# S2 2011 Earnings Call

## Company Participants

- Antoine Lissowski, Deputy CFO, Finance
- Gilles Benoist, CEO
- Marcelo Sayem, Chief Risk Officer
- Michael Cohen, CIO
- Thomas Behar, Chief Actuary
- Unidentified Speaker, Unknown

## Other Participants

- Mark Sadally, Analyst
- Mike Francis, Analyst
- Ralph Hebgen, Analyst
- Unidentified Participant, Analyst

## Presentation

### Gilles Benoist {BIO 1824462 <GO>}

Audio in progress [ph] -- but to be honest it's the last time and that's -- the reason for which I -- before starting the slides I want to make some comments. Well it's the last time I present the annual result because there is a law in France telling that in the silence of the status of the companies, CEOs that cross the line of 65 have to say to their beloved shareholders at the nearest general assembly, well, bye-bye; that's the way I managed the Company. And I have to say bye-bye.

Well for me this would be the 7th of June because that's the date of the general assembly and that will be some weeks. Fourteen years of power in CNP. I'm not so ashamed because the value of the Company has doubled. But I didn't ask for modifying the status to be honest because there's a good guy there who is ready, I hope the shareholders would chose, to then go on.

And just to now to give a picture of 2011, we don't -- we've told that the year would be a bad one, of course, not forecasting the traumatic August months with 1,000 points down the CAC 40 and so on. But we said, well, that's the type of year where we should have a certain number of challenges and -- because we thought that 2008 would've been the worst year on the French market. And that wasn't true. It was clearly last year.

So we said to ourselves three or four challenges we tried to, first, to resist in the French markets. And to, of course, by many means maintaining the cost and so on trying to get a better result than the figure that for the first time we sold in S&P paper selling EUR800 million. Don't ask me why. I don't know how they have calculated that. But this was a target.

More than that, second target, as a leit-motif in the music, let's keep the policy or the surplus reserve at the same level after the shock of Greek -- of Greece and shock of the market because we don't know if the shocks are finished. And at that time we didn't know how the story of Greece would end or not end. Second challenge.

Third challenge, with the help of shareholders, decrease the level of financial risk on CNP sharply including going down in the level of sovereign debt including going down a little more -- a little in equity and so on. And last but not least, we wanted to ask the shareholders to give a signal of confidence in the Company in a period where capital is not easy to find, expensive. And we suggested that the way they could do would be for the first time, of course, not to decrease the dividends. It has never decreased since '98. But to accept then the three main shareholders to get these dividends in equity.

And I think the way we were happy yesterday with (inaudible) is that we have reached the challenges. And that this was a deliberate way to show that even in this kind of periods, CNP is always since '98 preparing to resist the future crisis because nobody knows -- can say that there would be no more crisis.

So sorry to have been a little long. But it's -- we've not changed our style. We want to remain even if it would've been easy to say, well, the result is the same as the previous year. It's not our problem. Problem is long-term. And our customers. And as you seen our customers are courageous or our networks also because we are, with the exception of Credit Agricole, the only insurer who has made the participation to the profit came down 55 basis point.

Okay. So now we will do like every year. I'm looking on revenues and market. Then Antoine will describe the results, the financial results. Then I'll come back on what's going to happen and what is the -- our strategy in France and outside France.

Looking at the environment, we knew that the market in new money would come down in France more than 10%. And even in the mid of the year, I'd say it would be minus 13% and minus 14%. This was minus 14% as you can see. For many reasons, former, I would say traditional/ancient reasons such as people who wants to buy back, to be able to finance a home was compliment -- the money you gave to the -- the France money you gave to anyone who would make a loan and buy a house, of course, the classical -- and buy-back for people retired to rather compliment a revenue, that's a use, perfectly normal use of life insurance because as you know, there's pension funds in France. So life insurance is the substitute and is used for that.

But two new important factor in 2011. First, the prices. And so a number of customers have explained to us that they buy back because they needed money. Basically sometimes to reimburse consumer loans and to sometimes just to spend. First time we've seen that kind of a reason.

And second factor, the competition with banks totally obsessed by grabbing balance sheet liquidity and savings to be compliant with the liquidity ratio of Basel III. And this has driven the banks to design products that were more or less reshaped or customized short term accounts with many kind of advertising and to grab this liquidity and, of course, meaning that at the same time in the classical model of bank insurance in France, they were putting pressure on their subsidiaries of life insurance telling, well, stop selling please, we need money.

So for these reasons, there was this decline of 14%. What nobody has exactly imagined was the incredible drop in net new money. And the main cause was the speed of the increase in surrender rates. And think that in 2010 the level of net new money in France was EUR50 billion. And with months and months and months of negative net new money and a sharp drop in December, this figure came down to EUR7.6 billion.

And that makes an incredible difference as you will see, with the situation of CNP. So -- because when the figures were known, dramatically this level -- we -- perhaps you remember we just sent a message to the market, we've never been in negative net due premium in any months of last year, of course, not being able to give the figures. But to give the message, don't draw the conclusion that CNP will have to suffer like the market.

And if you look at the -- historically to new money and revenue, as you can see, market share, of course, last year were improved for CNP in new money because we only came down by 9% versus 14%. But the incredible performance is in net new money because within France 2.6% net new money, we represent 34.9% of the French market. I told you personally that the 25% we reached in 2008 were at the highest point possible.

But the situation of the French market made us for the first time a share of the market more than the third. Why? I mean it's interesting to try to guess why. The reason is that the level of the higher surrender rates came up more slowly and less than the market for CNP meaning that the customers of our two main partners, the Postale Banque on one side, savings bank on the other side, were more truthful to CNP. Their rate of surrender was lower because they had the kind of relations with the product that is different from the markets.

It's clear that in the French market last year the two extremes of customers, I mean, the very modest one have gone in Livret A, in the pure liquidity plus tax exempted Livret A. And the highest has gone outside of France, in Luxembourg or in Switzerland or elsewhere. And so in -- but if you look at the two partners, in net new money, the resistance of the Postale Banque is remarkable. Why? Because this bank has no problem of liquidity, not at all. As you know, it has furnished liquidity during the crisis to other banks and it's going to become as a new activity of banking -- a bank making loans to local authorities in France as far as June or July.

So as you can see, it's only minus 4% with the market minus 14%. Well that's the best resistance of the French market. And as you see the suffering of saving banks is a little more than the market. But it's a new money as far as net new money is concerned. Then the net new money collected by the savings bank is a little lower than the one of the

Postale Banque means that the resistance and the attitude of the customers is among the two networks a good one.

Now what's important for CNP as you know, 20% of the revenues of the Group are coming from outside France. And what is very clear for last year, it's the contrast between the always performing Caixa Seguros, always up, always double digit up and so on and so on, that's pure happiness. And the sharp decrease in Italy in savings products.

The Italian market has gone down by 25%. But UniCredit network has been less efficient than the market being obsessed by liquidity and by savings, balance sheet savings. But another important fact is the very good progression of CNP BVP. That's the partnership with Barclays in Portugal, Spain and north of Italy. As you can see, it's only -- and you will see later on, it's not only efficient in revenue, it's also a very good margin because it's mixed products quite totally devoted to risk, products versus saving.

And see the contrast between the two great subsidiaries, seeing what's still important to understand, well, you've already seen the sharp decrease in savings. But as you can see, creditor insurance has been very good and that has saved the value creation in Italy. And as you can see, on the right hand, Caixa Seguros is pure happiness. And we always are double-digit increase in every kind of segments and we are creating new segments, the new one is collective health prices.

So now let's -- the floor to Antoine.



**Antoine Lissowski** {BIO 4384399 <GO>}

Well now we'll have a look on the different figures. First another view of different elements where revenue and new money were down this year. We will focus on the reasons for these where attributable net profit as well by 17% due to provisions yet to make on different assets. The average technical reserves are still up by 4%, 4.4%.

The net assets and the MCEV are little up and we will see that we protected our ability to create value over time and the dividend as you know is recommended at the same level as last year with new scrips payment option which will be offered and which was already accepted by our shareholders of the banks.

First, the revenues. The consolidated revenue of the Company was down 7.1%. It is completely focused on the savings business. In the other businesses, personal risk, term creditor we had continued growth. Of course, Gilles already mentioned the very impressive performance made by Caixa Seguros and we'll see that the technical reserves are still growing up. What we underline is that net new money was positive at CNP during -- over the year, over the quarters of the year and over the months of the last quarter of 2011. In fact it was also positive in January 2012 which differentiates us from most of the competitors in France.

The revenue, when you see the revenue by business segments on large, you see that the decrease, the global decrease was about EUR2.3 billion globally and it is little less than the decrease on the sole savings business which were EUR3.2 billion. That means that other businesses, mainly the pension business where we observed a very good development in Brazil and some contracts, important collective contracts in Ireland. The personal risk also had a development everywhere and the term credit insurance too.

Well that means that we have absorbed the crisis on the savings business which is much more linked with the stretch of management of savings of people in France in Brazil, Italy, Europe in general and precisely and Gilles mentioned in already, with liquidity situation of our partners who are all banks and who prefer this year to reintegrate the deposits of their customers rather than to sell life insurance.

The average technical reserves were up by 4%. You see there that there is a quite large difference between the business model in France and in abroad. Abroad represents less than 10% of average technical reserves, a figure to be compared with roughly 40% of EBIT represented by the international activities.

When you look on the right, on the segments, they are still, of course, not balanced. Savings is still representing 85% roughly of balance sheet of the Company. Pension business and risk business are much smaller. And there too you observe that the risk business has clearly a very different business model from the others.

We have added this slide to our usual communication for we think that it was necessary to underline the structure of the withdrawals on long-term. As usual, when something new happens in the market which we try to have an observation of that on a longer term rather than to focus on what is new and is it the end of life insurance in France. It is not the end. When you look these figures, you see that the ratio of withdrawals to mathematical reserves, it rose by 0.5% for CNP last year from 7% to 7.7%.

Well it was between 7% and 7.5% over the last years. Then if -- even if the present figure is slightly higher than the average on the period, it is not so high. What is more remarkable is that the market presents a higher ratio of 8.7% to be compared to the 7% of last year. You see that the top of market's figures was in 2008 with 8.3% and it shows that usually if you accept 2009 and 2010 CNP at structurally less withdrawals than the rest of the market, which is -- you can see this year.

In another words, the years of crisis where the customers of CNP are more stay -- more present with them than the average customers of the market. There's also a slight technical element, which we wanted to give to your -- to draw to your attention. On the bottom of slide, there is a new taxation regime in France under which some taxes are payable yearly rather than at the end of the contract.

And it represented for us nearly EUR700 million of withdrawal. It is let's say a tax withdrawal. But it added to the impression that as a whole the market and the CNP, possible important level of withdrawals, it is not of a same nature than the other's withdrawals which are more customers driven.

Profitability now, the net insurance revenue last year was up by 12%, 12.4%. We will see how it was made, the EBIT by 17.4% and the net profit was dampened by impairment charges on which I will give you more information. When you see first, you are reminded of revenue evaluation. The net insurance revenue is low -- is higher than last year, both EUR3.1 billion. The administrative expenses were very well managed and very under pressure with a growth of just 1% completely in international businesses.

That results in a net EBIT growing by 17% with below that three figures of, let's say of cost, which, of course, are growing, the finance cost with higher cost of the new sovereign debt, which we issued over the last months; the income tax expense, which is a little higher, partly because the revenue coming from Brazil are taxed at 40% and represent a higher part of our income.

The minority interests for the same reason are higher, which results in a recurring profit up by 15%. Therefore, we have different negative figures. If you sum up the net gains on equity property and so on and impairment, it represents EUR144 million. And fair value adjustment on trading securities with two lines, in fact, represent the same nature of investments, some are classified as trading and the other as IFS [ph] in our accounting rules. But in fact, they are academically comparable. These figures are, of course, negative this year to be compared with figures of last year.

One word about this question of impairment, which is important in 2011. We experienced two crises, the crisis of sovereign debt and the crisis of equities market last year. As a whole, including the interest of insured, the amount of the impairments of the Company went from EUR6.8 billion to EUR9 billion in 2011. We had very dramatic increase of the amount of impairment.

As you know, under the regime of life insurance, the major part of these impairments are attributed to the customer's portfolio, which results in the end to in fact that CNP, shareholders of CNP only had to absorb EUR333 million of impairments as a whole, among which you have the cost of Greek impairment. We have impairment -- the Greek assets at 70% and it seems completely in line with the terms of agreement, which was supposed to be passed yesterday but is postponed the day after day. But the terms of agreement we've done are stable. It is not the question of banks with Greeks. It is the question of the other countries with Greece.

Then you have the cost of Greeks, Greek impairment. You have the cost of impairments of -- on different equities of the portfolio. We have, for instance, last year for the first time to impair equities (inaudible), everybody understands why. But also risk which enter in the center of equities which were to be impaired because on long term the decrease of the value necessitated this impairment and so on.

And the third element of these impairments was the EUR75 million of the participation in our subsidiary in Italy. It was a way to realize that for business model of this subsidiary which was based at the beginning on the rapid development of the management of savings, of life insurance in savings, is modified by the present economic conditions. And that we want to focus it more on the risk business where we have less to invest in Italian securities, in Italian (inaudible). But modifying the expectations of the business. Then we have to draw, the consequence of that, by modifying the level of evaluation of the subsidiary in our accounts.

Gilles already mentioned the fact that we maintained the policyholders' surplus reserve at the level similar to last year's, EUR2.9 billion roughly. And this is mainly due to the policy of dividend rates paid to policyholders, which allowed us to attribute the major part, almost all the losses of the year in capital markets to the insured rather than to observe them in the balance sheets.

We had, of course, to negotiate that with the two main partners of the CNP, La Poste and BPCE. But let's say that they were very, I would say, very positive in accepting this impact. One of the reasons probably is that as already mentioned, the largest competitor they have in life insurance in France is Credit Agricole, which everybody knows being very engaged in Greek risks in all its departments and activities. Therefore, everybody was sure that the impact on Credit Agricole and credit card contracts, life insurance contracts would be very huge and that there was no damage to attribute less revenue to our customers because it was clear that they would have to make the same in their term. It was a case Credit Agricole posted lower policyholder dividends than CNP this year and they completely accept the fact.

When the conditions of your largest competitor are decreasing, of course, it is your own policy. But nevertheless, the two networks accepted it. And what's more, they accepted to maintain or to increase the forecast of sales for next year. They didn't recede from life insurance as a business model. They are still in a process of proposing at least the same amounts next year. Gilles mentioned at the beginning of the presentation, the fact that the forecast made by FSR [ph] for 2012 market below -- low by 4% -- down by 4%. Our own networks accepted the budget where they would be slightly higher than last year. We will see. We will see though it is not a guarantee that they will do it. But it is at least a sign that they are more engaged in the business than the market on average.

The net insurance revenue is coming from different roots. The non-recurring represents very secondary elements. I will not comment. The own funds portfolio jumped from EUR538 to EUR714 million. It is clear that it is a place where we realized gains on the portfolio and it was a way for us to be able to offset losses. I already mentioned on the impairment we had to absorb it by different unrealized gains.

The recurring international profit revenue was up by roughly 20%, representing a very quick growth in Brazil as usual but also, to be frank, by sufficient roof in different countries where we are. The worst case is Cyprus and Greece where the network there is the same as last year. But with the rest we had an improvement of our revenues.

Of course we our recurring French revenue, which is much more on savings business grew slower and we signaled there that all the segments were up in France except the Personal Risk segment where we have to re-clarify some producers because there is technical loss on some of the contracts this year. Of course these contracts are in process of being renegotiated.

When you see the net insurance revenue by segment in France, you see that the risk is up nevertheless because the term creditor insurance is still up. The pension business in France is also up. We had not only increased our financial revenue. But we had improved also with technical results and the management of technical items of this contract and the savings business is saved, I would say, by the fact that amounts of euro contracts are still growing all the time. It is clear that the unit-linked business was down and that revenue on the new flows were below last year's.

For International, we have clearly the leadership of Caixa Seguros which is up. With all the business lines being in good shape, in Caixa Seguros we have to absorb the reform of term creditor market where we had to make some sacrifice on the prices and on the commissions. But nevertheless the mentioned scope of the business was expanded by 26% last year and we keep a very measured dominant market share in this business in Brazil in spite of the fact that the margins are slightly lower this year.

You see I already said that UniCredit Vita CNP BVP are up this year. It is linked through a switch on risk business models, which we have initiated for several years in the two countries. But it gives some effect nowadays.

The administrative expenses are under control as you observe there. In France, in fact the growth was exclusively due to the fact that we now include the new subsidiary MFPrevoyance. Without this new subsidiary, the cost would be down by 1.2%. And in international, the increase of cost by EUR10 million is completely attributable to Brazil where the increase itself was about EUR40 million. In all the subsidiaries we had a decrease of cost notably in Italy where we reduced the cost by 17%.

Still you have the EBIT, which rose globally by 17% by business segment and by geographic region. By business segment it reflect what I already commented in the slides before. It is aggregate of figures which we were already commented. And on the right you see that the international business is still representing 40% of the EBIT with South America being just below EUR700 million.

The EBIT margins by segments are up compared to average technical reserves in savings and in pension businesses and they are flat compared to revenue on the risk business. Therefore, it is a year where our margins were not damaged by the conditions of the market. And you will see that from the point of view of value creation, the MCEV being up by 2%, new business ratio remaining at 12.3% and the ROE, of course, was slightly lower than last year due to the impairment already mentioned.

Here you see that the MCEV which was up 19.6% after having paid the last year's dividend is now at EUR20 per share. We've growth in pro team growth on adjusted net asset value, which posed -- it is the reason for which it seems necessary to focus a little attention on it which posed an important improvement of free surplus of the Company. We were challenged all the time last year about the extent of our free surplus ability we have to pay dividend and to pay our development and so on. It is confirmed this year and there is another slide where it is better depicted.

The value of in-force was slightly decreased. It is mainly due to the conditions of economic environment, the value of equities, the spreads, the level of interest rates and so on. Would we have made this measure in September or in June, there would clearly have been quite different figures. But the end of the year was not the best moment to make this chart.

Many of you have expected us to build this slide about operating free cash flows where we compare the expected in-force contribution and you will find in the MCEV report the different elements we take onboard to elaborate these figures. The contribution of in-force business to the current year profit, the interest payable on the free surplus which are calculated on this purpose, the payment of required capital and variances experienced which contribute to the in-force contribution.

On the other side, we depict the amount of required capital for the new business last year, 2010 or 2011. And the last figure is clearly the operating cash flow which allows us to pay dividends and to make new development and eventually acquisitions. Of course, now we will provide these figures and these analysis year after year.

I already said that new business value ratio remains stable in 2011. You see that it was strictly stable in France. We have a very slight decrease in international due to the question of term creditor insurance in Brazil, already mentioned. But as a whole, it represent a very, very little decrease of 40 or 50 [ph] basis points of ratio in itself. And clearly the APE decrease reflects exactly the decrease of new premiums and it is the only explanation of a change in new business value.

Now, we go through our different new business values country by country. Similar to last year in France, little below in Brazil, the situation was already given. You see that it focuses on the project mix. In Italy it was slightly higher with an improvement in project mix. But of course with negative financial market conditions. And it is still very high in our Spanish activities which are much more focused on the savings -- on the risk businesses than in the other countries.

The decrease of the ROE reflects the amount of the provisions which have to be made this year. It is to be compared to the last crisis year, 2008. We are in the same level. I'd say that when the crisis is at the stop in France, in Europe, the ROE of CNP goes to 8.8%. It represents a certain resistance of ratio in itself.

Now, some views about the risk management of the Company. The solvency capital required at CNP requirement and coverage ratio are there. The coverage ratio will be at 115% if we consider on the equity and some debt. And at 135% if you take into account unrealized gain, which the regulation takes into account in solvency I. The figures there are made including the assumption of scrip dividend payments being accepted by only the shareholders of the bank. That means that our assumption there is that which is already accepted by them at the Board of the Company, the three shareholders Banque Postale, BPCE and Credit Agricole [ph] accept the scrip dividend and the rest of the market would not do.

We have, on Solvency II, an estimated coverage rate of 150%, which is slightly below last year's by 10%. Just two additional figures to highlight this element, the actuary who follows the best French market has calculated that the current ratio of French life insurance market as a whole, all the companies in his – France [ph] decreased by roughly 20 points, from 107% to 88%. That means that as a whole, in this metric, the life insurance market is below the required SCR. If Solvency II was applied this year, many companies would be below 100% and the decrease by 20 points of ratio. Where our decline was lower. And of course the security of the Company is higher with 150%, we are far from being threatened by the level of capital here.

We have made some views about the investment strategy. You see there on the left how our investments are made of. We have a part of equities and equity funds, a part of bonds, a part of property. And we highlighted the investment guidelines we follow nowadays. We have boosted liquidity at the end of 2011 to be prepared to a potential increase in surrenders if the policies of the dividends we have posted were to convince customers to withdraw their money.

In fact, it is not happening nowadays, okay. Not significantly. Therefore we will reduce this liquidity. But nevertheless, it was a security we had to take to be ready to face surrender wave without having to sell quickly anything on the market in order to be able to have liquidity.

We are reducing the exposure to peripheral sovereign debt by 33% gross exposure at fair value last year. This decrease is continuing. Every week we receive, Gilles and me, a paper made by Michael who is there, the CIO of the Company, showing what are the sales made over -- during the week. Of course, we are -- it is -- it depends on the market. We are careful not to make too much pressure on the different compartments of the market.

For instance, we were selling Portuguese bonds, sovereign bonds in November. Now, we stopped making these sales because the prices and the liquidity of the market do not allow to make it at reasonable prices. Whereas it is not the case, for instance, Spanish or Italian bonds where we can make disposals at correctly good price.

When we make these divestments, we conversely realized unrealized gains on other securities over bonds in Europe, mainly German, Netherlands bonds and so on to offset losses observed on the southern peripherals. And we have monetary invest, i.e., the reason for which we have a lot of liquidity. We have the new monetary invest after all these disposals.

And this money is mainly invested now in French bonds, in French government bonds, debts, only at interest rates slightly above the current level of the market. We are also seeking better returns from different other elements of portfolio. We invest in property, we invest in credit assets when we find, we invest, also it is in another slide, in infrastructure.

And last in this slide, we are scaling from equity portfolio. The Board has adopted the strategy under which we will decrease from a little above 9% to roughly 7% at the end of the year, the part of our assets invested in equity. Here you have a sample of elements which are completely disclosed in the reports you have in your file of our sovereign exposure in the different countries. Of course we selected there the countries which interest the investors.

Subordinated debt, I did not come back to that. We issued last year some papers. And we have no obligation to make additional issues until 2016. In fact, we have EUR300 million of bonds coming to maturity in 2013. But it is not very significant. And after the next will be in 2016. But nevertheless if there are possibilities to catch correct levels of rates we will do it before.

The haircut on Greek sovereign debt was at 70%. It was discussed with of course our auditors and with our different competitors. And I think it will be in the market. And I already mentioned the realignment of investment guidelines and the fact that the Board has accepted to recommending a dividend of EUR0.75 sic -- see slide 36 [ph] per share with scrip payment option. It is the first year and to answer a question which was raised before the meeting, it's the first year. We do not intend to make a policy, usual policy of it. It is because in this year we are concerned about the equity in the financial sector is very strong. But we do not consider the scrip payment option as having to become a tradition at CNP.

## Gilles Benoist {BIO 1824462 <GO>}

I'll be brief on the last slide just because if you want to ask questions on certain offset subsidiary. Just on some elements on 2012, well, difficulties in the French market have not ended. There's no reason for having a good market this year. The French federation is scheduling a decrease.

As Antoine mentioned, we shall try with our networks not to be in that condition. So means that our target is still to gain market share in 2012. But it is clear that -- the fact that there will be, as you know, elections in France puts a certain air of uncertainty. For example, if you look at the program of Francois Fillon he says I'll take the tax exempted Livret A, I shall double the ceiling and so on. So things would only be a little less foggy after June.

So it's a new era for life insurance because we are convinced since now two, three years that the future of life insurance in France is clearly towards more and more biometric risk in the products and to focus as the General Accounting Office of France [ph], I'm still a member of that company, has declared in a report the real target of life insurance is to finance pensions and long-term care. And it's clear that if you look even at only the programs, the politicians that are in the run for presidency, it's clear that they do not know how to solve the problems of pensions and longer term without life insurance. Means that perhaps in the future there will be a less important amount of revenue as far as a part will come to liquidity or to banks. But a more important part with higher returns with in true life insurance products, true meaning with risks. And option on risks.

For 2012, of course, we have discussed with each of our great partners the way we could improve or save our market share. There is a detail that perhaps it's important. As you remember these two networks where the main networks historically distributing the Livret A in France. And as you know, three years ago government decided that every bank in France could distribute the Livret A except that for creating a transition for these two networks, it was scheduled that for 2010 and '11 that a surplus commission, supplementary commissions for transition, for taking care for the Postale Banque a very modest customers.

All these extra commissions have disappeared at the end of 2011. Means that these banks need more intensively commissions from life insurance. We will not -- it's not useful to -- not necessary to convince the Postale Banque, it's total -- they are totally convinced. The savings bank have to make an arbitrage between their need in balance sheet savings and the commissions that they need in their -- for their reserves in life insurance. But they clearly still agree completely on the fact that they will go on putting in unit linked supports the bonds they are issuing in their networks. And for CNP Tresor, we put the stress and focus on high net worth customers creating a specialized division for high net worth and products for them.

We are confident in debt/creditor insurance because we know that real estate is still a market that's going up in France clearly, in Italy also. And that's the way we have offset the fact that Cofidis was a great partner of CNP, has disappeared because the control of Cofidis has been taken one-and-a-half year by Credit Mutuel. So they have disappeared from the landscape. And we are still piece by piece extending our share of the market in France in that field.

And in Europe and South America I think I'll make two comments but not going into slide after that. We have two different pairs where we have a new strategy to try implement. In Brazil our target is clearly the personal agreement with Caixa Economica Federal to try to find common targets to extend our activities in Brazil or in some number of countries of Latin America such as Argentina. We are already in Argentina. But also in Colombia and in Chile and so on.

And it is -- the idea is very simple. We looped together two targets. If we found interesting targets, then we finance together the operations and if it needed we open the capital. We'd be doing an appeal, of course a partial appeal of Caixa Seguros that will suddenly reveal the true value of Caixa Seguros. As some of you remember Raz [ph] already one-and-a-half year saying, treasury -- well, we have a treasury. Brazilian estimations of the value for 100% of Caixa Seguros in euros will be between EUR5 billion and EUR6 billion because it's a very efficient company. It has many awards and so and so on. So that's our strategy in Latin America.

In Italy it's completely different. We are not satisfied by the partnership with UniCredit. And we've given, by the way of the non-required impairment, mean non-required by the accountants, that the voluntary impairments a message that we -- it cannot go on like that. So we have started strong discussions on the share of the value and value creation of the Italy subsidiary. Well I would say, to use a French expression, --, mean it goes through or it breaks.

I do not know the result now. It's a number of weeks. Not above three or four months discussions to try and see if we are able or not to find a new balance of this partnership. So after that I do not go on this slide because it's -- of course it's obvious that in Italy we try to save the risk activities that are creating value on the contrary of savings activity.

We are very happy with the partnership with Barclays. You've seen the value creation despite the fact that it's going in countries where situation is not so good. Our only fear it would be that Barclays would decide to go away from some of these countries. So we are checking that very, very precisely, while Caixa Seguros is --

Well this is Gilles. That's the way for Jim [ph] to thank kindly (spoken in foreign language), means just a little pat to say, well, this Company has not so badly behaved in the past and that's the share price. And that's all because now you have appendices in the book with many figures that you could be useful for you. But now it's time for questions. And we are, Antoine and I. And the team. And the actuary is at your disposal to answer to very interesting questions, for example, in MCEV or the way we were being surprised, for example, by Solvency II.

I mean, to be very honest, one week ago, Antoine came in my room and said, guess, boss, where should be the in Solvency II our level as far as it was EUR160 million. And looking at the incredibly mess of 2011. I said, well, EUR120 million, I think like that. He said, no, no, well, EUR150 million. I said. But why?

And one of the reasons (inaudible) come back and say is the fact as far as we decide with the shareholders to make the level of equity come down from 9% to 7%, projected on the future that it's having a great impact on the SCR. I mean, if it had to demonstrate the volatility of Solvency II, that's a pure success. So now, yes --

## Questions And Answers

### A - Unidentified Speaker

Sir, would you just take a moment and let the team members to just stand up briefly and introduce themselves --

### A - Gilles Benoist {BIO 1824462 <GO>}

Yes, of course. Yes. So (foreign language spoken).

### A - Unidentified Speaker

Jim will introduce everyone.

### A - Gilles Benoist {BIO 1824462 <GO>}

Yes, Jim, introduce the guys.

### A - Thomas Behar {BIO 18964489 <GO>}

Thomas Behar, chief actuary of CNP.

## A - Unidentified Speaker

(inaudible) in charge of accounting and tax.

## A - Marcelo Sayem

I'm Marcelo Sayem [ph], I am the chief risk officer of CNP.

## A - Michael Cohen {BIO 20040950 <GO>}

And last but not least, hello, I'm Michael Cohen, the CIO of CNP.

## A - Gilles Benoist {BIO 1824462 <GO>}

So you have the guys.

## Q - Mike Francis {BIO 18618650 <GO>}

Mike Francis [ph] Bank of America Merrill Lynch. Three things that I wanted to check; first was starting indeed with the free cash flow. You spoke about, yes, quite nice number of EUR800 million-EUR900 million in the last two years. If I dig into the detail on the embedded value report, around EUR300 million-EUR400 millions of that comes from experience variances. Can you explain a little bit what's driving those experience variances and how sustainable they are?

The second question is on the budgets for 2012 with La Banque Postale and BPC, the growth. And you also talked about the fact that there is an incentive for them to get better commissions on insurance to, let's say, fill a gap. What has the compensation -- has there been any difference in the compensation per contract going forward or not?

And last question, your risk profits improved a lot in the second half of the year compared with the first half. First half was quite disappointing. You gave a couple of reasons like Brazil and the credit business. But I was wondering how sustainable that profitability within the credit business is and what could the benefit from the repricing be for the loss making contracts that you were talking about? Thank you.

## A - Unidentified Speaker

Okay. So first (inaudible).

On page eight of the public embedded value report you will find on the website, you will see effectively that we have assumptions. One of them, as just been said by Antoine and Gilles Benoist, which is the part of the equity 2.5% decrease that we have taken onboard in the MCEV share allocation is a major part of the assumption (inaudible) that we have underlying that you asked for. The other one is experience variances, just up minus 55 is the higher surrenders that we have seen.

And I think your question is it permanent the decrease of the share part I think that we're entering a Solvency II world. And not supposing that it will increase again.

## A - Gilles Benoist {BIO 1824462 <GO>}

On the -- you see if I have -- on the conditions -- commissions on the networks, there is no change in the regime of commissions towards the network. It is in our contract, our commercial contracts, it is scheduled that in 2012, some conditions of the commercial agreements can be rediscussed. I mean, not the principles, just some adjustments on the down price and the level of commissions can be discussed.

And at the end of 2012, either the discussions have reached a point of common agreement on better balances and this will be implemented for the three years, 2013, 2014 and 2015 until the end of the pact. But if the discussions doesn't come to an agreement, then it goes on exactly with the present conditions until the end, okay, means that the fact that we are in a pure viable cost, mean, they sell, they don't sell, they sell to get commissions or -- this doesn't move, the rules doesn't move 2012.

We just can and we do that for a little amount I would say of EUR10 million. We just sometimes put a special incentives, for example, if you do such performance in unit link until the end of this year, then you will have a little bonus that's all, not more or less. But sometimes these bonuses are efficient because they -- and they will be still more efficient in 2012 as they are -- they've lost the extra commissions on Livret, on Livret flows.

In Brazil, we had to make this move to keep our dominant market share in credit insurance. But it has been partly offset by higher volumes, first. And then we know that there's no immediate risk of having to make a new decrease. I mean, it's not asked by the partners; it's not necessary on the market. But of course, we know that it would come one day.

We had, by the time being, to have been able to create new activities with new margins. And it's clear that already the development of retirement products is way too offset. The new launch of health, collective health contract by Caixa Seguros is another value creation product that is launched now. And the new partnership for automobile insurance that has been given to Sul-America. On the contrary versus Veracruz wasn't. That is also a potentially supplementary creation because Sul-America is already and will be more efficient than Veracruz in selling automobile insurance for Caixa Seguros.

We tried to keep globally a very high level of margins knowing that there will be some adjustments in some -- just to follow the market and to keep our strategic positions on certain businesses.

## A - Unidentified Speaker

(inaudible) remissions with the two networks in France, you have in the complete report, accounting report, the level of commissions explained to each of them. Globally, it amounts to more than EUR1.3 billion to the two [ph]. And what is surprising sometimes if any is that when we discuss with them yearly, we discuss on policyholder dividends. As globally, 10 business points on policyholder dividends represents EUR200 million. So discussion is very quick.

We decided a figure, they said okay, we discussed a little bit. But there is no long discussion. After we discussed about their commissions, they know that they have the right. And the contract probably is EUR1.3 billion let's say. Okay. And we take yet days and days to discuss about EUR10 million additional for them. Under which conditions they will get these EUR10 million and so on? Well it is a theater. We play it with pleasure because it is a way to sit somewhere than on our current margins.

You raised also another question, which would be the impact of the repricing of different risk producers. We have mainly one problem, which is the pricing of some risk producers with French local authority collective product. And we are entering in a negotiation with them. But it will take years, not one year. But several years.

And if we improve this year by EUR10 million or EUR15 million profits, it will be the maximum. But there will be another year of improvement and so on. But keep in mind that on this global segment, the personal risk segment in the Company, more than 75% of the revenues and of the EBIT are made abroad. Then we stress it because it is a problem. But it is relatively on the fringe of the profitability of the whole business line in general. But it is probably the inheritance of the period of when people considered that our international activities were something besides the core business in the Group.

In fact, when you see the new premium this year, for instance, the business of pension was larger abroad than in France. And when you look at the revenues, EBIT, the pension and the risk business were larger abroad than in France.

## Q - Mike Francis {BIO 18618650 <GO>}

Okay.

## A - Gilles Benoist {BIO 1824462 <GO>}

Take the microphone.

## Q - Unidentified Participant

Frederico [ph], Main First Bank. On France, can you give an outlook on the net inflows besides the premiums and can you say how this first few weeks of the year have been?

## A - Gilles Benoist {BIO 1824462 <GO>}

Yes.

## Q - Unidentified Participant

Then can you remind us the average minimum guarantee still in France. And now it's come down I believe, in the year? Then on Italy, can you say if you decide to exit the partnership with UniCredit, how that would work and what price. I figure it must be something around the embedded value. But if you can comment on that.

And lastly on the IPO of the Caixa Seguros -- potential IPO, I was wondering have you already discussed with your partner at all or it's for now just a theoretical hypothesis?



## A - Gilles Benoist {BIO 1824462 <GO>}

So coming back to -- first, to France. Your first question was January, I would say beginning. We are in January in positive net revenue. Don't know if we are still alone in the market in that shape, means that there is still a contract between the Postale Banque and the savings bank.

There is a contrast between individual products and collective products. But we are in positive and that's the good news, because it's now obvious and it seems that the market is still suffering. First indication.

Your second question was, I try to remember -- yes, globally at first, we only gave the legal guarantee in our product. As you say, the legal guarantee is 70% of the 10 years' bond, state bond in France. At the present time. So it's a level -- it's 70% of the 10 years' bond. Two, I think it's two. But I think it's more interesting for you.

The global minimum guaranteed rate in all the portfolio of CNP, is less than 1% versus more than 2%, for example, AXA [ph] or more than 2% for (inaudible). It's exactly two times less, okay? This is a figure that you will find because we are giving that for now years and years in the -- this book that we will make for road shows. And it's Japanese scenario of CNP. It's a very classical slide. And then you will -- we give the way we can -- we could resist to a 1% world without sacrificing our commissions and all the protection. And we give the global amount of guarantee in all the portfolios of CNP. Jim, do you want to --



## A - Unidentified Speaker

(inaudible). That two-thirds of the Italian government is actually regulatory maximum. And so it can be - core [ph] production is actually zero guarantee. It's maximum, it's not an -- it's not a bogey or bench mark, it's a maximum.

## A - Gilles Benoist {BIO 1824462 <GO>}

Okay, that was the second question. And the third one was --

## Q - Unidentified Participant

(technical difficulty) exists or not exists.

## A - Gilles Benoist {BIO 1824462 <GO>}

I cannot say how it will end.

## Q - Unidentified Participant

It is the question.

## A - Gilles Benoist {BIO 1824462 <GO>}

All what I can say, it's going to at arm's length and not withstand the next, that's all. So I cannot say before if we will be driven to get away are not. We don't know. It's two years. And I mean -- it perhaps depends also on the strategy of UniCredit. If UniCredit is happy or not to have three networks in Italy, that is the question for us.

And so the fact of having three networks, I think I feel that they are beginning to have in mind that it's too complex. And on the other side, it's a reverse, it's true also for being one of the three. But don't ask me to give the results of negotiations; they are just starting, too soon.

## Q - Unidentified Participant

The safeguard closes.

## A - Gilles Benoist {BIO 1824462 <GO>}

Yes. We have, of course, of course.

## Q - Unidentified Participant

Then the last one, sorry, on Brazil.

## A - Gilles Benoist {BIO 1824462 <GO>}

And on Brazil?

## Q - Unidentified Participant

Yes, I mean, it was --

## A - Gilles Benoist {BIO 1824462 <GO>}

Oh, yes, it's very clear. I mean, the Brazilians until last year were really reluctant to the idea of a pure basic ideal -- I would say to reveal the value. I mean, what's not in their idea was not in there.

So the change now is that they -- as far as it would be a measure to implement a common development in Brazil or in Latin America is under the way they have accepted. We have teams that are studying opportunities in Latin America together. And so, I mean, not only in Brazil, in Columbia, Chile and Argentina and so on.

We will at last do what we intended to do two years ago. But we couldn't do by -- for (inaudible) commissions, we will get the -- our Argentina subsidiary attached to Caixa

Seguros. We have decided at the end of 2011 to create a new holding for Caixa Seguros group. This holding has -- I think we could have a permit like a --(foreign language spoken).

Agreed. We have created this new holding for two reasons; first, this will allow Caixa Seguros Group to have different lines corresponding to different regulators in Brazil, because, for example, insurance activities are regulated by the specialized regulator. But consortiums are regulated by the banking regulator in Brazil.

So we will have specialized lines. And we will be able now to get the Argentina subsidiary attached to Caixa Seguros Group. But the second reason is that this holding was also necessary to be able to stay at the same balance, 5149 at the head, between Caixa Economica Federal and CNP. And to make under that an IPO potential partial IPO. So the principle is accepted. We look for the opportunity. We have let locally a certain amount of capital already not by taking 100% dividends. That means there are already some money in Brazil ready to be invested.

## Q - Mark Sadally

Mark Sadally [ph], Morgan Stanley. Lots of questions actually from a very interesting presentation for the results. Firstly, some credit-focused questions. Could you maybe just give a sense of a bridge from your Solvency I position at that quarter to year-end? What were the key drivers of that shift?

I'm presuming the vast majority was linked to movements of French treasuries. But if there is anything else that really was driving a change, could you let me know about that please? And could you give a sense of given the way the world has improved massively since year end maybe where that Solvency I ratio is maybe more like today?

Secondly, on your asset de-risking, was a clear progress made last year given the return of liquidity to market, LTRO (investment). Could you give a sense of what further de-risking may be undertaken in the first few months of this year?

## A - Gilles Benoist {BIO 1824462 <GO>}

Just to give you a figure, not to forget on the four countries, I mean the big -- of course, Greece being a part, we are at minus 44% compared to the beginning of our movement of de-risking. 44% decrease of the level of these four countries sovereign debt; we were at only 20%-25% at the end of 2011.

But Antoine will give you -- and perhaps you have a --

## Q - Mark Sadally

Well if you could just clarify that bit against the numbers here that would be fantastic. Secondly -- thirdly, I should say sorry, the adjustment, obviously those numbers that you present are inclusive of all the JVs in Italy and with Barclays. If you were to split out and subtract those JV holdings of preferred debt, what would be the core amount left on the CNP balance sheet?

Then just finally, some guidance around -- I'm sorry, last question. But the core CNP Assurances balance sheet, if you were to do a Solvency I ratio just on that, excluded all the -- where do you think that ratio would be?

## A - Antoine Lissowski {BIO 4384399 <GO>}

Okay, could you reformulate your first question please?

## Q - Mark Sadally

The movement -- I think the Solvency I ratio at 3Q was about 151%. Then it moved to 135% I think at the year end, to try to understand what were the key -- I think it was an idea, what was the key --

## A - Antoine Lissowski {BIO 4384399 <GO>}

(inaudible) level of unrealized gains.

## Q - Mark Sadally

Yes.

## A - Antoine Lissowski {BIO 4384399 <GO>}

The inequity it was mainly --

## Q - Mark Sadally

It was mainly in equities.

## A - Antoine Lissowski {BIO 4384399 <GO>}

Yes. And also the announcements of the splits in precisely in different southern countries which represented a loss of unrealized gains on these assets. It is very sensitive to the value of equities and on the bonds we have in the portfolio.

## Q - Mark Sadally

The CAC seems to be pretty stable in the last quarter of last year, the CAC. And I was just wondering what were the big --

## A - Antoine Lissowski {BIO 4384399 <GO>}

But we realized some unrealized gains meantime.

## Q - Mark Sadally

Okay.

## A - Antoine Lissowski {BIO 4384399 <GO>}

Okay? That was for the first one. The second was -- additional question about Solvency I on CNP Assurance itself. And so you are in mind about on Solvency. We will put it on the website the solvency of CNP Assurance with core division of the Company. Regarding the asset risking of the Company, perhaps, Michael, would you develop some elements on the assets you are in the process of buying nowadays?

## Q - Mark Sadally

I'm buying -- ?

## A - Antoine Lissowski {BIO 4384399 <GO>}

How you de-risk while investing.

## A - Michael Cohen {BIO 20040950 <GO>}

Yes. We have largely sold, as mentioned Gilles Benoist, the peripherals and for the reasons stated by Antoine we had kept a lot of money on short-term assets. For the rest of it we are still investing on -- well as usual, on corporate bonds. We are looking at, marginally for the time being. But certainly more extensively later to loans given the way -- the reason -- also given by Gilles Benoist of derisking by banks and based on Basel III liquidity ratios. And we are not on the end of the year. But during the year, emphasize investment on real estate on the one hand. And also on infrastructure on the other hand. And we are intending to do so next year too, this year too, yes. We are certainly, for the main part of our investments, are going to invest on -- French government for instance now it's necessary, given the money we had to invest.

## A - Unidentified Speaker

And regarding the part of sovereign debt which are owned by CNP Assurances itself excluding the subsidiaries in the countries, I would say we conversely in Italy we have something about EUR4 billion of Italian sovereign bonds. In Spain and Portugal we should have something about EUR800 million of Portuguese bonds. And roughly the same, perhaps EUR1 billion about -- of Spanish bonds, that's almost all.

## Q - Mark Sadally

For CNP balance sheet.

## A - Unidentified Speaker

No. That is -- you have here the amounts for the Group. And what I was mentioning were just the amounts of (multiple speakers).

Four billion in Italy. And EUR800 million of Portuguese --

Portuguese and Spain. That's all.

## Q - Mark Sadally

And so just to clarify the other question, just to say so that the roughly EUR10.7 billion Italy stake at yearend. And the EUR5.8 billion Spanish holding, did that -- has that changed materially since yearend?

## A - Unidentified Speaker

Yes.

## Q - Mark Sadally

Can you give some guideline --

## A - Unidentified Speaker

It has changed, since I don't have in mind -- the present situation depends on what has been sold from January to now. And this is not negligible because it came from 30% to 44%. But only Michel has the figures.

Our target in general is to keep no more than EUR10 billion of these different securities, meaning the Italian, Spanish, Portuguese. And Irish in the balance sheet of CNP core at the end of the year. And we will publish every quarter where we -- the point where we are to show you how we proceed to decrease.

The amounts for French detention were slightly below EUR26 billion one year ago, just above EUR15 billion at the end of 2011. And it will be EUR10 billion, not more, at the end of 2012. And the rationale behind this is simply that now we decide to evaluate the diversification not on the basis on the proportion of assets, as before. Before we are saying we should not be more and more than 1% of the assets, for instance in Greek debt.

Now we think otherwise. We say, if there was an impairment of 20%-30% in such and such a security, we should not damage the yearly financial product by more than such and such percentage of what we earn every year. Because it was not expected. But sovereignty fails in Europe. But nevertheless it led us to consider that the pure resentment on the basis of balance sheet is little afloat but because it might happen. Even it is represents a different, a little part of your balance sheet, it can be one year, a very important shock to your profits.

That's exactly the reason for which -- when we decided to find the way to maintain the policy holders' surplus to quite 2.9, the idea was very simple. If the Greek story ends badly, then the market will attack Portugal. And we have to resist to Portugal. Of course, doesn't seem to be that scenario. We're very happy that at the time we were fixing the target. We didn't know. Well that's the reason for having this great coffin [ph] maintained at near from EUR3 billion.

## Q - Mark Sadally

(technical difficulty) question, just to clarify, where do you think your Solvency I ratio is roughly today from the yearend?

## A - Unidentified Speaker

Solvency I ratio --

Well it is probably now not far from the level it was at the end of the year, it was --

Well -- (multiple speakers).

Well it might be slightly higher. But the interest rates were lower during last week's than at the end of the year.

No. The CAC 40 being at around 3,400.

It might be at 140 or something.

140, yes, well, of course. It goes sharply.

## A - Gilles Benoist {BIO 1824462 <GO>}

To give you more precise figures about what you -- your question related to France, we were -- regarding the four government lands, the government bonds Italy, Spain, Portugal. And Ireland we -- the amount on cost basis, not at market value basis was EUR26.3 billion at the big -- at the end of 2010. It dropped to EUR17.9 billion at the end of 2011. And it is now, up to now at EUR15.1 billion. So we are regularly reducing the amount.

## A - Unidentified Speaker

Target system, yes.

## Q - Mark Sadally

On the back of your comments on the risk -- asset derisking, what is your analysis of the potential impact on the average yield of the portfolio and crediting rates for the future.

## A - Unidentified Speaker

It will have an impact between -- depending on the portfolio, between 20-35 basis points.

Yes. And it was also a reason for which first we kept this liquidity. And second, we are relatively comfortable with the reaction of the customers to the present movement. It shows to be frank that there is, I would say, no reaction -- no real reaction by our customers to the level of rates, crediting rates every year.

Okay, for different reasons. Many of our customers are above 60, for instance. And for them the tax considerations are more important than the return considerations. It is amongst the reasons for which we can apply such a policy. If we were in a world of say unit-linked asset management and so on, it would be very sensitive to that. And it is a reason for which when you consider the life insurance business you have to make a different analysis from, I would say, high net worth individuals who invest in life insurance and who gives us this brief switch on return by 10 or 15 basis points, which are not our customers.

And I would say the very average if not poor people who have -- we have numerous but not very rich, which we have, which are very, I would say, far from being optimal and for marking arbitrage from one product to the other, okay. The usual need of this money to keep it in case of good year. And to bequeath it to the family after --

## A - Gilles Benoist {BIO 1824462 <GO>}

Forget two things. In a crisis period, the main questions of the policy holders are is the Company I put my money in will be in life in 15 years or in 20 years. I mean, it's the real question. It's not, do -- will I have 25 basis points less or not. But can I let my money in that company. And the flight to quality is clearly visible last year towards CNP Tresor and Postale Banque. And even in certain banks where we've very strong image.

First -- the second element, don't forget that when we had -- when we thought two years ago, that there was a risk of redemption due to a French division of the highest court telling that insurance have not sent the right papers 10-years ago in the new unit links products. And that de facto the policy holders have the right to redemption. We have written to 1.2 million French customers telling, you have the right to abandon your contracts without the conditions and when you have this right, of course, you are losing the tax exemption. But you can do that.

And initial capital. And you get your initial capital, then the number of people who have said I'd like to do are exactly 0.3%. And in that some 0.3%, half of the customers had contracts in surplus. I mean, they have gains, they just needed money at the moment where we have risen to them, means that there is a very strong relation of these people due to the product. And it's one of the reasons for persistency of this portfolio, not only tax reasons.

I think it's something that's true since some say 14 years. I mean, I remember -- sorry, I'm an old soldier but I remember doing the road shows for the IPO in '98 in United States and investors telling, well, there is an incredible persistency in the French portfolios of life insurance products. And trying to get why, for tax reasons, patrimony. But a global attitude means, in many French families the children doesn't know that their parents have a life insurance contract. I mean, you know it's in the box in the -- and it's a very strong -- it's the money you only get if there is a drama. And if there is no drama, you transmit to your children through inheritance. I think it is important to integrate that. Of course it's not the case in Italy.



## A - Unidentified Speaker

And in many households the wife doesn't know that the husband has a life insurance policy to another woman.

## A - Gilles Benoist {BIO 1824462 <GO>}

You can choose the persons that benefit freely except in one case that can be put in trial. If you put away a too important part of the patrimony outside your family, then your inheritance can say to the judge, well, it's not reason, it's foolish -- our father has kept only 5% all the others. But you can choose everybody. You can choose associations, you can choose non-profits, you can choose whatever you want; it is important.

Other questions? Ralph?

## Q - Ralph Hebgen {BIO 6297020 <GO>}

I'd like to --

## A - Unidentified Speaker

You have three questions or more?

## Q - Ralph Hebgen {BIO 6297020 <GO>}

I've got loads. But I've got two for the moment. Ralph Hebgen from KBW. Just one nerdy thing. This relates to net insurance revenue. And specifically the part of that which is related to own funds. That went up quite remarkably. And I think I heard you guys say -- Antoine, I think you mentioned that this related to some material extent to gains harvesting.

So my question is, this gains harvesting, was it an element of that which was put into the PSR. And so therefore roughly how much of the very remarkable increase in net insurance revenue actually filtered through into the EBIT?

## A - Gilles Benoist {BIO 1824462 <GO>}

I think under the control of Antoine, if you take the EUR2.3 billion EBIT, you can take off EUR150 million. That's the part of the gains that has been realized. It means that even without that --

## A - Unidentified Speaker

In fact, we realized roughly EUR450 million unrealized gains, of which EUR300 million for the PPE to offset some losses. And EUR150 million to the EBIT is roughly the way we managed that.

## A - Gilles Benoist {BIO 1824462 <GO>}

But even without that the EBIT would be above EUR2 billion.

## Q - Ralph Hebgen {BIO 6297020 <GO>}

Right, okay, fine. So EUR150 million of that went to EBIT and the rest into reserves?

## A - Gilles Benoist {BIO 1824462 <GO>}

Yes, exactly.

## Q - Ralph Hebgen {BIO 6297020 <GO>}

Perfect. And the next question then relates to -- because the operation gearing which we saw here, the revenue was up, expenses stable created a very potent increase at the bottom line. So on the expenses, I still remember that there is like a secret business plan going on, a part of which includes something called Efficio.

## A - Unidentified Speaker

Yes.

## Q - Ralph Hebgen {BIO 6297020 <GO>}

Would you just be able to give us some background of where that is going. And perhaps also what we can expect more expenses to progress?

## A - Gilles Benoist {BIO 1824462 <GO>}

Yes. We -- the global ID when we launched Efficio program was in four years to get a 10% decrease in global expenses, would mean something like around EUR60 million per year and like that. And of course, we are in absence on that. Why, because at the end of 2010, the Board gave me an authorization of having due to the great investments in IT systems for Solvency II, due to certain reasons, an increase of the budget.

And I decided in June not to use that. And I decided for the third -- for the second year it would be a pure total stability in euros. So I decided a cut of EUR23 million in the budget. And I decided that the budget for 2012 would be the exact equivalent with no difference. Means three years total stability in euros. So it means we are -- compared to what was the previous plan of Efficio. We've gained half-a-year we are in absence clearly for that reason. And we have reshaped the curve, integrating these new savings to put the hold on depression of the costs.

It means it's really a (inaudible) because the, we cannot escape to an increase of three, a little more than three on the salaries. I mean, in France it's quite inevitable. But we will have the first gains of the new IT systems. I mean, we have totally renewed the accounting system, the systems to manage the assets. And the simulation model for simulating the new internal model, that's dozens of millions of euro of investments. But these systems are of the first session [ph], coming in 2012. And so after that there will be a decrease in IT expenses.

## Q - Ralph Hebgen {BIO 6297020 <GO>}

So perhaps just to remind us, what can we expect as the current perhaps target of expense savings from Efficio going forward or --

## A - Gilles Benoist {BIO 1824462 <GO>}

Well there are still to my memory EUR20 million-EUR30 million per year to gain. So we are at -- that's the -- that we have to invent. And of course, it means that we want to keep that positive sizzler effect. And of course it is clear that our internal budget for 2012 is with the provision of the result that came due to the traditional good result of CNP. Everybody knows that the result of CNP is higher than EUR1 billion.

## Q - Unidentified Participant

(inaudible) from Goldman. The first question is, if I understand correctly the -- you are offering a crediting rate of 2.7% and the French saving product booklet A [ph] is -- doesn't offer a spread which is too different from the product that you are offering.

## A - Gilles Benoist {BIO 1824462 <GO>}

Yes. That's right.

## Q - Unidentified Participant

So to what extent just -- you can keep reducing your crediting rate in theory because your minimum guarantees are less than 1%. But to what extent?

## A - Gilles Benoist {BIO 1824462 <GO>}

Okay, that's a good question. It's clear that if you take the social taxes and you take the social taxes from the average 2.7% or so, you are very near from the tax exempted Livret A. And this has been calculated for that. I mean, you don't -- if you have a Livret A, you don't have the advantages of the tax regime of life insurance.

It's only an exemption of income tax, that's all, that you don't have the possibility to the inheritance tax and so on. And you -- of course, it is clear that we are at the minimum. But don't forget that this rate includes more than 40 basis points due to Greek, to Greece, means that -- yes.

## A - Unidentified Speaker

I would add also another consideration about that. It's clear that there is a risk of the competition between Livret A and life insurance. And it is the reason for which different life insurers explain that to French authorities and the governor of Banque de France at the end of last year when it was questioned to raise the rate of Livret A and it is the reason for which the governor of Banque de France state, I would advise the government not to raise it in spite of the model which would lead to that. And they didn't do.

And what is more important is that it was not only the lobby of life insurance who were opposed to the raising of rate of Livret A. But also the lobby of bankers because they are distributing Livret A and the fear that the raise of rate would oblige them to raise the rates of the deposits, of banking deposits on (inaudible). That means that what was the traditional competitor of life insurance but we've -- but life insurance being alone to defend themselves, is still our competitor that we are true to defend -- true to fight against the Livret A because when bankers for their own balance sheet are also opposed to that.

## Q - Unidentified Participant

For another reason itself --

## A - Unidentified Speaker

And nevertheless --

More than two-thirds of Livret A are centralized bank (inaudible) escape to the banks.

And nevertheless, the Livret A grew over the last month. That is strict balance sheet.

But it is clear that the -- if we wanted not to create -- perhaps, we don't know, it has never existed in France. But I would say an increase of -- in redemption rate, it is clear that we don't have to go lower than that. But the fact that the cost of Greece is a one-shot cost makes automatically, I would say, if there is no other drama in Europe, will make the return of -- life insurance will come up in 2012 because the shock of Greece has been absorbed, okay.

## Q - Unidentified Participant

(technical difficulty).

## A - Unidentified Speaker

No. There is a ceiling, yes. But -- you had a second question?

## Q - Unidentified Participant

Yes. And if you could briefly remind us for the passbook in France, what is the split between regular premiums and single premiums?

## A - Unidentified Speaker

(inaudible) will give you the --

Rough idea of that.

## A - Gilles Benoist {BIO 1824462 <GO>}

Most of the premiums that we have are unique premiums for France. In EUR23 billion, we have EUR20 billion which are considered for MCEV for example as single premium and not (inaudible) premiums. So it's a very low developing. It explains that the GAP [ph] is 10 times less, that's (inaudible) the good news we have.

## Q - Unidentified Participant

Okay.

## A - Unidentified Speaker

Okay. Ralph, is your hand raising?

## Q - Ralph Hebgen {BIO 6297020 <GO>}

Just one thing of interest because Gigi [ph] mentioned I think indeed Livret A is capped at EUR15,000 currently. And if (inaudible) loan comes in apparently a bit more. But what's your average sum assured roughly?

Well by -- the background to the question is just simply this. If I am a person in France and I wish to save and now I have the option to put some money into Livret A or perhaps put a regular savings into a life insurance contract, Livret A I can never expect to get to more of an accumulated some of savings than EUR15,000 given the regime doesn't change. In life insurance, I can do whatever I like.

## A - Unidentified Speaker

Exactly.

## Q - Ralph Hebgen {BIO 6297020 <GO>}

I'm just interested in what's the average sum assured with -- which for policyholders in CNP or just see how people would make that decision?

## A - Unidentified Speaker

Well I know that for Livret A, it is EUR9,000 people have on average. But for who and on which contracts I don't know. It is just a calculation to make --

## Q - Unidentified Participant

I don't know either (inaudible) why they have projected the outlook. It's about EUR300 billion (inaudible)?

## A - Unidentified Speaker

Yes. You should take the euro contract as the number of insured and make us -- (multiple speakers). Well it is not another inter model to make sure --

## Q - Unidentified Participant

No. It speaks about money and some years ago we tried to --

## A - Unidentified Speaker

If I can convince --

-- get between EUR10,000 and EUR15,000.

(Foreign language spoken).

(Foreign language spoken).

Right, EUR18,000, something like it.

## Q - Ralph Hebgen {BIO 6297020 <GO>}

That indeed would be similar then to the Livret A? Yes, sorry, okay.

## A - Unidentified Speaker

The average amount on the Livret A is much lower than this. The ceiling is at EUR15,000 but the original amount is roughly EUR3,000 and --

You know that he was CFO of the savings (inaudible) exactly it was his job before.

## Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes, I think what I'm actually asking is I'm still wondering why the policy to save -- a customer would choose life insurance over Livret A?

## A - Unidentified Speaker

Well it's -- just assume one second that Francois Fillon is elected and he says well I made a promise, I'd stay to it. The impact would be, to my opinion, not so hard because the people that came from life insurance to liquidity, meaning Livret A, are that would go in liquidity either to go in life insurance as part of -- in a massive way already done that. It's feasible even in January in the premium collected by Livret A, more than EUR4 billion and the figures of (inaudible).

So this would perhaps have an impact on a supplementary decrease of net premiums in life insurance. But most from the modest customers. It means it will not be very different from what is happening since 12 months, getting money back, putting that in Livret A because this is very easy to get it back just by clicking on your IT systems and so on.

And that to me, to be very sincere, this is not the problem. The problem to me is margins of CNP meaning products focused on long-term care and on retirement. And the message of the general accountant office is clear. If your government, whatever your color would be, you want a long-term savings, you want long-term savings in France then you must encourage the savings to finance pensions and long-term care. That's all. I mean, I've never been obsessed by net revenue. It's the pure revenue, natural revenue that counts.

## Q - Unidentified Participant

And (inaudible) --

## A - Unidentified Speaker

Just another consideration. But it is -- it will be in due time that if he comes to power then it will certainly be someone to explain to go along, that giving an advantage to people who are already at the top of Livret A, it is not very democratic because most of his electors are below. It is given as business to people who are already wealthy.

Interestingly, I think it is time. Don't see any more hands rising. I see one, yes, please.

## Q - Unidentified Participant

Actually most of my questions have already been answered. But coming back to your Solvency II ratio you write that also the application of more favorable short-term spread to support the Solvency II ratio. Was it a larger effect or how much was that approximately?

## A - Unidentified Speaker

I'm sorry you have other questions, no?

## Q - Unidentified Participant

They probably mentioned already. But when we -- you reduced your portfolio on debt exposure, how much of that was actually 33%? How much was that your price effect?

## A - Unidentified Speaker

I didn't understand.

## Q - Unidentified Participant

How much of that was the pricing effect so because low market values rather than outright selling?

## A - Unidentified Speaker

The first question was about Solvency II ratio and the effect of --

The spread.

A spread, yes.

The SCR spread was down by EUR0.3 billion. And it's because on the implementation measures they made new calibration of the spread risk taking into account complexities which is better for long-term corporative loans. And it was lower for us.

## Q - Unidentified Participant

Second question was --

## A - Unidentified Speaker

The question is that the split between the price and the volume effect on the reduction on the -- it's a, well, it's related to the figures I gave just before which concerned only the French perimeter. To the amounts of Italy, Spain, Portugal, Island was EUR26.3 billion on historic costs at the beginning of 2011. At the end of 2011, the same figure, the same -- on the perimeter the figure was EUR17.9 billion. So almost EUR10 billion reduction. That's only a volume effect. And up to now, well, at the beginning of -- the middle of February, the figure is EUR16.1 billion only also on the cost basis and on the French perimeter only. It doesn't include subsidiaries and international subsidiaries.

## Operator

We have one last question from Paris.

## Q - Unidentified Participant

Just quick follow up question please. First on the potential IPO of -- in Brazil. This was a question asked to another French insurance company by the timing of an IPO versus announcing an acquisition whether you would look to go by first and hope to IPO second, of which you did to IPO first. And then complete. Then --

## A - Unidentified Speaker

In first IPO being a consequence of this.

## Q - Unidentified Participant

Okay. And just a second

## A - Unidentified Speaker

A way to finance.

## Q - Unidentified Participant

Yes. And the second point was on Argentina. When you contribute your Argentinean business to this new presenting holding company what has been the financial impact of that for the Group?

## A - Unidentified Speaker

It's only making Caixa Economica Federal pay for the value, the instant value, of the 49% of our Argentina subsidiary, just integrating and we've made an estimation. The fact that the Brazilian laws prevented us because we didn't have this holding at that time to do that makes that the value from the time of Argentina subsidiary has increased because it's a very successful. So -- but we had as soon as -- one-and-a-half year the agreement of Caixa Economica Federal to pay for this part and to integrate in the Group.

## Q - Unidentified Participant

(technical difficulty).

## A - Unidentified Speaker

Well I don't have the figure. We will give you an indication. I don't have the figures in mind. It's not an impressive volume, (inaudible). But it's going very well. And it's somebody put some millions of euros --

Yes.

Maybe just one last question because it's about time to wrap up. If you don't mind one last question from Paris. But in English, thank goodness. Do you know what Brazil is valued at in the shareholders equity and therefore solvency -- maybe this is (inaudible) -- if book value presumably will be a reasonable uplift to both. So Brazil in the books would represent the solvency and if in fact it did come to pass whether there would be an uplift to solvency?

Probably it is Solvency I. That's really the question.

In solvency -- instead of NC-1 [ph], we just take the under realized gains on in the portfolio of Caixa Seguros. We do not take into account the value that is much higher than the price we have in the account.

## Q - Unidentified Participant

Do you have a rough number for that? I mean what would you pay for --

## A - Unidentified Speaker

EUR500 million.

The amortized value now is below EUR500 million. And the price of subsidiary if you use would be -- in this country, should be between EUR4.8 billion to EUR5.2 billion for 100 persons. As we detained 52% of the Company, that means that we would have half of that, let's say EUR2.5 million, to be compared to the EUR500 million of accounting cost in our balance sheet, right. That means if you -- if we sell 10% of it, we get 10% of EUR2 billion, the difference between the two.

## Q - Unidentified Participant

The price in all count is what we pay at the beginnings, that's about EUR500. And the reserve we didn't -- (multiple speakers).

Thank you.

## A - Unidentified Speaker

Okay.

## Operator

So thank you very much.