S2 2012 Earnings Call

Company Participants

- Antoine Lissowski, Deputy CEO

Other Participants

- Federico Salerno, Analyst
- Ralph Hebgen, Analyst
- William Eldican, Analyst

Presentation

Operator

Good day. Welcome to the Full Year 2012 Results of CNP Assurances Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Antoine Goskey, Chief Financial Officer. Please go ahead, sir.

Antoine Lissowski {BIO 4384399 <GO>}

Hello. Good afternoon, everybody. I'm glad to present you the 2012 results for all of the Company. If you wish, we can start with page three of the slide show, showing the robust performance we had in 2012. We offer different figures explaining this performance. Note that new money in 2012 was about EUR27.4 billion, which is slightly below last year's by 11.2%. I will have the opportunity to enter into the details of this relatively poor performance.

Conversely, the revenues were up by 1.2 billion -- 1.2% at EUR3.1 billion.

Administrative expenses are flat, or almost flat, at EUR889 million, which results in an EBIT up by 1.5%, up EUR2.2 billion.

The net profit of the company is EUR951 million, up by 9% compared to last year's. And the MCEV per share turns out EUR21.6 million, which is 17.5% of growth last year's similar measure.

The return on equity for this year is 8.86%, at the same level as last year's. And the coverage ratio in solvency term of the Company is just below 300%, 298% to be compared with last year's 131%.

I will enter now in the difference explanations regarding this performance. First, our activity in France. You know that it is split between two main lines, the Savings and Pensions, which are governed by technical reserves. And the average technical reserves were up by 2.4% last year, in spite of the fact that the new money was down in an environment shaped by very soft growth and stiff competition from bank savings accounts.

And the new money from Savings and Pensions business was nevertheless positive EUR145 million, which is in contrast with the negative figure for the market as a whole, which turns up EUR3.4 billion for last year.

The second major business line is Personal Risk and Protection, which represents more traditional, I would say, insurance business. And which the revenue last year was up by 3.2%, EUR4,489 million, which is remarkable performance in such a compare [ph].

If we come now to the specific net insurance revenue in France, you can see there that in 2012, out of all the net insurance revenue was at EUR1.288 billion, which is slightly below last year's figure. It is in fact a decline by 6.5%. This decline is mainly due to non-recurring technical factors, notably the lowering of the regulatory valuation rates for group personal risk and pension contracts. Actually our rates of the different interest book decreased. We had to add provisions, which explains this cost to our net insurance revenue.

If we exclude this aspect, the net insurance revenue is up by 8.6%. And you see there that the Savings business represents field free [ph] two-thirds of the whole, 66.3%, the Pension business in France, 5.2%, and the rest is the Personal Risk and Protection business, which is slightly below one-third of the whole.

In Latin America on page 6, we have very robust growth of our different drivers. On the left of the slide, you can see the net insurance revenue at current exchange rates, which grew by 11.3%. And on the right you can see that including the moves in exchange rate, meaning at constant exchange rates, the growth was about 19%.

The rev down off this net insurance revenue is indicated there. The Personal Risk business represents three-fourths of the whole with 74.6%, the Pension business, 14%, and the Savings business just below 12%, which is quite different situation from the French one.

The dynamic performances by CAIXA Seguros are, on traditional business, you can compare there the Protection and the Personal Risk performance, compared to the market, which are at the same level. Yet, little set back on the Savings and mainly Pension business, due to relatively poor performance at the beginning of last year. But we are started to modify the policy there to get better production from this part.

And we are also new growth drivers in the country with Health business, which started last year. And the Term Creditor Insurance, Personal Loans, which posted very strong growth of 78% to be compared with 69% in the market. It is a new branch of purchases of which we rely very much for the future.

On page 7, you are several tiers regarding our business in all our countries sans France in Europe, mainly Italy and Spain, as we have decided to reduce our investment risk in these countries by stopping the investment in govies. In those countries, of course, there was a certain decline in average technical reserves, which declines by 6.9%. And on IFRS revenue, which were down by 39%. It is entirely due to our response to the economic crisis in these countries.

Nevertheless, the net insurance revenue is up by 1.4%, lifted by different non-recurring technical factor. And an improvement in the product mix, oriented more in risk than last year's.

In general in 2012, we have a very narrow management of our administrative expenses. And it results in a cost to income ratio which remained at 36.7%. And you see growth tiers of our expenses in the world which were up by 0.4%, compared to the last -- to the former year.

Page 9, you have the figure representing the growth of EBIT, which is up 1.6%, at EUR2.278 million. This EBIT is damaged a little bit by the lowering of regulatory factor I already mentioned, the valuation of interest rates in our provision, which results in the fact that the Personal Risk and Protection, Property & Casualty business was below 4.6% at EUR726 million.

Nevertheless, the Savings and Pensions business and the management of our own fund portfolios grew -- increased in the EBIT, which result as a whole in an increase -- a global increase as already mentioned.

On page 10, I come back to the environment of frendiful [ph] market last year. And our investment position. We had to face a very unusual situation, where low interest rates -- interest rates stayed at historically low level. We have different statistics showing even on very, very long, variable times, we hit the lowest level, in fact for two centuries, which of course complicated a little bit our investment policy.

To us to this we had also to face the euro zone crisis on the sovereign debt. What that resulted in the forthcoming policy, we maintain the reduction of the euro zone selling debt portfolios, which reach now just about EUR10 billion for the French portfolio, which we consider at a level which is now sustainable for the future.

Conversely, we made an increased investments on corporate debt with top record of EUR9.7 billion of new investments. And we also then some traded some of our investment on infrastructure, real estate. And different other sectors, among which investments on final form [ph] services sectors bonds.

The high level of liquidity mark was maintained over the year, was mainly due to the necessity we have to be very selective on the risk on investment we take. And also to the willingness to be prepared to face any drawbacks, any buybacks by our customers, which in fact didn't happen. But affected the market, the lapses affected the market as a whole, not CNP specifically. But we had to be ready to face a surge of lapsed rates, which never happened.

We try, of course, to contribute to vehicles underlying our role as investors in French equities and bonds, which two of these initiatives are remembered there. And as a whole we like the fact that the balance sheet is significantly invested in French companies for EUR50 billion. It is a sum of equities and bonds issued by French companies. And EUR8 billion in French real estate.

If I come back to the revenue, after the EBIT we have three lines of different sort of costs. The finance costs were a little above last year's, EUR175 million (sic -- 157, see press release), which is clearly the sign that the cost of indebtedness is in the -- as a higher levels on the -- before the crisis. Income tax expenses also grew a little bit. It is due to the growing importance of our revenues coming from Brazil, which are taxed at higher levels than our European revenues. And of course, the minority interests at EUR310 million were slightly above last year's. It is also due to very importance of the growth of our Brazilian subsidiary, which minor share, then 47.5%.

This all results in a recurring profit, which is above EUR1 million, slightly below last year's. And after we have difference specific items related first to the effect of fair value adjustments on our portfolios, plus net gains on equities, property. And different assets, which represents EUR155 million of contribution to be compared with a cost last year of EUR236 million.

And the non-recurring items consist in two specific expenses. One was the payment of the tax, specific tax, to the French Authority, you have this on page 12. It is a tax due on the capitalization of reserve for EUR102 million. And the second element being an increase of our policyholders' surplus reserve.

There on page 12, you have the doable [ph] amount of these reserves at the end of last year, EUR3,372 million versus EUR 2,886 million the year before, which is an increase of about EUR500 million this year, of which one part, EUR162 million was on the income statement on the page before. It is one of the non-recurring items, explaining the EUR271 million of cost. And the rest of the increase of policyholders' surplus reserve was supported by our the portfolios of our insured Savings business in France.

As a whole, these technical reserves, these specific reserves, represent 1.55% of our technical reserves, which is sort of reserves for safety buffer for the future.

The last thing I would like to point is that we have written down the whole goodwill CNP on its subsidiary in Italy, CNP UniCredit Vita. We had bought this business in 2005. We were relatively important to goodwill, which was very usual at that time. But as time change. And we all read the ESMA recommendations, we have decided to write down this goodwill on Italian business in order to get the balance sheet clean off this high level of prices at that period.

On page 13, we get the new business margins of the company, which stay this year -- sorry, at 11.6% to be compared with 12.3% last year. This decrease is due first to the French activity on the left. And this decrease in France was due to lower interest rates in France to the relatively poor contributions of unit-link business, compared to former years. And also to a decrease of production of loan insurance in our book.

In Latin America conversely, we had noticed very huge growth of the margin, which stay in Brazil at more than 35%.

The decrease for the rest of the Europe of these rates of new business margin is mainly due to the fact that we have decided to use this year the interest rates of the swap interest rates, rather than govies. If we hadn't done that, the rate would have stayed around 15%, rather than 7% as it is. I think that, as a whole, without this change in methods, the new business margin of the company would have been at about 12%, rather than 12.3% last year.

Capitaux propres, or equity, of the company was at the end of the year, on page 14, at EUR14.145 billion. You see there the effect of write [ph] issues of last years, of increase of subordinated debt. We made of the profit, net of dividends, we also met [ph] of different fair value adjustments. Nevertheless, that represents an increase of about 18% of our capitaux propres.

We have a similar increase, 17.5% of our MCEV. With the contribution of operations, with well over of Value of In-Force. And in new business, which this year was at about EUR297 million to be compared with EUR362 million last year, the decrease being naturally due to our French operations I've already indicated.

We have also, of course, a contribution of financial and tax environment explaining the growth of the Value of In-Force. In one word, Value of In-Force. And the global embedded value of the company stayed at the highest level since the beginning of the financial crisis in 2007.

The return on equity on page 15 is figured at 8.86%, which is simply a way to show that the very balanced structure of our business with French and Latin American businesses with Savings and Personal Risks businesses with different elements of subtlety results in a capacity to provide regular revenues to our shareholders.

This capacity is also noticeable in the recommended dividend per share, which will be as last year of EUR0.77 by share, which will be recommended at the Annual General Meeting, as last year there will be a scrip option, which the shareholders -- members of shareholders' agreement as has stated will use -- will opt to this scrip dividend.

The solvency capital requirement on page 17 is -- the solvency capital ratio is at roughly 300% to be compared with -- sorry, with under 30% last year. And without unrealized gains we are at 112%. You know that we are very cautious about this sub-limit. And we are very -- making a fine tuning of this ratio over time. It will, of course, still be the case in 2013.

In terms of Solvency II, solvency capital ratio on page 18, we have a coverage ratio which stay at 170%. This improvement is a result of reduction of our risk in terms of SCR, notably, the market risk. And also an improvement of the economic odefense [ph] of the company, among others, the increase of the value of Value of In-Force.

Now, we come to more strategic views. We like to, in align with fact that, we have an important, sustainable growth potential, because the product positioning of the company responds to very emergent, current demographic trends. And the growing social needs in the different countries where we operate. The long-term savings business, the retirement savings. And protection against the hazards of daily life are clearly one of the preoccupations of the customers we have, either in Europe or in Latin America.

And you see the breakdown that the Group net insurance revenue is correctly divided between Saving and Pensions, which represent a short majority of these revenues. And Person Risk and Protection, which represents a very large minority of these revenues.

On page 20, you all see that our Group relies on two major markets. The French market with 53% of our net insurance revenue. And Brazilian, which already represent 36% of this revenue. Of course, it keeps continually being the most -- almost ideal situation, we've a very leading position in the mature European market. And a very good, fast-growing position in a very fast-growing Latin American market.

The ambition, which was outlined this morning by Frederic Lavenir, which he will give a lot next week in London, is to create shareholder value by uniting the teams to deliver profitable growth in France and Europe. And strengthen our positions in Brazil and Latin America, which is clearly the area of the growth for the company.

We have four strategic priorities, which are is not developed [ph]. But which are in the next stages. First, develop and enrich our offer in order to expand the partnership with our two traditional partners, La Banque Postale. And BPCE, which still are the main distributors of our products in France.

Second, to deploy our term creditor insurance, personal risk. And high-end savings business in Europe. And to operate on an open model. That means to work with other distributors than those are linked with us by capital relations.

Third, to build sales of employee benefits solutions to very small businesses and local public authorities. We have a very historically significant partnership with mutual insurers in France, on which we will rely to develop this aspect of our business.

The last being, of course, to strengthen our market position in Brazil and Latin America. And to size if possible -- possibility to add new opportunities and acquisitions in Latin America.

I will develop [ph] these four items which are on the pages until 26. I just underline in few minutes, the different figures you have in the appendices, where you find in the first pages the detail on new money. And revenues of the company in the different markets, France, Latin America, of course. And we -- this is the data on page 31, segment by segment.

We have on page 33, withdrawal rates as a percentage of mathematical reserve, where you can see that in spite of the high-level of withdrawals in the French market last year, we were still below the market on this respect.

The average technical reserve and their breakdown are depicted in page 33. And you have also, starting page 35, breakdown of our revenues by origin, in order to help you to evaluate the progress made on this respect.

The administrative expenses are on page 37. And after we have different items regarding our reserves on which I come back if necessary. After page 39, we have details on the MCEV and its growth for this year. We have MCEV per share EUR21.6, only ANAV state [ph] are EUR16.6 per share, which is match the both value of a share of the market.

And you have the value analyzed of this embedded value in the next pages with different data on the new business value. And the MCEV over several -- six years, the last six years with different elements regarding the MCEV calculation, which are on the next pages, new business sensitivity. And so on.

We have also provided the usual figures regarding our operating profit and EBIT by country.

The free cash flow stays at around EUR600 million. If you want the amount of this new reserve, you will reach an amount just below last year's operating free cash flow.

The contribution to consolidated profit off our different branches of -- in Europe and in the world explained in the next pages. I go through it quickly. And the ratio of EBIT solvency capital requirement is as usual indicated on page 56.

We are also different elements regarding the analysis of our net insurance revenue, page 57, 58. And the evolution of our average technical reserves by segment in different area of the world where we operate are on page 59.

The policyholders' surplus reserve on page 60 reminds you the two years I already developed [ph] before. You have different elements of recurrence analysis on our liabilities therefore [ph]. And we have also different elements regarding analysis of our assets with unrealized gains of the company peaking at EUR26.6 billion at the end of last year.

You have also in the next pages different elements regarding our bond portfolio, the corporate assets portion of the company. The bank exposures of the company, the asset-backed securities. And so on. And public debt exposure, which is precisely depicted in page 68 and 69. We have an average maturity of peripheral public debt portfolio in page 70.

And also we have several accounting and fair value measurement methods we have. And to finish with, to end with the structure in terms of maturities of our subordinated debt. And different elements regarding our rating. And the legend of the share of situation since the IPO.

I am with the team of CNP which surrounds me at the disposal -- at your disposal to answer any question you would like to raise.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Federico Salerno of MainFirst Bank. Please go ahead.

Q - Federico Salerno {BIO 2565091 <GO>}

Hi. Good afternoon. A couple of questions. On the solvency, do you believe that a 112 ratio solvency is strong enough? Do you look at that closely, or do you think the impaired note solvency is not very important? That's the first question.

Then, can you say what the projects are for Brazil? Do you still plan to open the capital of the company to third parties to expand in other markets? Is there any news on that front? Then the last question on the addition of EUR162 million for the policyholders' surplus reserve. Why that number in particular? Is there any reason? And that's it.

A - Antoine Lissowski {BIO 4384399 <GO>}

The first question was about our solvency ratio. Do we consider that 112 is sufficient? We have a traditional policy of having the target of being below 110. Then, as we have sufficient margin, we consider that the situation is compatible. It is clear that we've increased our capital, resulting from the commitment of our members of the fact [ph] shareholders. We will increase this ratio to 115. And it seems very comfortable.

The second question was about Brazil. We do not intend to now to reduce our share of interest in the company. But rather to develop internally all by acquisitions its business in Brazil, or Latin America. We have already made a very small acquisition of another company in another region of Brazil in the CAIXA Seguros. And we are, of course, contemplating other developments when they will be mature. And when they occur.

The third element being about the status of this EUR162 million PPE. Why to do that? In fact, our target was to offer a certain level of comfort in terms of global PPE. And we thought that to be above a level 1.5% of mathematical provisions was right. The figure of 162 is rather contingent. But in general, the idea was to offer about EUR500 million as a whole to this PPE, shared between what is made by the company itself. And what is made by the portfolios of its policyholders.

Q - Federico Salerno {BIO 2565091 <GO>}

Okay. Thank you.

Operator

Our next question comes from William Eldican [ph] of Goldman Sachs. Please go ahead.

Q - William Eldican

Thank you. Hello, everybody. Could I just come back to the issues of why you decided to skip dividend once again, again. It just seems to slightly contrast with your confident statements you made on the security of your canceled [ph] position. But yet because it's been bothering [ph] shareholers a little bit as well. Can you just confirm this is from now the policy will be to be paying a full cash dividend absent absolutely extreme circumstances?

Second, could you just give us an update of your view for volumes in the French market. And prospects over 2013?

And finally, can you just give a sense of which of your biggest units, I guess mainly France and Brazil, were upstream in capital to your holding company in 2012. And how valuable those internal dividends were?

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay, the first question was about scrip dividend. You asked to keep in mind that this year in 2012 was a very specific year in the life of (inaudible) both he is Chairman of the Board and the General Manager of the company. And the scrip being done for this year wasn't waived for the members of the shareholder pact to show that we will back the development of the Company in the next year. It was a way for them to express their support to the new management of the company in its ambition to give lot our business in Europe and in Latin America.

Of course, we do not ignore that the market in general is reluctant to do that. But we consider that at our current level of shares to up the scrip dividend is a good investment. Your second question was about --

Q - William Eldican

Your views in the Pension market for 2013?

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes. Well in fact it seems that the French market has a full start of the year reacted really strongly. And it appears to people that know the French-backed system that for their life insurance becomes again a safe level, not in absolute terms. But in reactive [ph] terms to overt [ph] type of investment for personal -- for individual in France. There was an important (inaudible) taxation of different sort of investment. In fact, last year and so far, life insurance is one of the elements which were out of this increased taxation.

Therefore, we think that the market will have a better outlook from last year's. But it's clear the year is not over. I mean, maybe, announcement of by the French government of different fiscal measures is not over. And we will have also -- we have clearly to adapt if (inaudible) increasing taxation. I underline that. So far, that no information about any project regarding the taxation of life insurance is in France. The third question was about --

Q - William Eldican

Internal dividends, upstreaming capital (inaudible).

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes. We get (inaudible), which is the largest provider of reserves. We get 75% in terms of dividends. It is a tradition settled with our Brazilian partner. And it is also a way to keep some money on the premises in order to be able to find an opportunity of growth. Without having to increase the capital of a subsidiary, that means that we will have enough capital in the company to (inaudible) in the forthcoming months if we find one.

Q - William Eldican

Can I just come back on one point? If I understood your presentation correctly, you're saying your main area of focus is in Brazil and Latin America. And you just seemed to have said that those Brazilian operations have enough capital to grow. I'm still not clear why your main shareholders want to put more capital into the business.

A - Antoine Lissowski {BIO 4384399 <GO>}

Hold on (inaudible). It is clear, also, our solvency ratio out of unrealized gains, 112, is, I would say, at the lower range of our estimated target. I think that's the French shareholders of the company charging [ph] back consider. But it is a good approaching to the year is a approaching [ph] through increased.

We likely [ph] believe the strength of the company meant [ph] to allow us to make any developments of the record [ph] if that were possible. But would be rougher in terms of internal development of new products or such a development. Among which we are in the risk business. We can have projects that will use some supplementary capital this year.

Q - William Eldican

Can we then (inaudible) ex-capital gains. So we'll see ratios above 115% that we can then lead back to a free cash dividend?

A - Antoine Lissowski {BIO 4384399 <GO>}

We have no guidance on this aspect. It is clear that we will -- we'll reconsider the dividend in such circumstances. In general, I must say, that it is not because we have two years in a row a scrip dividend. But it is becoming a (inaudible) policy of the company. Last year, it was not swear [ph] to a specific situation. This year it is sort of a welcome to the new management decided by the members of the shorter facts [ph]. But it is not -- announcement of a new structural policy. And not permanent option of scrip dividend in the future.

Q - William Eldican

Thank you. Thank you very much.

Operator

(Operator Instructions) Our next question comes from Ralph Hebgen of KBW. Please go ahead.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes, hi. Good afternoon. Thanks for taking my questions. I would also like to perhaps ask about the scrip. Just in terms of what message this my send to the markets, because I remember last year the core solvency ratio excluding unrealized gains was also moving towards the 110% level. And then you had the scrip. At the time, you were saying, what in practically was that it would not reoccur, a dividend with a scrip element, again.

And so, I'm wondering as the solvency ratio at the core level approaches the 110% again. And you have the scrip issue once again, that stock [ph] looks, perhaps, send a message in terms of capital management that if the solvency ratio goes towards that level, we have to expect further scrip elements going forward in future. That's question number one.

And question number two is, just on the expense ratio. And I calculate this quite simply as operating [ph] expenses divided by EBIT. I observe that was 28.1% in 2011 -- sorry, in 2012. It was 28.3% in 2011. So it hasn't really changed. However, there is an efficiency gains -- or an efficiency program in thinking [ph] your implemented at CNP. So I'm surprised not to see the expense ratio come down. Would you be able to comment on that. And whether that you think your efficiency gains, which you have is, perhaps, merely sufficient to offset expense inflation that you have? Thank you very much indeed.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Thank you for your questions. Well regarding the expense ratio, I am sure that Frederic Lavenir, our new CEO, will be delighted to discuss that with you next Monday if you are there. It is clear that, in his view, it is just the start official for run [ph], which was launched during his predecessors mundate [ph] was just a part of the policy of expense management, which will be much CNP like -- run the CNP like for the future. That means that he will certainly put a certain stress on this aspect in the future. Therefore, I think that the management of our costs enters in an area which will be different from what you extends to where we were before.

And on the other side, the scrip dividend you mentioned, like I already said, it was a -- in fact, a congestion [ph] of two things. First, the real push made by the members of the pack [ph] to the new manager saying -- okay, we are behind you, which can be also a message from the point of view of the market. And also -- an additional consideration, I don't know if it is merely present in the mind of people wrote. But here in France, people consider that the start of Solvency II will not occur in 2014, maybe late 2015. But much later.

That means that the focus will be made more on Solvency I ratios. And on the core ratio of Solvency I more than before, which this puts a certain focus on this core ratio. And it is clearly not our intention to push this ratio up to high levels, 115, 120. And so on. But we consider that the range between 110 and 115 is the right range. And to be too near to 110 is not very comfortable situation.

I remind you that at the end of last year, we were just below 114%. This year just above 112%. Okay. It is a fine tuning of our ratio. But we remain cautious on the aspect. And we consider that it -- it is a sort of compensation for the very, I would say, secure profit [ph] of the company to have very strong consideration to this aspect, which might be minimal for other companies. But it seems for us, important.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Thank you very much for that. Just one follow up, because I was actually surprised to see the core solvency ratio at levels of 112%. The subdebt included would suggest that you have excluded a loan issue which is callable next year -- sorry, we are in 2013, in the summer. Is that correct? So in other words, what is happening from a point of view of capital management is that you have, on the one hand, retirement of subdebt, which is basically replaced by a capital increase. Would that be a reasonable observation?

A - Antoine Lissowski {BIO 4384399 <GO>}

We conduct -- we do have to be frank about issuing (inaudible) but we rather think the program offer issuing replacement debt, at least, during the next months.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Fair enough. Thank you very much indeed.

A - Antoine Lissowski {BIO 4384399 <GO>}

See you, Ralph.

Operator

That concludes today's question and answer session. I would now like to turn back to Mr. Lissowski for any closing or additional remarks.

A - Antoine Lissowski {BIO 4384399 <GO>}

All right. I thank you very much for all you common attention. And we'll be very glad to meet some of you on Monday and Tuesday if you attend to our different meeting. Choose your way [ph] and have a good weekend.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. you may now disconnect.