodily injury going up with court decisions and other issues. Do you find that in Turkey you are very well reserved? And do you forecast -- expect to see any strengthening over the next year or two in that area?

Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

I can start with the debt restructuring, maybe. So the purpose was twofold. First, to simplify because -- and then to reduce our credit risk vis-a-vis a third party, the third party being BNP Paribas Fortis.

So if you take NITSH I and NITSH II, which were full[ph], the purpose was to unwind the links we had with BNP Paribas Fortis.

Then if we took all these different hybrid instruments, we were a little bit over the maximum allowed to have, but we can claim to be an optimized structure. With the present structure, present meaning after the call of the NITSH I which will take place in August, the real payment will take place in August.

But after this, we are left with the fresh[ph] at the general account level. Part of the Hybrone, the new instrument raised by AG, we are in probably an optimized position.

So there is no intention to issue a lot of additional sub-debt to an additional debt to vis-a-vis the external world[ph]. It was more -- before, it was too much and we had this credit risk, and now we are in a normal situation.

And then you referred to Ageas --

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Excuse me, I was looking at the long-term debt. So basically, I can fully understand that you have done that on the sub-debt. But it was would you now be looking to raise on the long-term debt, like you did in Hong Kong, senior debt basically.

A - Christophe Boizard {BIO 15390084 <GO>}

No. On Hong Kong, so the HKD250[ph] million we raised, it's very, let's say a very specific arrangement to boost the solvency of our subsidiary in Hong Kong, but there is no intention to go more on senior debt, not at all.

And I think that this arrangement, this EUR250 million, which was discussed with the local regulator, it's the last time we will do it. We can safely say that. So let's say that it's something not really corresponding to a Group policy.

A - Antonio Cano {BIO 16483724 <GO>}

And then perhaps I can answer the question of Solvency II, but I have to disappoint you. We do not have the intention to give any numbers to the outside world, as long as those uncertainties exist over Solvency II.

You know that there has been that LDGA assessment that politicians are discussing again what the outcome would be. There were substantial technical changes that were looked at, so we really don't think that as long as that is not stable, that we should give any information to the outside world, which at the end of the day would only be confusing and perhaps even misleading if things were to change. So bad luck. You have to ask the politicians when it will come.

And for Turkey?

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

For Turkey, of course, 88% combined ratio is a very low one. And again, you can expect that there can be some fluctuations on it. But on the other hand, we took a quite tough decision shortly after we entered in the joint venture in contradiction to all the other players to really decrease our presence, our market share in the third-party liability, which is if you don't pay attention very unprofitable in the Turkish market, and so we will put much more effort on the growth in motor, on damage, property and health.

So if you look to our market share, it's about 9% in motor on damage, in property and health, and it's only 6% in MTPL[ph], as we call it.

The market grew with 26% in the first half. AKSigorta only with 7%. But if you take out again the much more difficult MTPL, then our growth was 18% compared to market 20%.

So we are ourselves a bit surprised by the fact that the pricing of a lot of competitors is so what we consider unprofitable that they continue to chase whatever growth in MTPL. We leave it aside. We say let's focus there on the better segments, also using the channel of Akbank, which is automatically driving to a better selection, and we put all efforts in the more profitable product range.

We expect that one day prices will go up in Turkey in motor, third-party liability, and we expect that at the moment due to the banking channel, also good reputation in the agency channel, we will be able at that time when the market returns or comes to profitability in motor to capture our part of that growth when it becomes again profitable.

So the reserving is done on a best estimate way. We have a lot of people from the UK, Belgium, together with the colleagues from Sabanci and AKSigorta looking at that, so we are quite assured that it's done according to the standards we use elsewhere in the Group.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you. If I may just ask one thing on the Solvency II. So do you intend to do it in 2016, or you just want to have more certainty? Because a number of other companies, as you have seen, are publishing their economic Solvency II ratio and give you and say, look, we include this and that, and we are not, that's how it would be; so give you basically the scenarios under the three or four main elements. And like that, we have something we can work with.

So for you, is it a case of having more certainty on some of the elements and then you publish it, or actually you're looking for 2016, or whenever Solvency II is enacted?

A - Antonio Cano {BIO 16483724 <GO>}

Well, I think again, we have to have clarity here before we communicate. I don't want to put any date on it. You would have asked me a year ago and I did not mention a date, but a year ago, I might have said by 2014. Today, I want to see what comes out of it before committing to anything as such.

We're running a bit out of time. Operator, do we have time for any other --

A - Frank Vandenborre {BIO 15168443 <GO>}

Gentlemen, I think for the sake of time, indeed, as we also have a press conference, I'm afraid we need to cut the line. But of course, the team is available for any further questions. So apologies for those who still have questions, but we'll try to answer them, if that's okay.

Then closing remarks?

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

Okay. Thank you, Frank. So to end the call, let's summarize maybe the main conclusions. First of all, the half-year results reinforce the positive trend we have seen for a number of quarters now.

The positive takeaways are the well-diversified results across all business segments; a satisfactory life result with good margins, despite the low interest rate environment; and the continued overall progress in operating performance in our Non-Life activities; and lastly, a solvency and net cash position that is strong and offers us a lot of flexibility.

There are nevertheless also points of attention. First of all, ensuring that the good performance in of all our Life activities continues, and we also have to strive for the right mix of products in all our segments.

And in Non-Life, we have to remain vigilant for the challenging market conditions, especially in Motor and in the UK.

So right now, as we say, we are convinced that the time is right to implement a new buyback program. At our investors' update of September 18, we will update you on where we are in terms of our priorities and key financial targets for 2015, with a focus on the return on equity. And we will also provide you with a broader update on our views about the allocation of our net cash position towards the future.

Finally, we will have an extraordinary shareholders' meeting in September on the 16th. That should approve the EUR1 per share distribution. And I would also like to draw your attention to the fact that the payout of this EUR1 is foreseen early December, taking into account all legal requirements that we need to respect.

With this all, I would like to bring this call to an end. Thank you for your presence. Don't hesitate to contact our IR team should you have outstanding questions or questions that due to the timing have not been able to be raised in this audience.

Thanks for your time and I wish you a very good day and even a very good weekend.

Goodbye.

Operator

Thank you, sir. Ladies and gentlemen, this concludes today's conference call.
