# Q4 2011 Earnings Call

## Company Participants

- Bart De Smet, CEO
- Christophe Boizard, CFO
- Frank Vandenborre, Head of IR
- Unidentified Speaker, Company Representative

## Other Participants

- Albert Ploegh, Analyst
- Farooq Hanif, Analyst
- Marcus Rivaldi, Analyst
- Robin Buckley, Analyst
- William Elderkin, Analyst
- William Hawkins, Analyst

## Presentation

### Operator

Ladies and gentlemen, welcome to the Ageas conference call for the 2011 full year results. I am pleased to present CEO, Bart De Smet, and Mr. 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 2011 results of Ageas. As usual, I'm joined in the room by my colleagues of the Executive Committee and our investor relations team.

Ladies and gentlemen. 2011 has been marked by a tough financial environment. Our results were severely impacted by impairment charges affecting both our Life and Non-Life activities. Overall though, our performance in Non-Life improved across all segments, underscoring the importance of our strategic choice for a balanced and diversified portfolio of activities.

The main headlines from the results announced today are the following; an Insurance net annual result of EUR313 million negative, with a negative result in the Fourth Quarter of EUR104 million. This result includes a total impairment charge of EUR908 million related to the Greek bonds, equities, and some goodwill. Christophe will come back on this later on.

Broken down, Life Insurance reported a negative result of EUR425 million, including impairment charges of EUR871 million, partly offset by net realized capital gains.

Non-Life showed a nicely improved operational performance, resulting in a net profit of EUR82 million, and a Group combined ratio at 101.1%. This compares to a net profit of EUR2 million, and a combined ratio of 107.3% in 2010.

Adding back the impairment charges of EUR908 million, the net Insurance result would have amounted to EUR595 million, compared to EUR391 million last year, positively supported by EUR167 million of net realized cap gains.

Group inflows, including the non-consolidated partnerships at 100%, amounted to EUR17.2 billion, down 4% on last year. The non-consolidated partnerships contributed EUR6 billion, up 4% from last year.

Life inflows amounted to EUR12.3 billion, a decrease of 13% on last year, but with market shares remaining fairly stable. In contrast, Non-Life inflows were up 31% to EUR4.9 billion with growth across all segments.

The funds under management scope on scope has remained almost flat at EUR70.6 billion. You will note, however, some variance with the figures reported for 2010 last year. This relates to the exclusion of Luxembourg Life in the course of 2011, following the merger with Cardiff Lux.

The total Group net result, so Insurance, including the general account, ended negative at EUR578 million, with the loss in the general account of EUR265 million. And this includes a charge of EUR250 million for the various legacy issues.

Our balance sheet has remained resilient, both in terms of shareholders' equity per share, and solvency, despite the negative 2011 results. Shareholders' equity amounts to EUR7.8 billion, or EUR3.23 per share, slightly down with 1% on last year.

The Insurance solvency amounted to 207%, while the Group's solvency reached 237%. Christophe will come back on this.

Last, but not least, and as already indicated in the previous quarter, the Board of Ageas has decided to propose for approval by shareholders a gross dividend of EUR0.08 per share, stable on 2010 and 2009.

This decision, in a year with a net loss in Insurance, reflects the Company's strong belief in its strength, and in the underlying profitability of its business.

Returning for a moment to inflows, slide 4, we have seen a mixed picture across the segments. Clearly, and in line with the trend in previous quarters, the UK has dramatically increased its inflow levels, crossing the EUR2 billion border, for the first time ever, in 2011.

The contribution of Tesco Underwriting, EUR755 million, has, of course, been instrumental here.

Our Asian business also performed well, benefiting from a strong Fourth Quarter. As a result, they equaled the outstanding 2010 performance.

In Belgium and Continental Europe, the increase in inflows in Non-Life could not compensate for lower Life inflows. In both segments, and in line with the trend previous quarters, we see a low appetite for Insurance savings products, and we are confronted with increased competition from banking products. At the same time, in Belgium, the very successful direct retail issue of government debt at the end of last year also had its impact.

With respect to Non-Life, we have seen growth in all segments, reflecting our increased focus on the Risk Underwriting business. I have already mentioned the UK, where not only Tesco underwriting performed well, but in fact, all activities.

In Continental Europe, we had benefits from the inclusion of our AKSigorta stake in Turkey contributing EUR177 million. At the same time, Portugal and Italy performed very well. And finally, we also noted growth in Belgium, Malaysia, and Thailand, our three other Non-Life operations.

All in all, a positive evolution leading to a total Non-Life inflow of nearly EUR5 billion, as already mentioned, and this represents 30% of our total inflows.

Ladies and gentlemen. let me briefly review how we have performed in 2011 against our priorities. As a reminder, we set ourselves five operational priorities; improve our operation performance; strengthen our insurance activities; make progress on the legacy issues; a disciplined capital management; and finally, further prepare for regulatory changes.

As you can see on slide 6, we have delivered on each of them. With respect to the operational performance, there is a substantial improvement made in Non-Life. Our Group combined ratio improved by more than 6%. Except for Belgium, impacted by Workmen's Compensation, our combined ratios are below[ph] 100% in all segments.

In Belgium, there is still work to do in our Workmen's Compensation business. Slide eight gives you, at a glance, a view on the improved performance in Belgium and the UK. And in the slide pack, you will also find the usual detailed information on combined ratios by segment and by sub-business.

The second priority, the streamlining of the activities, also there we continued in a disciplined way. I'm confident in saying that we are almost there. We sold, in 2011, our activities in Germany, our reinsurance liabilities of Intreinco, and we've decided to merge our Life activities in Luxembourg with BNP Paribas to come to the largest insurer in Luxembourg.

The acquisition of a 31% stake in AKSigorta in early 2011 illustrated our willingness to increase our Non-Life portfolio. Since then, we decided even to increase our stake, together with our partners Sabanci, and own 33% of AKSigorta since the end of last year. I must say that I'm extremely pleased with the progress made since the closing of the deal at the end of August. The collaboration to improve the commercial and the operational performance of AKSigorta has started, and Ageas has sent three experts to Turkey, each of them occupying senior management positions. In the meantime, AKSigorta moved from the fourth to the third place in the Non-Life ranking in Turkey.

With respect to the third priority, the legacy files, the most visible progress made is the agreement reached with BNP Paribas to buy back CASHES and to call the Tier 1 instrument. This transaction is important as it shows our ability to find solutions for the legacies, and, of course, it will also increase our liquidity position by more than EUR650 million.

At the same time, there has also been good progress in the number of legal procedures; we had some success. In February, we won the FRESH litigation; in May the Amsterdam Court dismissed two claims relating to the transactions in September, October 2008.

In some cases, we did not attain the intended outcome. The Rotterdam Court confirmed twice the fine imposed by IFM, but we appealed in both cases. And last week, we had the judgment of the Utrecht Court relating to Fortis communication in May, June 2008. Although the Court judge that there has been miscommunication, it is still to be decided whether plaintiffs suffered damages. We will appeal the judgment.

Finally, the Deminor experts appointed, at the request of Deminor, filed their report which terminates the investigations by court designated experts. While we are not always in agreement with the content, we do welcome the progress made in the various files, and we will continue to defend the interest of our stakeholders by every means available.

On slide 10, you will find a summary overview of the various events in the past year.

With respect to the fourth priority, capital management, we have demonstrated a disciplined approach. We launched a EUR250 million share buyback program in August last year, and executed the entire program, despite the difficult market circumstances.

Combined with the EUR0.08 gross dividend proposed for 2011, I believe we have delivered against the commitments we've made in the past, to apply discipline to our decisions to invest cash in the business, or return to debt holders or shareholders, based on the pros and cons of each alternative.

And finally, we continue to prepare ourselves for the regulatory changes. Even if there is still a lot of uncertainty as the Omnibus II directive has not yet been approved and, hence, technical uncertainty continues to exist, impacting negatively our new initial[ph] planning. Solvency II continues to get a lot of attention, and our teams continue to prepare Ageas for this new regulatory framework.

To conclude my part of the presentation, and before handing over to Christophe for the detailed figures, I'd like to announce our 2012 Investor Day. After the focus on Asia last year, we thought it would be helpful this year to spend some more time on our Non-Life activities.

We will host this event in London on September 24 and 25, starting in the afternoon, and ending on the 25th at noon. We have deliberately chosen to organize the event in the same week as the Merrill Lynch financials conference, which, hopefully, offers you the possibility to optimize your travel arrangements, or at least, save the date.

Christophe, the floor is yours.

## Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart. Ladies and gentlemen. on my behalf I extend a warm welcome to all of you. Thank you for joining this call. Let met summarize the key 2011 results in a nutshell.

On slide 16, you have the key figures in the usual format. Then if you look at the inflows per country, I am on slide 17 now, you see the excellent performance in the UK and in Asia, as Bart already mentioned.

Slide 18, and that's an important one, like in the Third Quarter, we prepared for you an overview of the total impairment charges across the segment, and with the split in Life and Non-Life.

The total amount of EUR908 million also includes a goodwill impairment of EUR99 million in Hong Kong, and I think I have to elaborate a little bit on this. This decision was taken at the end of the year, and was driven by the local low US interest rate environment, and its impact on the final situation of our local activity.

In total, in the Fourth Quarter, we booked additional impairments on bonds and equities for a total amount of EUR193 million, of which EUR56 million is related to Asia. The total annual impairment charge of EUR155 million booked in the Fourth Quarter turned the Asian annual result into a negative. The impairments were partly offset by capital gains of EUR167 million in total and realized[ph], for a large part, in the last quarter.

The EUR23 million reported for Asia includes EUR20 million realized on the restructuring of our Chinese stakes in Taiping.

In Belgium, we made, amongst others, a capital gain on the sale of some real estate property; the amount is around EUR30 million. As a reminder, in 2010 we had a bit more than EUR60 million of net realized capital gains.

Then going to slide 19 to 23; here we provide you with the usual financial details by segment. As already mentioned, the total net Insurance result amounted to EUR313 million negative, with negative result of EUR425 million in our Life business, partly offset by EUR82 million of positive result in Non-Life, and EUR30 million from our retail activities.

The Life result in Belgium also includes EUR20 million charge related to the contribution levied by the Belgian State on the insurance industry. If you remember, we reported on this also in the past quarters.

The UK benefited from a strongly improved operational performance, and good results in retail. Continental Europe's results are blurred by the impairment charges on bonds and equities, and performed intrinsically pretty well, if we put the impairment aside.

With respect to Asia, I already mentioned the impairment charges. The same story here; intrinsically the performance is in line with last year because, in Asia, we added the impairment on the goodwill of Hong Kong, the EUR99 million I mentioned before, plus the impairment on equity.

Overall, and as I have already mentioned, our Non-Life activity substantially improved this year. The net result could have been even better, but for the impairment charge of EUR27 million related to the Greek bonds, and the EUR37 million charge related for the adverse weather, both in the UK and in Belgium.

Our retail activities more than doubled their net profit contribution and benefited, among others, from the synergies realized between the acquired activities.

Let me now move to the investment portfolio, so I am now on slide 24 and 25. All in all, the composition of our portfolio has not really changed, percentage-wise, from one year to another. Obviously, changes within the various asset classes have been important.

If we go to slide 25, you can see the evolution of the sovereign bond portfolio at the end of 2010, compared with 2011, and this illustrates the important variances within the portfolio.

Interesting to note is the positive evolution of the unrealized gain on our investment portfolio. We started from EUR1.1 billion at the end of 2010 and we are, at the end of the year 2011, at EUR1.8 billion. The improvement is substantially driven by the sovereign bond portfolio, but you have to link the improvement in unrealized capital gain with the impairment we book on the Greek bonds.

A few words on our general account, slides 26 and 27. The net result amounted to EUR265 million; that's a negative result. And in this EUR265 million, EUR215 are related to the legacies. The legacies traditionally include the RPN(I), the equity stake in Royal Park Investments, and the value of the call option on the BNP Paribas shares.

But in 2011, it also includes the value adjustment of the Tier 1 Debt Securities and a EUR56 million benefit from a tax settlement in The Netherlands. For the two last things, we booked that in Q4, last quarter of the year. We already disclosed the main details with respect to the RPN(I) and the Tier 1 a few weeks ago when we issued the press release on the operation on the CASHES.

With respect to Royal Park Investments, we reduced the value of the equity stake to EUR779 million, driven by a negative result of EUR197 million under IFRS, including a further impairment of the goodwill recognized.

Going to slide 28 now, let me just say a few words on the evolution of our shareholder equity, solvency, and net cash position. But first, before, I should mentioned here the restatement of our 2010 accounts with respect to the valuation of the put option granted to BNP Paribas at the end of 2008 on the 25% stake in AG Insurance.

In consultation with our external auditors, the exact terms and conditions related to the exercise of the put option have been subject to a renewed review and, as a result, and in accordance with IAS 32, we determined that we had to recognize a financial liability against the present value of the estimated exercise price in 2018 of the put option.

Basically, this IAS 32 regulation states that, in case of such an option, you have to account as though the option was exercised. At the end of 2011, the net present value of the liability amounted to EUR656 million. This is the net present value of the market price of the 25% stake in AG. The counterpart is the write-down of the value of the non-controlling interest underlying the option.

As a result of both adjustments, shareholder equity went up by EUR133 million. The difference is due to the difference between the book value corresponding to the 25%, and the estimation of the market value we have put in the account.

So this restatement also impacted our Group solvency by some 18%. And we'll see that later when we will discuss the solvency. It's one of the elements explaining the decrease with respect to last year.

So coming back on the slide 28 and the shareholder equity per share. In absolute terms, it comes down from EUR8.2 billion to EUR7.8 billion, but the equity per share increased to EUR3.23 per share. And here, this was positive impacted by a lower amount of outstanding shares, following the share buyback program. So we have a lower shareholder equity, but divided by a lower amount of outstanding shares.

Our Insurance solvency amounted to 207%, so still above 200%, while our Group solvency declined to 237% with a capital buffer of EUR5 billion. And to come back on the put option, the effect was 18 points, as I mentioned before. So without the restatement on the put, the Group solvency would have been 237% plus this 18 points.

So the lower solvency is a combination of the lower amount of available capital, with higher minimum capital requirement, reflecting business growth in all segments. And at Group level, the already mentioned impact of the valuation of the put option; I give you the precise figures. And this is how we end up with this 237%.

Lastly, our cash position, so I am on the last slide now. It came down from EUR2.2 billion, at the end of 2010, to EUR0.6 billion at the end of 2011. To have this figure, you have to deduct cash and the deposit at bank -- to deduct EMTM[ph] line from the cash and deposit at bank and you have the net cash position.

So the decrease relates to the payment of the acquired activities, Castle Cover and AKSigorta, for a little over EUR200 million, the dividend payment in 2010 and the share buyback program approx some EUR400 million. But thanks to the transaction with BNP Paribas and the CASHES operation we will see the cash position increasing by about EUR700 million. We communicate about that in the past few weeks. And at the end of March, when we will have the Tier 1 reimbursed, the cash position will reach EUR1.3 billion.

And that's the end of my presentation.

## Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Bart and Christophe. Ladies and gentlemen. this concludes the introduction and I would now like to open the questions and answers session. I'm going to ask you to limit yourself to three questions to allow everybody online to ask questions. Operator.

# Questions And Answers

## Operator

Ladies and gentlemen, we will now begin our Q&A session. (Operator Instructions) Farooq Hanif, Morgan Stanley.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Just a couple of questions. Firstly, your net cash position growth is, obviously, very impressive, given where you were in the middle of 2011. And I was just wondering, looking forward, how do you expect that to grow; if you take your anticipated internal dividends, and then your likely dividend policy, how do you think, qualitatively, that cash position will grow? And what would you say is an ideal level of general account cash that you would like to keep for general liquidity purposes? That's question one.

And then on question two, your Life inflows have obviously suffered this year because of the market environment, but you do mention greater competition from banks. And I was wondering whether you had any plans in place to actually, I guess, in some of your markets, is it possible for you to set up banking style products and bring in, in a sense, deposits, or shadow banking assets, and then put those into in to life policies? Is there anything that you can do together with your partners or, instead of your partner, to try and offset competition from banks in this environment? Thank you.

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

Okay, maybe the first question, net cash position. So as Christophe mentioned, we expect it will be at the end of March, when the cash will come in from the deal with BNP on the CASHES, that position will be somewhere at EUR1.3 billion. Of course, there will be as you say[ph] the dividend that we announced bringing it down to some EUR1.1 billion. And then, I think, we have to reply what we said in 2009, that what we have to invest will be invested in order of priority.

First of all, we would look to whether there are good opportunities to invest in further development of the business. Second, whether it's the moment to give money back to shareholders, or third priority, to use it to buy back debt. And each time, we will have to assess and take into account opportunities in the market, circumstances, and what is the optimal use, as we believe we have shown over the past two years.

There is nothing like a kind of, I would say, a minimal amount. The only thing we can say is that having cash is always an additional guarantee in this still volatile market. We have no deliberate plan today to say how this will be deployed. We, of course, make projections over longer periods, taking into account our expectations from the businesses and also, potential, let's say, interventions that would be asked, like referring to the deal with BNP where we said that, for the remaining CASHES, this may be an opportunity that BNP will do additional action on that. And that's, of course, something where we'll have to sort out some cash.

The second question, I think, first of all, we tried to mitigate the impact of higher competition from banks on the shorter term savings products[ph], because it's there we have -- not only we, but all the industry, in most of the regions has to live today with higher competition also due to the lower interest rates.

What we first of all do to mitigate that higher pressure is to increase the emphasis on Non-Life, and on risk from mortgage-related insurance contracts. And, of course, also to focus a bit more on the medium/longer term, where we will have to review, and that's underway, the range of products in order to include more risk-related elements in our products, which is part of our core business.

Or course, in some areas like Asia, the story's a bit different. There is competition from banks, but there is still this enormous growth potential, which means that we also our look into[ph] profitability criteria has moved last year, and we will continue to move more into regular premiums[ph] where you (technical difficulty) business, where we are also much more in (technical difficulty) that make it as well for the consumers' interest, but also for the insurer increased profitability of the product.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you very much.

## Operator

Robin Buckley, Deutsche Bank.

## Q - Robin Buckley {BIO 3596512 <GO>}

Just a few questions, if I could, please? First of all, just in terms of what you were saying about how you were going to utilize the cash. Could you just confirm that, when you are looking at it, you're basically just doing a return on investment type of calculation to determine whether you'll give it back to shareholders or invest in the business? And in terms of investing in the business, what particular areas, at the moment, do you think are attractive to you? So that's the first question.

And the second question is, could you just clarify, within the Q4 results, how much of the capital gains were taken in the Belgium Life business and the Belgium Non-Life business, in terms of the impact on the net result?

And the final question, again, just on the Belgium Life business, could you just talk about what you're seeing there in terms of underlying margins? I think, previously, you've talked about pricing for 100 basis point margin. Are you able to get that? And, I guess, what are your expectations over the next year or two? Thank you, very much.

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

Okay, the first question, so we can, indeed, reconfirm our criteria. When referring to new activities, Insurance activities, I would say it's first of all about a market where we can have a top position. An example is Non-Life AKSigorta in Turkey, a top four, in the meantime (technical difficulty).

Secondly, it has to be a meaningful contribution to the Group, in terms of value and net profit.

Thirdly, a return on equity of 11% plus; and in markets where, of course, the volatility is higher, this has to be higher than 11%. And this will be what we will maintain as criteria for the future.

So it means that, at this moment, it's a clear preference from us but, of course, not excluding other actions as per your preference[ph].

If we look to a business to see where we can strengthen activities where we are already active, because we have the knowledge of the market; you have already have a starting position; you can count on synergies. If it's about new markets, it really has to be rather simply delivering the three criteria we refer to.

Maybe, Christophe, to take the second question regarding --?

## A - Christophe Boizard {BIO 15390084 <GO>}

Regarding the capital gain. So first, if you refer to slide 18 of the presentation, so you have a capital gain on an annual basis, EUR144 million for Q4.

We said, in the presentation, that most of the capital gains were here during Q4. And it is worth following on Life, it is EUR82 million, and Non-Life EUR4 million; so EUR86 million in total, compared with EUR144 million for the whole year.

## Q - Robin Buckley {BIO 3596512 <GO>}

That's very bad[ph] that amount, EUR86 million in the Fourth Quarter to Belgium. Is that what you said?

## A - Christophe Boizard {BIO 15390084 <GO>}

Yes, EUR82 million for Life, EUR4 million for Non-Life, and that's EUR86 million for Q4 out of a total for the whole year of EUR144 million.

## Q - Robin Buckley {BIO 3596512 <GO>}

Okay, that's clear, thank you.

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

And to complement on the cap gains, Belgium has been part of Real Estate cap gains that are expected to (technical difficulty) year on year. So it's EUR27 million for the Real Estate capital gains.

## Q - Robin Buckley {BIO 3596512 <GO>}

Sorry, how much was that number?

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

EUR27 million, two seven.

## Q - Robin Buckley {BIO 3596512 <GO>}

EUR27 million, thank you.

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

The last question was about the (technical difficulty) in terms of Life in Belgium. Let's say that we reduced our interest rate, so, currently, we still have a product[ph], as you know with 0% guarantee, and then the others are more between 0.25% and 0.75%. That should give us an investment margin of some 90 basis points.

## Q - Robin Buckley {BIO 3596512 <GO>}

Okay, so 90 basis points is what you saw in 2011. And you expect that to be maintained in 2012?

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

Let's say we price in order to get that margin, yes.

## Q - Robin Buckley {BIO 3596512 <GO>}

Okay, thank you.

## Operator

Marcus Rivaldi, Morgan Stanley.

## Q - Marcus Rivaldi {BIO 5739374 <GO>}

Three questions from me, please. First of all, in regarding the legal legacy risks in the business; obviously, you talked about some positive results this year, some maybe less positive results. Do you expect to still retain an emphasis on that in the accounts from the auditors this year?

And is there any way in which you can bring this to some form of conclusion by some sort of negotiated settlement with parties that are engaged in some of the legal proceedings against you, in your former guise as being the Fortis business?

Secondly, you talked just a bit earlier on about priorities for using excess cash. I think you used buying back debt was number three on your list of priorities. Was that purposely at number three, or was it just one of the options that you're considering?

And then thirdly, obviously, you've made a big move in terms of de-risking your sovereign portfolio over the last year and beyond. Given, maybe, terror risks in Europe are receding, is there any point at which you would think about re-risking with some of those sovereigns? Thank you.

## A - Unidentified Speaker

Perhaps I shall take the first question on the legal part. So the two elements in your question one will that remain important attention point, and to which extent can that be reflected in the accounts. And the second part was, is there a possibility to reach some form of a conclusion?

As for the first part, I think legacy issues, indeed, will remain an important element over the next months, with possible further clarifications. But reflecting something in the books is extremely difficult. There is not yet established that there is damage. There is not yet established which extent there is a link and how big it is. So it's virtually impossible to do so.

As for the possible settlement, that also is very difficult in the current circumstances. There's still a number of claims outstanding and not yet clarified. So I'm afraid that this will still remain a potential issue for the future.

As for the second question --

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

It's about priorities for use of cash. First of all, when you refer to share buyback, the operation we did last year, we will first, as you know, ask shareholders do agree to cancel the current treasury shares. We will then ask, and it's a procedure that we do every year, for authorized capital. So to be able, if there would be an opportunity in the future to do a similar operation, that will bring us to the end of April.

It's, of course, up to the Board, suppose that the shareholders agree with those requests, to assess, on proposal also the management, whether there is time for a new buyback.

But so not forget that, in the order of priorities, we did not put a buyback as the highest priority. It has been launched last year, because at that moment, we had a very comfortable position on the solvency, on our cash. We had a very low share price, really below the intrinsic value of the Company.

So we will continue to, every time, compare the risk return profiles of the three kinds of options; business, shareholders or debt holders.

## Q - Marcus Rivaldi {BIO 5739374 <GO>}

Just to clarify, you obviously were talking more about the shares there, would you suggest, therefore, that the debt buyback option would be still your number three on that list?

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

It's still number three, as giving back to shareholders was also number two on our list but we, nevertheless, decided in August last year to make it priority one. So it's not because return to debt holder is number three that it is forever impossible, but this is, in any case, our priority; business, shareholders, debt holders. And very specific circumstances may change over time this priority, so it will depend clearly, also, on prices of securities and, also, opportunities with respect to business of interesting targets or not.

## Q - Marcus Rivaldi {BIO 5739374 <GO>}

Okay, thank you.

## A - Christophe Boizard {BIO 15390084 <GO>}

The question on the re-risking of the balance sheet, and if you take the slide 24 of the presentation you have the breakdown of the assets. A few additional comments before giving you the answer; so equity 3%, we should say that it's even lower, because in the equities a part of this allocation had some related[ph] companies in it, so we are at, let's say, less than 2% equities. And you are right; the question of re-risking the asset portfolio is now present in our mind.

So we are working on the two things. First, we would like to create a new asset class, whose name[ph] is corporate loans, and we are actively working with banks to take part, if we can say part, of their portfolio of loans; under certain conditions partner (inaudible) we'll see that. But we think that it's an attractive way of increasing the yield of the portfolio. So answer number one, corporate loans 5% target asset allocation, but that's under study, and I think we will be, next quarter, in a position to give you more info about that.

The second question, obviously, is as whether we should increase the equity allocation, I think the answer is yes, in the medium/long term. And the question is, where should we enter the market, and that's precisely the question that we have. Where should we enter the market, what is the right entry level? So number one, corporate loans, number two, equity allocation maybe during the year 2012.

## Q - Marcus Rivaldi {BIO 5739374 <GO>}

And just to be clear, the idea of expanding exposure to say Italian sovereign debt, that's just totally off the table?

## A - Christophe Boizard {BIO 15390084 <GO>}

No, no we don't want to expand the exposure to sovereign bonds; no, not at all.

## Q - Marcus Rivaldi {BIO 5739374 <GO>}

Okay, thank you.

## Operator

William Elderkin, Societe Generale.

## Q - William Elderkin {BIO 3349136 <GO>}

Two or three questions, please. First of all, just coming back to the cash pile, does the Fortis Bank put option, in terms of their minority stake, have any bearing on how you may or may not use those cash resources that you have?

Second question is, if I look at your accounting classifications for your Belgian Government bonds, if I'm reading the statement correctly, you made quite a substantial allocation of Belgian Government debt into Held to Maturity. If that's correct, why have you done that?

And thirdly, can you give us a sense of where you think you can get the combined ratios to in your core businesses in Belgium and the UK?

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

Okay, the first question, did I understand it correctly, that it is about the potential use of cash related to the put option? First of all, let's be very clear on that. In 2009, the agreement that we made between parties were a distribution agreement between the Belgian bank of BNP and AG Insurance has been concluded with a final date 2020. And there is a possibility to cancel that distribution agreement as of January 1, 2021, if there is a notice -- with a notice period of two years.

So as of January 1, 2018, contracts could be cancelled. I think this is what we always announced to the market. Nevertheless, there is also the same agreement from 2009; a strong willingness of both parties; there (technical difficulty) doubt on that, to extend the distribution agreement (technical difficulty) Luxemburg, and so we have no indications at all that (technical difficulty) options (inaudible) scenario.

## Operator

Sorry for interrupting, everybody, we will stop this conference call. We will place everybody in musical hold, and we will reconnect all speakers into the conference call. We are sorry for this interruption, so please hold the line, and we will be right back. Thank you.

## A - Frank Vandenborre {BIO 15168443 <GO>}

Okay, apologies from our side as well.

## A - Christophe Boizard {BIO 15390084 <GO>}

Okay, so I will answer the question about the Held to Maturity, so as you rightly saw on slide 25, we decided to book some Belgian bonds as Held to Maturity. We put EUR4.4 billion Held to Maturity and this, first, it's a small amount, compared to the total amount of the sovereign bond portfolio, because the total amount is EUR31.5 million. We decided to do that, because the volatility as very high, and we wanted to reduce the volatility.

So we did that at the beginning of December, where the average yield on the Belgian bonds was above 4%. Now the yields are below, which means that, on this Held to Maturity allocation, we have unrealized capital gains. It was not too high the losses, but it was more to reduce volatility. Really, it shows, obviously, the longest maturities, and for these longest maturities we thought that it was the right choice. It was a bond for the Workmen's Compensation lines of business, and this volatility was a problem. But we have a positive unrealized capital gain on this, as our yields are well below 4% now at the end[ph].

## A - Unidentified Speaker

Perhaps add to the comment of Christophe, to avoid all that, what you see is, under the IFRS balance sheet, you see our liabilities are not mark-to-market. But the assets are, and in the employee benefits area, we have very, very long maturities, and we thought that it was most appropriate to put those Belgian bonds that are linked to those liabilities, to put them also in Held to Maturity, because this is a long-term stable business. And therefore, the accounting hasn't changed.

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

Okay, for the third question, combined ratios, what the targets are in Belgium/UK, we say we always target combined ratios under 100%, without specifically saying it has to be 98% to 97%. This remains today our target, and as you have seen, we are almost there in all segments. In Belgium, if we take out Workmen's Compensation, we are also under 100%. I would say that the two areas of attention where we still have to do considerable improvements is in Belgium Workmen's Compensation, and in Belgium Fire, because Motor[ph] in Belgium was around 92%. These are the two areas of attention.

I think, again, additional appropriate actions have been taken at the end of last year, and beginning of this year, with not only price increases, but also pruning of the portfolio to reach that level. And in all the other areas, we will continue to further reduce our combined ratios, because every percent we can make has a rather important impact, not only on P&L but also, of course, on the return of that business.

Asia is, this year, slightly above 100%, but there is some impact from the Thai floods, and that's the only reason, the only explanation to give.

## Operator

Albert Ploegh, ING.

## Q - Albert Ploegh {BIO 3151309 <GO>}

Three questions from my side. The first one is on the underlying profit trend. If I look at my own numbers, it seems that you're closer now, for the Insurance side, close to EUR100 million profit for the second half per quarter, compared to EUR140 million or so for the first half. Of course, there are many deltas that might explain this, but can you give some feeling for what you believe the run rate could be in 2012, and how quickly you can return to EUR140 million to EUR150 million per quarter?

Second question is on the Non-Life results. Looking through the press release, it seemed that there was a bit more reserves strengthening done on prior year claims? Can you confirm that, and maybe quantify that a bit, how that might have impacted also the Q4 results?

And the last question is on Solvency II. You mentioned you're working on it. Can you maybe give some color on what your expectations currently are, and also, in relation to your investment portfolio, how that might change, going forwards? Thank you.

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

Okay. I would say, for the first question, you could say that the underlying result for H1 could be estimated at some EUR270 million, H2 some EUR200 million, so together EUR470 million. We would say it's about EUR120 million, EUR125 million per quarter. And I think that is a fair point of reference.

The second question was about combined ratios and reserves, strengthening or not. If you look at our two biggest markets, where, of course, the impact is the highest, and I look to Belgium, we see that the releases over the full year have been a bit lower than 6%, 5.9%, compared to 5.2% last year. And if you go back, it must be around 6%, as an average over the last six years. And in the first half of the year, it was 7.3%. In the second half, it was 4.6%. So that's not been impacting specifically positively the Second Quarter. So it is based on our sustained methodology of estimating reserves.

In the UK, it's even the opposite. Reserves have been strengthened already, since the beginning of the year. This may be due to fire and household insurance. So for the full year, there has been a strengthening of reserves for prior years with 2.5%, compared to a small release of 0.6% in 2010, and the releases were more about 2.5% in the years before. Sorry, 1.1% last year, compared to this year, 2.5% strengthening of reserves. And also there, the Q4 has been marked by the 5.3% strengthening of reserves for prior years. So I would say it certainly has a conservative side.

Then we had a last question --

## A - Unidentified Speaker

Solvency II; as you know, a couple of issues are still open there, and they're not the least, and should have been settled by the Omnibus II directive, which is still not voted and hence, could not be transposed into national law, and hence, you cannot yet perceive completely what the outcome is going to be.

The elements of uncertainty are contract boundaries. You've seen counter-cyclical premium, the matching premium, all those elements that will allow us to fine-tune better the capital requirements to the effective liabilities.

And as to the possible investments for the future, you've seen that there have been some adjustments to the equities. Basically, still 39%, 49%, capital charge, but increasing, depending on the quality. You've seen the changes brought through[ph] corporate debt also putting more capital charges on the lower-rated bonds. So generically, you can say that, for an insurer, you have to have very, very good reasons to invest into those assets, which do not mean that we would not do that, but we would have to have a good diversification.

So it's still a lot of uncertainty and, as Bart mentioned, that uncertainty, of course, is impacting also our own planning.

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

Maybe an additional point, not on solvency, but on the first question, regarding the underlying profit, so what we gave is a bit what it has been estimated for last year. I think some elements to take into account is that 2011, compared to 2010, has been impacted in Belgium by an additional Belgian deposit guarantee, with a cost for Ageas of EUR5 million for the[ph] quarter. There is also a rather important cash position at the end of the year, so this, of course, has been partly, and will be reinvested, and give higher yields than the almost no yields we had on it in part of last year.

And finally, the yield on Real Estate may also increase, because you can read somewhere in the documents that the unrealized gains on Real Estate moved up to EUR1 billion, which would, over time, flow back through P&L. And the 2011 capital gains we refer to of EUR30 million of Real Estate were less than the yearly amortization of the historic cost price. So there, also, you can expect some improvements in the future.

## Operator

Farooq Hanif, Morgan Stanley.

## Q - Farooq Hanif {BIO 4780978 <GO>}

So taking my second question, I just wanted to ask about the mandatory convertible securities, could you give us some update on what might be the next event, or expectation of an event, or a decision on your kind of[ph] compensation. Thank you.

## A - Unidentified Speaker

Farooq, could you please explain a bit clearer, because I don't understand the question there?

## Q - Farooq Hanif {BIO 4780978 <GO>}

Sorry, I mean on the mandatory convertible compensation that you're seeking, could you give us an update please? Thank you.

## A - Unidentified Speaker

If I understand your question correctly, and, sorry, the line is not that good quality, but if I understand your question correctly, it's about what would be the possible outcome of the discussions on the mandatory convertible security. I think, as you know, we are in legal proceedings, and it's too early to say what they would lead to. There is nothing new, at this moment, to communicate on that line.

## Q - Farooq Hanif {BIO 4780978 <GO>}

I'll just try asking again. My question was more about when you expect further information on this?

## A - Unidentified Speaker

We have an FCC decision; that would be coming up in the next months. So it would be in the first half of 2012, if everything goes well, that we will have more visibility on the evolution.

## Operator

We have no more questions. (Operator Instructions) Marcus Rivaldi, Morgan Stanley.

## Q - Marcus Rivaldi {BIO 5739374 <GO>}

Talking to[ph] the changing treatment of this chunk of Belgian sovereigns, does that mean, and I appreciate you're obviously in a unrealized gain position here, if your marking these to market, does this mean that this treatment will be reflected in your Insurance company solvency calculation approach, going forward, as well? I think, in the past, you've actually stripped out any unrealized losses, or any unrealized movements, frankly, from that calculation. Thank you.

## A - Unidentified Speaker

I think you have to answer it in two layers there. If you look at the local solvency, you know that, in Belgium, there is a treatment on that local solvency that basically means that unrealized cap gains are netted with unrealized cap losses, and that there is a floor[ph].

So there will be a correction, but there will be an impact, you could say it like that, but it will not be different from the past. As under IFRS, it will be stripped out from the net equity and the solvency calculations indeed.

## Q - Marcus Rivaldi {BIO 5739374 <GO>}

So just to clarify, because you obviously had a slightly modified approach to calculating your solvency at the operating company level. Will that now reflect this change to the IFRS approach?

## A - Unidentified Speaker

I'm hesitating a bit about the exact nature of your question. I think that you, at this moment in time, will not see a basic change. If the spreads for Belgium would widen dramatically, then you would have an impact, yes.

## Q - Marcus Rivaldi {BIO 5739374 <GO>}

Okay. Thank you.

## A - Unidentified Speaker

So if there are no more questions, perhaps I can pass the floor to Bart for his closing remarks?

## Operator

There is still one question. Do we still have time for questions?

## A - Frank Vandenborre {BIO 15168443 <GO>}

Last one.

## Operator

William Hawkins.

## Q - William Hawkins {BIO 1822411 <GO>}

I just wanted to come back to the goodwill charge for Hong Kong, and forgive me if this is buried in the detail, but can you just remind us how much goodwill is now left outstanding in Hong Kong; what the underlying earnings were in Hong Kong before the charge? And whether this impairment also means that you're also going to be allocating more capital to the operation, or if it's purely a reflection of below a future profitability? Thank you.

## A - Christophe Boizard {BIO 15390084 <GO>}

So the goodwill in Hong Kong was EUR300 million, and what is left is EUR200 million, roughly. And this is due to the low interest rate environment, and that's the main reason. Otherwise, we have kept to the growth rate at about 10%, 9.93% to be precise; actualization rate at 10% as well.

So from a pure growth perspective, we are still with a fast-growing country, with 10%.

## Q - William Hawkins {BIO 1822411 <GO>}

And what were the earnings, Christophe, for the region, excluding that?

## A - Christophe Boizard {BIO 15390084 <GO>}

Happening[ph] in Asia, you mean?

## Q - William Hawkins {BIO 1822411 <GO>}

No, for Hong Kong.

## A - Christophe Boizard {BIO 15390084 <GO>}

For Hong Kong, I don't know if we have the figures --

## Q - William Hawkins {BIO 1822411 <GO>}

Okay, I'll follow up afterwards, thank you.

## A - Christophe Boizard {BIO 15390084 <GO>}

Something about EUR15 million.

## Q - William Hawkins {BIO 1822411 <GO>}

15?

## A - Christophe Boizard {BIO 15390084 <GO>}

Yes.

## Q - William Hawkins {BIO 1822411 <GO>}

Thank you, very much.

## Operator

Gentlemen, there are currently no more questions, thank you.

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

Okay, ladies and gentlemen. thank you for your questions; and also excuse us for the technical issues that we had to live with.

To end the call, I would like to summarize the main message for today, very shortly. The 2011 net results ended negatively, but underlying it has shown resilience, driven by a good performance in Non-Life.

Commercially, the year has been very difficult, especially in the Life savings market in Europe. But in line with our strategy, our Non-Life business has increased, while Asia[ph] has captive inflows levels stable, compared to a very strong 2010. More importantly, our market shares have remained almost intact.

Thirdly, we have remained disciplined in the execution of our strategy. The portfolio has been further streamlined, while we have realized some selective expansion to strengthen certain activities.

Progress with respect to the legacies is important, that's why, obviously, we can always hope for more, but bit by bit, things are being solved. And lastly, we have shown commitment to our disciplined use of capital; the decision to pay a dividend and the share buyback program executed in 2011 proved this.

With these messages, I'd like to end our call, and would like to thank you for your support and interest in the Company. Do not hesitate to contact our investor relations team, should you have outstanding questions.

Thank you for your time, and I would like to wish you a very nice day. Bye.

## Operator

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