Q2 2012 Earnings Call

Company Participants

- Bart De Smet, CEO
- Christophe Boizard, CFO
- Frank Vandenborre, Head of IR
- Kurt De Schepper, Chief Risk Officer

Other Participants

- Albert Ploegh, Analyst
- Benoit Petrarque, Analyst
- Farooq Hanif, Analyst
- Francois Boissin, Analyst
- Hans Pluijgers, Analyst
- Marcus Rivaldi, Analyst
- Matthias De Wit, Analyst
- Michael Van Wegen, Analyst
- Robin Buckley, Analyst
- William Elderkin, Analyst
- William Hawkins, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Ageas conference call for the 2012 six months' results. I am pleased to present CEO, Bart De Smet, and CFO, Christophe Boizard. (operator instructions) Gentlemen, please begin.

Bart De Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you, all for dialing into this call and for being with us for the presentation of the half-year 2012 results of Ageas. As usual, I'm joined in the room by my colleagues of the Executive Committee, Christophe Boizard and Kurt De Schepper, and our investor relations team.

You will have seen that we released three press released today; the half-year results as expected, but also the announcement of a share buyback plan and, lastly, a communication on our entry into the corporate loan market. Christophe will, amongst others, talk you through the latter one. I will take you briefly through the main highlights of the past half-year.

Ladies and gentlemen. we expect you have already had time to look into the headlines of our results, and I hope that you will join my conclusion that we can be very pleased with them. Our Insurance activities continued the strong performance of the First Quarter and, in some cases, did even better. And this resulted in both inflows and net results significantly up on last year. Both our Life and Non-Life activities performed better than last year, when compared to 2011 results, adjusted for the Greek impairment charge of EUR150 million.

Let's look at some of the key figures. The inflows in the first half amounted to EUR10.8 billion, up 20%. The highest growth was seen in Continental Europe with inflows up by more than 40%, and mainly driven by changes in scope, specifically the inclusion of our new partnership in Turkey, by Non-Life in general, and by the higher inflows from the merged activity in Luxembourg.

I'd like to use this occasion also to confirm that we have completed, together with our co-shareholder Haci Omer Sabanci Holding, the program to acquire up to 10% of the outstanding shares in AKSigorta and, that as a result, our stake has increased from the original 31% to 36% in Turkey.

In Asia, the outstanding performance of the First Quarter has been repeated, bringing total inflows for this segment to nearly EUR4 billion. Inflows in Belgium and the UK grew nicely by 10% or more and, overall, the largest growth was seen in our non-consolidated partnerships, which represent now EUR5.1 billion, almost half of total inflows and were up by 65%.

We reported the net profit for our Insurance activities of EUR303 million, and this compares to EUR111 million last year. Adjusted for the impairment charge of EUR150 million related to the Greek sovereign exposure, the net result improved thus by 16%. And this net result breaks down into EUR205 million in Life, EUR89 million in Non-Life, and EUR7.5 million in other.

The main improvement comes from our Non-Life activities, which reported a net profit of EUR89 million, compared to EUR48 million last year, the latter including a net impairment charge of EUR7 million. Results improved in all of our main Non-Life activities, such as Belgium and the UK, also illustrated by the excellent combined ratio of 94.7% for the Second Quarter, and 98.3% for the first six months, well below our operational target of 100%.

Our combined ratios across all segments are currently below 100% and, overall, prior year reserve releases increased only slightly, and the cost ratio came down significantly.

The Life activities contributed EUR205 million, compared to EUR52 million last year, the latter including an impairment charge of EUR143 million. This strong result in the market environment which remains difficult was mainly driven by Asia. Solid growth in all our businesses, and a positive non-recurring result of EUR50 million, following an exceptional reserve release, explains the improvement of the Asian results.

And then finally, the segment Other came down from EUR11.3 million last year to EUR7.5 million this year. The lower result is explained by an incentive payment we received last year, but also the highly competitive environment linked to tough economic conditions.

At the Group level, we reported a net profit of EUR305 million with a net profit in the General Account of EUR2 million, which includes the EUR400 million benefit related to the agreement with ABN AMRO and the Dutch State on the outstanding legal proceedings. Christophe will come back in more detail on the main components of the results of the General Account.

And lastly, our balance sheet remains solid with a net cash position in General Account, which also increased to EUR1.5 billion, and an increase in shareholders' equity to EUR3.69 per share. The former was, of course, positively impacted by the cash settlements with not only ABN AMRO on the outstanding legacies in the Netherlands, but also with BNP Paribas earlier this year on the issues related to the CASHES and the Tier 1 financial instrument.

The solvency levels remained strong as well, and improved to 211% for our Insurance activities. As always, more detailed information on the respective performance of the various segments is available separately, and as a complement to the main press release. I will limit myself to a number of very high level comments in order to allow more time for Q&A to answer any specific questions you might have.

Starting with Belgium, inflows were up 10% at EUR3.6 billion with increases both in Life and in Non-Life. In Life, a strong Second Quarter in individual savings via the Bank Channel drove the increase. The net profit improved significantly on last year to EUR144 million, helped by a very good result in Non-Life of EUR33 million.

The Life result amounted to EUR111 million, compared to EUR7 million last year. Adjusting last year's results for the impairment charges related to Greece, the net result declined slightly, due to a higher effective tax rate and a lower yield on own funds. The combined ratio in Non-Life amounted to 99.8% and remains driven by a very strong performance in Motor.

In the United Kingdom, Non-Life gross written premiums were up to EUR1.1 billion over the first half, driven by good growth in Motor in particular. The UK operations delivered an outstanding performance, with a net result up to EUR43 million.

The key elements behind the results were continued improvement in Motor, and EUR9 million net realized capital gains, partly offset by higher weather claims in Household. The combined ratio ended at 98.9%, with Motor having progressed 3% compared to last year.

Income in Retail remained in line with last year, while the net result reduced to EUR7.5 million, taking into account the result of last year positively impacted by non-recurring items, but also illustrating the tough economic conditions.

And this brings me to the Continental Europe segment where the inflows, as already mentioned, increased by 40% to EUR2.1 billion. Inflows in Luxembourg from the new merged entity rose to EUR1 billion, while Turkey contributed for EUR302 million of gross written premiums, 16% up to last year.

The influence in Portugal and France declined, but let me stress here that that, especially in Portugal, this is not only related to the general market environment, but also to a deliberate strategy to shift our product mix to more profitable and capital efficient products.

The net profit in Continental Europe amounted to EUR34 million, with an excellent contribution of EUR9 million from the Non-Life activities, the latter also visible in the combined ratio of 88.5%.

The development of our Turkish partnership is evolving well illustrated, amongst others, by an increasing underwriting in our partnership with Akbank, up by 32%. Adjusting for the impairment charges related to Greece, the net result in Life in Continental Europe remained constant at EUR25 million, with a good result in Portugal despite the difficult market conditions.

And finally, Asia. As already indicated, the segment confirmed its excellent performance from the First Quarter with inflows of nearly EUR4 billion, 23% up on last year, of which part related to a positive currency impact.

Inflows in our Life businesses grew in all major countries. A continued focus on recurring premiums, and persistency resulted in a growth in our regular premium book by 26% to EUR2.6 billion out of the EUR3.6 billion inflows in Life.

Funds under management decreased 12%, compared to the end of last year, as a result of continued growth in all Asian entities. And the total profit of the Life operations increased to EUR70 million, but included a positive impact of EUR50 million from an exceptional release of reserves, and despite a cost of EUR4 million related to an equity hedge implemented at the end of last year to protect Ageas against a significant decline in the Chinese equities market.

In Non-Life, the gross written premiums increased 23%, with growth both in Malaysia and Thailand. Net profit declined to EUR5 million, and includes a charge of EUR2 million for additional losses related to last year's floods in Thailand.

Ladies and gentlemen. I would like now to hand over to Christophe to say a few words about the General Account and our investment portfolio.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart. As already mentioned previously in the presentation, we reported a small net profit of EUR2 million in the General Account for the first six months. You will remember that for Q1 we had a loss of EUR239 million, so it means that for Q2 we had a positive result of EUR241 million. If you add this EUR2 million to the Insurance result of EUR303 million, you have the total Group net result of EUR305 million. The net impact of all the legacy issues for the first six months amounted to EUR65 million. And now let me talk about this separately.

First of all, and this should be no surprise for you as we already reported on this the first half net result included an impact of EUR400 million on the settlement reached with ABN AMRO and the Dutch State at the end of June with respect to all the outstanding legacies. In addition, we have had a positive result of EUR75 million related to Royal Park Investments, which brings the value of the equity stake in our account to EUR855 million.

On the negative side, we have the accounting charge of EUR132 million related to the settlement with BNP Paribas and Fortis Bank on the RPN(I) and on the Tier 1 instruments. This was already included in the First Quarter results. And we had the charge of EUR278 million related to the lower value of the call option on the BNP Paribas shares. As a result of the latter, the value of the call option has declined to EUR117 million.

The last remark I would like to make with respect to the legacy issues is that we have slightly adjusted the floor value for the remaining RPN(I) liability from EUR163 million to EUR174 million, creating an additional charge of EUR11 million in the Second Quarter.

The variance is driven by the evolution of the somewhat lower Ageas share price, compared to the previous quarter. And this will, in the quarters to come, continue to necessitate small adjustments, going forward.

When we disclose the floor, the main driver for the floor was the CASHES price at 47.5%, but there was a second of the element, which was the Ageas share price. And this is the reason why we had the -- and we will have this small adjustment in the future.

As Bart already mentioned, the net cash position in the General Account increased to EUR1.5 billion at the end of June. The positive impact of the settlements with BNP Paribas and ABN AMRO amounting to EUR1.1 billion, and this has been partly offset by the payout dividend of EUR200 million. And if you take the starting position of EUR0.7 billion, you end up with what is reported, EUR1.5 billion of cash at the end of the period.

Now let me end this short introduction on the results with a few comments on the investment portfolio. The fair value of our investment portfolio increased significantly to EUR63.5 billion, and was supported by higher unrealized gains on fixed income. Unrealized gain on our fixed income book increased from EUR600 million at the end of December to EUR2.3 billion at the end of June.

The most significant news with respect to the investment portfolio is the announcement this morning that Ageas will further diversify its investment portfolio by allocating up to 5% of the invested assets into corporate loans, which means roughly EUR3 billion in total.

We see this asset class as an interesting alternative in the current low interest environment. It has the benefit of allowing us to create greater portfolio diversification, and offers an attractive risk return profile.

In this context, Ageas concluded the partnership with Natixis to invest the main part of the foreseen EUR3 billion in infrastructure loan. For more details, I would refer you to the separate press release issued this morning and, of course, I'm ready to take your question on this topic during the Q&A session.

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

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Ladies and gentlemen. this concludes the short introduction, as we would like to leave enough time for questions.

As usual, may we ask to limit yourself to three questions and to go back in the row if you would have more. Operator?

Questions And Answers

Operator

Thank you. (Operator Instructions) Farooq Hanif, Morgan Stanley.

Q - Farooq Hanif {BIO 4780978 <GO>}

Just three questions. Firstly, clearly, one of the biggest drivers in your results has been the Non-Life and strong improvement in combined ratio. You've been talking about Workmen's Compensation, Household, Fire issues for a while affecting the combined ratio, but it looks like these have improved a lot. Can you tell us that the worst is now behind us and that these improvements are sustainable? That's question one.

Question number two is on the yield that you're making on your investment portfolio versus the guarantees. Could you remind us again what the position is versus the on-average yield that you're making versus guarantees on traditional business, but also what actions you're able to take in the products to protect yourself against low yields?

And secondly -- sorry, lastly, on the corporate loan portfolio, what is the Solvency II treatment, in your view, of this portfolio, given its long duration, but also, given its collateral, and what kind of duration are you talking about?

Also, connected to that, is Natixis essentially doing the underwriting of this? Thank you, very much.

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

The first question, Non-Life, indeed, what we see is that in all product lines, combined ratios are improving, which is the result of actions taken in the past, be it increase of rates or changes in underwriting.

There has been -- there is still, I would say, some prudency needed, primarily in the Fire product line, where okay, if you look half year on half year, the impact of weather-related results is somewhat comparable. But in the meantime, by the price increases we introduced, this has, of course, been covered by these higher rates.

If you look to the -- because the question if it's not explicitly in your question, that certainly will come later on, is that we have in prior year releases, as you can see, an impact of 4.8% compared to 4.2% last year in the first half of the year, so there's slight increase. But if you look to Belgium and Continental Europe, it's really almost flat.

The big change comes from the UK, where we had last year a strengthening of the prior year results at 1.7%, and this year, we have a release of 1.5%. So there's not being unnatural. We believe that we are on the right track. Of course, we are aware of the fact that this result asks for confirmation.

If we look to maybe portfolios that are less in the focus, like Italy, Portugal, we see that we have been reducing combined from around or above 100% to more the area of 85% to 90% and this is, on the one hand also, by pruning a portfolio. It's also by improving the segmentation and the huge success in Portugal of Medisch[ph], which is standard in the market.

So I would say a positive outlook, but still some further work to do in Fire.

And your second -- sorry.

Q - Farooq Hanif {BIO 4780978 <GO>}

Sorry. I was about to say just on that subject, clearly you're heading for beating your 100% combined ratio target quite strongly. Do you think that's a good comment -- a fair comment?

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

Every quarter, you have the seasonal effect, so overall, the Second Quarter tends to be better than the first and the fourth. We stick today to this being under 100% combined ratio structurally, which means that, if we want to be structurally under 100%, we need to be -- quarter after quarter try to be lower than 100%. But we did not change, at this stage, structurally our target.

If you then go to question two, return versus guaranteed rate, of course, one of the more important volumes of guarantees business is in Belgium where you can say that the guaranteed rate is somewhere in the area of 2.9%; income based, above 4%. So you could say we still had, in the first half of the year, an investment margin of 90 basis points. If we look to Continental Europe, for instance, Portugal, it's similar.

Kurt, so you have the question more on measures taken against threats for the future?

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

Yes. I think one of the major problems we potentially could have, moving forward in time, is that there would be a significant rate increase, compared to the current low interest rate environment. That is being taken care of in our different products by putting adequate protection mechanisms in.

As to the immediate action and the immediate situation to the return environment, AG Insurance has just decided to decrease its yield as of August 1 and, of course, we will be following up on that very, very closely, just as we do in other areas.

The question you had on the corporate loan portfolio, it's a bit complex question because you know that, under Solvency II, all rules have not yet been established completely. Just as for corporate bonds, it depends on duration and rating that we will have.

We expect a duration of something like five to seven years, and a good approximation would be to look at the treatment of real estate, which would be more or less penalizing[ph] and the corporate bonds, the classical corporate bond portfolio in your mind. I hope this answers your question on Solvency II and on the yield.

A - Christophe Boizard {BIO 15390084 <GO>}

On the duration, maybe you could be surprised by the five to seven years. The starting contracts are longer, but you have some repayment, so all in all, the duration is around, as Kurt said, five to seven years.

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

Yes, and let's not forget that in our accounting, this will be treated as amortized costs.

Q - Farooq Hanif {BIO 4780978 <GO>}

Yes, and in terms of the underwriting and the underlying loans, are you depending pretty much on Natixis for that, or what kind of control do you have over quality?

A - Christophe Boizard {BIO 15390084 <GO>}

So okay, let me answer this question. So for the underwriting, we rely on Natixis, which is a well-known actor on this sector. So we will benefit from all the underwriting process of the Bank.

On the top of this, we have put some additional filters and then, at last, we can refuse one deal for good reason, but the straight answer is that we rely on the underwriting process of the Bank. And the alignment of interest[ph] was one of the main issues we had when negotiating this contract. And we are on a quarter share approach, so it means that we share risk. So if we are very profitable, it means that the Bank is very profitable. If we have losses, it means that the Bank has losses as well. So we have alignment of interest and we rely on the partnership.

Beside this, we will hire a team to gain skills in this new asset class. But the partnership is a good way to accelerate the acquisition of skills.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you very, very much.

Operator

Benoit Petrarque, Kepler.

Q - Benoit Petrarque {BIO 15997668 <GO>}

I have actually two or three questions as well. The first one on Natixis, what kind of yield are you looking for currently, please?

And I was wondering why you have not done that with BNP, obviously, because this is a partner you know extremely well.

And also, on Natixis, are you limiting yourself to infra[ph] or are you going to maybe go for other sectors over time?

And then a question on Belgium. I found the Life result in Q2 quite weak. Is there any one-offs in that?

And looking at the guaranteed rate over Q2, and you've just mentioned that you will decrease it, but now looking at Belgium yield for the 10 year it's around 2.5%. So on the new production, you have a very tiny spread versus Belgian bonds. And you just mentioned your 300bps[ph]. But is that something that will come down? Or what are you looking for there? Thanks.

A - Christophe Boizard {BIO 15390084 <GO>}

I will start with the question related to the partnership with Natixis. So first, why infrastructure and is it limited to infrastructure? The answer is yes, as a start we will limit the partnership to infrastructure.

And why did we make this choice? Because we considered that, as we are beginners, we don't have much skills in corporate loans before. But it was the safer sub-asset class. Why is that? Because when you underwrite infrastructure of[ph] corporate loans, you always have very tangible collaterals.

And with the partnership, we will be part of the contract; we will be at the same level as the Bank. So it means that we will have direct access to the collateral, pari passu, with the Bank. So that's the reason why we start with infrastructure.

In the future, with more skills and being more familiar with this asset class, we can expand to other sub-asset classes.

Regarding the yield now, with infrastructure the yield will be -- you know that corporate[ph] loans are denominated with variable interest. So the starting point will be roughly EURIBOR six months plus 300bps, so it means that it's a variable rate.

You know that insurers are not very keen on having variable rates, so part of this may be swapped to fixed rate for higher all-in-all yield. But to be clear and transparent, we will keep a portion of this with floating rates, because we think it's a good hedge for inflation and potential future interest rate increases.

And the last part of the question, as why we didn't choose[ph] BNP Paribas. You know we did an RSP[ph]. And a lot of the banks answered to the RSP and the winner was Natixis. But we don't want to elaborate more on this; the winner was Natixis.

But there was quite a long list of insurers being interested in teaming up with us with this partnership.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Sorry, just to finish on this subject, what kind of fees are you going to pay to Natixis? Because is 300bps I understand. But is there a flat fee on the notional or something which will come as a minus on this nice spread?

A - Christophe Boizard {BIO 15390084 <GO>}

Okay, so I won't give you all the details, because this is not the public. But on the top of the remuneration, that I indicated, EURIBOR plus 300bps, part of the fees will be shared with us. But I don't want to be more precise on this. But we will have access to part of all the fees related to the implementation of each deal, like arrangement fee plus commitment fees. We will have access to part of it.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Okay, thank you.

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

So then Belgian Life, Q2 weak why, was the question. First of all, maybe important this that it's quite difficult sometimes to judge the Life result quarter on quarter. We try to manage it on a yearly basis. We already said in the past also, for instance, profit sharing is an important element. And that's all finally decided at the end of the year.

But in short, what you can say is that we had more capital gains in Q1, and mainly on bonds. Also part a consequence of the restructuring of the portfolio with a further exit from the peripherals. We have had a higher net impact of impairments.

And the consequence of the difference compared to last year in gains and losses is that the tax treatment is quite different. So capital gains on loans are taxed; capital gains on equities are not. So this is, if you look to the difference between technical results, operating margin and net results, something you will see.

And besides that, we don't have other major incidentals in Q2. So it's mainly capital gains, losses, and the tax impact.

The last question was about the guaranteed rate. So the guaranteed rate is now down to 2%, which is, we are aware, is a bit sharp for new business. But on the other hand, we also stay careful to keep the commercial franchise active, in order to avoid that one day you really have to relaunch from zero the whole machinery.

But, of course, the current environment makes that we have to be extremely alert in the pricing of the new products. And this is, for instance, in some of the areas that I have, for example, given in my speech, the reason why in Portugal we almost reduce our activities in savings to zero in order not to go into a capital-intensive business with a very low margin.

Q - Benoit Petrarque {BIO 15997668 <GO>}

All right, that's clear. Thank you, very much.

Operator

Albert Ploegh, ING.

Q - Albert Ploegh {BIO 3151309 <GO>}

Three questions from my side; first one to start with, the share buyback announcement. Can you give a bit of thinking behind your decision to go for EUR200 million program this time, especially in relation to the EUR400 million cash settlement with ABN AMRO? And also, given that share price today is quite higher amount, therefore, compared to the last share buyback announcements, so could I have a bit of feeling there?

The second question is on Tesco; I saw there was EUR800 million contribution. What are your expectations there for the second half? Is this somewhat actually at[ph] a high level, or do you believe this is quite sustainable? Over the weekend, Tesco also announced a move into mortgages. Is there any business opportunity for Ageas attached to that?

Finally on AKSigorta in Turkey, I saw you increased the stake from 31% to 36%. Can you maybe disclose what the financial impact of that has been, or if any? Many thanks.

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

Okay. The share buyback, we know this is a topic of high interest for you all and for the markets. What we did is we made an assessment of the situation, as we try to do every time when we are in a change in the cash position. So with receiving the EUR400 million from ABN AMRO for settlement, we came to a cash position of EUR1.5 billion.

We stay in our scheme where we say, okay, the cash we have, the priorities to use it is, in the first place, to help grow the business. Secondly, to give it back to shareholders, and three, to buy back debt. We are not, at the moment, where we see an enormous amount, or number, or cases of files where we could, inorganically, extend the business at this moment.

There may be some opportunities in the market, but it's not that we are aiming for a very big transactional operation. And so the cash position has been one of the highest since the restart of the Company, if we take out, of course, the cash that we could not use, like the one for the Q1.

We then said, okay, this settlement with ABN AMRO, somewhere is also a kind of partial compensation for the MCS conversion that took place in December 2010, where we, at that moment, had to issue some 107 million shares. So we said, okay, this as a good opportunity to try to work away the dilution that we had at that moment. Then you can say, okay, an amount of EUR200 million should be sufficient to compensate that.

Of course, at a share price of, let's say last Friday, the return to be achieved is not exactly as high as the one we had a year ago, but nevertheless -- and there you can discuss, of course, whether you relate to book value, or fair value, or intrinsic value, whatever you want. We, in any case, believe that even at today's share price, or Friday's share price, there is enough important discount to the intrinsic value of the Company, in order to justify such an investment.

The second question you had was about Tesco. You mentioned the amount of EUR800 million, but I think at H1 we see EUR386 million compared to EUR359 million last year, so there's been an increase. Don't forget that, in the first year, it was a kind of re-underwriting of clients of Tesco that were, in the previous years, insured[ph] at RBS. So what we see is that there is an increase and that this -- in two product lines it's in Motor and Household. In terms of result, last year it was break-even; this year we have EUR8 million net result, and our ambition, this year, clearly to reach an internal rate of return of 12%.

The announcement of Tesco to go in the mortgage market, let's say the more mortgages they do, the more there should also be potential for Household, so this certainly could benefit the Tesco underwriting. We must say after bit less than two years, our assessment evaluation of the Tesco underwriting deal is a very positive one, in terms of top line, bottom line, but also in terms of what has been achieved operationally. From scratch, to set up a company, having more than 2 million contracts under management, is a nice performance.

Finally Turkey, the take up to 36%, somewhere it's not a real material impact. And in line with the earlier announcement we made to jointly buy up to 10% has reached 5%. I'm a bit sorry, but we cannot say a lot more because AKSigorta still needs to report its result. As you know, they are a listed company and we will try and -- there is an agreement to align, as of next years, the quarterly closings in order to align them more with our quarterly communication on the results of Ageas.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you.

Operator

Hans Pluijgers, Cheuvreux.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Two follow-up questions and one new question. With respect to the investment returns, could you give some feeling what, in basis points, the investment return on average moved compared to first half of last year?

Second follow-up on Benoit asking in respect of new business. To put it in different way, are you still making 90 basis points on the new business? Also, the margins will remain flat compared to the existing business?

Lastly on inflows in Belgium, which are up quite strongly in the Second Quarter in Life. Could you give some feeling on the specific marketing, measures you have been taking, and what's the expectations, going forward for, let's say, the next few months?

A - Christophe Boizard {BIO 15390084 <GO>}

Maybe on the investment return, we told you that it was up[ph] 90 basis point this year. Last year, it was much lower; I am reading on my schedule, but it was 49%. But you have to keep in mind that, last year, we had the Greek impairment, and that hit the Life sector, so it is better this year. But due to the fact that we have not the loss we experienced last year, you will remember that we start the impairment in Q2 of 2011, even though the main hit was booked in Q3.

Then on the new business, we cannot say that the margin is at 90%. Now this is on the portfolio, that's obvious, but margin is much lower when you consider the Belgian rate at, I don't know, 2.6%. At this very moment the new business, the margin is much lower without giving you more detail, but that's the situation.

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

And that's maybe also the link to the third question on the Q2. So each time we reduce interest rate, and this has been done sometimes over the past quarters, to come from such a moment in time from 3% to 2.75%, 2.50% and now to go to 2%. Each time you announce a reduction of your rate, you have a pumping up of production, certainly in the Bank Channel.

Also important to know that, in a number of products, we also included the new charge on the funds under management, which is about 30 basis points, if I remember well. So it means that part of your interest rate, or your margin loss, is compensated by an increased charge on the funds under management products. But the expectations, going forward, I would say that we certainly will not go for whatever top line volumes in the main markets. In Portugal, as mentioned, it always been reduced where we primarily invest in risk insurance in non-life and in unit link.

If you look at our Luxembourg venture, it's 70% unit link. Also in France, we have a relative high proportion of unit link compared to the market. And in Belgium, okay, we unfortunately do not have the expected unit link volumes, but we will be very cautious in the area of the guaranteed business.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Coming back on the investment return, I'm talking not about the margin you're making compared to last year because I understand the quarterly[ph] impairments are in there, but more purely, let's say, the absolute investment yields you are making this year compared to last year, could you give us some feeling of what's happening there?

A - Christophe Boizard {BIO 15390084 <GO>}

On the investment return, we are slightly below 4% all in all.

Q - Hans Pluijgers {BIO 16245530 <GO>}

And how was it last year?

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

I think we have some 12 basis points less than last year.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay, that's clear.

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

And that's Belgium.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay thank you.

Operator

Robin Buckley, Deutsche Bank.

Q - Robin Buckley {BIO 3596512 <GO>}

Just a couple of questions, if I could, please? First of all, just in terms of the General Account, I know you've announced the buyback today of EUR200 million; you've still got EUR1.3 billion of net cash sitting in there. So I guess it's just a question of what you see as the natural level of net cash that you would like to run with?

And you've highlighted previously that you have used, perhaps, a third of cash that you've had to buy back debt, to buy back equity and to do M&A. Should we sort of being thinking that this one-third, one-third, one-third approach as something that you will continue to use into the future? That's the first question

Then my second question is just coming back to the Belgian Life result, as you've pointed out there were quite a few impairments in the numbers last year and it changes in terms of realized gains. So what I was wanting was just a breakdown of what the impairments were in the first half of last year, the impact to the net result, and what the gains were last year, and then comparable figures for this year? And that's it. Thank you, very much.

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

Okay. On the buyback, so we will indeed end up with EUR1.3 billion. If you look, I think it's on page 50 of the presentation that's been provided to you, you see a quarterly evolution of the net cash position, and you could say that overall, since 2009, the average has been around EUR900 million, so we are at EUR1.3 billion. Don't forget that we are still in not normal period, so keeping some prudency level is certainly something we will not exclude.

Don't forget also that we still have this remaining CASHES, so the floor's been adapted to some EUR170 million. So in case that would happen, something in that area, we will need the cash for that, but we remain, nevertheless, open to look at opportunities to expand the business.

If you look then to slide 52, there you have an overview; it has been used in the past years.

You can say that we have invested EUR740 million to invest in business, EUR740 million to return to debt holders, that's the EMTN program that -- there's still some EUR200 million outstanding, and that we have invested until today EUR850 -- or returned EUR850 million to shareholders. And with the additional buyback announcement, this will be over EUR1 billion, EUR1.050 billion.

So you could say the one-third, one-third, one-third split is a bit changed in favor of the return to shareholders.

A - Christophe Boizard {BIO 15390084 <GO>}

On the capital gain and impairment, I can take that. So these are the precise figures; if you take this year for the first six months of 2012, so the year to date, the amount of capital gain is EUR95 million, impairment EUR65 million, and the net is EUR30 million. So the net impact capital gain impairment on this is EUR30 million.

Then if you take last year, and that to compare with, we had a capital gain of EUR40 million, the impairment were at EUR174 million, out of which you had the EUR150 million on Greece, but are reported in the press release. And all in all, you have the total -- the total is the plus EUR40 million minus the EUR174 million.

Q - Robin Buckley {BIO 3596512 <GO>}

Okay. I'm sorry was that within the Belgium business, was that for the total --?

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

For the Belgium business, last year's net impact of gains and losses was EUR10 million in the first half, and this year it's EUR9 million, so it's really flat.

A - Christophe Boizard {BIO 15390084 <GO>}

On Belgium, yes, completely flat. I was giving the figures for all the Insurance operations.

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

For all the Insurance operations, it was EUR60 million[ph] net last year and EUR30 million[ph] this year, so the difference between last year and this year is EUR40 million[ph] and net impact have better impact of capital gains and losses.

Q - Robin Buckley {BIO 3596512 <GO>}

Okay, thank you. And just coming back to you on --

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

Excluding Greece, sorry, excluding Greece, so if you take out Greece.

Q - Robin Buckley {BIO 3596512 <GO>}

Okay. And just coming back to you on the first question, you mentioned the EUR900 million as being the average cash within the General Account, should we be sort of seeing this as a run rate going forward, is that why you drew attention to it?

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

Let's say an average is an average, so it means that you hardly are[ph] on average on the average. And we believe that we are still in a period that is a very turbulent one, where on the one hand, there can come up a number of important challenges, but maybe also a number of interesting opportunities.

The challenges are, of course, much more on the side of what could happen with the eurozone and the potential, you never know, impacting one of the operations where we are. There could be a call for capital, or it could also be that we're somewhere wanting one of the existing businesses grow more than average.

The opportunities are that, in this turbulent environment, there may be extreme opportunities to invest in business at discounted prices that could create a return far above the 11% that we targeted.

Q - Robin Buckley {BIO 3596512 <GO>}

Okay, that's great.

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

We try to keep some flexibility.

Q - Robin Buckley {BIO 3596512 <GO>}

Yes.

Operator

Francois Boissin, Exane BNP Paribas.

Q - Francois Boissin {BIO 16045021 <GO>}

Three questions, please. The first on the FRESH can you just remind us how you see the FRESH. It's EUR1.25 billion nominal, is it basically included within the Insurance solvency; do you feel that you need this capital; and have you, basically, envisaged to hedge against a rising EURIBOR to try and protect the value of the FRESH within your balance sheet?

Second the question was on Royal Park Investment. I think in Q2 you booked EUR38 million negative, can you give a bit more color on this?

And the third question was on Belgium; can you give us the market share that you get on flows for Life products? I think you mentioned that the market share on the AUM, but what's the market share on the flows? Would you consider reducing significantly your business there like you did in Portugal?

And lastly, you mentioned that you are now starting to charge a fee on AUM on Life; is this on the old products, or is this on new production and what kind of AUM are we talking about here? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

I can start with the FRESH; so on the FRESH as already mentioned by Bart, you know our priority first, let's say, reshape or change a little bit the scope of the Group.

The second priority is to pay a nice dividend or to do buybacks. The third one is the liability management, so it means that it is third on the list of our priority, the liability management.

It is true that the FRESH trade at a low level, but for us it's cheap, it's a cheap instrument, EURIBOR plus 130bp, with our very special situation, the financial market are closed[ph], so we have to be very cautious about reducing our financing tools. So really there is absolute no priority in doing any kind of operation on the FRESH, so I would say we keep them as they are.

Regarding the hedge, you are perfectly right, it's a variable instrument, so we may consider hedging the risk of increasing the interest rate. That will be studied in the future, but we have no precise plan at this moment.

But for the FRESH --

Q - Francois Boissin {BIO 16045021 <GO>}

And just a follow up on the FRESH in terms of solvency, how is this treated, is this part of the 211% solvency ratio, or --?

A - Christophe Boizard {BIO 15390084 <GO>}

The FRESH are not included in the solvency of Insurance.

Q - Francois Boissin {BIO 16045021 <GO>}

So it's within the Group solvency?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay, thank you, and on --

A - Christophe Boizard {BIO 15390084 <GO>}

Yes, on RPI you're right that the result after six months is lower than the one we disclosed after three months, so you are right, there is a small loss of EUR38 million booked for Q2.

We had the mark to market valuation, but the portfolio is slightly lower than the one that we had at the end of March. And then, to be a little bit more specific, there is some Spanish instruments whose market value has come down a bit. So we have some Spanish exposure in the RPI portfolio, and it's the reason why we have this adjustment, without any real credit impact[ph], but mark to market adjustment only so far.

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

And then the third question, so in Belgium, the market share is stable in terms of assets under management, so funds under management.

It's decreasing slightly in new inflow, so it could indicate that maybe a number of other players are a bit more aggressive in pricing. If you look in the guaranteed business, we have a decrease where the market has an increase of a double digit, above 10%.

In Portugal, you can say exactly the same. There even market share in funds under management is increasing, while market share in inflow is decrease. So it shows, on the one hand, that we are certainly less aggressive than the average of the market in pricing of new volumes.

But that we fortunately, and that's for the overall business, that's of course, matched against investments from the past, that we have not that many cancellations, lapses. So from that point of view the story[ph] is under control.

The fees on the assets under management I referred to, is of course, only for new business, because the problem of the lower rates are mainly, at this stage, a problem for the new business, and that's in the Broker Channel.

Q - Francois Boissin {BIO 16045021 <GO>}

So basically, you're charging 30 basis points fees on new products, sold through the Broker Channel, right?

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

Yes, we of course, cannot do it on the whole[ph] portfolio.

Q - Francois Boissin {BIO 16045021 <GO>}

Sure, and has this become a market practice in Belgium, or are you the only one doing this?

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

We are, in any case, the first ones doing this, and we don't have a clear view on a lot of other players doing the same.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay. And are clients willing to pay this fee, or have you had push back on this?

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

One of the reasons why, also, our growth in this segment is behind the one the market, but again that's about making choices in the conditions you want to offer in the market, at this stage.

Q - Francois Boissin {BIO 16045021 <GO>}

Sure, thank you very much.

Operator

William Elderkin, Soc Gen.

Q - William Elderkin {BIO 3349136 <GO>}

I've got three questions. First of all, can you tell us what the return on investment is, in the Second Quarter, for that EUR740 million of shareholders' cash you've invested in buying businesses, over the last couple of years?

Secondly, we've had a lot of numbers in terms of the Belgian Life business. I think I might have got it confused; can you just recap in terms of what the average guaranteed rate is, on the in-force Belgian portfolio, and compare that with the average book yield on that Belgian portfolio? And also, if you could tell us what the asset duration of that portfolio is?

And then secondly, in terms of the Belgian new business, what the guaranteed rate you're offering is, and also what the investment rate you're achieving on new money coming in the door. And also, where you're investing that new money.

And then finally, you mentioned in the press release to do with the Natixis deal, that they'll be taking a substantial proportion of any new loans. Can you just give a sense of what substantial might mean?

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

I'd like to reflect two minutes, if I'm permitted, on the first question, because it's not -- it's a very broad one. I will take, first of all, the second one.

The guaranteed rate on the Belgian book is 2.92%[ph]. Duration is eight to 10 years, but it's a combination of a number of investment products that are more eight years -- up to eight years, and then the longer products to retirement, that can be much longer.

New rates, as already mentioned, for this business are, as of August 1, 2%. We still have, of course, an offer at 0%, but 2% is the maximum we offer in individual life, which is in line with markets.

And the investment yields that we count to achieve on this new money is, of course, a combination of sovereign debt, but also corporate and new infrastructure loans and a bit on equities, is about new money, 3.9%.

A - Christophe Boizard {BIO 15390084 <GO>}

Maybe on the substantial part that you were referring to, you know that this is not a public figure. We didn't disclose this figure in the press release. Substantial means that, I don't know, it is above one-fourth or one-third, but you will permit me not to be more precise.

But substantial means that the alignment of interest is ensured in this deal, and that was our main concern, to assure alignment of interest, which implies that the Bank still holds a significant part of the deal. And maybe to give additional details on this, in case the Bank buys protection or sell below, or do whatever action leading to a decrease of each share, had the right to follow them[ph] and to reduce. And we will maintain the same exposure as theirs, so once to ensure the alignment of interest.

That was clearly one of the big topic of the discussion, alignment of interest.

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

Okay then, maybe go back on the first question, and I cannot give you, by heart, the numbers, because it is something that we assess on a yearly base. And also, when we invest new business, we always target to achieve the 11% return, after a certain limited number of years.

If we look to -- an important part of the acquisitions have been in the UK. If you look to Tesco, as mentioned, EUR8 million net profit in H1, and if we extrapolate that result, we also look to what are still our budgets for the coming years, we believe that an IRR close to the expectations of 12% is achievable.

If we then look to the second part of the acquisitions in the UK, which were more in the retail area, Castle Cover and Kwik-Fit, the result is known, some EUR7.5 million lower than last year. But last year, there was a one-off positive in it. And we have a tough environment where we see that, Q2 economic recession, clients chase even more than before, for the best price.

Some direct insurers that are a bit put in the window to be sold have been quite aggressive, over the last quarters, so that impacts a bit, not the income, but more the results.

Then we go to Italy, where Non-Life is doing very good; as mentioned, the combined ratio in Continental Europe is at 88.5%, so it puts all the attention on reducing combined. And then we come from above 100% there, so in Italy, as in Turkey, so these combineds go down.

Within Turkey, nice inflow growth, but also we are only one year busy there. Where in Italy, growth has not been until now, what we expected, but we are now at a moment where we start distribution also, with other channels, and UBI Banca, namely BNL and other Italian banks.

So we believe that, if we look back at all these investments, after each time, three years, we will have an acceptable performance in these areas.

Q - William Elderkin {BIO 3349136 <GO>}

Could I just come back on that last one/ Is the contribution over the first half, from Italy and Turkey, single digits, double digits? Can you put any number in terms of what you think the impact is that you can see in the income statement?

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

For Turkey, as already mentioned, we cannot disclose further details, because AKSigorta has not announced its results yet. It will be mid August. So the only thing we can say there is that, in terms of commercial evolution, it goes in the direction we expected.

And in terms of impact on the combined ratio, in a market that is maybe where improvements are needed, we really go in the right direction.

The combination of Turkey and Italy is above EUR10 million, in net result in the first half, if that is --

Q - William Elderkin {BIO 3349136 <GO>}

That's very helpful. But what I'm getting at is, if you achieve your 11% IRR on that EUR740 million, you're talking about EUR80 million a year of net profit. My impression is you're currently running about half that run rate.

So if we just look at -- I'm just thinking in terms of earnings forecast, if we look at the current run rate of profit, assuming you achieve what you're setting out to achieve, could there be another EUR40 million in annual run rate profit, as those acquisitions hit target levels of return?

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

And correct, what I said the EUR10 million is what we expect, on an annual base, for Turkey and Italy. These are two entities where we believe that the potential for growth and profitable growth is important, and where we invested, taking account the future potentials.

So like in Turkey, after one year making the final balance is a bit too early. And Italy, we, in the first stage, tried to, and achieved I would say, to really correct[ph] profitability, and now we are at the stage where we can think about growing the business.

Q - William Elderkin {BIO 3349136 <GO>}

Am I right in thinking that, assuming you achieve the targets on these acquisitions, there is quite a material uplift to your run rate profitability, assuming you do what you set out to do, from where we are at the moment?

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

Okay. Our intention is everywhere to achieve this 11%, to have meaningful contributions. Of course, you can discuss what meaningful is, but at this stage, the portfolio we have chosen, where we believe there is potential for a contribution of multiple times EUR10 million in the coming years.

Q - William Elderkin {BIO 3349136 <GO>}

Okay, thank you.

Operator

Matthias De Wit, Petercam.

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

Three questions from my part. First is on the inflows. Could you shed some light on the organic growth rates you witnessed during the Second Quarter, excluding scope changes and foreign exchange impact?

Then second, to come back on the low interest rate environment, you mentioned an eight to 10-year average duration of the liability of the assets in Belgium. How does this compare to the liability duration there? And do you, in other words, expect to see any pressure on the in-force profitability in case of a prolonged low interest rate environment?

And could you, finally, update us on the economic cap or position of the Group following the recent drop in the rates we've seen? You once provided a Solvency II MCR; I wondered how this ratio evolved in the meanwhile. Thank you.

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

Okay, I think we don't have exactly one figure at hand for your first question. What you can see is that, in Non-Life, we have been growing organically in Belgium, in the UK, in Portugal, in Malaysia, in Thailand, in Turkey, so in Italy slightly. So in all markets, we grew organically. Of course, you could say, compared to last year, Turkey was not in, so that was an acquisition.

The difference is primarily in the Life business, where, of course, the contribution of the non-consolidated entities like Luxembourg, the four Asian joint ventures is important, where it's clear that, as the press release also, and also my intervention at the beginning mentioned, we have a decrease in Life in Portugal and in France. But that's for the reason of not willing to compete with high-rated banking products. And in Belgium, we have progress.

So you could say in Life, there is certainly a big part in the increase of inflow due to the non-consolidated entities.

In Non-Life, I think it's a fair organic growth, which is a combination, on the one hand, of still price increases, and the continuation of the program launched last year and the beginning of this year.

But besides that also, an increase of market share that we have in as well Belgium, as Portugal, as UK. So you could say -- I'm looking to let's say the impact in the inflow of the scope changes that are mainly Luxembourg and Turkey. And the foreign exchange impact, you could say some EUR1.4 billion on the inflow.

A - Christophe Boizard {BIO 15390084 <GO>}

Well, what we can say regarding the inflow is that we have some uncertainties about the second half of the year, due to the fact that we could have seen acceleration in the first six months, due to the decrease in guaranteed interest, leading the customers to speed up their investment, and to get the minimum guaranteed rate. So maybe there will be a slowdown in the second half of the year.

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

Perhaps on the duration, Kurt?

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

On the duration, you have to remember that we've always said that we, particularly in Belgium, we were looking for a good deal, and matching some duration of both assets and liability portfolio are pretty hedged.

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

So there is few reinvestment risks.

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

Okay. On the economic capital evolution, we have not disclosed any elements thereby, I can give you the following guidance.

If you look at our embedded value calculations which we published at year end, you would find in there that for a interest rate swap[ph] of 100 basis points downwards that the value would come downwards something like 19%; that differs from entity to another.

Now if you look at the swap rates at the beginning of the year, the first two quarters were down about 40 basis point. Since over the month of July, there's another 20 basis points that came out of it.

So you could estimate that there is, indeed, a significant impact, let's say something like 10% of the economic capital, which was, as you remember, very satisfying. So we do not expect any problems from that side.

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

Then to come back on the MCV[ph] sensitivity. If your book is well matched and the guarantees are hedged, what is explaining the sensitivity to the lower yields then?

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

It was the -- well, if you look at them, you'll see how the duration[ph] here are not matched all entities at the same level. You remember that, in Asia, we've said that the duration of the assets is lower than the duration of the liabilities. And, of course, even if you're matched, you still have some reinvestment risk in your portfolios. And that was what weighs on the valuation of the embedded value.

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

The answer on the almost perfect matching was primarily Belgium and Portugal. And, indeed in Asia, you have not the same durations of assets as you have from your liabilities.

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

Okay, very clear. Thank you.

Operator

Michael Van Wegen, Bank of America.

Q - Michael Van Wegen {BIO 6435238 <GO>}

The first questions is on the excess cash position again, two things there. First of all, you pointed out that the macro environment is still uncertain, and that you don't know whether you will be required to potentially inject some capital in one of your units, if something goes wrong in peripheral Europe.

In that respect, can you talk about your commitment to the Portuguese joint venture that you have? To what extent are you willing to inject extra[ph] capital if necessary?

Secondly, on the excess cash position, you didn't mention, as a risk, legal cases. How do you see your excess capital position in relation to the legal cases that are currently going on?

And final question is on the reserve releases seen in Non-Life, can you give the reserve releases on a Q2 basis versus Q2 basis, please? Thank you.

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

The first point, commitment in Portugal; like always, in our partnerships we have a continuous dialog amongst partners. We have a commitment from both sides to help the entity, Millenniumbcp-Ageas, with its solvency position if needed.

But just to remind you at this moment, the IFRS solvency in our Portuguese JV went up to 267% end of June. And on a local solvency base, the solvency ratio is 221%. So there is no need at this moment to inject any capital.

Don't forget also that with the deliberate choice to strongly reduce the new business' savings that this will, instead of increase the required capital, it will decrease the required capital.

So the main business we are doing is unit link, capital rights[ph] and Non-Life. So this is something that is really reducing the potential intervention in Portugal.

I will maybe take the reserve releases in Q2 and then hand over to Kurt for the legal cases.

Reserve releases in Q2, some comparative figures; on an Ageas level, it was 4.1%, where it was 5% in 2011. Belgium is 7.8% compared to 7.3% in Q2, 2011. And UK, there was a release of 1.3% in Q2 this year, while last year there was a strengthening of 0.3%. So the delta is there, 1.6% compared to last year.

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

As for the legal cases, you'll remember that we've said in the past that the available cash indeed allowed us to look, with some additional comfort, to those legal cases.

But basically, we have said, and keep on saying, that we think that we will not have to indemnify, and that we are in discussions at the level of the current ongoing litigations for those where there was a judgment that they have appealed that judgment. So there is no specific need to put an amount there.

Q - Michael Van Wegen {BIO 6435238 <GO>}

I assume that, in your thinking, even though you think you do not have to compensate, you do not like to run the business as you don't keep any money specifically to the side for that. So in your thinking, what kind of buffer do you feel you want to keep just in case these legal cases do not come out the way you hope them to come out?

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

As I said, we get some comfort, but we do not have quantified any buffer around that amount.

Q - Michael Van Wegen {BIO 6435238 <GO>}

Okay.

Operator

William Hawkins, KBW.

Q - William Hawkins {BIO 1822411 <GO>}

First of all, as you're returning to a normal capital management strategy, can you just update us briefly on your thinking about interim dividends, which you obviously haven't restored today; just give us some thoughts on that?

Secondly, on the numbers front, at the First Quarter you were talking about nominal[ph] Insurance results of EUR120 million to EUR125 million. It seems that if we adjust for the funnies in the first half, we're at about EUR280 million, so we're well ahead of that. Does that tell us that the first half has been unusually good, or does it tell us that you might want to increase the EUR120 million to EUR125 million?

And then finally, could you just give us a bit of an update on your strategic thinking about the BNP call option and whether the fact that the market value or your fair value attributed to that has fallen to a much lower level, whether that improves or, in some way, hurts the strategic flexibility you have with that security? Thank you.

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

Okay. The first point, so I think we took the decision in 2009 to announce the dividend policy of 40% to 50% of the Insurance results, something that, for the first three years, I think, we realized even on 2011 with an Insurance result that was negative. We decided to, nevertheless, pay a dividend in line with the dividend policy.

On top of that, we have twice had this buyback program. So I believe, at this moment, although we can be very happy with the results middle of the year, we are confident that we can continue on that road for the remainder of the year. We do not think about going to interim dividends, because there is still a lot that can happen in the environment in the course of this year.

Remember also that if there would be, and that's restating[ph] on the question that Christophe will reply on the BNP options, that if one day there would be an outcome of that instrument, we will recommit it and we are obliged to pay it immediately to the shareholders. So there is no real decision taken, nor even option looked at to go for an interim dividend.

The second question, the normalization of the results, maybe try to do it a bit the other way around. We have now an Insurance result of EUR303 million. As mentioned earlier in the call, you could say that the exception of the correction of the impairment of Greece last year, that you could see some EUR50 million[ph] more net cap gains than last year.

And you have then a bit the exceptional element of reserve release in Asia, which was due to an accounting change, which means that it's our opinion that somewhere -- a normalized result of EUR280 million, so it's EUR303 million minus some EUR25 million, is a fair level of H1.

We believe that we can continue on that road. We will, of course, do everything to keep this combined ratio at the level it is and try to further reduce it, but that should be an indication of what you could expect extrapolated on the yearly base for this year, of course.

Christophe, the call option?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes, on the call option, so you have seen on the press release that the value is rather lower, now slightly above EUR100 million. It's one of the last legacy issues, but a matter of concern.

We are studying all the different options. Basically, we have three possibilities; the first one being to keep the call option until the end. I think that it's a dangerous stance because we are so far from the exercise value, which is above EUR60, so it is not very likely that at the exercise date, we will draw anything out of this.

We can sell it, but selling is not very easy; the number of potential clients is very limited. Or, and last option, we can do some structuring to be able to distribute this kind of SPV[ph] to the shareholders.

But one of the prerequisites to structure and to distribute is to find a market so that this new vehicle be liquid, and that's another issue. So we are considering and working on the two last options, and we will update you if we have anything substantial. But nothing to report at this moment.

Q - William Hawkins {BIO 1822411 <GO>}

That's great. Thank you.

Operator

Marcus Rivaldi, Morgan Stanley.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Can I just ask, please, the former Fortis Banking Group, was that at all involved in EURIBOR[ph] setting? And, if so, are you concerned about any potential litigation risk from that?

And then secondly, just on thinking ahead again of capital management around the NITSH securities, the proceeds have been on-lent to BNP Fortis Bank Belgium, what are your expectations around repayment of those on-loans early next year, and what you would look to do with those proceeds if they were repaid to you? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

On the LIBOR, well, first, we are not very much exposed to the LIBOR. The only entity who could consider such thing is RPI, because on RPI -- on both the asset side and on the liability side, there is a lot of LIBOR everywhere, but at this moment, we are monitoring the market and what the others do without being aggressive on this. We are listening to the market, so nothing to report.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Okay. Then, sorry, just to check, in terms of being a former owner of bank entities, which may have been involved in EURIBOR setting, are you exposed there to potential litigation risk against yourselves rather than actually you pursuing banks?

A - Christophe Boizard {BIO 15390084 <GO>}

We don't think so, but --

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

Not that we are aware of.

A - Christophe Boizard {BIO 15390084 <GO>}

Not that we are aware of, yes. So no concerns so far.

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

Second question, Christophe, on the NITSH being paid back[ph]?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes, on the NITSH, so you are right, but we are not far from the call date now, so as this instrument has been on-lent, we are dependent to what the final holder will do. So if there is no call, there is no question; there is nothing to do. If there is a call, we will consider as whether we will call on our side, or we will find a way to reuse the proceeds in other part of the Group.

Let's be aware of the fact that our financial flexibility is low, so for us, any instrument that we are under liability is of great interest. So if we reimburse this, has been to be very well considered.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

It sounds as though, given the markets are so strained at the moment, for all insurers really, that you'd be more leaning towards reusing the proceeds elsewhere in the Group. Would that be fair?

A - Christophe Boizard {BIO 15390084 <GO>}

That's one of our options, to use[ph] the proceeds. But once again, in case there is a call, at the end of the ring[ph].

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

And we learned not to anticipate on the fact that an instrument will be called or not, so we investigate, of course, all possibilities. And I think we will have to wait more until the beginning of next year is the (multiple speakers)

A - Christophe Boizard {BIO 15390084 <GO>}

Yes, which is the first call date, but it may happen that there is no call at the first call date. The call can be delayed in future years, so we are really on a waiting mode now.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Okay. Thank you, very much.

Operator

Gentlemen, there are no more questions. I will hand back to you.

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

Okay, ladies and gentlemen. maybe some closing remarks. First of all, thank you for your very good questions, as usual.

Let me summarize the main conclusions. First of all, as the whole of Ageas and with me, the whole management team, we are very pleased with these results that prove that we have been able, so far, to meet our promises and to realize a good performance in market circumstances which remain difficult and uncertain.

At the same time, substantial progress has been made in solving the outstanding legacies, and this has definitely had an important impact on the perception of the Company towards the outside world.

Secondly, the announcement of a share buyback program of up to EUR200 million proves our determination to keep the focus on optimizing our capital levels with a view to creating value for our shareholders. At the same time, we retain the flexibility to seize any opportunities that may arise to strengthen or develop our Insurance operations.

And lastly, I would like to remind you that, as of tomorrow, you will see the result of the simplification of our legal structure approved by our shareholders at the end of June.

The reverse stock split that was approved on the same day becomes effective as of tomorrow and, as you know, this will divide the total number of outstanding shares by 10 and multiply the share price by 10.

Be aware that our stock ticker will change for a period of three days for practical reasons. If you have any questions on this, please don't hesitate to call our IR team, and you can also consult the extensive Q&A document which is available on a dedicated page on our website.

These are, I believe, the most important messages I would like to convey to you today. Thanks for your continued interest and support, and do not hesitate to contact our IR team, should you have any outstanding questions.

Thanks for your time. I would like to wish you a very nice day. Goodbye.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you, all for attending.