Q1 2015 Earnings Call

Company Participants

- Antonio Cano, Chief Executive Officer
- 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
- Ashik Musaddi, Analyst
- Benoît Pétrarque, Analyst
- Chris J. Esson, Analyst
- David T. Andrich, Analyst
- Farooq Hanif, Analyst
- Farquhar C. Murray, Analyst
- Jason Kalamboussis, Analyst
- Thomas Jacquet, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the conference call for the Three-Month Results 2015. I am pleased to present Mr. Bart de Smet, Chief Executive Officer; and Mr. Christophe Boizard, Chief Financial Officer. For the first part of this call, let me remind you that all participants will remain on listen-only mode. And afterwards, there will be a question-and-answer session.

Mr. de Smet and Mr. Boizard, please begin.

Bart Karel de Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you, all, for dialing into this conference call and for being with us for the presentation of the first quarter 2015 results of ageas. As usual, I'm joined in the room by my colleagues of the Executive Committee, Christophe Boizard, our CFO; and Filip Coremans, our CRO; Antonio Cano, the CEO of AG Insurance is also in the room; as well as our Investor Relations team.

Ladies and gentlemen, the year started well with a nice set of figures, further growing inflows, solid net insurance result and good marks for our operating performance. While all segments contributed, Asia was once again the main driver of the growth. At the same time, we have also announced today some management changes. Barry Smith, currently the Chief Operating Officer, will retire as of the 1st of October, and he will be replaced by Antonio Cano, today the CEO of AG Insurance. And Antonio in turn will be replaced by Hans De Cuyper. Hans served almost 10 years for us in Hong Kong and Malaysia and is, since 2013, the CFO of AG Insurance.

I'm pleased that we've been able to prepare for these management changes well in time as this should ensure a smooth transition process and continuity in the organization. I'd like to congratulate Antonio and Hans for accepting these challenges and, of course, also would like to thank Barry warmly for his important contribution to the achievement of our strategic objectives during his long career year with the group.

After his retirement, we will be able to continue to benefit from Barry's growth experience and expertise because he will stay involved in a number of boards of non-life companies of the group. You can find the current and the future composition of the ageas executives and management team on slide two of the presentation.

Finally, you will also have noted our third press release on the new agreement with BNP Paribas regarding the remaining outstanding CASHES and the related RPN(I) liability. I propose that Christophe update you on this.

So, coming back on the first quarter results, the main headlines announced today are on slide one and slide three of the presentation. The net insurance profit increased 37% to €198 million compared to €145 million last year.

A year ago, we suffered from storms and floods in the U.K. with a net impact of €35 million; while in contrast, the weather conditions this year have been favorable to us.

We also benefited from a positive currency impact, mainly related to our Asian activities. All things being equal, however, the result is still up, and I will come back immediately on some of the reasons why.

With respect to the group inflows including the non-consolidated partnerships at 100%, we've seen the same phenomena every year; a strong start of the year in Asia, especially in China, where inflows are up again by 51% in the first quarter alone to more than €5 billion.

Part of this increase is due to the favorable currency, but irrespective, the growth remains impressive and I'm especially pleased that the growth comes from both sales in single and regular premium, while also, the renewals continue to gain in importance.

This more than compensates for the stagnating sales in our Life business in Belgium following the lasting low interest rates, and in the Non-Life business in U.K., where the markets remain challenging. It also highlights the importance of product and geographical diversification within our portfolio.

The group combined ratio improved significantly to 96.5% compared to 102.6% last year where the latter included a 3.8% from the aforementioned adverse weather impact in U.K. We have to be fair and indicate that we benefited from a significantly higher release of prior-year reserves, representing 8.1% of net earned premiums compared to 2.7% last year, and this is a result of various elements all coming together in one quarter.

The Life operating margin showed a mixed picture. The overall margin stands at 91 basis points for product suite guarantees, and 39 basis points for unit-linked products. The guaranteed margins in Belgium were somewhat lower than last year, but this is also because we realized quarter-on-quarter less capital gains this year.

The group result finally increased significantly year-on-year to €241 million, with a positive contribution from the General Account almost entirely related to the downwards revaluation of the RPN(I) liability.

I would like now to give the floor to Christophe and will come back to you for the Q&A and some closing remarks.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart. Further to those opening remarks by Bart, I will provide you, as usual, with some additional comments on the operating results by insurance segment, the General Account and I will give some quick comments on our investments.

First, our insurance operations. Let me first start by noting that the insurance net profit is ahead of consensus mainly because of the better-than-expected results in Continental Europe and Asia. Both segments, indeed, presented encouraging results across most countries.

But let's follow the traditional order of the segments. I am on slide four. Our Belgian operations reported a net profit of €95 million compared to the €87 million last year. The Life results are marginally below last year, while Non-Life almost doubled year-on-year.

In Life, we saw two evolutions. Inflows came down by 11%. Sales were good in a number of traditional products, such as the risk or retirement products, but individual guaranteed products were lower by 22% due to the lasting low interest rates. Unit linked to sales were quasi-stable year-on-year.

On the other hand, the net result – I am still on the Life segment, the net result amounted to €72 million, but remain stable if we exclude the €3 million one-off charge related to the redemption of the Hybrone. This loan has been replaced, as you will remember, by a new €400 million Solvency II, Tier 2 compliant note.

The operating result remains solid, despite a lower level of realized capital gain this quarter compared to last year.

In Non-Life now, the net result nearly doubled to €23 million. The combined ratio amounted to 95.8% and remained below 100% in all product segments. This combined ratio benefited overall from a substantial release of prior-year reserves, which, in total, represented 13.3% of the net earned premium. The impact on the result of this 13.3% is around €30 million.

This percentage is indeed significantly higher than the usual percentage and is impacted by various elements. First of all, there is the review of the so-called recovery of salvages, which resulted this year in a positive adjustment. Secondly, we noticed a good prior-year evolution in motor on the third-party liability side. And thirdly, compared to last year, the change in combined ratio comes from the very weak third-party liability performance last year.

At the same time, the current-year claim ratio was higher than average in household, mainly because of the higher large claim, while also in Motor, we have an increased current-year claim ratio, and this is, among other thing, because we decided to adjust upward the IBNR to improve our consult level under claim reserves.

Clearly, this is a picture of the first quarter only, with an effect of magnification or amplification. Due to the low denominator, all the percentages are calculated with the division by the net earned premium, and the net earned premium for the Q1 of this year is €454 million. So it's a small amount compared to the net earned premium for the full year. What we expect? We expect that both trends, the prior year and current year, will normalize over there rest of the year.

On the U.K., slide five now. The net result amounted to €16 million compared to a net loss of €6 million last year, which included two one-off: €35 million weather-related cost; and a $6 million payment related to a legal settlement. This one-off was a positive. It was a payment in favor of ageas. So the underlying net result is down due to the continued challenging market conditions we've reached we are confronted, both in Motor and Household.

In this context, Ageas UK continues to increase rates. At the same time, we noticed in our Motor business a further increase in the number of accidental damage claims.

The combined ratio for the first quarter of Ageas Insurance Limited amounted to 99.4% compared to 106.1% last year, a strong improvement in Household, you'll remember the storm and on other line also, was partially offset by a higher combined ratio in Motor. The same trend could be observed in Tesco Underwriting with a combined ratio of 106.2%.

In our third segment, slide six of the presentation, so Continental Europe. And as already mentioned, the net result exceeded expectations amounting to €29 million, with better results both in Life and Non-Life. Gross inflows also increased by 23%, with good sales volume especially in Life across all countries.

Both in France and Luxembourg, unit-linked sales were very successful, while in Portugal, the launch of new guaranteed savings products compensated for the lower significant inflows.

In our Non-Life business, the picture is a bit more mixed, with gross inflow up 4% but stable at constant exchange rates.

The Life net result increased by 11% to €21 million, with also here a higher contribution from Luxembourg and the positive tax credit similar to last year in France.

In Non-Life, the net result increased from €5 million to €7 million, benefiting from a very strong combined ratio below 90%. As a matter of fact, it was 88.1% on the consolidated activities, and this excellent result are partly offset by a lower result in Turkey which is not consolidated but obviously included in the results.

And lastly, Asia, slide seven, two items here and, in fact, exactly the same as last year; significant inflow growth and higher net results. First, the inflow quarter-on-quarter. Life inflows were up by 49% to €6.1 billion, with half of the increase coming from a favorable currency effect. Similar to previous quarters, the growth came primarily from China and Thailand, and is a result of the continued efforts to develop various distribution channels and new sales campaigns.

New business premium were up 47% to €3.9 billion, but more importantly and as Bart already said, renewals also showed a nice increase of more than 50% to €2.2 billion. This is an illustration of the increasing persistency of our Life business in Asia.

The Non-Life growth in inflows is less spectacular, but all in all, it also grew by almost 10% at constant rate, increasing both in Malaysia and Thailand.

The total net profit of Asia amounted to €58 million, of which €55 million in Life, up almost 60% quarter-on-quarter. Almost €10 million here relates again to the favorable currency rates. The rest of the increase come from the continued focus on more profitable regular premium sales and slightly higher net capital gains.

This brings me to the General Account on slide eight. As Bart already mentioned, the net result was positive this quarter at €44 million and was dominated by two items: the lower RPN(I) liability value, which declined by €36 million to €431 million due to the combination of a lower CASHES price and a higher ageas share price.

Ladies and gentlemen, let me now provide you with some details on the new agreement concluded by ageas and BNP Paribas, and by which, BNP Paribas is allowed to purchase the remaining outstanding CASHES under the condition that they will convert into ageas shares.

The conversion will lead to a proportional settlement of the RPN(I) and hence, a reduced volatility in the General Account of ageas. Ageas has agreed to pay BNP Paribas a compensation for the CASHES converted and the agreement is set to expire at the end of 2016. More details can be found in the press release.

Of course, we cannot predict how many CASHES will be acquired because it's a very illiquid market. And therefore, we plan to publish a monthly update on this, including the corresponding cash settlement and net impact on our P&L.

I would like to elaborate slightly more on the compensation to give you a sense of the cash implication. So, if 100% of the CASHES were bought by BNP Paribas, the compensation would amount to €300 million, and I draw your attention to the fact that it's a significant and discounted amount compared to the value of the RPN(I), which is €431 million.

So if we assumed a 100% success, we would book a nice accounting benefit, exactly equal to the difference between the RPN(I) value, the €431 million, and the €300 million of the cash compensation. But having said that, and as I said previously, we know that within the bondholders, you have long investors and it is not very likely that they will be available for sale. And we think our best expectation is that maybe one-third of the total could be bought and could be bought back by BNP Paribas. That was a long digression on the CASHES deal.

Now, the second item I mentioned for the General Account was Royal Park Investments, on which we booked a result of almost €11 million, driven by a resolution of some of the outstanding U.S. proceedings. I don't want to elaborate a lot on this since the settlements signed with their counterparts are confidential. But each time we will recognize a profit in RPN(I), this will be the sign that some settlements have been signed. And that was the case either in Q4 of 2014 and this was also the case of Q1 of 2015.

Let's come to the net cash position now. The net cash position of the group has not moved significantly and stayed constant at €1.6 billion, plus the €300 million of liquid assets with a maturity longer than one year, they don't qualify as cash, but they are, I would say, quasi-cash.

Slide 10 and 11 of the presentation, these slide respectively provide you with the traditional overview of shareholders' equity and solvency; two elements here. Shareholders' equity rose further because of unrealized gains up to a new historical high, €3.43 billion. This didn't just apply to fixed income. The unrealized gain also increased on equity, from €500 million to €800 million. So we have booked an additional €300 million of unrealized gain and losses on this portfolio. Secondly, there is an important contribution from currency rate differences. You can read that on the slide.

Insurance solvency went up to 222%, with an increased solvency in Belgium and Asia, and I draw your attention on the component, the reason for this increase. First, the liability management, the fact that the issuance of the new instrument was done for a higher amount than what was brought to the tender offer on the Hybrone, so there is a net gain in term of eligible capital here, plus the results.

On the investment, I will be very brief. You have on slide 46 and following the usual presentation, market value adjustment explain most of the difference in the total valuation. Unrealized capital gain and losses increased by €2.3 billion on bonds and equity, everything included, of which €300 million from equity already mentioned just a moment ago.

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

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Ladies and gentlemen, this concludes the introduction, and we can now open the line for questions. As usual, we'd like you to limit yourself to three questions to allow everybody to have enough time to raise questions. Thank you. Operator?

Q&A

Operator

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

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, thank you, and good morning, everyone. I'd just like a couple of questions. First on your capital. I mean your capital increased quite a lot to around 222 percentage points, Solvency I ratio, I guess partly because, as Christophe mentioned, on the liability management. But I mean your capital in Belgium is now quite strong, 205%. So what is the level are you looking to keep in Belgium? And is that decision will be made like under Solvency II or do you still look at Solvency I for that perspective?

Secondly is unrealized gains on equities is up quite a lot. So, do you look to harvest some of those gains going forward? So that will be second.

And thirdly, just any thoughts on this cash that you have to pay down to be BNP. What is the main reason for doing it at this point because if I remember correctly, there was no such requirement for the cash outflow on BNP? So why do you take this step at the moment?

And just a follow-up on that; is it anything to do with your M&A stuff, and does that reduce your M&A power, et cetera? Thank you.

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

Okay. I'll give question one, Ashik, to Filip, and then the two other ones to Christophe. Filip is first.

A - Filip Coremans {BIO 17614100 <GO>}

Good morning, Ashik. Thanks for your question. As you rightly mentioned, the increase in the insurance equity comes, first and foremost, I think from a good first quarter result, also from partly, as Christophe indicated, additions of the sub-debt. But let's not forget a strong component coming from the foreign exchange, as well as the adjustments in the assumptions for the treatment of the put option on BNP.

And finally, I think not to be ignored is also the strong performance of the equity markets in the first quarter, which added to the equity size. So these are the main reasons why our solvency ratios goes up and then also with the equity.

Now you ask the question whether we are now targeting 222% of solvency ratio in Belgium. Obviously not, but it is true that Solvency I, we want to finish that story in beauty, but the real story that will count from the second half of this year is the Solvency II. And as you know, we will disclose our targets and our capital management strategy around that in the Investor Day in September.

But as promised, we promised smooth transition and no significant change in our policy and I think that is what you can expect that we will announce. The 222% has been boosted here by strong financial markets mostly and good results in the first quarter.

Q - Ashik Musaddi {BIO 15847584 <GO>}

But at the moment, you remain comfortable with your Solvency II position?

A - Filip Coremans {BIO 17614100 <GO>}

Yes, we do.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. So, Ashik, on the deal with BNP Paribas, what is all the plus for ageas? I think several things. First, let's take the accounting side. As I said, if we realize that 100% we book this nice profit, the difference between €431 million of RPN(I) and what would be paid, €300 million, but €131 million tax-free. So it flows directly into the shareholder equity but an increase in NAV for the group. That's the first element.

The second element is that even though the first operation was a real and good success with the success rate at 63%, we still have 37% outstanding, and we thought that it was good to try to increase a little bit. And as I said, we don't expect a 100% success and I think only one-third. So we are keen to add another 10 points on the success rate. And frankly, if we could reach something in excess of 70%, 10% be added to 63%, it would be more stable for the future. And I think there is a good interest in this.

Then other maybe financial elements is that on RPN(I), we pay something. We pay EURIBOR plus 90 bps, so something like around €4 million a year. I know that it is not a lot but who knows. Since it is a perpetual instrument, who knows what happen with the short-term rates in the future and the €4 million we pay is really a floor.

And then apart from this, we pay some other things related to the CASHES. So, all in all, if you put all together on the one hand all the, let's say, numerical and accounting element on one side and the gain on volatility, we think that it's a good deal for us. But again, please consider that it is not likely we will hit above 10% of success rate in this operation.

And then your last question was about equity, with the €300 million additional capital gain and because in total, we have $800 million. So the answer is that this won't dramatically change the way we manage equity. You will have noticed quarter after quarter that we do realize some capital gain on equity, but normal. Why it is normal? Because on this asset class, to achieve the target global return of 6% to 7%, so we need to regularly book some capital gain. That's one element. Then the fact that we have an increased buffer gives us maybe more room to slightly increase the allocation on this asset class.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Just a follow-up on this RPN(I). I mean given that you may have to pay out, say, €300 million, worst-case scenario, would that alter your financial flexibility in terms of dividend and share buyback or M&A-related things?

A - Christophe Boizard {BIO 15390084 <GO>}

I would say that from our perspective, there is no influence. If again, you take the worst case, but it could be, I don't know if it is the right word, a catastrophic event, in the sense very unlikely.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very clear. Thank you.

Operator

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

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning, all. Yes, I have two questions from my end. First one, also a little bit related to the first question on the cash up-streaming in the Belgium solvency. I think last year, you guided that the normalized cash upstream was around a €525 million kind of run rate. Is that still a level you feel comfortable with for 2015, given Solvency II and given where rates are today, especially as basically the normalization should come mostly from the Belgium unit, which last year streamed a little bit less capital of course to the holding. That's the first question.

The second question is on the combined ratio, which, of course, benefited heavily from, let's say, some prior-year releases. Yeah, if you look underlying, to be a little bit critical, basically the U.K. and Belgium combined ratio adjusted for releases was still not very good, I would say, maybe even slightly over 100%. Yeah, what measures are you planning and how comfortable are you with, let's say, the underlying combined ratio in the first quarter and also in light with the continued pressure on reinvestment yields? Thank you.

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

Okay. Maybe a short answer on the first one, Albert. One, what we said after the full year results about the more recurring dividend upstream, where in 2014, we had something like €725 million, we said that's definitely at least €200 million had to be seen as somewhere exceptional. So a dividend upstream in the area of €500 million is certainly what we target. Last year, AG Insurance had an upstream of 50% of the profit. And the normal run rate for AG Insurance is 75%, which will normally be respected this year and the coming years.

Then the second point, combined ratio. Well, a very fair remark. I think that's also what was in my introduction and reinformed by the explanations of Christophe is that we don't want to hide against a very good overall combined ratio without being sufficiently self-critical on the strong support from support from prior-year releases.

If we look to the current year, first of all, also historically, over time, the current year always has been above 100% because it's also influenced by new business that in the first year, on average, is a bit less profitable than once you have been able to clean the portfolio, but having said that, the current year for the first quarter was in three product lines higher than a year before. It's Motor and Household in Belgium and Motor in the U.K.

On the one hand, we believe that this will be more flattered over the year because it's, as mentioned by Christophe, you have sometimes an impact like in Household in Belgium, some big claims totaling something like €9 million to €10 million. It immediately makes 7%, 8% in the combined ratio on the net earned premiums of the first quarter.

But in Motor, we see in Belgium increased frequency. And we see in the U.K. an increase of the accidental damage. So these areas remained areas of attention. And we will further focus on it, with price corrections, with underwriting initiatives in the course of the year.

Also to end with a positive, I think that the results in workmen's compensation and in third-party liability, where last year we were above 130% combined ratio, the actions taken really start to pay off, and we see a very good improvement in these areas.

Maybe a very last comment on the releases. On the one hand, it was, as Christophe mentioned, about recourses that we ask to third parties that have been readjusted. It's about the normal positive effect of releases on the portfolio, but there always also has been a number of bigger claims of the past that have been settled at a considerably lower amount than what was in the reserves.

But having said all these things, we are all aware that this is the point of attention for the remainder of the year. And we don't lose our confidence in being able to achieve a combined ratio close to our target of 97% in the remainder of the year.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Okay, very clear. Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Investment yield was your last question. So at each call, we give the yield on new money. So for Q1 2015, it was 2%, 2.00%. And I remind you that in Q4 2014, it was 2.54%; in Q3, 2.49%; and 3.06% the quarter before. So, for this year, 2.00%, and to be precise, you remember that this is for Belgium where we have this analysis.

Some comments around this 2%. First, we have a decreasing trend, as you can see, compared to the previous quarter. That was expected. Second, this apply on I would say small volumes, not big ones. And this 2% apply on an amount slightly above €1 billion. It's €1.1 billion. So it's not a huge amount, and this amount to be compared with the amount of Life technical liabilities at about €59 billion. So it's a small amount. And I would say it is where our policy of zero duration gaps plays its role; we are extremely well protected, but that can be checked when you take a look on the margin, which are very resilient.

And so message number one, margins, all very well. Message number two, we are at 2% with a decreasing trend. But due to the reduction in the volume in personal investment, I mentioned minus 22% in my introductory comments, due to this minus 22%, the amount is not very high and it is limited to €1.2 billion.

Then you may ask and I anticipate for the question, how come we achieved 2%, which seems high when the 10-year rate during Q1 were extremely low and well below 1%? We followed the same policy as in previous quarters. So we play variable (0:38:31), which means that on the government bonds, we bought bonds with very high duration and with maturity above 20, 20 years of duration – no, maturity date above 20 years and 23 years, 24 years, which results in a real duration of 15 years to 16 years.

Then, we bought some corporate bonds with lower duration but with a spread on this. We bought some high yield and there were some opportunities in the U.S. and during Q1 to have nice return and we invest quite a significant amount of money at a rate above 5%, for instance. Then we had some loan in real estate whose return are pretty high. So, all in all, we achieved this 2%. And please, and that will be my final comment, take into account that here, the 2% relates to the fixed income instrument. And so, all the bond things, please keep in mind that we have almost 10% in real estate where we achieve the global return around 5%.

And final, final comment, the 5% is sustainable, thanks to the €1.2 billion of unrealized capital gain we have. So we can safely assume that we will have this 5% for quite a while.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you. That's very helpful. But is it also possible to get maybe then also an updates on where the guaranties have moved on the back book and also on the new production?

A - Christophe Boizard {BIO 15390084 <GO>}

On the back book, the guarantees, and you'll find it on slide 32 in the IR pack, came down to 2.70%, where the yields on the back book is 3.83%. For the new business, the guarantees are 1%.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Okay, thank you very much.

Operator

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

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

Hi, gentlemen. Just two questions if I may. Firstly, just coming to the CASHES agreement. Can you just please clarify the actual breakage fee component assuming 100% buyback? I think it must be 130%, and I'm assuming the net cash impact of negative €300 million is basically the difference between the €431 million and that breakage fee.

And then, in terms of the P&L impact, I presume you just recognize the breakage fee. I don't know whether there's a loop through from something else.

And then the second question is just on the tax rate, which was very low in the quarter. Can you just outline what drove that and, in particular, can you just quantify what the tax credit was in France please? Thanks very much.

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

Will you take it?

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. So, on the CASHES, on the agreement, I think that I have already given a lot of explanation. So I don't want to give more because we have agreed with BNP Paribas of what can be shared and what is, let's say, more confidential. But you are right in saying that at the end, the profit corresponds to the breakup fees and the breakup fees, which is a strange name, let's – to be more transparent, I would say that we settle the FP&I at a discount, which is maybe more appropriate.

And then for communication, we call that a breakup fee. But okay, I prefer the settlement at different conditions; it's not a reality.

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

Okay. And then...

A - Christophe Boizard {BIO 15390084 <GO>}

And then, the €130 million, there is no tax thanks to the huge losses we had at the General Account level, and due to the past losses of Fortis.

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

Okay. But bottom line, the net cash impact is €300 million negative?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes, correct.

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

Max.

A - Christophe Boizard {BIO 15390084 <GO>}

Max. Everything at 100%. And as I said, I expect one-third of all of this.

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

Yeah.

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

And the other was on tax rate, Christophe, and France.

A - Christophe Boizard {BIO 15390084 <GO>}

So on the tax rate on France, we have activated some DTA for an amount of €5 million. Obviously, it's negative in the tax amount we have to pay. So it decreased the tax rate.

Then there is to take into account the fact that even though the nominal tax rate is 34%, due to the tax rules in Belgium, the exemption of some asset class, you realize some capital gain free of tax. So all this brings the overall percentage down. So, for our own calculation and to have simple figure in mind, usually, we are around 25%. 25% is something on the long term you can rely on.

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

Where were the – I mean, I think there was something more than just the DTAs in France. Was that – did you make significant gains on a particular asset class?

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

General Account.

A - Christophe Boizard {BIO 15390084 <GO>}

The General Account is tax exempted. So, that also has a positive impact.

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

Yes.

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

All right. Thanks.

Operator

Thank you very much. And our next question is from the line of Benoît Pétrarque with Kepler. Please go ahead. Your line is open.

Q - Benoît Pétrarque

Yes. Good morning, everybody. A couple of questions on my side. First one will be on the net profit of the Belgium Life. For cap gains and impairments, you came in at €56 million net on the Life versus €42 million last year. I was wondering, what is driving this increase on a clean basis given the low interest rate environment.

And related to what you said on the 2% yield on new money, just specifically talking on the Branch 21 products, my impression was that the duration was eight years, 10 years, and that in the past, you have been buying bonds with relatively closed duration.

Now you are buying bonds, if I understand correctly, with govies with much higher duration and try to maybe compensate also on the corporate side with shorter duration, but better spread. So are you changing a little bit the way you have been matching your portfolio in the past, i.e. maybe taking more long-term assets, long-term govies, short-term corporates with an average yield duration of 10 years, or are you kind of trying to match the portfolio? That will be the first question.

Second question is on the unit-linked products. Clearly, I mean, it is still weak, seems to be down year-on-year about 2% in Belgium and I was wondering on the strategy, what are you going to do to try to reverse this trend. It looks like it's again the market trends.

And also, maybe on the margin on unit-linked, 47 bps this quarter; pretty good. I was wondering if you think this is sustainable?

And then finally on the Non-Life side, yeah, the gross written premium in Non-Life Belgium was up 0.8% year-on-year. And I was used to see a much better re-pricing in the first quarter in the previous years. I think we have done 3.3% plus in Q4 2014, even 5%, 6% in the previous years. So I was wondering what is your view on the pricing of Non-Life in Belgium.

And then maybe just finally and if I may on the CASHES, do you think it's a very strong incentive for BNP to make sure that your final max cash out will be €300 million or is this €300 million a bit kind of flexible, maybe it could be a bit higher depending on the purchase price? Thank you.

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

Okay. We'll try to give the different questions to the best persons here to answer. So let's say the underlying profit increase in Belgium, excluding capital gains, I think one of the main reasons is the better risk, so underwriting result. And also that, of course, in line with changing yields, we also change or adapt or foresee changes in the profit sharing, although they are not yet consolidated. All as you know, we always do it at the end of the year.

The top line in Non-Life has indeed a lower increase, but remember that we have combinations of on the one hand, pruning of portfolios, where we have really canceled a number of big contracts that were loss-making which drives the gross written premium down.

On the other hand, in the area where we had considered last year a very low profitability, the third-party liability, rates went up with 8% to 15%. And Household also, we have an indexation linked to the cost of house prices and then more pieces used, and that index is this year close to zero, where it was a year ago, I think, 3% to 4%.

And then maybe the question on the ALM policy in Belgium and the structured products, Antonio, you can answer?

A - Antonio Cano {BIO 16483724 <GO>}

Yeah, sure. So on the ALM, to answer your question, we are not changing our philosophy. As Christophe was saying, we have been buying longer-term bonds than we usually did and also some shorter terms. But that fits actually quite well with the ever-evolving also liability profile.

So remember that we do have, particularly on the Group Life business, liabilities that tend to be longer term. So you can say that these longer-term bonds fit more in the cash flow matching approach for the Group Life business. And on the shorter end, so the high yield and the corporate bonds, you should place them more in the individual savings business, which is shorter term.

So we are not changing the matching strategy to more like a pure duration match barbell approach. We're sticking to the cash flow matching approach. Having said that, the cash flow matching is never perfect 100%, and through these purchases, we actually always try to improve the cash flow matching profile, so no change there.

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

And unit linked?

A - Antonio Cano {BIO 16483724 <GO>}

Unit linked, I mean, it's always difficult after one quarter to make very explicit statements. You can expect these types of margins for unit linked to continue. The fees we get is a combination of upfront fees on some products and recurring management fees on the book.

You also asked a question on the inflow, the production of the unit linked. That is flat, that's true. It is something we see in the market. We do have some new product ideas that are going to be launched in the summer, particularly aimed at more the private banking type of customers, where penetration so far for unit linked has not been high. So we hope to have a growth there.

Bear in mind, the structured unit linked also suffers from low interest rates because you're actually constructing it with a zero coupon and upside linked to some sort of derivative, but the zero coupon with low interest rates doesn't allow for a very attractive product. So, indirectly, the attractiveness suffers also from low interest rates.

A - Christophe Boizard {BIO 15390084 <GO>}

On the CASHES, your last question, the €300 million is slightly variable according to the ageas stock price. And to give you order of magnitude, when ageas' stock price goes up, there is a small reduction of the amount to be paid. It is related to the way the RPN is calculated. And to put it simply, when the stock price go up by €1, we gain €4 million on the cash settlement. So €1 instead of €300 million is €296 million, so you can see that it is not extremely variable.

Q - Benoît Pétrarque

Great. Thank you very much.

Operator

Thank you very much. And moving on to the line of Chris Esson with Credit Suisse. Please go ahead. Your line is open. Mr. Esson, please go ahead as your line is open.

Q - Chris J. Esson {BIO 6194371 <GO>}

Hi. Good morning, everyone. Sorry, that was on mute. So a couple of questions, firstly on Asia. So, clearly, really, really strong result and the increasing scale of the business is starting to come through. Just wanted to get a sense though, within the associate profits, which are clearly the big contributor in that segment. we've had strong investment markets in Asia. Is that following through in the form of investment gains? I mean so, I guess, I'm trying to get a sense of how close is what you're reporting to really run-rate earnings, or are we seeing some cyclical strength here as a result of investment market tailwinds?

Secondly and related to that, I'd just be interested in the outlook for remittances from Asia. I'm cognizant that the growth has been very strong, and I saw that your partner in China, the ListCo, China Taiping ListCo, recently did a rights issue. And so, I just want to get a sense of both the TPL capital needs outlook and the outlook for remittances from Asia given that should be a key source of people recognizing the value of your franchises out there?

And lastly, just in the U.K. Your P&C profitability looks pretty lackluster, and it seems as though that the players in the U.K. more generally, your larger competitors here, are all going through or have gone through large cost-reduction initiatives and so forth. I just wonder whether – I'd be interested in your views on how you see your competitiveness in the U.K. market and how it's evolved over the last couple of years and whether you don't need to consider something a little bit more robust in terms of improvement initiatives. Thanks.

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

Okay. Let's say what the result in Asia concerns. First of all, our strategy, part of our strategy is indeed to increase our presence in growth markets, exactly because we also expect these markets to deliver year-after-year increased profits, what we have seen over the last years and also this first quarter confirms this.

There are, of course, always effects from investment gains, but the main driver of the growth of the profits is the volumes grow and, in any case, also the volume of the underlying technical liabilities. And that's the reason why we emphasize, to a very high extent, the importance of regular premium because it is building up a book that is progressing year-after-year and we also put a lot of attention on high persistency of the business, so good sales, where we also see that we score quite well in the operations we have in Asia. So it's certainly not based on an aggressive asset mix, but it's based on solid underlying business development.

With respect to Taiping Life, as already mentioned, we did not inject capital in 2014. We also, each time, said that we, of course, do not exclude that in the future with continuous growth of the underlying business, that future capital injections can be expected. But in all honesty, we don't see it immediately coming in the course of this year.

Then the last question was on the U.K. Of course, the U.K. is a very competitive market. We can say that over the past years, we've been increasing market share in number of insured cars and insured homes; where this year, or at the end of last year, we decided not to go purely for volume, but to put more emphasis on the profitability, which is the reason why we, compared to the market, increased year-on-year our rates, where we have still indications, and that's referring to indexes that are published on the market, that the overall market is still slightly going down.

So, due to the increases we made of the average premium, our volumes in number of items insured and also in gross written premium came a bit down. But we see now the first signs of our competitors also increasing their rates.

In terms of costs, our cost ratio, I'm not talking about the total expense ratio, but the cost ratio is amongst the lower in the U.K. We have, of course, a number of distribution choices that have been made where, okay, you have commissions that are, let's say, market-given which means that the expense ratio increased compared to some years ago. But that's primarily linked to the kind of business, a bit more commercial risk, a bit more specialized risk also with the acquisition of Groupama.

We look at costs. For instance, in the retail business, we had a reduction of full-time equivalents with something like 250 in the past months. So we know that we have to be very agilent (57:17) in this very competitive market, but give priority on profitability over growth.

Q - Chris J. Esson {BIO 6194371 <GO>}

Thanks for that.

Operator

Thank you very much. And moving on to the line of David Andrich with 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. Two questions on my side. First of all, I was just wondering, in terms of the Belgium Life business and the underwriting profit there in the Guaranteed segment, it seemed quite weak in the quarter. And I was just wondering if there was any particular kind of one-offs coming through that were depressing it.

And then second, on the U.K. Non-Life business. I'm just wondering, are you seeing any signs of kind of an improvement in terms of the depressing environment there or do you anticipate they'll still be challenged for quite a while yet?

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

Well, on the Belgium, on the first quarter, I don't really underline there's any special news. It is solid results. It's a good solid investment margin. But bear in mind, we had less capital gains than we had in the first quarter last year. Risk margins have been a bit better than last year, but that could be just normal volatility. There is nothing really anything special...

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

Well, I'm sorry, I was thinking about the net underwriting results and the Guaranteed bit.

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

So you mean the risk and expense margin?

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

Yeah.

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

Investment margin. I don't think there is really a lot to mention there. There can be some normal volatility. There is no real news.

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

Okay. Okay.

A - Christophe Boizard {BIO 15390084 <GO>}

So this is also an element where one quarter is not always saying everything.

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

Yeah.

A - Christophe Boizard {BIO 15390084 <GO>}

We should say more of the same comment for the combined ratio, only one quarter.

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

Yeah.

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

Yeah. So, I'm on the U.K. If I have well understood your question, I think it's a bit linked to my reaction or my response to a previous question, is the market is very volatile. We have seen two years in a row continuous decrease in rates. For us, the past quarter, we have increased rates. We see more and more competitors following, in Motor in any case.

On the other hand, we see an increased competition now in Household, where rates come down. I think it's a market that evolves very quickly and that, in many cases, anticipates what is expected in terms of evolution of claims, where other markets more correct afterwards.

So, as I mentioned, it remains for us an important market because it's competitive, and we learn a lot from that market. But it also is a market where we have to stay very vigilant and act swiftly when things are changing.

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

All right. Thank you very much.

Operator

Thank you very much. And moving on to the line of Thomas Jacquet with Exane BNP Paribas. Please go ahead. Your line is open.

Q - Thomas Jacquet {BIO 4110153 <GO>}

Hi. Good morning, everyone. So my first question is on China. Essentially, you have strong growth in volumes. Can you comment on the margin evolution if there is anything? And do you see this type of growth being sustainable at least for the rest of the year?

And my second question, and I'm sorry, it's again on the CASHES. There will be a conversion of the CASHES in shares. So I understand that BNP will receive the shares. Is it going to affect the total number of shares of the company or do the shares already exist? Thank you.

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

So, for China, the continued growth I think we have to make a split between the single premium and the regular premium every year; it was the same a year ago. The first quarter is very, very strong in terms of single-premium sales. We certainly do not expect that to be continuing at the same level in the remainder of the year. So it should not be fair to multiply the gross written premium of the first quarter by four. And it's also in line with our preference and strategy to give much more attention to the regular premiums.

On the margins, we don't disclose this. As you know, our partner is listed and only reports half-yearly, but okay, again, the overall results in Asia, and in China in particular, move upwards which is in line with the increase we have in the underlying technical liabilities. So that can give you some idea about margin evolution.

A - Christophe Boizard {BIO 15390084 <GO>}

The question around the CASHES, so the correct funding, ageas shares already exist. They are pledged as a matter of fact and they are on the asset side of the balance sheet of BNP Paribas Fortis. So in BNP Paribas Fortis' balance sheet, you have on the liability side, the CASHES; on the asset side, the ageas share. So there is no creation. The only thing is that these shares, they don't have voting rights at this moment. But once converted, there will be shares like others with full right and everything.

Q - Thomas Jacquet {BIO 4110153 <GO>}

Okay. Thank you very much.

A - Christophe Boizard {BIO 15390084 <GO>}

They already exist, you...

Q - Thomas Jacquet {BIO 4110153 <GO>}

No, okay, okay.

Operator

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

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Hi. Good morning. I just want to ask you - the first thing is, just sorry to come on the CASHES; we probably have exhausted questions there. Is the date - what is - you have put a date, is it - have you put it so that eventually, you can move some people over to basically start to accept the tender that BNP will effectively will do?

And if I'm looking at the price that you mentioned, Christophe, of €300 million, that is at current prices. So, normally, the CASHES have traded up to above 80%. So, one would have thought that a number of people will be probably tendering but at higher prices. So the €300 million, am I correct to understand that it can be like €400 million, €500 million, depending on where the cash prices will move, and one would have thought that the price will be upwards?

The second thing is, sorry to come back on the expense ratio. Again in Belgium, it has continued to deteriorate. And I can understand the point that you make about the admin costs being in general at good levels in your respective market, say in Belgium or in the U.K. But broadening that question that was asked earlier on the U.K., would you consider at a certain point that there is a restructuring plan or reduction cost to be done, or do you find that at the end of the day, it is a lot more commissions? But if that's the case, then we are still coming back to the same question for example in Belgium, combined ratio of 96% for example, if I take that from the reserve releases from the €13 million, €5 million is more the normalized. So, we got €8 million that is exceptional. You're still at a combined ratio that is probably quite high. And that could be very important because if you are to be doing potentially any transaction with the tiers, surely, it's something that will come back as an issue.

A - Christophe Boizard {BIO 15390084 <GO>}

I will start with the CASHES and here, I am a little bit at the limit of what I can share with you. But two elements: first, the CASHES are held by BNP Paribas Fortis. The way transaction will be structured/organized is completely given by BNP Paribas; we don't enter into this. The only thing is that if we receive notice of conversion, it is what triggers the payment of the indemnification. So, on the conditions, I won't elaborate on this, that's on BNP Paribas' side.

Then on your question on the amount...

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Sorry, if I may say, but it is at their own discretion. So, if they decide to pay up, they can do it.

A - Christophe Boizard {BIO 15390084 <GO>}

At their own discretion, you are right. And we don't know at which price they will settle. We will have to see, but it is really their business; we don't enter into that.

Then as regards the amount of compensation, the €300 million, the €300 million, as I said previously, this is pretty stable whatever the conditions. So the €300 million cannot become €400 million or €500 million, not at all. It will be €300 million with the slight variation I indicated with the ageas share price, but that's all.

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

Okay. Then the second question on the expense ratio, I think Antonio can maybe explain a bit the small move in Belgium.

A - Antonio Cano {BIO 16483724 <GO>}

Yeah. So please bear in mind the two components of the expense ratio, so the commission and the cost ratio. When we benchmark ourselves and we do that quite regularly with peers on the cost ratio, are actually quite good, actually very good. And so any difference you would notice would be on the commission side, where we actually pay the going-rate commissions.

The reason why you seen this go up in Q1, it is linked to what Bart was already saying. We have been doing some pruning actions, particularly the larger contracts like the workmen's compensation, where, actually, the average commissions on those products is rather low, and also the cost ratio is rather low as you could appreciate. So the uptick you see is basically given by the change in composition of the business and change in composition towards actually better portfolio in terms of technical quality.

If you would dive down into the various product lines, there you would actually see that in most of the product lines, the expense ratio is stable or actually going down. So, to make a long story short, what you see is actually a change in business mix.

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

You find that on page 30, however, you'll see per product line and the increase is, for instance, in Accident & Health where this pruning of workmen's comp has been executed.

A - Antonio Cano {BIO 16483724 <GO>}

Yeah.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Very good. Thank you.

Operator

Thank you very much. And moving on to the line of Farooq Hanif with Citigroup. Please go ahead. Your line is open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thank you so much taking my questions. I just want to go back on some of the things that Chris was asking about Asia, and then also a question on products in Belgium. So could you just spell out again what the FX impact was on the non-consolidated partnerships in Asia? So what would the growth have been ex-FX and also, on the technical liabilities there?

And as I suspect, probably the underlying growth has little bit less because of the FX impact. I mean, presumably, again, we're sort of waiting for all this new business that you're waiting to start giving a payback. So I was wondering, again following up on Chris' question, when do you think you will have a more positive cash remittance, so from China and from your partnerships? Just getting a sense of what you think the J-curve is.

And then, lastly, just you mentioned that it's difficult to write new business in Belgium right now which is very understandable. Can you talk about some of the product innovations that you're doing to address that and whether you think you can turn this around? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. I can start with the FX impact. And to give you more detail on this, starting with the FX impact on the result, and then I will give you indication on the volumes.

First, on the FX impact on the Insurance result, the net is plus €11 million of which €2 million on the U.K. and, let's say, €9 million to €10 million on Asia. I have some compounded effect here, but let's say plus €10 million on Asia, plus €2 million on U.K., and overall plus €11 million. That's for the results.

And for the volumes, you have some indication on slide four of the presentation. Let's say that, for instance, in Asia, half of the growth comes from FX, half of the growth.

Q - Farooq Hanif {BIO 4780978 <GO>}

Is that the same for liabilities as well?

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

That's at 100%?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes, at 100%. Insured at 100%, total impact is almost half of the total, 10%.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay.

A - Christophe Boizard {BIO 15390084 <GO>}

It was 34% to be precise, at 100%.

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

Our stake.

A - Christophe Boizard {BIO 15390084 <GO>}

Our stake was, okay, sorry. On Asia, 34%, of which 10%, coming from FX. It's on slide 4 of the presentation.

Q - Farooq Hanif {BIO 4780978 <GO>}

Got it.

A - Antonio Cano {BIO 16483724 <GO>}

Okay. I'll try to pick up on the question on product innovation in Belgium and in Life. First of all, bear in mind, premium is important, but we particularly also look at the evolution of the technical liabilities, so the funds under management, where we do see a continued growth. Particularly on the Group Life business, where we actually see the impact of changes in the pension legislation, so people retiring slightly later, meaning that the asset stays a bit longer on our books. So there is like inherent strong growth in the Group Life business. And so no issue there.

And where we try innovate is more on the unit-linked side. I mentioned that we're going to introduce a product in the summer aimed more at the private banking side of the bank, but also with brokers.

A bit more color on the products if anybody want to buy it. This, it would be like an umbrella type of unit-linked product, where underneath, you would have the options of various funds, some of them managed by BNP Paribas EP, some managed by us, some by third parties. It is a bit innovative in the Belgian market. We will see how it goes. We have high hopes.

And on the traditional, typical eight-year individual Life product, there's not really a lot you can innovate there. And we're actually not that sad that inflow is rather low there because of the margins that you can get today from that business is rather low.

And then we continue to sell, obviously, the more fiscally incentivized pension products, but those tend to be typically lower-sized premiums. But there we see our market share actually going up slightly also in those types of products, like in practically all the Life products we are around 26%, 27% market share.

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

And your question about cash returns from Asia. On one side, of course, increasing profits should be to higher capability of dividend upstream, as far of course as we can keep the solvency levels in line. But also, be careful because last year we could benefit from the restructuring on Hong Kong that gave rise to an extra dividend. So, compared to last year, I would be a bit more careful for the dividend upstream overall from Asia this year.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

Thank you very much. And there are no further questions in queue. And with that, I would like to return the conference call back to the speakers.

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

Okay, ladies and gentlemen, thank you for your good questions. To end this call, let me summarize shortly the main conclusions.

The inflows at 100%, reached almost €10 billion for the first time. Asia remains a strong contributor to growth and proves its importance in the context of the market environment in Europe, where, in Life business, volumes are coming down.

Solid results to start the year in both Life and Non-Life, but we have some certain attention points particularly in Non-Life.

And lastly, I'd like to remind you that our share price and ex-dividend two days ago and that the 2014 dividend will be paid today.

With this, I would like to bring to this call to an end. Do not hesitate to contact our Investor Relations team should you have outstanding questions.

Thanks for your time, and we'd like you to wish you a very nice day. Goodbye.

Operator

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