Q4 2014 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
- Farooq Hanif, Analyst
- Farquhar C. Murray, Analyst
- François Boissin, Analyst
- Jason Kalamboussis, Analyst
- Matthias de Wit, Analyst
- Steven A. Haywood, Analyst
- William H. Elderkin, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

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

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

Bart Karel de Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you all for dialing into this conference call and for being with us for the presentation of the 2014 results of Ageas. There are a couple of companies reporting earnings today and this is why we have organized our call a bit earlier than usual. We hope this has helped you to better organize your day.

As usual, I'm joined in the room by Christophe Boizard, our CFO; by Filip Coremans, our CRO; and by Antonio Cano, the CEO of AG Insurance in Belgium; and of course, by our Investor Relations team.

Ladies and gentlemen, I'm pleased to present what we see as a solid set of results marked by, first of all, the Insurance net results up 13% to €737 million; secondly, group inflows at 100%, up 11% to €25.8 billion; and thirdly, the proposal to the shareholders to increase the gross dividend by 11% to €1.55 per share.

On slide one of the presentation, you can find, as usual, all the key figures. I will comment some of them. The net Insurance profit, as I just mentioned, amounted to €737 million compared to €654 million last year with the fourth quarter net result at €158 million. Except Continental Europe, all the segments did better this year. And overall, the increased results originated more from the Life activities.

Our inflows increased from €23.2 billion to €25.8 billion. Our inflows in Asia grew massively to almost €12 billion or €2 billion more than the year before. The investment we made in our distribution networks last year are starting to pay off. To a lesser extent, Continental Europe also did well. Luxembourg, in particular, grew by more than 25%.

I should draw your attention to the inflows in the fourth quarter, which were up year-on-year by 16% to €6.3 billion and here, again, mostly explained by Asia. The group combined ratio ended the year just below 100% at 99.6%, exactly the same level as at the end of September. Overall, we can say that the second half compensated for the low performance in the first, caused by adverse weather events, which we have commented on at length in previous quarters, but also impacted by some operational issues in a few specific business lines.

The overall Life operating margin on Guaranteed products amounted to 89 basis points, at the high end of our target range, while the margin on Unit-linked products remained at 20 basis points, in line with previous quarters. The group net results amounted to €476 million, with the negative result in the General Account for the year, but with a positive result in the second half. The full-year results remained driven by the legacies with the provision related to the FortisEffect case in the first half and an increase cost related to the RPN(I) liability.

Our shareholders' equity increased further to €10.2 billion or €46.6 per share. Unrealized gains on the investment portfolio that are included in the shareholders' equity reached a historic high at €2.6 billion or €11.84 per share.

And finally, our net cash position in General Account came down €300 million to €1.6 billion; however, an important element here is that we have invested meanwhile an amount close to €300 million in liquid assets with a duration above one year, and this amount is not accounted in the €1.6 billion cash.

Ladies and gentlemen, if I take a look at the performance in the context of where we stand with respect to the Vision 2015 targets, and I'm on slide two now, the conclusion seems that not much progress has been made in 2014. Behind the figures, though, a number of important structural improvements have taken place, but these are mostly offset by external events outside of our control.

If we look, for example, at our return on equity, the net profit improved substantially, while the capital structures in the operating companies have been further optimized. The very strong increase of the unrealized capital gains inflated the shareholders' equity and, thus, had a negative impact on the progress with respect to the return on equity.

The 60/40 proportion Life versus Non-Life did benefit from the strengthening of our position in Italy and Portugal and from the disposal of UK Life activities. But the Life business in China grew so fast that the impact of that on the overall balance has been offset.

In the context of the discussion on the operating margin for the Guaranteed Life business, we know that you would like more background, taking into account the continued flow interest rate environment. So, with this in mind, we have prepared two new slides, four and five, which provide you with some more details on the realized yield on our investment portfolio in Belgium and our new money yields.

The average guarantee on the AG Insurance back-book continued to decline to 2.72%, while the yield on fixed income also trended downwards to 3.84%. The duration gap in that portfolio is still close to zero.

On the next slide, you can see that in the course of the year, we brought our guaranteed rate in Individual Life gradually down step by step to a level of 1% as of September. On new money, the reinvestment yield was 2.89%.

On slide six, you can see that we indeed continue to optimize our capital structures across all regions and all entities that in – having total upstreams more than €700 million out of these operating companies. This brings me straight to slide seven, which sets out our plan for the dividend. As already mentioned in the introduction, we will propose an 11% increase to the gross cash dividend over 2014 to €1.55 per share. This brings us in the middle of our dividend payout policy range and is again a clear confirmation of our intention to return cash to shareholders.

Ladies and gentlemen, at this point, I will hand over to Christophe to provide you with more detailed comment on the performance of the respective operating segments and on the General Account. Christophe, the floor is yours.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart. So, I will now take you through the results in more detail with some additional comments on the operating results by Insurance segment and the General Account. I start on slide eight of the presentation. Bart already mentioned the net profit of our Insurance operations, up 13% year-to-date at €737 million with a strong support of Life whose net profit amounted to €533 million, up by €95 million or 22% compared to 2013.

For the fourth quarter, the Life net result was €91 million, a decrease compared to the €126 million of last year.

We already mentioned on the nine months results call that the realization of capital gain in real estate fell in the third quarter this year and not in the fourth quarter, which was the case last year. In addition, underwriting results were lower due to a provision for future expenses in Life in Belgium.

Over the entire year and on a group (9:04) basis, the substantial increase in the Life result is also explained by the better results in Belgium, partly coming from the higher amount of realized capital gain and also from the solid contribution of non-consolidated partnerships. And this is especially the case in China and Thailand.

On Non-Life and Other, the net profit amounted to €203 million, down 6% compared to 2013, and €67 million in the fourth quarter only. Over the full year, the total estimated cost associated with exceptional adverse weather events amounted to around €60 million, which impacted results in the first half.

The segment Other benefited across the year from a number of one-offs, among which you already knew about the €23 million coming from the compensation payment linked to a legal settlement. On top of this, we benefited in this segment in the fourth quarter from part of the gain on the sale of Ageas Protect and this accounts for €21 million.

Gross inflow now. So, gross inflow including the non-consolidated partnerships at 100% amounted to €25.8 billion, up 11%. As Bart already mentioned, China continues to grow substantially, but the good news is that our regular premium business grew much more than the single business, reflecting a deliberate reorientation. Renewal premium also increased by some 20% to €5.6 billion, which is half of the total Life inflow in Asia, benefiting from the continued good persistency on the strong sales in previous years.

In Continental Europe, Luxembourg increased by more than 25%, thanks to strong sales in the Wealth business, which has been extremely successful in Italy, which, alongside France, is the most-important market for our local company. The marginal decrease of activity was observed in Belgium coming from the Life side.

Let's go to the technical liabilities. The Life technical liabilities, including the non-consolidated partnerships, increased to €126.8 billion. Also here and in line with the business growth in China, most of that increase comes from the partnerships. But also in Belgium, technical liabilities went up.

I propose to move on now to some commentary by segment. We start with slide nine, Belgium. Net profit of €392 million, up 17% compared to 2013 and broken down as follows: €336 million in Life and €56 million in Non-Life.

The Life results benefited from some positive tax one-off across the year, which lowered the effective tax rate to roughly 14%. Part of the benefit has been offset by the strengthening in Q4 of a provision for future expenses in our Guaranteed product segment, and this provision accounted for €17 million net.

In spite of this, the operating margin on Guaranteed products remained strong at 87 bps and the margin on the Unit-linked stood at 30 bps. In Non-Life, the €56 million annual result was €5 million lower compared to 2013 with a combined ratio above 100% at 101.2%.

On the one hand, the hailstorm in June caused an impact on net result of €25 million and an impact on the combined ratio of 2.8 percentage point; while, on the other hand, we were confronted with the negative evolution of the claim ratio in our Third-Party Liability business line.

The impact on the operating result has been quite substantial. And as we already said in previous quarters, actions have been taken to increase tariffs and to modify the underwriting policy. The benefit of this should become progressively visible in 2015.

Moving on to the second segment, the UK, I am on slide 10 of the presentation now. We registered a net profit of €117 million compared to the €100 million in 2013. As in Belgium, we saw the adverse impact of the floods in the early part of the year, which cost us net about €36 million. But the benign weather conditions of the remaining of the year compensated for this poor start.

Other one-off, positive one-off included in the results are; first, the gain on the sale of the Life activities, of which €21 million is included in the UK other result. The remainder, and this is connected to FX, €12 million is in the General Account – is recognized in the General Account.

To provide you with a full overview, I should flag the €6 million write-off on DAC, the Deferred Acquisition Costs, due to the changes in the yield curve, which we had to book in the UK Life before closing the deal. Hence, the net impact of the sale of Ageas Protect amount to €15 million. So, we have €21 million in capital gain, minus €6 million in the P&L, and it's the reason why this net impact is €15 million. The total gain of the transaction, including the gain in the General Account, amounts to €27 million, which is pretty much in line with the €25 million to €30 million we had anticipated.

The second one-off is a €23 million net gain we already booked in the third quarter with respect to compensation received in the context of the legal settlement in the Retail business. This has already been discussed in the previous call. In total, so taking into account the two one-off I have just explained, this account for a positive net impact of €38 million in the UK segment.

Furthermore, you might have noticed a positive tax line in Q4 in the Non-Life section. This comes from the activation of DTA, deferred tax assets. And finally, like in Belgium, we faced some operational challenges around exceptional large losses, both in Motor and Other.

This leads me seamlessly to the inflow level in the UK, which have remained constant in local currency. With respect to pricing in Motor, the last quarter was in line with the previous ones with prices that came down by some 3% year-on-year.

The consolidated combined ratio amounted to 99.8%, including the weather events. The combined ratio of our other large entity in the UK, Tesco Underwriting, amounted to 104.3%, suffering also from the weather events and from large losses in Motor.

I would also like to take this opportunity here to highlight the renewal of our partnership with Tesco. On our third segment, slide 11 of the presentation, Continental Europe, the net result amounted to €56 million, which is significantly below the €77 million net profit we had in 2013. This can be explained by the net result in Turkey and Turkey is in Non-Life of Continental Europe. And Turkey, here we suffered from what I call a kind of seasonal effect.

On the one hand, we benefited in 2013 from a €9 million capital gain on the sale of a building; while, on the other end, there was a €10 million reserves strengthening related to Bodily Injury claims in the Motor Third-Party business in the third quarter, but this was already explained and discussed during the previous call, the one of the third quarter. For Life net result of Continental Europe remained nearly constant at €45 million with better results in Luxembourg and France, compensating for the lower operating results in Portugal.

Lastly, Asia, the fourth segment, and I am on slide 12 now. So, excellent results here. Asia not only increased its inflow level once more, but the net profit also increased by more than 20% to €172 million.

For Life non-consolidated partnership realized the net profit of €137 million, 37% up with strong result, especially in China and in Thailand. The main reason for the strong results in China are the benefit of sales campaign in previous year with a better mix and favorable financial markets. Thailand remains a strong performer, benefiting from a good product mix, but we deliver always the same message; Thailand is always a strong performer.

So, this brings me now to the General Account on slide 13. Similar to the third quarter, we were able to book positive result in the fourth quarter, helped by a decrease in the RPN(I) liability, after the steep increase in the first half of the year. For the entire year, the RPN(I) still went up by €97 million to reach €467 million. This €97 million, together with the €130 million provision following the FortisEffect judgment, explain almost entirely the €261 million negative result in the General Account. Staff and other expenses declined from €45 million to €40 million.

The net cash position decreased to €1.6 billion, mainly because of the execution of the current share buyback program and also because of additional investment for €217 million in liquid asset with a duration exceeding one year. The €300 million mentioned by Bart in his presentation is the total amount, while the €217 million I mentioned here is the increase in the year 2014.

Slide 14 and 15 now, these slides provide you with a traditional view on the evolution of the shareholders' equity and solvency. As you can see, shareholders' equity increased by €1.7 billion, mainly coming from the increased unrealized gain, €1.3 billion. This €1.3 billion of unrealized gain is net of tax, net of non-controlled interest and net of shadow accounting. So, that's not only the increase in unrealized gain.

On this slide, the slide 14, it's also interesting to note the €329 million coming from the positive currency exchange evolution and also the €137 million coming from Interparking, because the sale of Interparking and the associated capital gain was not recognized in the P&L since it was already consolidated at 100%.

The solvency levels of the Insurance operations remained slightly above our target level of 200%. We're at 206% after the reduction of expected dividend to be streamed up by the operating entities in the course of 2015.

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. As usual, we can now open the line for your questions. And we would like you to limit your questions to maximum three. Thank you. Operator?

Q&A

Operator

Ladies and gentlemen, we are now ready to take your questions. And our first question is from Matthias de Wit with KBC Securities. Please go ahead. Your line is open.

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

Yes. Good morning. Thank you for taking my questions. First on Non-Life, you mentioned that you've implemented price increases in some lines as Third-Party Liability. Can you provide an overall indication of the price increases you have been able or you're planning to implement in 2015, in an attempt to improve the underwriting performance?

And then, the second question I had is on the capital gains in the fourth quarter. Could you quantify them and also provide an indication of the other one-offs which impacted Q4 Insurance results? There are both positive and negative items. But, yeah, it's making a bit more challenging to get a view on the underlying performance in the fourth quarter. Thank you.

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

Okay, Matthias. Thank you. For Non-Life, I think that in the UK, of course, we follow the devolutions in the market, where we have seen over the past years decreases. In our portfolio, we have an average decrease something like 3%. The market is more 4% to

10%. We see indications of slightly neutralizing these decreases or even slightly going up of prices. And we, in the segment, where we are, which is, to a large extent, the 50% (26:22) plus, we have made some changes in as well the underwriting rules, but also in the pricing of sub-categories. That's a bit for the UK.

For Belgium, I propose to hand over to Antonio, who is present here.

A - Antonio Cano {BIO 16483724 <GO>}
Yeah.

A - Bart Karel de Smet {BIO 16272635 <GO>}
And it was precisely, first, Third-Party Liabilities, but maybe also the other business lines. Antonio?

A - Antonio Cano {BIO 16483724 <GO>}
Yes. On Belgium, the main tariff increases are around this Third-Party Liability for SMEs, so the small commercial lines. They are a bit exceptional and they range from 10% sometimes to 20% for specific risks. It's difficult to give you an overall percentage, but they are significant.

Also, there are some segments where rate increases are such that, in fact, we're very aware that we will not really be effective in those segments. So, the rate increases and the pruning actions are really for Belgium, focused on this Third-Party Liability business.

Other business lines, they will have the usual rate increases, but they are typically not more than 2% to 3% as inflation is also fairly low. But the other businesses, as you will appreciate from the numbers, do generate very good combined ratio.

A - Bart Karel de Smet {BIO 16272635 <GO>}
Second question, Christophe?

A - Christophe Boizard {BIO 15390084 <GO>}
Yes. So, the second question related to capital gain and more, broadly speaking, on the exceptional for the Q4, Q4 only.

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

A - Christophe Boizard {BIO 15390084 <GO>}
So, on Q4, what I have, one of the big one-offs for Q4 is the €25 million in the UK, but this is related to Protect, mainly. One of the big – the capital gain on Protect was recognized in Q4 in the UK and this is the biggest one. And we have the provision in the €17 million in Belgium, the expense provision, for which I can elaborate a little bit on this one, because I

think this was not expected, if I refer to the call we received this morning. So, the story is the following.

So, this is related to the Life book in Belgium. And you know that here, we are perfectly matched, which means that we have precise matching of the liability with the assets and mainly with bonds. And in the year 2014, what happens is that on some countries, the peripheral countries, we have spread tightenings with market value going up. And in some cases, for instance, on Italian bonds, we were above our risk appetite, which means that the risk department warned us, but we were above the limit and we decided to sell these bonds and we realized capital gain, obviously, thanks to the tightening of the spreads.

But this, as a consequence, had an influence on the asset liability management, because we booked capital gain instead of having regular investment income over the future years. And we decided to compensate partly and not completely – we decided to compensate partly with this expense Life provision, which is allowed in Belgium under the Royal Decree. So, this allowed on a statutory basis. And as you know, things which are allowed on a statutory basis are allowed in IFRS under the present rules regarding technical provision. And then, we booked this reserve for €17 million, which is lower than the amount of capital gain we realized. But when we realized the capital gain, we increased the reserve for profit sharing as well.

So, it's kind of bundle, but this cannot be explained without connecting this with the realization of capital gain on bonds, which is not normal behavior in an insurance industry. We basically hold the bonds to maturity. So, that's it. These are the two main element; the €17 million on the expenses and the Protect sale at the very end of the year.

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

Okay. And what was the exact level of capital gains in the quarter? Could you quantify?

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

€70 million (31:32).

A - Christophe Boizard {BIO 15390084 <GO>}

€70 million (31:33).

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

The total level of capital gains?

A - Christophe Boizard {BIO 15390084 <GO>}

Yes.

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

Okay. Thank you.

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

Remember that gives a link to the first question that in Q3, we had the capital gain, an important capital gain on real estate in Belgium. And at that moment, we indicated that the year before, the real estate capital gain was in Q4 2013. This year, it was a quarter earlier. So, that explains the relatively low level of capital gains in Q4.

Then the question on the exceptionals, you could say that exceptional in Q4 are the expense provision of €17 (32:09) million that Christophe already commented. And I want to underline this is really a unique provision. And so, there's nothing recurring in it. Then we have the cap gain of Protect, net of that which is €50 million and a number of smaller pluses and minuses. So, you can say that all in all the big ones, plus/minus, net of each other. You could roughly say that underlying result in Q4 was around €150 million with a low level of cap gains.

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

Okay. That's clear. Thank you.

Operator

Thank you very much. And moving on to Ashik Musaddi with JPMorgan. Please go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good morning, everyone. Thank you. I have three questions, first on the M&A. Can you give us a bit more color on what's going on, on the M&A front, because you're currently still holding like €2 billion net cash, including a bit of the liquid investments? So, still your capital position, the cash position is still very, very strong. So, should we expect any large M&A this year or will it be again the small bolt-on? So, any thoughts on that.

Secondly, in terms of capital return. I mean, you're getting a huge amount of dividend from the subsidiaries. So, what is a sustainable level of dividend that we should think from going forward, especially on the Belgium part? Because if I remember correctly, in the past, you mentioned that you generally get 75% of Belgian earnings as dividend. But looking at the slides, it looks like you've got some €158 million, which is I think a bit lower than half of the Belgian earnings for 2013. So, any thoughts on that?

And thirdly is, basically, on any thoughts on litigation, any update when should we expect any next news? It would be great to get a color on that. Thank you.

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

Okay. Thank you, Ashik. I will take the first question, hand over the second to Christophe, and the third to Filip. On M&A, we continue to screen the possibilities that entering our – what you call our strategy is, in Europe, we look to opportunities in the markets where we are. It's not a surprise that we, for instance, looked in Belgium to the Fidea file, but we're not willing to pay a price that has been paid by the company who acquired the company. So, we continue to look to in-market consolidation opportunities.

In Asia, we still continue to screen the growth markets where we are not yet, so like Indonesia, Philippines and Vietnam. We always have a number of potential candidates with whom we discuss. But okay, we will only be able to comment on this more precisely when things really happen. And at this moment, I think the link with the cash we have available that the opportunities, by the nature, in Asia will not be big cash consumers. So, M&A consumption of part of our cash should then come more out of Europe. But at this moment, I think, okay, we have no clear, concrete communication to give on that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Just – thanks. Thanks. It's very clear. Just one follow-up on that. I mean, you mentioned about your Asian aspirations. But I mean, if I look at, let's say, the valuation of CTIH, which is the owner of Taiping Life, majority owner, I mean there is a clear disparity between where those are trading and where your stock is trading. So, what is really the attraction of holding that asset? I mean, do you look to crystallize that at some point, because it is clear cut valuation disparity at the moment? I don't think market is implying that in your share price. So, how should we think about it?

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

First of all, I think we are not – and you're aware of that that we are not acting as a pure private equity firm. So, we make deals that are intended to be longer-term deals and partnerships, where both partners bring in value. Having said that, there is never a free way, not to have, from time to time, an exit, I think. Of course, it's not an example in Asia, but the sale in UK of Protect was one where we said, okay, this is not really fitting in our strategy. We saw an opportunity to sell it at an interesting price.

And so, it means that we are not stuck for whatever reason to most of our entities. But at this moment, we feel quite happy with the presence we have in the Asian context and certainly in countries like China and Thailand that are, year-after-year, growing and delivering also in terms of net profit and even return on equity. So, we will evaluate the situations every time going forward. But we don't have a clear intention at this moment to divest, for instance, our Chinese stake.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thank you.

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

Second question.

A - Christophe Boizard {BIO 15390084 <GO>}

For the second question on the level of dividends, and here, it is useful to take slide six of the presentation, and this is true that the amount of dividend upstream in 2014 was very high, in excess of €700 million. But on the top of what I call regular dividend, we had a lot of, let's say, capital management operation during 2014, which pretty much looks like what we did with AG the year before, namely to replace part of the capital with hybrid debt. And that's what we did, for instance, also (38:07) in Luxembourg and in Portugal.

So, on slide six, we gave you the breakdown of what we think the normal dividend and things, which are, let's say, more related to exceptional operation. I think exceptional, you can deduct €200 million roughly, and you have the normal amount of dividend. Should cover the amount of dividend paid to the Ageas shareholder, obviously, the cost of the holding, but we are very well covered.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Again, thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

In your question, there was a mention to the 50% payout ratio of AG.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah.

A - Christophe Boizard {BIO 15390084 <GO>}

And this is true. You have sharp eyes. So, I'd like to take the slide 15 with solvency. AG, as you know, is a strong contributor. And normally, AG should have paid 75%. But we started the year with solvency ratio slightly below the objective and slightly below the figure we have for the group.

And on slide 15, you can read 183%. And we considered also the fact that on the sale of IPK, the capital gain will be paid most likely this year as an additional dividend. So, these were big amounts and we decided to let the solvency ratio go up a little bit and we accepted a 50%. It was only for 2014, for this year, I think, but we'll come back to 75%.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thanks. Very clear. Thank you. And just last, update on litigation.

A - Filip Coremans {BIO 17614100 <GO>}

Ashik, thank you for your question. I have not so much to update on this quarter and also looking forward for the next year. I would say everything is not quiet, but relatively quiet in the public. What happened over the last (40:27) that in the FortisEffect case we did, as announced, file our appeal by the end of October and so did our counterpart, FortisEffect.

Now, this, as we said before, does not really suspend the outcome of the ruling in that case. But so far, we have seen not too much action there. So, there is a little progress or developments in the FortisEffect environment. The status of the various other litigations I can refer you to a new, a bit more comprehensive overview, which we added to the slide pack on page 58 – I think, slide 58 and 60, where you get a more structured overview. Also on that one, there is not much movement.

In the criminal case, as you may have heard, there is a material delay in that process. And it is very unclear how that is going to evolve. This is mainly due to the retirement and replacement of some of the main magistrates involved in that. Well, but you know, so – and I want to put it on record also that Ageas, as we've said before, has not been referred to court in that procedure. It's only our former directors and officers in that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Again, that's very clear. And, by the way, thanks for the higher dividend here (41:58). Thank you.

A - Filip Coremans {BIO 17614100 <GO>}

In the administrative procedures, there is maybe the only one where we may expect some movement that would be in the end of the year, because we could get the results of FSMA appeal procedures.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Okay.

A - Filip Coremans {BIO 17614100 <GO>}

Procedurals (42:17).

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Thank you.

Operator

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

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning, all. Yeah. Also a few questions from my side. And maybe apologies to come back on that slide six with the capital generation, which indeed was very strong. Just a few questions or detailed questions on this one. First of all, you show, basically, the normalized dividend from Portugal at €132 million. That amount is clearly higher than I had expected, but do you see this as a somewhat of a recurring level going forward?

And also, on Asia, I know it's a very small contribution, probably more a signal that China actually had a positive dividend. What are your expectations there? And because it's still growing very quickly, whether we're – indeed this is recurring and growing or yet there might, at some point, still be a capital injection needed?

And maybe one clarification on the previous question on the Belgium units. You mentioned, of course, still Solvency I environment, the 200% level. But Belgium is, in a way, still below the level, at 189%. So, you were mentioning that you expect it to go back to a 75% payout. So, somewhat more color that would be helpful.

And the other question I had was more on the UK, on the Non-Life result in the fourth quarter. Yeah, the results before tax were actually pretty low at €8.1 million, if you not take into account the tax benefits. Can you give a little bit more detail what was going on and whether or not there were actually any additional reserve (44:04) strengthening done on the Motor book? Thank you.

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

You take the first one, Christophe, or I – you take...

A - Christophe Boizard {BIO 15390084 <GO>}

Well, I can elaborate more on this on slide six. Maybe starting with AG, you are right that we are not yet at 200%. But what you can see is kind of slowdown in the capital need, with the fact, and it was mentioned during the first half of the call that the activity and written premium in 2014 was almost flat. And so, there is not a lot of capital requirement. So, the fact that we stick to 75% and 75%, it was the policy when AG was growing, the fact that the growth is less, still leaves 25% to support the solvency.

So, I think that with the 75% of AG is absolutely compatible to a further increase in the solvency ratio. But progressively, there is no urgency in doing so. But, again, capital requirement is less than it used to be in previous year. So, the €75 million is possible. Regarding Asia now.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Okay. Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

And I understand why you are surprised by China at €2 million. I think it was mentioned in previous calls, but in China, with the status of our subsidiary, company of national interest, there is a new regulation, which states that this kind of company have to pay at least 10% of the result, and whatever the capital need. It's a way to ask all this company to become more disciplined and to pay dividend.

So, this is in that context, they pay 10%, but unfortunately, if I may say so. But fortunately, in – if you take the other side of the coin, there is still this, excluding (46:27) growth, and we have huge capital need in China, even though there is nothing foreseen for 2015, at this stage. But we have to keep in mind that with all the growth we show, there is capital requirement.

So, in the future, we will have to support the capital position of China. So, it's a little bit a fake dividend. So, I would say that the next capital increase will be what was anticipated, plus the €2 million of dividend. So, that's the position on China, no real change. And Thailand and Malaysia, not a lot of comment. Okay. And...

Q - Albert Ploegh {BIO 3151309 <GO>}

And I'm sorry. On Portugal, the €132 million, is that basically a number you feel comfortable with going forward as well?

A - Christophe Boizard {BIO 15390084 <GO>}

What we did in Portugal, this year, we did a lot of restructuring in Portugal. And again, if you take a look on the slide 15, the solvency, you can see that we have really trimmed down the capital position. And you know it was already explained before Continental Europe was overcapitalized at 271%. We are at 176%, so we went really harsh on the capital. We have a lot of exceptional things. So, don't expect the same kind of thing in Portugal. I think...

Q - Albert Ploegh {BIO 3151309 <GO>}

Yeah. But I'm not referring to the €115 million or €61 million, but more of the €132 million, which you seemed to suggest is more...

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

But I believe you can expect that in Portugal itself the dividend in the next years will be not of that level, because it has been also a bit, let's say, linked to the yield decrease in Portugal. And so, the substantial dividend could be upstream. But all in all, and I think that's the most-important message, we are quite sure that all entities within the group will continue to pay dividends, like this year. The only exception was India. And that we will always be able to fund the dividend, plus the corporate costs by the dividend, and even create a small excess compared to that amount.

So, as we said, Belgium was this year lower than what our normal capital management policy for Belgium is. So, that's a company we would have a bit more, let's say, to receive in the coming years. You have some other countries that will go up. Some other that will go a bit down. But I think in general, and Christophe said that, out of the €725 million, you have to take something like €200 million being a bit exceptional, bring it down to €525 million. That is, let's say, somewhere an indication of the upstream dividend.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. That's very helpful. Thank you.

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

On UK Non-Life Motor, let's say the impact we had in the UK on Motor also somewhere referred to in the press release and if I remember well it was already mentioned in Q3 also is negative impact from large losses, where we somewhere estimate that that's a bit below 2%, 1.9%. So, that's something where action has been taken. It's a matter of underwriting and pricing, the combination of both in the over-70 (50:21) segment and the large losses is, of course, through the portfolio of the 50-plus (50:26). So, I think is our teams are in the UK know exactly where to act, and action has been taken.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay.

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

You can see it on slide 20 – 39, sorry, 39, you have that detail.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay.

Operator

And moving on to the following person, François Boissin from Exane BNP Paribas. Please go ahead. Your line is open.

Q - François Boissin

Yes. Good morning, everybody. I've got two questions, please. The first one is around the situation in Ethias, something – it's a topic that you mentioned in the past and things apparently have been moving with a potential capital footfall. So, I just wonder whether you can comment on the political situation around Ethias and whether or not you could play a role there. That's my first question.

The second question is regarding your asset allocation. You mentioned obviously that the spreads have been tightening, that you've been selling Italian bonds. Obviously, this movement potentially continued further in the end of 2014. So, I was just wondering whether you could see more of that going forward. And I guess more broadly, how you currently think about asset allocation as sovereign yields are actually turning negative in many countries? Thank you.

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

Okay. Question on the Ethias. First of all, we also read in the press what you probably also have been read. In the past, we never excluded an interest for Ethias, because it's for us a core market. They have very well-performing Non-Life portfolio.

On the other hand, it's a company where not only the shareholder structure, but also the portfolio structure with the Ethias old first (52:20) portfolio is – they both are complex. We have three governments in Belgium that are shareholder for 25% plus one share. The three governments are not composed the same way, if you look to the political colors.

So, the only thing we can say on that is that is that, okay, we repeat what we said in the past. If something happens in Belgium which – whatever insurer of a certain importance, that we will have a look at it. But at this moment, as far as we are aware, there is no real Ethias file concrete on the market.

Q - François Boissin

Okay.

A - Christophe Boizard {BIO 15390084 <GO>}

Some comments on the asset side. So, maybe it is useful to take slide 50, where you have the asset allocation. So, the overall message is such there is no big change on asset allocation. We are trying to diversify and, obviously, we don't invest a lot in sovereign bonds.

I'd like to mention something on slide 50. We always comment, but we try to do more loans or more diversified thing, and this doesn't show really up on the slide 50. But please keep in mind that in slide 50, everything is at market price, except the loans. So, the loans are at the book value. And it's the reason why they increased, but not that much. If we had the market price for loan, it would be higher. And so, we try to diversify. We invest more in equity as well.

What I can tell you is that we achieved the return on new money, which is much higher than the 10-year interest rate. And I can tell you, for instance, that - and I take AG, where I have the figures, on new money, in Q3 2014, so this is something I already disclosed during the last call. We were at 2.49%, which is not bad. And in Q4, we are at 2.54%. So, I wouldn't tell you it is up and that we are in an improved situation. But we have maintained the level around 2.5% on new money with this diversification.

Q - François Boissin

Okay. That's helpful. I mean, I just have like two follow-up questions on this. Obviously, the ECB said they wanted to go for sovereign bonds. So, I guess, the obvious question for you is do you intend to sell sovereign bonds to the ECB, first thing? And second, can you and will you move guaranteed further down in Belgium in this context?

A - Christophe Boizard {BIO 15390084 <GO>}

So, for the first question, the answer is no. We have no intention to sell our sovereign bonds at this moment. For the second question...

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

Antonio?

A - Christophe Boizard {BIO 15390084 <GO>}

Antonio?

A - Antonio Cano {BIO 16483724 <GO>}

So, as you are aware, we reduced the guaranteed rate on our main products to 1%. And I think your implicit question is will you want to move it down further? We are analyzing all possibilities. (55:52).

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

So, you could somewhere position the 1% guarantee on new contracts with, let's say, something like 2.5% yields on new invested money that Christophe referred to.

Q - François Boissin

Yeah. Okay. Thank you very much.

Operator

Thank you very much. And moving on to Steven Haywood, HSBC. Please go ahead. Your line is open.

Q - Steven A. Haywood {BIO 15743259 <GO>}

Hi. Good morning, guys. Could you just tell me about the large losses you saw in UK Motor? Are these sort of one-off losses or are these expected to continue? And what sort of changes are implementing to this portfolio as well? And also on the UK portfolio as well, could you let us know when the Tesco deal has been extended to and what the related costs might be here? Thank you.

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

On the first question, so what happened is analysis, of course, of where these large losses were realized. And it's, as I said, primarily a combination of changes in underwriting; however, some parameters in the scoring of the candidates to be insured have been – so change has been introduced. And the second part is the increases in prices where we see that this is necessary. What we also start to observe and it's, I think, a market phenomenon, is that the improvement of the economy makes that people drive more than before, so that the frequency is going up. So, this is something where we expect and we anticipate in our pricing that claims cost will go up and so prices also have to go up.

With respect to the Tesco deal, so potential cost, so we have a full-fledged company in which investments have been made, when was it, 2009-2010. This is running and keeps running. So, we have an extension of the deal, where both parties as well, Tesco Bank, as ourselves, have put a lot of attention on ways to improve the technical results of Tesco Underwriting. There are no other costs related. It's not a question of upfront cost or something. So, it's a pure continuation with refinements, where both parties are convinced that they will lead to an improved profitability.

Q - Steven A. Haywood {BIO 15743259 <GO>}

Okay. Thank you.

Operator

And moving on to William Elderkin with Goldman Sachs. Please go ahead. Your line is open.

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

Thank you and good morning, everyone. Almost all my questions have been asked. Just one follow-up really. In a scenario if you decided to sell the Taiping Life stake, which I appreciate from your earlier comments would be to be most unlikely, can you just give a sense of what's the book cost of that stake is? And albeit theoretically, whether there would be any tax payable on the capital gain that you would realize?

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

Maybe, first of all, repeat what you already included in your question is that it's not an option we're looking at. I think to complete the comments given earlier, what we think we have an area of improvement of work in communication to do is to even better disclose what our, let's say, contribution to Taiping Life is, so that positive valuation that the Taiping Life has is also reflected in our assessment valuation. I think you also see that a scenario where if you look today, the value of the asset is €730 million. If I remember well, it's almost the half of it is capital we injected and the rest is retained earnings, unrealized cap gains, indeed (01:00:30). Thank you, Filip. But, let's say, under our rules, that's (1:00:34) something like €730 million.

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

So, to just check on that. So, I appreciate the question and answer are both theoretical, but so the effective book value of your share in Taiping is €740 million, is it correct?

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

€730 million. So, it's a historic investment of $88 million, retained profits, capital contribution and part of unrealized cap gains. And so, that brings us to €729 million, to be precise. This is something that will be published in our annual accounts, early March.

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

Yeah. And is that – sorry, just to be clear, that 730 (1:01:13) million, is that dollars or euros?

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

Euros.

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

And, again, I appreciate it's theoretical, but if you were to sell above that, would there be a notional tax on the gain that you made? Or should...

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

I hear from our tax experts, it is under discussion with tax authorities. But...

A - Frank Vandenborre {BIO 15168443 <GO>}

(01:01:36) Netherlands.

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

Yeah, between Netherlands and China. But normally, there is – as far as I'm aware, there is taxation.

A - Christophe Boizard {BIO 15390084 <GO>}

You're right. And there is a tax treaty, which is almost finalized, but which is not enforced yet.

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

So, when...

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

Again, let's insist (1:01:55) on the previous comment that this is not an option we are looking at.

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

Sure. All right. I might follow-up afterwards, but thank you.

Operator

Thank you very much. And moving on to William Hawkins with KBW. Please go ahead. Your line is open.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you (1:02:15) much. You've already given us a lot of helpful detail, but three questions, briefly. In Non-Life, do you still think a 97% combined ratio is achievable in 2015, thinking specifically about Belgium and the UK? In Belgium Life, do you think your earnings base of 2014, the €336 million, is a base from which you can grow or should we think that it's been really unusually boosted at the end of the day by capital gains?

And when we're looking at Asian growth, you've had a fantastic performance in 2014. I don't really have much visibility on the ground. I don't know what you're thinking about in terms of sales campaigns for this year. So, do we still think that China and Thailand and possibly even Malaysia are going to be continuing the high growth rates or is the base effect inevitably going to mean that the growth rate's going to slow? Thank you.

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

Okay. First question, if you look to the combined ratio for the second half year of 2014, the combined ratio in the second half was 97.3%. We, of course, have been benefiting from quite stable weather conditions. And even in that quarter – half year, there were some negatives. So, we believe that the 97% is certainly a ratio that can be achieved next year.

The second point, earnings base in Belgium, yes, there are capital gains in it, but remember that we always expect capital gains in Belgium not out of the bond portfolio, but out of the real estate portfolio, because it's accounted at amortized cost, and also out of the equity portfolio because we count on more than adjusted dividends.

A big part in real estate capitals is development of new projects. There, we have quite some, let's say, experience and successes behind us. And there is always a portfolio under development that is, I would say, a base for future cap gains. So, the answer on the question is there still room for earnings growth in Belgium, I would say, yes. We also still have an increase on technical liabilities, which is the base for our earnings in Belgium.

If we now look to Asia, in Asia, you have two elements; you have the top-line growth and the bottom-line growth. You can expect that, one moment, the top-line growth will lower, because it's always starting from a higher base. On the other hand, the effect on the bottom line could be even the opposite, because there you have an increase of your technical liabilities.

If I remember well, this year, technical liabilities in Asia went up bit more than 30%, because you have the effect with the high focus on the recurring premium that you have an exponential growth of your technical liabilities. And as long as a portfolio is not a mature portfolio, this technical liabilities continue to grow. To give an example, in Belgium, we started activity in 1824 and the technical (01:05:36) to grow. Of course, not at the same pace as in Asia, but as we also said in the Investor Day about Vision 2015 target, we expect a solid contribution out of Asia in terms of bottom-line contribution.

Q - William Hawkins {BIO 1822411 <GO>}

Very helpful. Thank you.

Operator

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

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Hi. First of all, thank you very much for, in general, on the details on the dividends and the upstream and the comments. I just want to come back, there are very few things left. One is on Hong Kong, which we should expect and if this is a level that is slight – normalized, if you want. And also, looking at page 16 on the press release, you have a restructuring activity in Italy and you mentioned in the footnote that's temporary move of cash. So, is that – and that will flow back in 2015. So, is this something that we should see as more of a one-off, but something that will come again in the upstreams that are going to come throughout this year?

Same question a bit for the one in Cardif Lux Vie. The other thing is following-up again on William's question on the 97% combined ratio target. Could you give us a sense the 99.6% this year, what is the element that is the excess that is due to nat cat, so that we can have an idea of what you find is the underlying normalized combined ratio that you reported this year, so that you can have an idea how to take this forward? Thank you very much.

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

You take the first one, Christophe, on...

A - Christophe Boizard {BIO 15390084 <GO>}

On Hong Kong?

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

And then the Italy (01:07:35).

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah. Yeah. So, on Hong Kong, it is true that we paid the dividend, substantial dividend, but it was more exceptional operation in the sense that the solvency ratio was very high and the ROE was very low. So, obviously, there was something to do, and we decided to do some restructuring on the capital by paying these exceptional amounts. So, the short answer is don't expect the same thing in 2015 and in the coming year. That was really a restructuring of the capital base.

In Italy, you are right. This is something exceptional. But this should flow back. But the modalities of a sale linked to the fact that we have holding, F&B, between UBI Assicurazioni and us. And these are technicalities, but this €60 million will come back.

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

And then the question on the impact of cat nat (01:08:49) on 2014. So, it was, it's somewhere in the press release, 2.3%. And it's also on slide 29. You can say 99.6% minus 2.3% is 97.3%, but still above 97%, but okay.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Okay. If I may follow up just on this, on – the expense ratio has remained high, is it something that you foresee coming down, more in line with your peers?

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

The main impact on the expense ratio is commission. So, it's not internal costs, okay. There's something to follow up. It can be a question of some of the partnerships. It can also be linked to a switch in business mix, for instance, a bit more in household in Belgium immediately brings up this commission ratio. So, we look closely to that.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Very good. Thank you.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thanks very much for taking my question. I just wanted to speak about Solvency II, because it looks like clearly you are or you have been for a long time very confident about Solvency II. Your cash flow matched in Belgium. You don't – I can't see why you'd have a massive duration gap in the large parts of your book in Europe.

So, I was just kind of wondering what guidance can you give us on; A, when you're going to tell us about this number; but secondly, kind of how confident do you feel relative to the Solvency I number that you printed, if you comment on that? And then, secondly, on Tesco Underwriting loss that you saw in this year, could you break out just in that segment what the one-offs were? What the underlying combined ratio in Tesco might be? Thank you.

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

Filip?

A - Filip Coremans {BIO 17614100 <GO>}

Let me start with answering your question on Solvency II. As we said earlier, I must say you know and we should be well prepared and we're well on track for Solvency II. And nevertheless we have asked the investor community to stay patient and we will provide significant more insights in our September Investor Day and around that time. It's natural that in the framework from careful risk management, which we are, to some extent, known for, I would say, that we have thoroughly prepared over the last years and done the necessary stress tests. And based on that, we have no – how would I say, we have no surprises for you and we have no immediate concerns coming out of that.

Now, one of the reasons why we refrain from, at this moment, releasing the figures – I know that some of our peers are doing that – is because we think that there are still a few important discussions going on with the regulator and we are still waiting for – or at least waiting for some clarifications coming from the National Bank in Belgium from OPA (01:12:09) relating to volatility adjuster, the treatment of the government bonds, transferability, some clarifications on DTA, and a few others.

And so, rather than, at this moment, release figures, which would probably change at the moment it's implemented, we are waiting to come up with more solid figures, hopefully, when these things are cleared in September, and it will provide you all insight you need. But so, as earlier said, we're well-prepared and on track and we do not expect to surprise you negatively.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can I ask, are you – I mean, you may have said this already. Are you applying for an internal modal approval process?

A - Filip Coremans {BIO 17614100 <GO>}

Well, I can tell you that we do, but only for Non-Life.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you.

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

On Tesco Underwriting, if you look to the – first of all, in percentage, the impact of weather was 2.7%. If you look to the result, the impact on result compared to a year ago, so this impact from weather had a loss in euros, net €4 million impact.

We also had €3 million less cap gains this year than last year. So, that's already €7 million, which explains largely the delta between last year's profit and current year small loss. Of course, they are also liking the AIL or the Ageas Insurance Limited portfolio. There hasn't (1:13:49) been the same observation of large losses in Motor, where also action has been taken in the Underwriting criteria.

Q - Farooq Hanif {BIO 4780978 <GO>}

And presumably, with Tesco, you don't have reserve releases yet?

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

We don't have reserve releases, no.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay.

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

As I remember, there were some reserve release, I think, 1.5% or something.

A - Christophe Boizard {BIO 15390084 <GO>}

Yeah.

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

1.5%, yeah. So, very small.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much. Thank you.

Operator

There are no further questions in queue. And we have a follow-up question from Ashik Musaddi with JPMorgan. Please go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Just one more follow-up question on your duration mismatch, duration chart, on slide number four. In the past, you also gave some clarity around how much of the recurring yield you expect from non-fixed-income investments. Would you be able to give some color on that as well? Because it clearly looks like your investment income is more or less covered. Your guarantees are more or less covered with the bonds. But what is additional you get from equity, say, loans, real estate? It would be a bit interesting to get some color on that. Thank you.

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

You (01:15:23) can give an idea, Antonio (01:15:26).

A - Antonio Cano {BIO 16483724 <GO>}

I mean, on equities, I guess, you're also able to provide the answer to that. Look at what equities have been doing in the market and what dividend yields are. It's a pretty standard equity benchmark equity portfolio.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

A - Antonio Cano {BIO 16483724 <GO>}

On the real estate, be aware, as Bart was also saying, in our P&L, real estate is at amortized cost. So, this is depreciation. There is rental income and then there are capital gains. A lot of them related to development projects. But all in all, real estate generates around 4% to 5% recurring accounting yield.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah.

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

So, if you look to that slide four, I think two important remarks is that whatever we can achieve on real estate and equities that is above the blue line, which is the yields on your fixed income, is a plus, moving the yield upwards. On the red line, we also still have low interest rate reserve. That also brings the cost of the guarantee a bit lower than that red line. So, it shows that the margin we have for, on the one-hand, profit sharing, on the other hand, remuneration of the capital, is relatively stable over that period.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very clear. Thank you.

Operator

Thank you very much. And we have a question by Farquhar Murray with Autonomous. Please go ahead. Your line is open.

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

Morning, gentlemen. Just a quick follow-up, if I may, on the answer you gave to François Boissin with regards to the new money rate at AG (01:17:13). You indicated that actually that had increased Q-on-Q to 2.54%. Given the kind of declining interest rate environment, I just wonder if you could explain how you achieved a higher new money rate Q-on-Q. I mean, was that a kind of mix shift? And ideally, what's the current actual allocation you're putting on new money? In particular, what's obviously the largest component of that? I presume it's corporate bonds.

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

Christophe.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. So, let's me check. On new money, we invest small amounts in sovereign debts. By the way, the figures I gave you are for fixed-rate investment, so it means that you don't have the equity, no, you have the real estate here. On fixed rate, what we tend to do, we tend to go long on the sovereign part that we buy and then we are short on high yield and corporate bonds. We do this. And then, we have the loans, which are included there. And on the loans, we have rates which are higher and which are close to 3% here.

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

But in broad terms, I mean, which is the largest allocations within the fixed-income component now on new money? Is it – for instance, how much is high yield on the new money components you're putting to work?

A - Christophe Boizard {BIO 15390084 <GO>}

So, let me see. I have the mutual information (01:19:02), which is mainly on, okay, high yield and on some non-financial, and because we do some financing in PPP. So – but the amounts invested are relatively limited, what we are talking about in Q4.

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

Okay. So, what is the largest allocation within the fixed-income book on new money terms?

A - Christophe Boizard {BIO 15390084 <GO>}

On new money, we are on corporate bonds and loans.

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

Okay. And what's the rating level on the corporate bonds, on average?

A - Christophe Boizard {BIO 15390084 <GO>}

On corporate bond, we are investment grade, mainly. But we have a small allocation to non-investment grade as well.

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

Okay.

A - Christophe Boizard {BIO 15390084 <GO>}

But a very small one.

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

Okay. I might follow-up. Thanks very much.

Operator

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

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

Okay. Ladies and gentlemen, thank you for your good questions. And I hope we gave you reassuring answers. To end this call, let me summarize the main conclusions. A solid net Insurance result over 2014 marked by good underlying progress in most of our activities. Nevertheless, we still have some important areas of improvement that remain and they are getting our full attention.

Although, not visible in our Vision 2015 targets, strategic progress has been made on a number of fronts. The increase of the proposed gross dividend, supported by upstream from all operating entities, excluding India, underscores our commitment to consistently share parts of the good progress made with our shareholders.

And lastly, I reconfirm our appointment at the end of September, more specifically on the 28th in London, for our 2015 Investor Day, at which we plan to share all the details on

Solvency II and also on our Beyond 2015 strategy with you.

With these conclusions, I'd like to thank you for your continued interest in Ageas and for joining us today. Thanks for your time and good-bye.

Operator

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