



Investor Dinner 2014 speech

29 September 2014 – Andaz Hotel, London

Bart De Smet (CEO):

Good evening everyone and thank you for being with us,

It is my pleasure to welcome you on behalf of our chairman and the management team to this wonderful location for our annual gathering. It has become quite a tradition to meet with all of you once a year and to offer you the opportunity for a private talk with members of the management team. We've opted this year for an Investor Dinner formula which offers more room for personal contact, but it also allows us to share a few thoughts on some of the more burning issues keeping us busy.

Before we start dinner I'd like to provide you with an update and a personal view on our status against the Vision 2015 targets and the related action plan.

Filip Coremans, our Chief Risk Officer since the 1st of July will later share his thoughts on the most recent developments around the legal legacies.

Before dessert, we have allowed some time for questions after which I will make some closing remarks. And to end the evening I invite you to join us for a final drink together where we can continue our conversations more informally.

So, Ladies and Gentlemen, where do we stand on the execution of our Vision 2015 targets?

Let me start by recapping the various targets based on the most recent results - so our 6M 14 reporting:

1. Our desired Life vs. Non-Life profile : we are at 68/32 compared to the 60/40 objective
2. Our Non-Life combined ratio stood at 102.0% instead of our target to be structurally below 100% which we further refined last year as you know to 97% in a low interest rate environment
3. Our Return on Equity on the Insurance activities, calculated as net profit divided by the average shareholders' equity including unrealised gains, amounted to 8.4%
4. And finally with respect to our objective of investing at least 25% of our capital in emerging markets, we are currently at 13.8%.

The conclusion is that on each of the four targets we are below where we want to be by the end of next year.

So what should we conclude from this about the performance over the past 1 ½ year? And with a further 1 ½ years to go as we speak, how do we view things as a management team? Is the realisation of our targets still feasible?

Let me first of all repeat that the two targets that are more related to the desired future business profile of the company are:

1. The Life/ Non-Life percentage
2. And our exposure to emerging markets

Both these targets have always been somewhat dependent upon inorganic growth. Apart from a number of smaller files, we haven't executed any larger acquisitions thus far as we didn't feel our investment criteria were met. Obviously, these targets are more directional and indicate the way we want to go, so we do not intend to reach them at any price however. That said we are doing everything within our power, also organically, to make progress so that step by step we can change our profile.



Our recent acquisitions in Portugal and Italy but also Groupama UK in 2012 were interesting opportunities to strengthen first of all our presence and market position in countries we know well, and secondly our Non-Life presence as a whole.

Obviously the tremendous growth in our Life inflows in China, even at the level of Ageas, has off set the positive impact from these transactions on the 60/40 objective.

With respect to the 25% in emerging markets target, the same is true. I should remind you that this is also calculated based on the reported shareholders' equity including unrealized gains on our investment portfolio; and just as with the ROE calculation the latter has not been particularly helpful. Nevertheless, the ratio has moved in the right direction over the past two years reflecting among others the fact that we significantly strengthened the balance sheet in China to fund the very high growth. In addition, some up streaming of excess capital from a number of activities in more mature markets such as Belgium and Portugal, has also contributed to the improved balance.

If we calculate the same ratio on the basis of the net profit contribution of the emerging markets to the total insurance net profit, it would be now already at almost 20%, with **all five countries making up our emerging market presence contributing positively**. This year in particular, China has been performing very well and benefiting from a better business mix. Thailand remains our star performer with continued growing inflows and a Return on Equity substantially above our hurdle rate. Malaysia is currently in the midst of a business transformation process but all in all it performs well while India, the last and the smallest of the five emerging countries is starting to generate profits under the guidance of a new management team. In our Continental Europe division, Turkey was somewhat down compared to last year's result due to an exceptional capital gain on the sale of the company building.

Ladies and gentlemen, moving on to the so called "hard" targets, we see a big positive in the sense that the whole organization is aligned and is focused on reaching the objectives we have set. However, we have to admit that we are not yet as far along as we would have liked.

When looking first of all at the Group combined ratio, you will remember that it amounted to 102.0% at the end of June compared to 96.8% last year. It is an understatement however to say that we have not been helped so far in terms of the weather conditions both in the UK and in Belgium, our two main Non-Life markets. Actually in both countries, the weather events have been qualified as "historical". Adjusting for what we consider as exceptional weather impact, the Group combined ratio would have amounted to 97.4% which is more in line with last year and in line with the 97% target we have set for ourselves. For the remainder of the year and assuming of course more "normalized" climate conditions, I feel confident that we should still be able to achieve a combined ratio for the entire year below 100%. And we of course continue to strive for a 97% combined ratio in 2015.

Looking more closely at our two main Non-Life countries, Belgium and the UK, I'd like to make some additional comments.

First of all Belgium:

For the remainder of 2014, the impact of additional adverse weather, should be covered by our reinsurance policies. Secondly, the Belgian market remains a pretty disciplined and traditional market place, characterized by a great amount of customer loyalty. This allows us to rigidly adjust the tariffs in order to respond to increasing claims costs. As an example, the average tariff of Motor insurance has increased over the past five years by some 3-4% on average every year and this without any meaningful impact on the volumes.

However, we are confronted every now and then with some issues in specific product lines. In the first six months of this year as an example we encountered some issues in our Third Party Liability business. A remediation plan has been launched where for instance in this specific case a number of contracts have been stopped. Every single activity must be as profitable as possible!



This said we do not want to hide ourselves behind adverse weather or other negative events that occur. I continue to repeat within the organization that we should make sure that structurally we can face adverse events, while still reaching our target or at least remain very close to it.

Real progress has been made over the past years and the commitment is there across all layers of the organization to do everything possible to further improve our operating performance.

Secondly the UK:

The situation in the UK is somewhat different:

The Non-Life market remains very competitive and the recent legislation had a noticeable impact on the Motor market. Since the beginning of 2013, average premiums within our Ageas UK entities have declined by some 12% with the first signs of a flattening out becoming visible. It is too early to speak about the market returning to pricing discipline but there are some encouraging signs. Similarly, we have not yet seen a noticeable reduction in the volume and amounts of claims, and as a consequence we are sticking with our strategy to maintain tariffs and to be selective in our client risk taking.

Looking at the 6 months results and adjusting for the exceptional impact of the floods, the combined ratio in the UK already reached the desired level of 97%. Of course, the challenge for the local management team is to make this sustainable before we can really talk about the successful achievement of our target.

And thirdly, I believe we can now say, nearly 2 years after the acquisition, that the integration of Groupama UK has gone extremely well and we've really welcomed an excellent team of people. The net result contribution is solid and we can broaden our product offering into more niche and non-standard products.

Ladies and gentlemen, the challenges I have just described in our larger markets Belgium and the UK, illustrate even more the importance of geographical diversification in Non-Life.

Over the last five years, the combined ratio of our Continental European activities has nearly always been in the 90-95% range. In size, these activities do not compete at this stage with Belgium or the UK but they are promising and also offer specific expertise which is valuable for the entire group. Take as an example Portugal where we have a solid position in the profitable Health business and a strong brand "Medis". Taking full control should give us even more leverage to expand and develop this activity locally and potentially across the group. Another example is Italy which has demonstrated over the last couple of years a tremendous capacity/ability to improve its performance with a combined ratio of 107.9% in 2010 to 94.6% in 2013 and 92.1% over the past six months. And finally in Asia, the combined ratios of our non-consolidated activities in Thailand and Malaysia are even more outstanding and in the 80-90% range. You will remember that this excellent performance is not part of our reported combined ratio as these two countries are not consolidated.

All this is further reason for us to look for opportunities to expand with our local partners or to look for new opportunities in interesting markets where we can benefit from our regional network to grow the existing or to set up new Non-Life activities.

And last but not least, let me share some comments on the evolution of our Return on Equity with respect to our Insurance operations. As already mentioned the ROE at the end of June amounted to 8.4%. As you will remember, the calculation is based on the annualized 6m net profit, EUR 680 million, divided by the average shareholders' equity, based on the figure at the end of June and the one at the end of December 2013, being EUR 8.1 billion.

Let me share a few additional figures and reflections with you to provide a better perspective:

Our regular reported ROE includes EUR 1.8 billion of unrealized gains on our investment portfolio, an average of the situation at the end of 2013 and at the end of June 2014. If we exclude the unrealized gains, the ROE amounted to 10.7%. We can indeed not close our



eyes to the impact of the extremely low interest rates on the valuation of our fixed income portfolio and impact on net equity.

However, the unrealized gains have indeed reached historical highs if we look to the past year's evolution and this is indeed out of our control. However, the initial thoughts around the ROE target were to provide an easy to understand KPI both for internal and external use which steered the organization to focus on higher net profits on the one hand and a more disciplined use of capital on the other hand.

When looking more into detail to our net profit evolution:

It amounted to EUR 391 million in 2010, EUR 530 million excluding the impairment charges related to Greek bonds and on goodwill in 2011, EUR 624 million in 2012 and if we simply extrapolate our 6m 14 net profit we will be at EUR 680 million at year end, and this is not a forward looking statement for the sake of clarity. This is a growth of our net profit of more than 70%, consistently improving every year.

Another view we can take in this respect is the EPS evolution based on the Insurance net profit. This amounted to around EUR 1.6 in 2010, EUR 2.63 per share in 2012 and would be around EUR 3 per share based again on the 6 months net result. This also illustrates the benefit of the share buy-back programs executed since 2011.

The intrinsic improvement also underlines the good work done on all the levers identified last year during our Investor Day:

1. Maintain the profitability of the consolidated Life activities through a better operating margin
2. Improve the profitability of the consolidated Non-Life activities through a better combined ratio
3. Work on the overall business mix with a focus on higher ROE-generating activities and product lines
4. Increase the profits from the fast growing emerging market activities

I already commented on the Non-Life side. If we take a look to the Life activities, I believe we can say that our operating margins, especially on the guaranteed products, are in line with the targets set. This is the result of a mix of good investment income, among others benefiting from margins being locked in and benefiting from the zero-duration gap strategy. Furthermore, guaranteed rates in Belgium on new business have been brought down again as per 1 September to 1%, in response to the further decrease of the market interest rate. In Unit-Linked we see a limited appetite from customers while in general operating margins are below target but you will remember that with those target margins, we would make an ROE of 18% on this specific business.

When looking secondly at the denominator, I believe we have delivered on our promises so far. We focused last year during the Investor Day on two actions:

1. Capital efficiency as an operational day-to-day concern
2. Capital allocation as a strategic concern

With respect to capital efficiency, we delivered on our promise! We said we would optimize the capital structures of our operating entities and meanwhile we have realized the majority of this. Aside from the emission of a number of hybrid loans, we also optimized our activities portfolio further with the agreed sale of Ageas Protect, our UK Life activity, as the most recent example. We have agreed to sell this company for around EUR 225 million including debt off setting to a large extent the impact on net cash of the buy back. I would also like to stress here our progress in France where we have reorganized our commercial organization in such a way that we continue to take benefit of it but with a much lighter cost structure. These are two examples of how we execute step by step our strategy. Unfortunately the divestment of Ageas UK Protect received less attention in my view due to the recent news flow around the legacies.



With respect to the more strategic aspect of capital allocation, I'm pleased to report that since the beginning of 2013, we have up-streamed more than EUR 1 billion of cash from the operating companies mainly coming from Belgium, Portugal but also Hong Kong. This is a mix of a regular and exceptional upstreaming, underscoring an installed discipline in this respect and contributing clearly to the improvement of our ROE.

Ladies and gentlemen, at the same time all our operating companies are continuously strengthening and optimizing their local business models. Let me share some of the most striking ones currently being worked on:

1. In Belgium, we have transferred at the end of April a portfolio of group insurance policies from Fidea. Secondly, we are actively working and preparing our digital presence at AG Insurance.
2. In the UK, a lot of efforts goes into the reorganization of our Retail distribution activities, aimed at simplification while at the same time taking initiatives to stimulate the growth. This is mainly about developing pricing tools and data management initially, but also creating one single IT platform across the retail brands. Secondly, we continue to work on the underwriting discipline and the expansion of our distribution channels.
3. In Continental Europe, a few examples: in Luxembourg our joint venture with BNP Paribas has meanwhile become the clear n°1 in the FOS market, in Italy, the full control, together with BNP Paribas Cardif, of UBI Assicurazioni, should provide us with all the levers to further create scale having worked hard on improving the operating performance. And the same goes for Portugal where one of the priorities is as well to further expand the distribution channels.
4. In Asia, a topic that comes back in nearly all Asian countries is the rebalancing of the product portfolio towards more regular premium type products or towards newer products that respond to the new local regulations. In Thailand, we have become the n°1 in Life for new business. The growth story in China remains unprecedented with an agency force that has doubled over the past years to some 125,000 and with plans to grow further. Today more than half of our new business (APE) stems from the agency channel.

Ladies and gentlemen, while our primary focus is on realizing all our action plans with respect to our Vision 2015 strategy, these examples show that we are already looking further. We see a number of mega-trends of which some are technology driven such as the theme of big data or digitization, others are more societal, the ageing population and rising healthcare costs, the debate on the sustainability of state paid pensions etc. All these trends might reshape the Insurance world in the coming years.

This is why we have internally initiated a new strategic exercise that should set the objectives for the company beyond 2015 and I will be happy to share the outcome with you in the course of next year.

Filip Coremans (CRO):

Ladies and gentlemen,

Good evening and I hope you have enjoyed the dinner and the discussions so far.

As you are without any doubt aware I have been appointed Chief Risk Officer of Ageas as of the 1st of July and in this context it is the first time I have the opportunity to join this audience. Beside Risk and Actuarial matters my responsibilities encompass HR, Compliance, IT and last but not least Legal affairs.

Our Dutch neighbours indeed ensured that I felt well at ease after my return from Asia by ensuring I had a tropically hot welcome this summer.

In the coming 10 minutes or so, I will try to give you some colour on the current status of our litigation legacies.

In our financial statements we provide every quarter an update of our contingent liabilities resulting from these litigations which in short can be broken down into four categories:

First, there are administrative proceedings by the market authorities in Belgium and the Netherlands. These proceedings cover mainly alleged miscommunications during two periods:

1. Regarding the first period, September – October 2007, the period of the rights-issue, these allegations relate to disclosures regarding our sub-prime exposure. Here we successfully appealed against the Dutch so-called AFM II ruling. As a result the subsequent fine has been definitively annulled. The February 14th 2014 arrest concludes that Fortis disclosures at that time were not unreasonable, which is moreover illustrated by the fact that the FSMA had vetted and approved the trading update as part of the prospectus. Hence, from a market supervisory viewpoint, we have been cleared regarding this period.
2. Regarding the second period, May-June 2008, covering allegations of miscommunication by Fortis related to its future solvency position, we have however been less successful. In the Netherlands we lost the appeal procedure against the so called AFM I proceeding. As a result on March 5, 2014 the related fine has become final and has been paid. (EUR 576,000).

In Belgium, the FSMA decided also to impose a fine in relation to this period, against which we are in appeal. Here we have no precise view on the timing of the judgment in appeal.

The direct financial impact of these rulings is obviously less relevant, but we should reasonably expect that the outcome will serve as substantial arguments in the various liability litigations.

Secondly, and this is the bulk of the litigations, there are various civil investor lawsuits ongoing both in Belgium and the Netherlands. These proceedings vary from collective actions on behalf of a 'class' in the Netherlands, to small actions initiated by series of individual investors both in Belgium and the Netherlands. They mainly relate to alleged miscommunication of Fortis in the period 2007-2008 generally, but with specific focus on the two main periods covered by AFM I and II. Some also relate to the transactions of September/October 2008 leading to the dismantlement of the Fortis group. In this context the recent FortisEffect judgment was rendered. I will come back on this instantly. Other than this, most of the proceedings, all in Belgium and all but one in the Netherlands are still in first instance.

What evolutions can you expect in the near future? As you know, each quarterly closing we try to provide you with some colour on what to expect but you have to be aware that the courts do not work with clear timings, hence we cannot exactly foresee when judgments are supposed to come.

At this point we expect before the end of the year an interim judgment, on admissibility of certain claimants, in the so-called Modrikamen case, which relates to the sale of the Belgian Fortis Bank. This is an interim judgment on procedural matters while pleadings on the merits are only planned in 2015.

Thirdly, in Belgium there is the criminal investigation. You will remember that in November 2012 certain individuals were indicted by the investigating magistrate. In February 2013, the public prosecutor requested the so called Chambre du conseil/ Raadkamer that certain individuals – not Ageas - be referred for trial before the criminal court essentially based on defective communication about Fortis' subprime exposure. However, as several parties requested and obtained additional investigative measures, I would tend to nuance this and I would rather say that there is no final decision yet on who will ultimately be referred to court. In terms of timing, we have again no specific information on any further evolution in this respect. This is by the way one of the main reasons why most civil cases in Belgium are temporarily suspended. Based on the legal principle, known as "Le criminel tient le civil en état", commonly invoked by court and parties, civil proceedings are stalled awaiting conclusion of directly related criminal procedures.

And finally there are a couple of specific proceedings which I would consider in this context as less relevant but all explained in our contingent liability section.



Ladies and gentlemen,

The verdict we received end of July in the context of the so called FortisEffect took us indeed a bit by surprise as we won the case in first instance. Although the court concluded in appeal that the sale of the Dutch activities to the Dutch state should be unaffected, it also ruled that Fortis did not communicate correctly in connection with this matter. To be precise, the Amsterdam court ruled that Fortis provided misleading and incomplete information to the markets during three days (29 September through 1 October 2008).

We disagree with the courts position on Fortis' communication, and we will launch an appeal with the Dutch Supreme Court.

Nevertheless, we considered that it was appropriate, in accordance with applicable IFRS rules, to constitute a provision of EUR 130 million in our second quarter results. For the sake of clarity, to date no damages have been established. Such damages will be decided upon and determined in further proceedings.

Obviously we received many questions on how we came to this amount, especially in comparison to the massive and speculative noise made by the other parties and by the press about billions of compensation that Ageas would have to pay as a result of this verdict. This enticed us to release the quote "One would wonder who is providing "misleading information".

Let me in this context summarize again the main elements of our reasoning behind the amount of the provision and this essentially repeats what I have been saying during the analyst call right after our half year results:

First of all, to determine the provision amount, we based ourselves on methods and assumptions commonly used in the market, in particular in the US, but also during various out of court settlements under the so called WCAM-procedure in the Netherlands.

One such assumption is that only persons who bought shares during the alleged period of miscommunication, at an alleged inflated price, and did not sell them during the same period, are eligible for compensation.

We also made several scenarios taking different time periods into account, we looked at the relative share performance compared to a normal group of peers, took into account the reality of excessive volatility present in the market at that time and lastly we used certain probabilities with respect to the % of shareholders that might claim for compensation.

To avoid any confusion, we did not base ourselves on those that joined the FortisEffect organization, but took the total amount of shares into account, so we did not distinguish between claimants and non-claimants, but looked at the period covered by the Fortis Effect case.

Obviously, as we are a listed entity and since we are bound by strict rules and a promise of substantiated communication and actions, we did not come up with a wild guess overnight. We have engaged external modelling experts; we have involved external model validation experts and did discuss our approach with our external auditors before we reached a balanced conclusion on the provision.

What about provisioning for other proceedings?

Our Board's position is that currently the conditions under IFRS – that it would be more likely than not that we have to pay, and, that the amount can be determined with sufficient reliability - to provide for other proceedings are not met. Given the inherent complexity of the pending claims which are mostly in their early stages, given that the allegations made are contested by us and that the amount of compensation that may result from the pending lawsuits cannot be measured with sufficient reliability, we are not in a tactical nor practical position to establish provisions to date.

Conclusion:

With the recent Fortis Effect judgment legal litigation came back in the forefront of investors' minds. We only regret that there was a lot of noise in the market following statements by some parties that are maybe less bound by regulation than a listed company.



It is fair to say that if we continue all proceedings till the end, it will take several years to have final and definitive court decisions terminating them all. The progress of the pending lawsuits and the criminal investigation depends, to an important extent, on factors and circumstances beyond our control such as for instance the workload of the relevant courts. Therefore we cannot predict when the court proceedings will be concluded but surely one should not expect that this will be in the next few years.

Therefore, people sometimes ask whether it would not be preferable to close the legacy file by entering into a settlement. Proper management of the legacy requires of course considering all possible options. It is our duty to act in the interests of the company and its stakeholders, and from this perspective we will do whatever we deem appropriate to optimize the handling of the legacy files. To date suffices to say that current litigation is extremely complex, which does not facilitate a settlement option.

It is important to repeat in this context that Ageas continues to manage the legacy litigation in the interest of Ageas and its current share- and stakeholders. It is our strategy to defend Ageas against all claims and to file an appeal whenever it is appropriate. Obviously we commit to keep all stakeholders objectively, professionally and transparently informed. Ladies and gentlemen, enjoy the dinner and I propose to keep any question you might have for the Q&A session before the dessert as Bart suggested.

Closing Remarks by Bart De Smet (CEO)

Ladies and Gentlemen, to end let me summarize a few conclusions:

1. Coming back on Filip's speech, the recent Fortis Effect judgment brought the legal legacies back under the spotlight. The verdict does not change our stance. We continue our strategy to defend Ageas against all claims and we will file appeals whenever it is appropriate.
2. With respect to our Vision targets 2015, we are making constant progress on all fronts and step by step we are getting closer to our objectives. At the same time we acknowledge that a number of external factors do not work in our favour but we should further prepare to be structurally resilient against these types of backdrops
3. Secondly, we have started to prepare for the world after 2015. And I will share the main conclusions of this exercise within the next year in September 2015. At that same time we will also provide you with everything you always wanted to know about Solvency II and what this means for Ageas.
4. All this ladies and gentlemen should further contribute to the unique positioning of Ageas within the world of insurance as a company with a great potential and a compelling story.

Thank you again for being with us this evening and I hope you will join us for a last drink together when you can continue the conversation with all of my colleagues present here today.
