Q1 2012 Earnings Call

Company Participants

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

Other Participants

- Albert Ploegh, Analyst
- Benoit Petrarque, Analyst
- David Andridge, Analyst
- Francois Boissin, Analyst
- Michael Huttner, Analyst
- Robin Buckley, Analyst
- William Elderkin, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Ageas call for analysts and institutional investors. I am pleased to present Bart De Smet, CEO, and Christophe Boizard, CFO.

(operator instructions) Gentlemen, please begin.

Bart De Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you, all, for dialing in to this call and for being with us for the presentation of the three months 2012 results of Ageas.

As usual, I am joined in the room by my colleagues of the executive committee, Christophe Boizard and Kurt De Schepper, and our investor relations team. I will take you briefly through the main highlights of the past quarter and leave sufficient time for Q&A.

Ladies and gentlemen. our Insurance activities started well in 2012, with improved results in inflows in nearly all segments, but especially in Asia. Both the performance of our Life and Non-Life activities evolved as expected.

The net result of our Insurance activities improved by 15%, compared to last year, to EUR155 million. The positive variance was mainly driven by our Asian segment, up more than 40% to EUR43 million.

Life was up by almost 20%, with good margins, but also overall higher net realized capital gains.

The segment's Non-Life and Other remained in line with last year, with a combined ratio of 101.9%, slightly up and mainly as a result of the winter-related events in the Fire activities in Belgium.

The inflows in the First Quarter increased by 17%, year on year, to reach EUR5.7 billion, with grow reported across Life and Non-Life at 14% and 27% respectively.

For the first time ever, as you will see, Asia past the EUR2 billion by-quarter level. Of course, this includes the contribution of our non-consolidated partnerships, which accounted for a large part of the increase.

In total, the non-consolidated partnerships at 100% represented EUR2.8 billion of total inflows, about half of our reported inflow levels. This contribution was boosted by the inclusion of the new partnerships in Turkey in Non-Life and in Luxembourg in Life. On slide 4, you will find the full breakdown of inflows by country.

At the Group level, we reported the net negative result of EUR84 million, with a net loss in the General Account of EUR239 million, and EUR213 million of the latter is related to the legacies.

Finally, as a key message, our balance sheet has remained strong, with the shareholders' equity of EUR3.48 per share, and a net cash position in the General Account of EUR1.3 billion as at March 31.

The solvency levels remain stable and strong as well, compared to end 2011, and are at 207% for our Insurance activities, 237% if we include the General Account.

Moving to slide five and the subsequent slides, you will find the traditional details on the performance of the various Insurance activities. The net result of EUR155 million in Insurance breaks down into EUR126 million in Life, EUR26 million in Non-Life, and EUR3 million in Other.

The Life performance is up 19%, supported by better financial margins in Belgium, and strong results in Asia across all countries.

Non-Life was slightly up, EUR1 million, with an improved result in the UK compensating for a lower result in Belgium. The UK activities benefited as well from some capital gains, while the result in Belgium remained below expectations, suffering from more claims costs in Fire and less favorable results in Motor. The contribution from Asia and Continental Europe remained steady.

The segment, Other Insurance, including our UK retail distribution activities, saw a decline in the net result from EUR4 million to EUR3 million, with revenues up 8%. These figures underline the tough and competitive retail environment in UK, linked as well to the general economic conditions.

Focusing now on our four segments, and starting with Belgium, I would highlight the following. Inflows were satisfactory at EUR1.8 billion, with Non-Life up 5%, and Life slightly down 4%.

The sales in Life are good, taking into account the continuing low interest environment, and the fact that we benefited from focused commercial campaigns last year. In Non-Life, premiums increased across all businesses, but especially in Fire.

Net profits remained solid at EUR78 million, with the Life result up to EUR73 million, fueled by better investment margin, and Non-Life down to EUR5 million.

The picture here is mixed with a better operating performance in Workmen's Compensation offset by lower results in Fire and Motor, as already mentioned.

I'd like to highlight here as well our decision to review the calculation methodology of the combined ratios to bring them more into line with market practices for Non-Life products, with discounted insurance liabilities, in Disability, and Workmen's Compensation. This impacted, especially, the Belgian segment.

At total Ageas level, the change had a positive impact on the combined ratio of the past quarter of 0.9%. You will find a detailed explanation on this on slide 10 of the pack. It also implies that we will no longer report, in the future, a combined ratio excluding Workmen's Compensation, and the figures for previous year have been restated.

In the United Kingdom, Non-Life gross written premium increased further to EUR534 million this quarter, driven by good growth in both personal and commercial lines, and a continued growth from Tesco underwriting.

The total net result improved from EUR5 million to EUR17 million this year, fueled by Non-Life. The key explanatory factors were the continuing improvement in Motor, together with net realized capital gains, offsetting seasonal claims in Household related to winter weather.

In UK, the combined ratio improved substantially, from 106% to 102.3%, thanks to Motor and Household.

This brings me to Continental Europe, where we also saw a sustained net profit, fuelled especially by good Non-Life performance. The total inflow levels were up to EUR1.1 billion due, to a large extent, by the inclusion of the partnership in Turkey and Luxembourg, and increasing the inflows compared to last year by more than EUR500 million.

This masked the lower inflows in Portugal, which benefitted throughout last year from unit-linked campaigns, which were timed to end this year in April and haven't been counted yet in the First Quarter's inflows.

The net result improved to EUR17 million, with higher results in Non-Life compensating for the small decrease in Life.

And then, finally, Asia. As already indicated, this segment did extremely well, with excellent inflows exceeding EUR2 billion for the first time ever, and also a net profit up to EUR43 million.

We are particularly pleased with the high quality of inflows, reflecting the special focus we have installed last year on regular premiums. Recurring premiums in the First Quarter accounted for roughly 70% of total inflows, with a noticeable pick up in sales through the bank channels.

Other positives included double-digit growth percentages in all countries. The net profit improved, especially thanks to the Life businesses, as a result of further organic growth in the underlying businesses, but also as a result of some higher capital gains, and also few positive results[ph].

Ladies and gentlemen, I would like now to hand over to Christophe to take you briefly through the General Account.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart. So, ladies and gentlemen. I am now on slide 11 and 12, to give you some explanation about the General Account. As already mentioned earlier in the presentation, the First Quarter's result of the General Account showed a loss of EUR239 million, of which EUR213 million is explained by the legacy issues.

This can be broken down by the negative impact of EUR132 million related to the settlement with BNP Paribas and Fortis Bank on the RPN(I) and the Tier 1 Instrument, as already announced on February 7 of this year; we released several press releases at the moment of the transaction.

Furthermore, we have a charge of EUR191 million related to the lower value of the call option on the BNP Paribas shares. This reflects the decrease in implied volatility, from 49% at the end of 2011 to 33% at the end of the quarter. At the end of March, the value of the call option amounted to EUR204 million.

These negative elements were partly offset by a positive result of EUR112 million on our stake in Royal Park Investments, which is now in our book at EUR894 million.

You will remember that when we presented the result for the 2011 year end, we already gave you some hints about the fact that RPI would, very likely, show a recovery in the First Quarter of 2012, and that is the case with this good result of EUR112 million.

So why is that? We benefitted from higher mark-to-market revaluation of the investment portfolio. If we take the indices based on the US real estate CDO, things that are in the RPI portfolio, we have an increase of about 8%.

On slide 13, you have the net cash position. This net cash position increased to EUR1.3 billion at the end of March, this was the result of the settlement of the BNP Paribas transaction, improving our net cash position from the EUR700 million we had at the end of last year to the EUR1.3 billion. But this was expected; we mentioned this in the press release when we disclosed the transaction with BNP Paribas.

One needs to take into account, though, that the dividend payment at the end of May will reduce the position by EUR200 million. So we will have EUR1.1 billion at the end of May.

If we go to slide 14, no comment, apart from the revaluation of the put option, the plus EUR172 million. You remember that we recognized this put for the first time at the end of last year. We have to update this every quarter.

There is no impact on the P&L, but we have to review the valuation of the two components; the present value of the market value of the 25% of AG Insurance, and to review and to take into account the write-down in the non-controlled interest. And the balance of these two elements gives this EUR172 million.

On slide 15, you have the solvency, but not much comment as it is unchanged.

And now I would like to go slide 16 and to give you some comments on the investment portfolio. The total value of our investment portfolio recorded as available for sale on the IFRS at fair value increased to EUR62.5 million (sic; see slide 16). This is largely due to higher market value following the overall yield and spread drop on both sovereigns and corporates.

Unrealized gains increased to EUR3.2 billion, almost double that what we had at the end of 2011. Most of this increase comes from our bond portfolio.

On slide 17, we give you the second important message with respect to our portfolio. We have further reduced our exposure to Southern European sovereigns to EUR2.3 billion, coming from EUR3 billion at the end of 2011. This is the amount at amortized cost after non-controlling interests; we have not given the fair value here, but the amortized costs as we think it is a better indicator.

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

Frank Vandenborre {BIO 15168443 <GO>}

Thank you, Christophe. Ladies and gentlemen. this concludes the introduction, and I would now like to hand over to the operator and open the call for questions. As usual, can you limit yourself to two or maximum three questions to allow everybody to ask questions? Thank you.

Questions And Answers

Operator

Thank you. Ladies and gentlemen. we will now begin our Q&A session. (Operator Instructions) Benoit Petrarque, Kepler Capital Markets.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Three questions from my side. First one is on the share buyback. We see you have now net cash of EUR1 billion after the payment of the dividend. Do you think you could restore[ph] share buyback, and what would be the trigger for you to start it again? Are you looking at macro; are you looking at specific items on Ageas' balance sheet, or --? I just wanted to have your thoughts on that one.

The second question is on the Belgian bonds which increased to EUR17.3 billion. I just wanted to know where you go on that, and how you look at it now. You talk about re-domestication in Belgian operations; do you try to better match the Belgian liabilities; do you have ratios in mind? Are you going to go further with investing in Belgian bonds?

And then finally on Royal Park Investments. This is the first time the debt figure I think is below the fair value, so is there any reason to become more optimistic on that one? Also, you just come back on the 8% revalue[ph] increase you mentioned; I don't really get it. Is that on the entire portfolio, on specific lines?

And then, could you remember me what is the accounting on Royal Park Investments under IFRS, because I was not aware that the investments were at fair value, and now you seem to mention that you have a positive mark-to-market in Q1. So if you could just remember a bit of the accounting there, thanks.

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

Okay, Benoit. I propose to take question one, and start with two, then hand shortly over to Kurt, our Risk Officer, and Christophe who will take the question on RPI.

The share buyback, I think we have to repeat what we've been saying in the past, is that we first of all, since the restart of the Company, always have given a lot of attention to the solvency position, and also the cash position. And that was the reason for the instigation[ph] of the concept of discretionary capital in order not to be obliged, one day, to rely too quickly to capital markets.

So the order of use of cash that we have announced in 2009, and I would say still stands, is first, invest in business, then give back to shareholders, and three, use it to pay back debt holders. If you look to reality of the three past years you can see that the balance between these three possibilities to use cash has been rather equal, although we have this priority.

We have almost spent about EUR750 million to EUR800 million for each of the three categories, and I think, with the buyback last year in August, we have shown that if an opportunity arises, that we have the flexibility and the willingness to revert the priorities that we have set in our strategic positioning.

As we have had with the shareholders' meeting of April, first of all the approval to cancel[ph] the shares we bought back last year, and also again a possibility to if one day management and Board decides that it is wise and the ideal moment to maybe launch a second buyback program, the flexibility is there.

But at this moment, we take into account a number of elements. First of all, we have to pay out of the EUR1.3 billion the dividend. We also have to keep some flexibility if there would be, maybe in the coming period, a further action to be taken in the remaining RPN(I) CASHES. As we all know, the circumstances are extremely volatile in financial markets, so we do not have any concrete decision to announce today about a buyback. This is something that we will, as we did last year, assess continuously.

The second question, the Belgian bonds, we indeed increased our position by, on the one hand, reducing further peripherals. We also did, in the First Quarter, some sales on short-term Belgian bonds to replace them by longer ones in order to compensate the duration gap caused by selling longer Italian and Spanish bonds. We also sold some Dutch and French bonds.

So we have, of course, internal limits in the sense that we cannot invest in Belgian bonds until, let's say, 50%/60% of our assets. We have no pressure at all from the Belgian State, so I would say this is really a decision we have taken in full autonomy, and it will stay like that.

Kurt, do you want to add something?

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

I think Bart correctly mentioned the fact that we try to concentrate some of our investments in our specific liability countries. That's true for Portugal; the same will apply to Belgium. There are a couple of elements there that play; for one, you know that if you look at a yield compared to risk that that, perhaps[ph] with those liabilities, appear interesting.

Secondly, and as mentioned before, there is a link in many of our contracts of the surrender value to the behavior of the Belgian bonds. So in terms of matching, that is a good match. And finally, I think we can say that we have a good grasp of what the Belgian macro risk is.

Now as Bart mentioned, we do not allow limited numbers. We are close to the maximum. We review that, given the macro circumstances, things that are happening around us, and we'll see how things evolve. Up to now, if we look at market value, that seems to have been a very good decision.

Q - Benoit Petrarque {BIO 15997668 <GO>}

To come back on the 50%/60% of the assets, is that on Belgian assets only, or is that on the entire portfolio?

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

The number that Bart mentioned was just a limit. We have not communicated on our exact limits; it's lower than the 50%/60% that was mentioned now. You can say that, if we look at the current situation, we are close to the limits we used to apply.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Okay.

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

And then the last one, the RPI?

A - Christophe Boizard {BIO 15390084 <GO>}

On RPI. You have more detail on slide 40 of the presentation, that's the usual slide where you have the KPI, you are right that we have good results, and we are more optimistic on RPI. We have registered some positive elements as the increase in value. The 8% I mentioned is an overall increase in the mark-to-market valuation of these instruments. Most of them are related to US financial instruments, but you have this kind of index on some websites.

But what I would like to highlight is the fact that, at the end of March, we were more or less at the top[ph], and since end of March there is no further increase. So we will see what the Second Quarter will give, but this was expected, as I mentioned in the presentation. We already said that when we presented the year 2000[ph] results.

Among the positive elements, you are right in when we read the slide 40 it is the first time that the fair value of the portfolio is above the outstanding debt. You remember that last time, when we presented 2011, it was exactly equal, and now we are well over -- well over by EUR500 million -- but we are on the right track, I would say.

Q - Benoit Petrarque {BIO 15997668 <GO>}

To come back on the 8%, the fair value on the IFRS was EUR6 billion last year. I think you had around EUR500 million of redemptions of principal, and now it's still the same level, it's around EUR6 billion fair value, because of these 8% value increase.

A - Christophe Boizard {BIO 15390084 <GO>}

You have two elements. The fact that you have some redemption, but the fact that you have increase this in the mark-to-market valuation, is the reason why you are still at EUR6 billion on fair value, but you have two opposite movements here.

And then I would like to give you some hints about the accounting, as you requested. You are right, that the change in fair value, the changes go through P&L, are recognized for P&L, but then you have an off-setting element, which is the impairment on the goodwill. So you have these two big elements.

If you want to have a very well-structured and precise explanation about the accounting, you should go to page 42 of the IFS; page 42, you have all the story. But you are right, the change in fair value goes through P&L.

Q - Benoit Petrarque {BIO 15997668 <GO>}

All right. Thank you, very much.

Operator

Robin Buckley, Deutsche Bank.

Q - Robin Buckley {BIO 3596512 <GO>}

Three questions, if I could, please. First of all, sorry just to come back to this question of the buyback, but following up on your answer there, there seem to be two issues that you're thinking about. Firstly, whether the opportunity to do the buyback is optimal; and I guess by that you're thinking of the share price and returns that you would generate from doing the buyback?

And then secondly, you were just talking about the potential other uses of the net cash proceeds. So I'm just trying to work out which one of those two options is weighing most in your mind. Is it you think that doing a buyback now's not attractive enough in terms of returns? Or that there are just these other things that you'd rather keep the cash for?

The second question is just, having looked through the results, and looked at the Continental European Non-Life result and the UK Other result, those continue to remain relatively small in absolute numbers.

Given this was where you have done some recent acquisitions, I was just wondering if you could perhaps comment on what the earnings for the Kwik-Fit Insurance, Castle Cover, and the AKSigorta acquisitions are, whether those continue to be on track, in terms of your plans, and how we should think about those earnings progressing in the future?

And then the final question is just related to the Non-Life operations, and I guess for change in methodology that you have in the calculation of a combined ratio. You used to speak about a 100% combined ratio target, so I was just wondering whether that target changes, given this methodology and, indeed, whether or not you think that's achievable for this year? Thank you, very much.

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

Okay. For the first question, I tend to repeat what I have said. But on the buyback I think the most important point in your question is the demand on what we think about potential other uses of cash. I think that was not the intention of my first answer; we still look at different possibilities. And I also pointed out in the very uncertain environment in the eurozone, and everything what happens overall in financial markets.

So we will take into account, and I think it's, at this moment today, we are in an environment where having some flexibility with cash is certainly, let's say, a stronger point than[ph] being short in cash. So we will, the day when decision is taken whatsoever, it will be announced. But it is, as I mentioned, not today the decision to be taken or announced.

Two, Continental Europe, of course, as well, if you look to Continental Europe, where we are active in Non-Life, it's in Portugal where we see that we have an increase in volumes of some 5% where the market is more down. We have a more status quo in Italy, because we wanted to give priority to profitability instead of volumes. And coming from a combined that was in the beginning in above 105%, we are now in the lower 90%s.

In Turkey a bit the same, we had an acquisition not more than a year ago where the combines were about 100%. By the end of last year, it was slightly under 100%s; this was also the case in Q1. Volumes go up, so we always said that we tend to work towards in the 11-plus-% return on equity in a timeframe of some three years, and see, let's say today, no reason not to believe that that will be achievable.

In the UK then, the impact of the distribution, there we could say that the contribution we expected from Kwik-Fit, Castle Cover was triple. First of all, it's about an additional net profit from the activities itself; second one was an additional net profit generated by the fact that these distributors could generate additional business for Ageas Insurance Limited in the UK; and the third was that they committed to reduce overall overhead costs to create synergies.

And I would say for the first element, the increase of business and related net profit, is today not yet at the level of our expectations, because there has been rather some competition, and also a rather general economic difficult situation in the UK. So you could say the first part is not today at a level of what we expect. The two other ones, so the additional business to Ageas Insurance Limited, and a reduction of overall costs, has been realized, even a bit more than what we expected.

So I would say this is something where we are on schedule, but also there, the real return on equity achievements will be to be expected within two years.

So if we look to the overall picture, the decision to invest further in Non-Life has also the big ambition to create more diversification across Europe, we've seen too much. Also, the First Quarter is a sign of that, that climate events in UK and Belgium are rather correlated by being in more southern and eastern regions; we see that there is a diversification.

We also see an impact of different cycles in pricing and so, with the exception of Belgium and UK, where we still are a bit above 100%, we are rather below 100% in all the other areas where we are.

For the combined ratio, I would pass over to Christophe maybe to give some explanations on the restatement, the impact of it, and also the target for the future.

A - Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart. So on the combined ratio, the short answer is no, at this stage, we don't want to change the objective, and the longer answer is the following.

First, the number of lines of business which are concerned is very limited. So at the end, it is Workmen's Comp and some disability guarantee in the health lines of business, but it's very limited and it regards Belgium and, to a smaller extent, Portugal.

Why we won't change the objective is that, in the past, we used to communicate on combined ratio without Workmen's Comp included, because here we had this long duration in lines of business with a lot of effect coming from the discontinued reserves.

So what we trade is we've maintained the objective, but we include Workmen's Comp in the combined ratio. So all in all, we don't think that it was worth changing the objective.

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

Also to finish that point, I think that when we say that we target 100% combined ratio, that is a simple translation of our return on equity targets, so that remains unchanged at 11%. So it means that in the hard[ph] part of the cycle, normally you do better in a percent, so we still have some work to do as mentioned in the quarter also, to further improve the combined to reach the target of 100%. Once we are there, we see that we are really recurring[ph] able to reach that 100%; we do not exclude to put the ambition a bit lower.

Q - Robin Buckley {BIO 3596512 <GO>}

100% this year, is that still likely?

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

That's, in any case, the target we have set ourselves that we also use internally, towards all the (inaudible) in terms of short-term incentive and so the target did not change.

Because, as explained, it is due to weather events. It came in the First Quarter where we expect, in our target setting, some weather events and unfortunately, they came quickly early in the year and we hope that we will not pass our budget over the full year.

Q - Robin Buckley {BIO 3596512 <GO>}

That's great. Thank you, very much.

Operator

Michael Huttner, JPMorgan

Q - Michael Huttner {BIO 1556863 <GO>}

I had a couple of questions. One on the Life operating, which seems a great number, how much of that relates to the businesses where you can actually draw cash down, and how much is businesses where you have no influence on whether there can be dividend or limited influence? If you could maybe explain the dynamics there.

The second, in terms of court actions, can you just say where you are now? I'm new to the stock[ph], so I always struggle a bit. Is there anything pending, about to be announced, or big thing which has been announced which is being renegotiated; anything like that would be huge[ph]?

And then the last thing, on the put option, could you explain what this is? I understand you went for the accounting, but I don't actually understand what the underlying is. Does it have an impact on the cash you have, or is it a non-cash liability? I wasn't quite clear whether I should pencil it in as being a potential positive for your dividend or buyback ability. Thank you.

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

I'll take the first question. The second is for Kurt and the third will be taken by Christophe. If we look to the Life operations results, so the EUR126 million, EUR73 million of it is coming from Belgium, so this is one where we expect, on a recurring base, dividend upstream. Last year, it did not happen due to the Greek impairments.

We have EUR14 million coming out of Continental Europe; I would say a comparable situation. There is EUR39 million coming from Asia where, of course, part of the EUR39 million is our Hong Kong entity where, again, we have some more flexibility than in the four other joint ventures in Asia.

So I would say a big part of the Life profit is entities where the flexibility to upstream part of the result is rather realistic.

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

On the second question, Michael, the line was pretty bad; I understood that that was on our court actions. There, we had those recent judgments, I guess those are pretty clear. A number of them have been appealed.

As for things to come, things in court are always uncertain. I do not expect many, many changes. We think and we commented that in the presentation on page 20, we think that there may be an evolution of the FCC case. And perhaps in the investigation in Belgium, we could see something coming up before year end.

Then the third question, could you please repeat it? Was that on the RPN(I)?

Q - Michael Huttner {BIO 1556863 <GO>}

No, it wasn't the RPN(I). I think it's not. It's the EUR172 million you show in the roll-forward, what you call the revaluation put option. I didn't understand what it relates to, whether it's cash. I'm new to this, so anything which you could say would be very helpful. Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

This is explained at length in the IFS, and was one of the main topic of the closing of 2011. In a nutshell, we recognized here the put option that BNP Paribas has on the stake it has in AG Insurance, 25%.

And the recognition that we have in G Accounts is compulsory under the IFRS rules. And you have to consider that IFRS, in that case of option, imposes that you book as though the action is exercised.

So it means that, at the end of our agreement with Fortis Bank, we had to buy back the stake of 25% and, in that case, you have a change in the non-controlling interest.

Once again, the way it is recognized, it is as though the option is recognized. So in that case, you have to book a liability in your account corresponding to the net present value of what you will have to pay at this moment, and this is the market value at this moment.

Against this, you have a write-down on the non-controlled interest. And why do you have a difference, because the way the two components are evaluated are different.

On the liability, you are at the net present value of market value, so what we expect to pay at this moment. On the non-controlled interest, you follow the results of non-controlled interest, so you are on the shareholder value of AG, and the shareholder value went up in Q1 of 2011. It's the reason why you have this positive balance.

You should go to page 54 of the IFS, note 21; you will have all the explanation maybe more clearer than what I've given to you. But I've done my best to be short and to give the substance.

Q - Michael Huttner {BIO 1556863 <GO>}

Lovely. Thank you, so much.

Operator

William Elderkin, Societe Generale.

Q - William Elderkin {BIO 3349136 <GO>}

I've got three questions, please. First of all, could you just comment on the overall sustainability of the net profit in Insurance you've reported over the First Quarter, the EUR155 million? I can see there's a couple of small positives here and there, but particularly if you could comment in relation to a level of normalized gains we should expect coming through the Belgium Life business and particularly, perhaps, in relation to the accounting of the Property portfolio and unrealized gain that you have there?

Secondly, can you give us an update on the solvency of your Portuguese joint venture and how resilient you expect that solvency to be?

And finally, I just wondered whether you've been undertaking any contingency planning or stress testing in the event of a Greek exit from the euro, particularly given your still substantial southern European exposures?

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

Okay. The first point, the sustainability of Insurance profits. As you know, we do not give an outlook on profits, and I think it's also, in the current financial environment, quite difficult.

What you can say is, if you compare the First Quarter results to the ones we had a year ago, because with some of the comments we talked about higher capital gains and so on, you should see that the difference in net impact, compared to First Quarter last year, is about some EUR10 million.

So you can say, in Belgium, we have had a net impact of EUR2 million more net profit out of capital gains, compared to last year. In the UK it's about some EUR5 million, and you also have some EUR2 million in Asia.

So knowing that we also had cap gains a year ago, you could say that with EUR120 million, EUR125 million if we adjust for capital gains and weather[ph] costs you could set kind of an underlying result off Q1, being EUR85 million Life, EUR25 million Non-life, and EUR5 million in Other.

The second question was about solvency in Portugal. Kurt, could you update us.

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

The solvency in Portugal is at about 200% now; you know that in Portugal we put a significant amount of assets in held to maturity and so the valuation on that portfolio is not reflected in that number.

Overall, because of the evolution of the First Quarter, we say we see that the level of market values go up, compared to the cost factor[ph].

The stress testing on the Greek exit is a difficult one. Yes, we have been giving that some thought and, generically, we think that there will be an impact, but not something that would have a dramatic impact on the whole.

The numbers, as you know, we say that we do not take any remaining capital gains position when it's netted into accounting our solvency numbers, and please do note that the Greek exposure itself is virtually gone.

So it is about, what is the side effects, and you know as well as I know that it's very difficult to estimate that, but we're feeling pretty confident about the situation.

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

Maybe a point I forgot to answer in the first question was the treatment of real estate. We have real estate at amortized cost, so it means that you have, of course, the income from rents, but we also have every time the depreciation of the assets. So this is the reason why we have some EUR1 billion unrealized gains that you could say, over time, should be passing through P&L if we manage this portfolio in a dynamic way.

And so normally, every year, we expect a certain amount of capital gains to be realized on the real estate portfolio. In Q1 none of it has been included, because we did not sell any building of any importance.

The last question, Kurt, was more about the stress testing not only on the Greek exit, but also the other countries I understand, other peripherals.

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

Yes, the stress testing that we did was, indeed, make some calculation, some hypothesis what could be further impact and, in general, we consider that out portfolio is pretty balanced.

The big question is whether one moment in time would confronted with other defaults and then, of course, the scenario becomes very, very different.

I think that concludes my answer to the question.

Operator

Albert Ploegh, ING.

Q - Albert Ploegh {BIO 3151309 <GO>}

A few questions from my side. First one, to come back on the Royal Park Investments, I guess with the situation improving is there also maybe any opportunity maybe to sell your stake to a third party or to sell maybe part of your stake; is it something that may be on the agenda?

Second question is, you mentioned something briefly on the FCC situation, but also what's the situation with the mandatory convertible securities, with now elections coming up in the Netherlands. Will that have any impacts in terms of potential negotiations; do you expect delay there?

And my third question is on the equity portfolio of EUR2 billion; you said still fully un-hedged portfolio, or did you take our maybe some protection during the quarter?

And maybe one final comment to come back on the profit run rate, as I think you mentioned EUR115 million to EUR120 million in Q1 if you claim[ph] for capital gains. Is that a number you feel still comfortable with some kind of a run rate, or is there may be an exceptional strong Q1 still? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

I take the question on RPI. We don't want to sell or to review our stake for the simple fact that, in case we had discussion with a third party, it is obvious that the base of the negotiation will be the market value. So it means that we would lose most of the upside, which is represented by the goodwill, because what we want to achieve is to have recoverability[ph] value, which is much higher than the market value.

So as I said in my previous answer, we have some improvement, market value is above debts, but that is not sufficient. If we traded at market value, we would have a loss.

So I think it is too early to think of selling our stake in RPI. And what we would like to do is to further improve the situation in RPI, but there is no intention to sell at this moment.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay.

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

FCC, I think we also mentioned in the past that we, as well as our counterparties which are ABN AMRO, Dutch State, at the end would prefer a settlement compared to long-lasting legal procedures.

You have, of course, a number of outside elements that sometimes can impact that. One of them has been a number of Parliamentary discussions in the Netherlands with the famous Commission de Wit, having elections maybe also can influence that.

But I think it's also important to mention that, as of the end of last year, the management of all these files that the Dutch Government has taken initiative to intervene in the financial sector in the years 2008, has been, let's say, delegated to a kind of a more neutral body that is not immediately followed by the politicians. And okay, that probably could keep the directional thinking a bit away from the more emotional reactions around elections.

But as also mentioned in the documents, we continue in parallel the legal procedures, and so for the FCC it's maybe one of the files where we might expect some progress in the course of this year.

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

Now on the question on the equities, let me remind you, and you have the detail again on page 35, that in the EUR2 billion equities, what you could call true equities, equities and equity funds, represent more or less half of it, and there is a big chunk of real estate funds in there.

The equities are situated in the consolidated entities situated in Belgium where we run then to a protection of CPPI mechanisms, so we did not take any additional exposure there, or protection there.

We did take a hedge in our Asian exposure, and we think that with those, at this moment in time, we can stand some of the volatility.

As for the CPPI mechanism, I suppose that is a mechanism that is known to you; if required we can give more detail. But basically, it is a mechanism that makes that, when market goes down, you have an automatic selling process that starts up.

And then finally, perhaps last comment on equities, you know our accounting mechanism, where when you are below the water since a year or below 25% that you have an impact. So as time goes by, we may see some volatility coming up there.

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

The last question was whether the Non-Life result that we referred to, the EUR120 million, EUR125 million, is a run rate. I would say, yes. But, like always, we cannot predict everything that could happen. I think, from the positive side, you can have, indeed, the potential to improve further what is the ambition in Non-Life results.

There is, of course, and I think to the remark from Kurt, that could be depending on the devolution of the stock markets, additional impairments on equities. But there are, of course, also still capital gains on real estate that our budget that are not realized yet. So we believe that the run rate is rather reliable.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you, very much, that's clear.

Operator

Francois Boissin, Exane BNP Paribas.

Q - Francois Boissin {BIO 16045021 <GO>}

A few questions, please. Could you give us the actual amounts of realized capital gains by entity in Q1?

Second question would be, what was the impact in your P&L from downsizing your exposure to peripheral Europe? And do you see a further downsize, going forward?

And then maybe on the investment portfolio, could you comment on your progress to diversify to bank loans and intra-structural lending? Thank you.

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

Okay, the first question, and I'm giving figures after tax and minorities. So if we look to Belgium, it was EUR25 million compared to EUR22 million. UK it was EUR6 million compared to EUR1 million; compared to is always compared to last year. Continental Europe was EUR1.2 million, compared to nothing. And Asia, EUR11 million compared to EUR8 million.

So you could say, together, it's about some EUR44 million, compared to EUR32 million.

Q - Francois Boissin {BIO 16045021 <GO>}

Thank you, very clear.

A - Christophe Boizard {BIO 15390084 <GO>}

For the second question about the impact of downsizing our portfolio of peripheral countries. First on Greece, you remember that we closed at 23% at the end of last year. And we managed to sell slightly above. So we have a positive impact of plus EUR5 million. So it means that it was almost at no cost, but we reduced to almost zero.

Then on the reduction in Italy, the impact is minus EUR33 million, and in Spain, minus EUR28 million. So these are limited amounts.

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

So in total, it's about EUR60 million, because there is some compensation in the whole pack[ph] of course, that we've done.

Q - Francois Boissin {BIO 16045021 <GO>}

So this negative impact was more than offset by gains on what type of securities?

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

Yes, indeed.

A - Christophe Boizard {BIO 15390084 <GO>}

Yes, on other bonds, on some core[ph] country without entering too much into detail.

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

Also maybe add that we adapted provisions for profit sharing to the reality of the interest rates.

A - Christophe Boizard {BIO 15390084 <GO>}

Then your third question was about the diversification of the asset allocation. So we are making progress. You may remember that, during the last call, I mentioned that my objective was to have some agreements up and running by the end of Q2. And I confirm that it is still my objective. We are in advanced discussions with some banks, and I think that we will be ready before the end of Q2.

And as I said, I confirm that the objective is to start with a 5% asset allocation, so something about EUR3 billion. But, obviously, we will progressively reach this amount, because the portfolio that we want to be in are not large enough to have a sharp rise in the commitment. But it will be, over time, the 5%.

Q - Francois Boissin {BIO 16045021 <GO>}

Yes, absolutely. Okay, thank you very much.

Operator

David Andridge, Morgan Stanley.

Q - David Andridge

Just a question on your Asian Life business. We saw a strong improvement in the technical[ph] margin, and I was wondering if that was going to be a sustainable result, going forward?

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

What we have seen is that, of course, you have the positive impact of, on the one hand, further inflow. As mentioned in my short introduction, a first consequence of the fact that we really supported, last year, the move from more single premium to regular premiums that are, on average, more profitable.

So the part of the increase of this year is, I would say, the result of the high sales in regular premium last year, and a very good persistency. The persistency, with the exception of Malaysia where it still has to improve, is in most of the countries are reactive at 80% or higher. If you look in to the press release I think we also tried to not give the impression that the Asian result is one that you can multiply by four. So that would be creating a too optimistic view.

I would say that, in line with what we did previously in trying to give you an underlying result, that you should be able to expect, for Asia, a one-year result of some EUR100 million, which is above last year's level, if you correct it for the exceptionals we had in Hong Kong, and in the equity markets.

Q - David Andridge

Okay. Great, thank you.

Operator

Benoit Petrarque, Kepler Capital Markets.

Q - Benoit Petrarque {BIO 15997668 <GO>}

A couple of questions. Just on the Portuguese JV, are you considering exiting the Portugal? We have seen a transaction with Credit Agricole and BES; I think they sold their BES Vida, the 50% stake. Will you be considering doing the same, considering you probably want to decrease your exposure to Portugal?

And on the 5% target for the bank loans over time, what kind of yield are you looking for right now? So you were talking about transaction potentially for Q2. What will be the yield, please?

And then on the slide 16, I see gross unrealized gains up to EUR3.2 billion, but I think you just referred to the gains while[ph] you have probably positioned with also large losses. So could you also comment on your gross unrealized losses, because I think the net increased by EUR700 million on the investment portfolio? So I just wanted to check that with you. Thanks.

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

Okay, in the past when we were questioned about Portuguese JV, the question was more, will you increase your stake? And our answer was that we were not intending to increase our stake, as we were happy with the 51%, 49%. Because it's also keeping, not only our partner in the bank, but also the Portuguese Government fully involved in the entity.

Now we have had to cope, in the past two years, with some tough situations in the market, and also for the Portuguese banks, and think really works to change the business model towards more Non-Life, more protection business, and more unit-linked, by reducing substantially the saving insurance sales, because this was not sellable at a profitable margin.

And the advantage of that will also be that, over time, the capital to be invested in the entity will naturally decrease.

So Millennium bcp, the bank, has also had a complete change of management. We met in the past month, sometimes with new management. They have not, at this moment, the first priority the JV, although they continue what the previous management did to support, as much as possible, its development. But we expect that potential discussions on what the future of JV might be for them also will come up in the coming quarters.

But, as far as we are concerned today, we are happy, taking into account the circumstances, with the performance of the entity. And like for all operations we've got, we never exclude whatever option, if it is an option that would be beneficial for shareholders.

A - Christophe Boizard {BIO 15390084 <GO>}

And on the yield of the corporate loan, the range is between 180bp to 150bp; the spread, the 180bp more for real estate. If we take into account our constraints, we are more interested in the infrastructure, we are more around 300bp.

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

And then on your last question, on page 16 we detailed the unrealized gains between fixed income and real estate, which are the main components. If you look at the gross unrealized gains on fixed income, you have the full detail on page 37 of the interim financial statement, the largest negative positions in that amount. So I confirm that it's a net amount of gains and losses. The largest amounts are concentrated in Portugal and Italy; Portugal EUR155 million and Italy EUR129 million.

Two comments I have to make; the numbers here are, the available for sale on the Belgian portfolio, there is an amount of EUR4 billion, and ultimately that has also a positive position. As for the Portuguese, you know the amount that has been put in to maturity and there is, of course, also a relatively small negative position on that. So there's no real large losses as you mentioned, at this moment in time.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Sorry, the 155, that's EUR1.5 billion?

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

No. On Portugal no, EUR155 million.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Okay, sorry. And EUR129 million Italy?

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

Yes.

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

And EUR62 million on Spain.

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

And RUT62 million on Spain.

Q - Benoit Petrarque {BIO 15997668 <GO>}

The reason I was asking is that I see the net revaluation reserve, the net amount, going up by EUR700 million this quarter. And you mention an increase from EUR1.8 billion to EUR3.2 billion of gross unrealized gains, but does that include also the movement in losses? It's gains/losses or it's only gains movement?

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

It's the gross/loss amount, so it's pre-third part interest, pre-prop chain and pre-expenses[ph].

Q - Benoit Petrarque {BIO 15997668 <GO>}

Okay. Again, plus or minus losses, on a growth basis? Okay. Thank you, very much.

Operator

Francois Boissin, Exane BNP Paribas.

Q - Francois Boissin {BIO 16045021 <GO>}

Two follow-up questions, please. First one on what you are seeing in terms of P&C[ph] prices in your main markets, if could comment a bit on what you saw in Q1 and the outlook?

And second question was on the what you are seeing in Belgium and we saw a few players actually focusing on savings products, guaranteed products in Q1, with special campaigns, and other players focusing on unit-linked. You are basically downsizing your -- seeing that you lost market shares in Belgium, could you comment on what you are seeing on that market, and where you want to go? Thank you.

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

The first question you ask was on rate increases in P&C?

Q - Francois Boissin {BIO 16045021 <GO>}

Yes.

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

Okay. So what we see is that whereas in the UK there is a kind of more stable level of prices, there has been in some pressure by the end of the year, mainly coming from some direct insurers, but that pressure is gone again. So the way to increase rates, if needed, is again open. But don't forget that we have seen rate increase in the UK over the past few years of our accumulated base, some 50%. So it is a long way[ph] that has been gone.

In Belgium, we continue to see rate increases. If you look for instance to AG Insurance on its own, the increase of Fire inflow was some 10% in the First Quarter, and 6% of that was price increase, and 3.4% was more portfolio growth. If you look to Motor, some 2.3% was for the tariff increases. As you know, this takes almost two years before the full portfolio is gone through this process.

And I would say, with the weather-related events that we have known in Belgium for now the four/five past years, this is something that is rather accepted by the public as a whole. So it's not that there is huge competition from some players to attack the more traditional players. So the market share in Non-Life also increased and continues to increase for Ageas Insurance quarter after quarter.

If we then look to the second question, the savings product unit-linked. If you look back, unit-linked products always have been primarily sold by banks, so bank insurers. Banks are more and more, let's say, driven in their commercial approach to the clients by MiFID, and by the profile they make of their clients. And our main partner, which is BNP Paribas, Fortis Bank has an overall rather prudent client base; I think that 90% of their clients have a more defensive profile. So it means that they are very cautious in offering unit-linked if it's not fitting with the investment profile of the client.

So what we are working on, and we see the first progress at the end of Q1 and expect that will be positively impacting the next quarters, is that with a new series of unit-linked products with a capital guarantee, that we expect sales to go up. They will not go up to the level of the number one player in Belgium in this area, which is KBC.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay. And with regards to the guaranteed products, what is the level of rate that you guarantee on your business? And how would you describe your positioning versus your competitors?

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

Let's say, in the Belgian market, the guarantees offered, you know there's always a 0% guarantee offer, but the highest guaranteed offers are between 2.25% and 2.75%. AG Insurance was in part of First Quarter 2.75%; this will now be lowered for a number of products, to 2.50%. There also have been products where the cost loadings have been changed from a one-off upfront cost[ph] to a one-off upfront cost, but also a regular yearly cost loading on the funds under management. Which means that you could say that, on average, the competition is around 2.25%.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay. And competition is more aggressive, or just in line with you guys?

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

Well, let's say it depends. It's, in many cases, also linked to campaigns. What we see is that some players move up, others go down. So for us, a much more important point of comparison is not the gross inflow, but it's the funds of the management. And there we see that AG Insurance still have some 27% market share in Life in funds under management.

The point we raised end of last year was that we expected, and we have seen it in November, a huge competition from the State bonds in Belgium; that's not been replicated. Of course, at that time, the 10 year bond in Belgium was almost 6%; today it's a bit more than 3%, so that offer has become less attractive for clients.

Also see that on savings amounts, accounts in[ph] banks offer 1% plus some loyalty premium, and as you might have read today some EUR225 billion is currently on these savings accounts, coming from some EUR200 billion a bit more than a year ago. So the appetite of Belgian citizens for more risky products is still rather low.

Q - Francois Boissin {BIO 16045021 <GO>}

Okay. Thank you, very much indeed.

Operator

There are currently no more questions in the queue. (Operator Instructions) And there are still no more questions. Gentlemen, do you wish to begin closing comments?

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

Yes, of course. Ladies and gentlemen, thank you for your good questions. I would say to summarize this call with main conclusions, two of them. First, the results have been good for our First Quarter, typically impacted by some seasonal effects. Inflows levels are excellent, and this is also reflected in our expectation for the year, where we expect inflow globally to out-perform the ones we had in 2011.

At the Group level, we cannot ignore the important progress that has been made this quarter in solving part[ph] of our legacies, both the transaction with BNP Paribas on the CASHES and the Tier 1, and the initiatives to further simplify and align our legal structure, are important steps.

I think this summarizes the key points I wanted to convey to you this quarter. Thank you, once again, for your continued interest and support. Do not hesitate to contact our investor relations teams, should you have outstanding questions. Thank you for your time, and I would like to wish you a very nice day. Goodbye.

Operator

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