

Q2 2017 Earnings Call

Company Participants

- Antoine Lissowski, Chief Financial Officer & Deputy CEO
- Frédéric Lavenir, Chief Executive Officer & Director
- Marie Grison, Group Chief Risk Officer
- Vincent Damas, Head-Investor Relations, Analysts & Ratings Agencies

Other Participants

- David Barma, Analyst
- Michael Igor Huttner, Analyst
- Nick Holmes, Analyst
- Ralph Hebgen, Senior Vice President
- Rötger Franz, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the webcast conference for the presentation of the CNP Half Year 2017 Results.

I would now like to hand over to Mr. Frédéric Lavenir. Sir, please go ahead.

Frédéric Lavenir

Good morning, everybody. Thank you for being here. So, I'll start presentation of our half-year results. Yeah. I'm - page 6. So, you know the figures. Just a few comments. So, our net profit is €657 million, growing by 6% up to - so €657 million. Our consolidated SCR coverage ratio is 193%. So, going up in line with the sensitivity - with the disclosed sensitivities.

I consider this result as a good one and based on solid operational performance, the first-half EBIT is €1.477 billion, growing by 15.4%, and on a like-for-like basis, by 9.1%, which is significantly over our guidance, based on very well-controlled administrative costs, going down by 0.5% on a like-for-like basis and growing by 3.1% on the reported figures. And first of all, a good growth of the total revenue by more than 12%.

The main information globally is that the fundamentals of our company are improving. You can see the combined ratio for the risk business is improving from 84.8% to 80.5% and the margin is also improving up to 17.8%.

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I go now to details, but just one comment on the premium income, which is going down by 5.2%. It was an expected decrease linked to the implementation of our new partnership with BPCE, which was partly compensated by a very good growth in South America, but we will come back to that.

So, I start with France, page 7, you can notice a very strong €1.3 billion net inflow to unit-linked contract and €4.6 billion net outflow from traditional products, which means we are continuing to improve our product mix in the savings business. And this year, the liabilities in unit-linked is growing by more than - almost 12%, while you can see a small but significant decrease - a dip in technical reserves in mainly Euro (04:39) business, which is very positive and which is what we try to do - we have been trying to do for many years and year-after-year, our business mix in the savings product is changing.

There is also a very solid momentum growth in personal risk and protection segment. At the end, as you can see on the right, the New Business value is growing from €116 million to €154 million and the APE margin is growing from 10% to 14% -- more than 14% in France as a result of the improvement in the economic environment, interest rates mainly, but also after years of improvement, a new improvement in the operational contribution linked to - due to the improvement of the business mix I've just mentioned and you can see in the middle of the page, our net new money is very well-oriented and as we wish to do so.

Page 8, our total revenue in France is growing by 5.8%. Hence, our administrative costs are decreasing. So, I want to insist on our continued work on improving our operational efficiency and the growth of the EBIT of our operational profit is a consequence (06:44) of those two positive trends, positive trends in terms of revenues and positive trend in terms of costs with this plus 9.4% in the EBIT.

In Latin America, the growth continues, very, very strong in the saving business - saving and pension business. As you can see, we got 1.9 point (07:20) increase in our market share, which is historically a very, very good situation up to 7.8% is market share. And the different product lines are contributing to these good results. First of all, saving, as I just said, but also the term creditor insurance and you can see that the APE margin, despite this very, very strong growth, is quite stable, a very, very small decrease to 28.3%, but it's very strong and a good increase of the New Business value from €73 million to €97 million.

A small focus, page 10, on YOUSE, the business model of YOUSE is very different of our traditional business model. It's a start-up model. So, we communicate on our main objective today, which is taking our place on the market.

So, we are growing, we are very satisfied with the development of YOUSE. Our objective is to reach the 100,000 contracts by the end of the year and we're on track. As you can see, we're growing and we learn a lot. We develop well. So, we are very happy with the development of YOUSE as from today.

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Back to our results on the Latin America zone area, the total revenue is continuing to grow. The administrative costs are under control. As you can see, excluding YOUSE, which is in the strong investment phase - excluding YOUSE, the like-for-like growth is 4.9% in the country where the inflation is around 3%, decreased strongly, which is very smooth increase in real terms in a country where - in an area where, I remind you, we had a 35% like-for-like increase in the revenues. So, a very good control on administrative cost and EBIT, which is growing by 24.6% and 4.3% on the like-for-like basis.

Well, back to Europe now, page 12, the premium income is going down due to our very, very strong action in order to continue to improve our business mix. We didn't want to develop the Euro (10:59) business. And, therefore, we decided few very (11:07) strong decisions to control and limit it. So, it was successful, because you can see that the net new money is very positive, growing for the unit-linked business with a €337 million net new money and a negative net new money in Euro (11:29) business at €403 million.

So, you can see, well, a business mix profile, which is similar to the one I described for France, the same policy, the same results and we are very happy with that and can see the consequence of this policy through the New Business value and APE margin change. The growth from €29 million to €32 million in the New Business value and the new growth of the APE margin.

Sorry, I didn't mention the fact that in the protection business, which is, of course, as I already said, our priority in Europe outside France, the growth is continuing mainly through the development of CNP Santander. The EBIT as a consequence of our policy and our choices in departures and this year is growing very fast with a 21.6% growth in total revenue and with a good control on administrative costs with a 3.1% increase.

So, it's not surprising that the EBIT is growing very fast with almost 40% growth from €58 million to €80 million. So, we are very happy with this continued change and development of our business in Europe.

So, quickly described, but I think with enough details at this stage, the reason why our EBIT is going quite well and now, Antoine Lissowski will go further into details on the construction of our profit in the financial and balance sheet items.

Antoine, up to you.

Antoine Lissowski {BIO 4384399 <GO>}

Thank you. Hello to everybody. Now we are on page 15 of the presentation. Then starting with EBIT, which stays at €1.477 billion, we have different items to explain the attributable net profit. The first item is growth of financial costs, which burden is now €130 million, its growth is due to the issue of different debts last year, which cost has a negative impact on profit under IFRS, but positive impact on changes in equity as we have redeemed the Tier 1 bonds, which were included in equity.

The second item is income tax expense, which costs €469 million. When you will see the tax rates at the level of the group, it is slightly decreasing during this half year, because we have activated some tax deficit in Brazil. It is a minimal effect, but, nevertheless, it decreased rates of taxation in the group.

The non-controlling interests are representing €173 million. They grow compared to last year's because all of the subsidiaries, which we share with our partners have an increase of the revenue, then, it is normal, but this item represents an increased cut of our revenues at the level of the group.

If I come to the fair value and net gains, we have a figure of €136 million, which is slightly higher than last year. First, we are in a period of better financial markets where the first half of 2017 appeared than last year's. And we had better level in equities and interest rates at the end of a period than last year during the whole periods.

Second, we made some net gains on different equities. We have made a major part of our program of net gains in equities during this period. This explains why this item, fair value adjustments and net gains is higher than last year's. Conversely, then nonrecurring items, which are at PPE notation (17:11) is higher than last year. It represents now €183 million after tax. And that is a way also to remind everybody that in spite of improvement of economic situation in our different areas of activities, mainly in Europe, we have to remain very cautious about the risks which are involved by the low interest rates and we consider that adjusting positively the PPE remains necessary in this context when all that results in an attributable net profit of €657 million.

If I come now to page 16 of the presentation, the net operating free cash flow stays at €624 million. The operating profit seen with MCEV measures is at around 15% to last year at 664% (sic) [€664 million] (18:27). This growth is consistent with the growth of EBIT. This is a sort of actual measure of operational profits in EBIT.

And added to that, you have a traditional combination between reduction in required capital for In-Force, which ended in 2016, and additional capital required for new business, which are just showing that we have a growth of activity compared to the activity, which was maturing during this half year.

Then the €624 million of free cash flow is higher than last year, and incidentally, it represents already more than the dividend, which was paid last year to the shareholders of CNP Assurances.

On page 17, we have just showed that problem of low interest rate is still pending on our balance sheets and how we are managing it. You see on the left of slide that the average return on fixed interest rates on the balance sheet decreased from 3.11% to 3.03%. And in the same time, our average granted yields granted to our customers also was reduced by 7 basis points, and it is already now very low.

If you look at the new business activity and new business rates, on the right of the slide, you see that the average granted yields represent an average costs now of only 0.03% in

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terms of costs. It was already very low before. But, nevertheless, we must remain very cautious because the average return on fixed rate investments doesn't show an increase, dramatic increase. It is roughly of the same level, 5 basis points above last year's. Then, we are still in a situation of certain stressful life insurance company, and in general, for financial institution with new business at rates much below the rate of our In-Force returns.

That explains, on page 18, our investment strategy. You see on the left side of this page how the investments were made during the first half of 2017. The bonds still represents a major part of our investments as usual. We signal that the bond investments are more focused on sovereigns, mainly France bond before because we consider the spreads on corporates to be very, very narrow nowadays. And even after the end of June, these spreads were narrowing. And at this level, we consider that the costs of corporate risk is not sufficient to increase significantly our portfolio in this category of investments.

The second thing I would like to show in this left side of slide is that the amount of a proportion of property and infrastructure in our investments is exceptionally high in this period, because we have made an investment of more than €1 billion in subsidiary of EDF, French EDF, (22:51) and we are now shareholders for roughly one-fourth of this company (22:59) roughly 50% of the company, the operational control and the majority remaining at EDF.

And, of course, specific investments modifies (23:17) of our investments. But, nevertheless, it is significant of a move we intend to make towards property and mainly infrastructure in our asset allocation over time (23:33).

On the right side of the slide, you see how our investment bonds were made during the period with the largest part of these investments being devoted to sovereign assets with long durations, which allows us to maintain very small transformation between assets and liabilities duration. Corporates out of the banks remain important at maturity between eight years and nine years. And the banking sector, which is slightly more interesting in terms of yield remains below eight years on average.

Now, if we have a look on page 19, on Solvency II ratio, we have at the end of the half year, SCR coverage ratio of 193% compared to last year's - end of the year 177%. And on the slide, you see that as before, this improvement is linked to evolution of interest rates and stock markets and it is completely in line with the sensitivities published in February 2017.

To be more precise, the increase of 16 basis points - 16 points of this coverage ratio was linked - was due for 13 points to modification in value of the different categories of assets. The swap rates in itself represents 9 points of the growth in terms of solvency ratio.

To finish this presentation, I have just several views on the value created by the company since January 2013. You see how the share price (26:00). Since this period, it was at €11.6, and now, it was at the end of June just below €20 per share. And the value created during this period for our shareholders was made of different dividends of €3.88 and change in the value of shares about €8.

What is interesting is to see that not only our value has grown (26:41) since January 2017, our performance was 16.7% to be compared with insurance sectors performance at 7.5%. But also that this growth is consistent with constant move since the end of 2012. CNP Assurances posting a growth of 19.2% comparable to insurance sector evolution, which was at 15.6% per year.

And you have also the split between the evolution of value between net asset value per share, which grew by €8.72 and MCEV per share, as a whole, which is now staying at more than €30, which is, of course, much above 2012 and which is also above value of share in the market.

We are now at your disposal to develop these different points and answer to your questions.

Q&A

Operator

We have a question from Michael Huttner from JPMorgan. Sir, please go ahead.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Thank you very much, and lovely results, as normal now. On Brazil, the EBIT is up 4%. Premiums of new business are not so, we have (28:42) 35%. I just wondered, is there a kind of a normalization of margins? Should we expect margins to continue normalize a little bit from the current high levels? Maybe you could explain.

And the second is you showed this roughly 15% increase in free cash flow, and you said it more than covers the dividend already. And at what stage would you start thinking about maybe raising the dividend again?

And then, the last question, we're seeing accelerated net inflows in unit-linked, also accelerating outflows from traditional. At what stage or how much would you say, when would you think it's too dangerous to have more outflows in the traditional - when would it cause problems in terms of costs, so portfolio balance may be forced to redeem assets. Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Michael, I tried to sum up the different questions, you help us because here in Paris, we didn't hear very well.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

I know my line is not good. Yes.

A - Antoine Lissowski {BIO 4384399 <GO>}

Your first question was about growth of EBIT in Brazil compared to the growth of business there.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Yes, please.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Well, the growth of EBIT is mainly, as you see, concentrated on growth – sorry, the growth of premiums is mainly concentrated on the growth on pension business in Brazil, which is very, very freezing (30:26) in terms of volumes. But, of course, it has not the same return as personal risk business has been. It is novel (30:36) that in this context, there is a certain discrepancy between growth of the activity as a whole and the growth of EBIT, which is, of course, modest.

The next question you raised was?

Q - Michael Igor Huttner {BIO 1556863 <GO>}

I hear you laughing. Is it too early?

A - Antoine Lissowski {BIO 4384399 <GO>}

So, dividend?

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Yes, please.

A - Antoine Lissowski {BIO 4384399 <GO>}

Perhaps Frédéric will...

A - Frédéric Lavenir

No, about the dividend, as you know, we'll take into account many levels, of course, the organic and external growth prospects. Our results, of course, the operating free cash flow, the Solvency II position, which is of importance; and the reasonable payout ratio and dividend yields for the shareholders.

So, as you know, the company's dividend has always been stable, or increasing since our IPO come back in the past. And as you also know, the company's dividend is determined each year in February by the Board of Directors after review of all those criteria. So it is now really too early to comment on a future annual dividend. I'm sorry.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Okay. Thank you.

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A - Antoine Lissowski {BIO 4384399 <GO>}

Michael, your next question was about net inflows or outflows in Euro contracts.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Yes, please. Is there a level at which you would be uncomfortable where it's too fast and you can't manage it anymore?

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes. The time didn't come to become uncomfortable with Euro production. When you see the difference between the return of our investments, and if you have in mind that last year, on average, we paid 1.5% to customers of Euro contracts whereas we still invest just above 1%, 1.2%, or around 1.2%. That means that it is not time to be worried about our market share in Euro contracts. We leave with pleasure this market share to our competitors so far.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Brilliant. Thank you.

Operator

The next question is from David Barma from Exane BNP Paribas. Sir, please go ahead.

Q - David Barma {BIO 19957338 <GO>}

Good morning. Thank you for taking our questions. My first one is on solvency. Your ratio has increased quite a lot in the quarter even, once again, on account of (33:44) the market movements and the sensitivities you disclosed. Can you just come back on the different components of the growth in the quarter, and if the sensitivities have moved the knots in terms of full-year results?

My second question is on exceptional items. You've had quite large amounts in PPE this quarter. Can you explain how we should think about it going forward, and why we're seeing it all in this quarter and nothing in Q1?

And if I, my last question would be on hedging. I see you've taken on an extra cover for raising interest rates in the first half. Could you tell us how this works, how the mechanism works in terms of French savings outflows for example? Thank you.

A - Frédéric Lavenir

Marie Grison will answer your first question and then Antoine for this one. Marie?

A - Marie Grison {BIO 15895562 <GO>}

Hey.

A - Frédéric Lavenir

Marie Grison, Chief Risk Officer, for those who do not know her.

A - Marie Grison {BIO 15895562 <GO>}

On Solvency II ratio, in fact, as Antoine explained, the main movements was explained by the movement in interest rates. It's in line with our sensitivity, meaning, the 10-year swap. Then the second part was a slight increase around (35:21) due to the better equity market level and also a small increase, around 1 bp, explained by the French government spread against swaps.

The other part is, as we explained, I think, last November investor call, around 2 bps coming from the results net of dividends that we acquired during the year. And it explains more or less everything. We didn't recalculate sensitivities. We do it on end of December, market level, but (36:14) quite good.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Regarding the two other questions, first, about the exceptional item at the end of current results and the PPE - well, I'm sorry, but the answer is the same as usual. We do not consider that we have attained a limit there. The amount of risk is high. We have not made any specific notation during the first quarter, because we have not decided at that moment to take into account a hypothesis in terms of policy, or the dividend, which is the case now. And we consider that - in spite of policyholder dividend, which theoretically should be down this year, but we'll see how it is possible.

We have to take into account the decrease of average return on our portfolio attributed to the customers. So a part of the portfolio attributed to these customers. Keep in mind, or be aware that, on average, we consider that we will have 20 basis points decrease on the return on the portfolios attributed to customers, which would in theory - which should in theory result in a decrease in terms of policy, or the dividend, which is a decision, which has not been taken or even discussed, but it is a theoretical discussion.

Taking into consideration these different assumptions, we decided to make an additional attribution of PPE.

Regarding the hedging of balance sheet we have on page 45 of the presentation, in an appendix, the description of different hedgings of our risk, equity risk, exchange risk, interest rate risk, and spread risk, and we just underlined - first, we give amounts of hedging, which were made during the first half of 2017, and the global hedging of the balance sheet, which exists at the end of the half year, at mid-Jan, end of Jan. (39:12)

You see that we have an important, and we underlined it in the comment. We have made an increased hedging of equity portfolio. We are also hedging, which is relatively new in the history of CNP. We are hedging the spreads of the company. And we have continued to hedge interest rates of the company.

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The hedging of our dividend in Brazil has continued as well with structure - with techniques of hedging being slightly different now. We hedge on several years the dividends because we have a policy to keep the dividend - the existing dividend and to expect keeping our future dividend in real in order to be already in position to finance in real the future expenses in terms of partnerships with the Brazilians. But that means that we have to hedge more on long term our Brazilian activities or at least our Brazilian cash there.

That's all for the hedging of the company. But we are not in a period of very specific tension, but let's see that several market spreads, equities, perhaps, even interest rates are together at a high level. And when several markets are expensive, it is, I would say, the period where you must, as investor, become - remain very cautious.

Q - David Barma {BIO 19957338 <GO>}

Great. Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

We do have a written question from Thomas Fossard, HSBC. Two related to the reserves, and two to the partnerships. So first question is what is the level of PPE reserves in France at the end of June this year? Second question is, group cost income ratio of 29.9% in H1. Is this a sustainable level, or should we have plus or minus in mind when projecting this ratio?

And the two questions linked to partnerships, one is related to the partnership with UniCredit in Italy. Do we have some news as it is coming by the end of the year again? And fourth question. Could you update us on the distribution agreement when you (42:03) with Caixa in Brazil? And how we should understand the situation from an external view? Any plan to start a discussion again soon on which basis?

A - Frédéric Lavenir

Perhaps I'll start with the cost/income ratio. And then I'll let Antoine answer about the PPE. And then we'll come back on the more, I would say, strategic and partnership issues. So on the cost/income ratio, yes, we have quite good cost/income ratio, which is improving year-after-year. It depends, as all things, on two factors. The first one is the business mix. So, as you know, we have very low cost/income ratio in Latin America. So when Latin America is increasing, then we have a structural improvement in the cost/income ratio. And well, it will depend on the relative weight of our European and American business.

And there is a second reason, which is, in each area, the improvement of our operational efficiency, which is, as I said, quite good and can be improved. And I would say, without giving any figure, we didn't give any guidance on the cost/income ratio, which depends on many things. But in terms of global operational efficiency, we have still room for improvement, and we will work on it and continue to work on it.

As you know, we have an operational efficiency program in France. We have another one. We didn't communicate it out, but another one in Brazil. And after the end of those

programs, which are going well and on track, we'll, of course, continue to try to improve why, because, first of all, we are good, but our competitors are improving. So we have to run in front of the - to run first.

And then, we have also new competitors in the, let's say, digital business. They arrive with all the cost structures, so we have to work on our cost structure every day. And we think that the operational efficiency, that means, of course, customer experience and quality on one side, but productivity and low cost/income ratio on the other side will be the key factors in the competition tomorrow.

So, yes, we will continue to improve and to work hard on it. And we think it's a key factor for competitiveness. It's, I think, what we can see on that, and we're quite happy to be good. But it will be not enough tomorrow, so we'll continue to improve. Antoine, about the PPE, it's a very famous question, this one, so I'll let you answer.

A - Antoine Lissowski {BIO 4384399 <GO>}

Thank you, Thomas, for not asking what we intend to do, but just what we have done. Then the global amount of PPE at the end of June is €10.724 billion at the level of French company. And compared to technical provisions in consistent contract (45:51), it represents 4.61% of provision technique, 4.61%.

A - Frédéric Lavenir

About Brazil, as you know, we do not demand any anticipated renewal of our partnership, which is going until 2021. So we are happy with the way it's working, as you could see on our figures this semester. But our partners can have their own agenda. So they started to discuss with us and we had to disclose that, so that's what we did.

And then, while discussions were interrupted, it's a step we had to disclose it, so we did it. No more to understand, no less. It's a step where we are happy with the partnership now. And, well, when discussions restart, they restart. When they do not run, they do not run. So that's life. And nothing else to comment about it.

About Italy, yes, we have a partnership with (47:27) to stop it or renew it starting this year. So we have no disclosure to do about it. The only thing I can do is, as you know, there is a new management at UniCredit, new management, which - who is doing a lot on the bank on many, many areas, of course.

I just can say that relation is very good and that - well, the new management is very interested in developing profitable business in all areas of business, including insurance. So for us, it's, of course, very positive, very good. And, well, I would say the environment is good and the understanding with our partner is good. But, well, we have nothing to say about the partnership now, just that we have very good relationship and very positive business discussions.

Operator

We have a question from Rötger Franz from Société Générale. Sir, please go ahead.

Q - Rötger Franz

Yes. Thanks for taking my questions. First of all, you mentioned that you would consider a decline - a decrease of the policyholder dividend at the end of the year of around 20 basis points. Is 20 basis points the right base case assumption for us? And also your policyholder dividend are already below some of your major peers, are you considering closing that differential a bit?

Second question is about unit-linked business, you mentioned your growth in unit-linked in your major markets, but can you give us some detail whether you actually gained market shares? And third question is about Youse in Brazil. You disclosed the admin cost there. What can we expect going forward in terms of investment in Youse for the full year and for 2018? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

The first question was about the policyholder dividend this year. I didn't say precisely that we envisage to reduce it by 20 basis points. I said that in theory the reduction of our assets return, which should be 20 basis points should involve a reduction of policyholder dividend. Of course, this will be a debate at the end of the year, but so far, we have not taken a decision. We have just included assumptions in the making of balance sheet and income.

The next question was about unit-linked?

A - Frédéric Lavenir

Yeah. Just one comment on the same question. Just have a look on page 17. The average return on fixed rate investment is 3.03% on the global assets and the average return on fixed rate investments was in the first half 1.17%. So you can understand that we have to discuss and to think about the future. And while this 20-basis-point is theoretical figure and is more or less, Antoine, line with the evolution of the current revenue taking into account the dilution of the new investments. It's so a technical figure which is consistent with what we see and which is, well, a clever figure. But not more than that, not less than that. Okay. Just a hypothesis, technical one. Okay? And then, we will have to discuss and decide about the policyholder dividend at the end of the year as usual.

Then, could you repeat your second quarter please? I'm sorry

Q - Rötger Franz

It was about the unit-linked business, whether you actually gained market share and how much market share you gained in your major market?

A - Frédéric Lavenir

So we lost market share in France due to the implementation of the new partnership with BPCE. As you can see, the decrease in our revenues is mainly linked to that. So, we have, I think, Vincent, a figure about our market share, exactly, I don't want to give in France a speech (53:28).

A - Vincent Damas {BIO 18954595 <GO>}

Yeah. So, just to answer your question, Rötger, on the life and savings market in France, our market share was 13.5%. So, it's down 4% due to the BPCE agreement, but it's down more in Europe than for unit-linked contracts. In unit-linked, it's only 2.7 points lower than before. So, we have increased the mix of unit-linked in the production.

A - Frédéric Lavenir

That's for France. And for Brazil, the contrary, but I think I already mentioned it, yes, it's an increase of almost 2 basis points. 1.9 basis points coming from - 2%, yes, coming from 1.9% up to 7.8%.

Q - Rötger Franz

Okay.

A - Frédéric Lavenir

Yeah. And the unit-linked - sorry and the unit-linked inflow, it's very, very high in Brazil, as you know. It's mainly unit-linked. So, it grew from 85% in unit-linked up to 90% in unit-linked in Latin America. So, it's mainly unit-linked.

Q - Rötger Franz

Okay. And in Italy?

A - Frédéric Lavenir

In Italy, for the same reason as in France, so I would say the European policy (55:15), our market share decreased, and we are not sad with that, from 2.3% to 1.9% and the unit-linked product went from 50% to 76% of the production; so an increase.

So, you have exactly the same kind of evolution in France and in Italy revenue; so sales under control. We lose market share. We increase strongly the part of the unit-linked business. And in Latin America, it's growth in sales and very, very high level of unit-linked in the sales, around 90%.

Q - Rötger Franz

Yeah.

Operator

The next question is from Nick Holmes from Société Générale. Sir, please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi there. Thank you very much. Just a couple of questions. Wanted to return to the Brazilian distribution renewal discussions. I wondered, could you give us just a little bit more color and, as an example, would you expect to pay a fee for renewal? Is that one of the subjects that you are discussing?

And then, the second question is coming back again on the unit-linked growth. Obviously, very strong for your sales, very strong for the industry. Just wondered what your thoughts are about sustainability of this. Are you worried that an equity market correction could put an end to this? Thank you very much.

A - Frédéric Lavenir

Yes. About Brazil, well, it's very difficult to comment a discussion, which doesn't take place in hypothetical. So, I wouldn't do that, but as Antoine told you, yes, if we have to pay something for continuing business with Caixa, we have to pay something. And as Antoine said, we have Caixa in Brazil and, well, we are building our ability to pay that or to face (58:23) any external growth opportunities, so - because we continue to believe that development in Brazil and Latin America is a very good thing for the company and for the shareholders. And I think the figures prove that it's right.

Then unit-linked, well, I think that our business in unit-linked is far below the business of some of our competitors, because our starting point was very, very low. So, as always, to be very low is not good, but it's good, because the room for improvement is bigger than for all the people. So, no, I don't think that unit-linked can go until the sky. It doesn't exist, but what we did to go back to more normal share of unit-linked business in our global business is not too much and we are under the average in the market.

We did that not only through commercial actions, but also in the structural change in our business, developing a new business and more wealthy customers. So, it's more structurally oriented to unit-linked business. That - we think that the change in the business mix cannot be only based on change in the business mix in the saving business. As you know, we want to develop and continue to develop on our business in risk products, protection products and we think that the soundness of the business model will be based not only in developing until the sky the unit-linked business, but reasonably develop the unit-linked business.

And, as I said, starting from very low, we had room and we have room and developing the non-savings and pension business means protection business. It is our strategy in France and everywhere in Europe. And as you could see, all our external growth was based on only protection business, until now, the renegotiation of our partnerships was based on this priority and the best example is what we did with BPCE, with the development based on protection business and our new developments will also be based on protection business.

So, yes, we have room for unit-linked and we think that it is quite sound, because we started from very low, but we don't think it is the only way to change our business mix and

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we think that the long-term development of the company should be based and is based on development of all the business outside the traditional savings products.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you very much. That's very clear.

Operator

The next question is from Ralph Hebgen from KBW. Sir, please go ahead.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. Hi. Thank you for taking my question. I've got three things, which I'd like to ask. The first one is relating to the combined ratio in the risk and protection business. I noticed that you have experienced a very material improvement there from roughly 85% to 80% (01:02:39) and I'd be interested in exploring the drivers behind that improvement. Also, of course, if you could identify any one-offs perhaps which have supported the improvement or which have detracted from profitability in 1H 2016? So, that's question number one.

And then, the second point is back to the transfer to the PPE. You've helpfully (01:03:19) disclosed on the website what the transfers were in the last three years and the trend recently has been down. I think the numbers were roughly €320 million, €350 million and then €100 million. So, I'd be interested in hearing some views on whether the downward trend, which we've seen in 2016, can be expected to continue.

And the third point relates to the shareholder pact, which you announced has been renewed, but I noticed it's been renewed to 2019. I think and forgive me if that is incorrect, but I think in the past, you have typically renewed the package for a period of four years. So, any commentary which you can give on the color of the negotiations will be interesting. Did you renew at the same terms and conditions as before? Were the negotiations tougher? Did the partners wish to reserve the option of altering terms and conditions at the end of the shorter period than normal? Thank you very much.

A - Frédéric Lavenir

Well, about the combined ratio, there is no one-off effect. It's a consequence of two moves. The first one is the strong growth of Brazil and Brazil has a structurally lower combined ratio, a very low combined ratio on its business, so it is a positive effect. And second reason is continued improvement of our combined ratio, mainly in France. You remember perhaps that we started two years - three years ago quite a strong action to improve this strategy (01:05:41) the combined ratio in our risk business.

So, we decided some new clarification (01:05:48), we decided to cut some contracts, which we are not well priced and we start to see the consequences of those decisions. So, the real (01:06:08), the real combined ratio is improving following our decision in new pricing policy. So, those are the two reasons why combined ratio is improving.

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Then, about the shareholder agreement, no, there is really nothing to say. The shareholder agreement includes an automatic renewal provision for two years. So, that works last year – not last year, but I would say two years ago and we disclosed it exactly the same way we disclosed this time. It's just the implementation, automatic implementation of the provision of the existing agreement. So, nothing special. And, of course, it's exactly in the same condition as before, because there was no specific discussions. It was an automatic renewal.

Then, your third question about the PPE, Antoine, it is your duty.

A - Antoine Lissowski {BIO 4384399 <GO>}

Ralph, I'm sorry, I would not help you very much, I'll just ask a question. You can have an expectation on – of our level of PPE when you give me a very firm view of what will be the future interest rates in Europe. And when we have together a good conviction – convinced of an increase of interest rates in Europe and the fact that the dilution of the new investments in our portfolio will stop at that moment, of course, there will be a stop – at least a discussion on stopping PPE growth.

But so far, we are exactly in the same situation as last year. The thing is just that last year people were considering this as dramatic, because it was the first time that at this instance (01:08:21) or at that level the interest rates were low. Now, they are still very low and they are still at the same level as last year when it's no time to stop the effort to make it.

A - Frédéric Lavenir

We have several other questions coming on...

A - Antoine Lissowski {BIO 4384399 <GO>}

Just as a complement, Ralph, the figure we had disclosed on our website were not PPE additions, but all the statutory technical reserves addition we made in the past year, which we were due to the law of French government (01:08:56). And so, the €300 million in 2014, 2015 were not PPE, but other reserves.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Thank you very much. Very clear.

A - Antoine Lissowski {BIO 4384399 <GO>}

So, we have three return (01:09:07) question from Benoît Valleaux from Natixis. First one is – first, we are quite strong at La Banque Postale in second quarter. Have you made any specific marketing campaign?

Second question is the reason of the net insurance revenue decreased in savings and pensions in France in the first half. And last question is about the reinsurance result, which was at €180 million in first half and was positive also in 2016 and question is about the drivers of this reinsurance result and the sustainability of result.

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A - Frédéric Lavenir

Well, Benoît, regarding the question of reinsurance, we have new agreements with BPCE – with Natixis and we have a new agreement on reinsurance with Natixis, which creates clearly difference between former figures and current figures. (01:10:10).

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes. And as a part of the answer lies mainly in the presentation of reinsured pension contract. In the reinsurance result, we just booked the revenues, whereas the chart is in another line of the P&L.

A - Frédéric Lavenir

The second question was the net insurance revenue in savings and pension in H1, which is down to last year's, there're two – I would say, two main explanations to that. First, as we sell less, we nevertheless earn less on new sales in this area in France. The second is that last years, we had one-offs results in some pension contracts due to reevaluation of liabilities in those contracts, but it was in 2016.

The next and last question in this list was about sales at La Banque Postale. What is interesting with La Banque Postale is that, in fact, they are concentrating now the activity to transformation of outstanding therefore (01:11:38) existing contracts, traditional contracts into multi-support contracts and it explains why their production improved in terms of volume, but mainly in terms of quality.

And this involved specifically a new development in terms of Eurocroissance contract. It is not so important in global terms so far. It presents (01:12:12) €85 million at La Banque Postale, but it is nevertheless completely new and it is not due to new sales made to existing customers or with new money, it is due to transformation of liabilities of contracts, which were very traditional to a more multi-support contract, a different focus and transformation actions, which were made at La Banque Postale over these periods.

A - Antoine Lissowski {BIO 4384399 <GO>}

So, we move to another question from Thomas, HSBC. Could you provide an update about the possible tax changes for savings products in France in light of the new political environment? What is the direction of (01:13:08) and what could be the timing of it?

A - Frédéric Lavenir

So, I suggest, Thomas, you asked the same question to Mr. Mr. Lumiere (01:13:16) or to the Prime Minister or to the (01:13:20), because they probably know more than we know here. No idea. What we understand is that the government wishes to include a change in the tax rules in the next (01:13:43), so for the next autumn. We don't know more about it. What we know is that it was very clear and we can understand it that the existing contracts or existing stocks will not be a concern. So, it's, of course, very important. Then, the way the tax framework will change for the new inflows, I don't know. So, I'm sorry, but I cannot give you a lot of information about it.

Perhaps, Antoine, you have more, but I hope no, because if you have more, I would like to be informed.

A - Antoine Lissowski {BIO 4384399 <GO>}

Nobody has more information about the reform itself, but just one thing, it was announced by the Prime Minister that taxation will not touch life policies below €150,000. And these policies - we have just 2.2% of policies at CNP Assurances, which are above €150,000. That means that, by and large, the impact of that on our global business at least as far as we know what the reform is, which is just this amount of €150,000, below which is there no impact that allows us to see it very suddenly (01:15:31).

A - Frédéric Lavenir

Just adding that - well, that's exactly what we know. Then, we can say that those changes could be and it's just a hope a good opportunity to develop the long-term product - real long-term products like pension products for example. And, well, so everything is open today, but we hope it will be an opportunity to improve the tax framework in France.

Operator

Ladies and gentlemen, this concludes the conference call. Thank you, all, for your participation. You may now disconnect.

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