Q2 2012 Earnings Call

Company Participants

- Gilles Benoist, CEO
- Unidentified Speaker

Other Participants

- Federico Salerno, Analyst
- Marcus Rivaldi, Analyst
- Michael van Wegen, Analyst
- Ralph Hebgen, Analyst
- Rutge Frenz, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

The line is now open, please go ahead sir.

Gilles Benoist {BIO 1824462 <GO>}

Thank you, ladies and gentlemen. Thank you for joining us this afternoon. I will introduce you to the first half-year results of CNP Assurances starting with Page five of the slides you have in front of you. Sorry, starting with Page 4, that is Page 4.

We are operating in a very volatile economic and financial environment. But I do not make the accent on that for you are very familiar with the different elements.

Regarding the life insurance market in France, during the past year, the first six months of 2012, new money was down 15% in France according to figures issued by the FSA. It is due to the competition from products offered by banks to certain uncertainty about the tax treatment of savings in France nowadays. And of course through lower yields on the contracts. There were high surrender rates during the half year. There is a growing number of contracts who are maturing. People are retiring. And of course there is very increased (inaudible) due to the improving [ph] price. As a result of that, negative net new money was down EUR4.7 billion in the first six months of the year in France.

We shall go now to Page 5. We have the figures regarding CNP Assurances reach outward from the market during this period with new money down by only 11%, which means that we got more than 16% market share. The surrender rates were more or less on the trend. Negative new money in France we expect lower gross new money.

I don't insist on the dividend, which was unchanged in 2011 compared to 2010. And you got last week the results of our script option which resulted in 86% of dividends having been reinvested. This means that we increased the capital of the Company by around EUR390 million.

Now let's come through the key final four figures. As you see on the Slide 6, the revenues on new money were down this half year. Nevertheless attributable profit is still at the same level as in 2011 at EUR540 million. The average technical reserves are nevertheless up by around 1%. The net asset value per share is around EUR16.4. And the market consistent under value at the end of June stays at EUR19.1 to be compared with EUR18.4 after dividends 2011.

Now we go to Page eight with several informations about the structure of our revenues. As I already mentioned, first-half revenues were down 13.1%. It is due mainly to an unfavorable savings environment. There is nevertheless a very strong momentum in Personal Risk and plan creditor insurance. I already evoked the technical reserves which are up 1.2%. And the negative new money which was around EUR700 million in France during this term.

On Page 9, you have the revenues by business line during the period. As you can see, we got less revenues from savings business, which are down by 15%. It is -- this decline is in Europe and is due to the crisis and the competition from short-term products offered by banks. All of the revenues were coming from unit-linked products.

The pension business is down 30% for this half-year. This figure must be cautiously analyzed. There was a softer demand in Brazil due to the very stiff competition from sort of banking product in this country. And a very high basis comparison last year for we got an important contract at the beginning of the last year, which was announcing more than EUR400 million. And which was not -- there was not over similar contract in the first half of 2012. But we will register a similar contract of a slightly lower amount in the second half of 2012.

Regarding the 10 creditor insurance, the volumes are increased in France in spite of relatively weak property markets. And we have also very strong growth in Brazil.

Our revenue by partner in France shows very stable revenues from (inaudible) which has a good performance notably on high-end savings products. And for personal credits and term creditor insurance. The Caisses d'Epargne went down by 26% in spite of the fact that they have a high proportion of unit-linked sales. And they made relatively important performance in Personal Risk business which was (inaudible) by two during the period.

Orders were up by 4.5% with the sector of local authorities and hospitals down by 2%. But it is explainable by the fact that we are increasing the rates in this compartment.

Banking division is up by 3% and mutual interests up by 22.7%, this tremendous figure being largely attributable to the consolidation of a new subsidiary MFPrevoyance but also two relatively important figures with traditional older partners.

On Page 11, you have revenues by subsidiary in International. You can right notice that the revenues were stable in Italy at EUR700 million. They were decreasing for Brazil. But it is fair to note that the Brazilian revenues were affected in this presentation by the decrease of the value of the Real which represents around 7% of decrease. Excluding more than 7%, excluding this currency effect, the revenues on this Brazilian subsidiary would have been quite the same as last year.

In our Spanish, mainly Spanish and Portuguese facility, CNP BVP, we have possible slower growth, a decline in fact of sales. And of course it is alike with our Cyprus subsidiary.

On Page 12, you have the lapse rate of our contracts compared to the average market in France. In this slide, you can compare the lapse to reserve rate of CNP Assurances in red, the lapse to reserves rate of market in blue. And you observe that our lapse reserves rate is consistently lower than the rate of markets. And the certain of reserves of CNP Assurances which were during the past year at 4.9%.

All in all, we have of course had little growth of this item. But nevertheless we are still below the rest of the market and the race [ph] of outflows was not so dramatic as some figures issued by the profession by (inaudible) could have made it possible.

The growth in technical reserves is illustrated on Page 13 with average technical reserves being up by 1.2% (technical difficulty) breakdown between French and international on the left side of the slide. And by business line. There is no very important difference with last year's. When I go to the profitability items, which are starting on Page 14, with stability of our net insurance revenue in spite of nonrecurring factors we are down, we will see in a moment. The EBIT being slightly up at EUR1.1 million, which reflects, among others, very good control of our administrative expenses everywhere in the world. And in the end, we have first-half net profit which stays at EUR540 million.

The spreadsheet on Page 15 illustrates the different figures which are relevant to describe our business model during this period. I do not come back on the revenues, the net insurance revenue itself at EUR1.542 billion was down by 0.4%. The recurring net insurance revenue will see that in a moment was nevertheless up by around 4% during the period.

Administrative expenses were down by 2.5%, which results in an EBIT being at EUR1.1 million, plus 0.5%. The final forecast, the finals cost, the income tax expenses and minority interests are all a little up compared to last year's, which explains the recurring profit being down by 6.6% at EUR516 million.

This tender is compensated by an improvement on net gains on equities and property, net of impairments and fair value adjustments, which are up at EUR68 million compared to EUR14 million last year. And fair value adjustments to trading securities which are staying at EUR61 million compared to EUR24 million last year. This improvement was little partly offset by what we call nonrecurring item which is in fact an increase of policyholders surplus reserves we posted in order to have an improvement of our policyholders reserve ratio. And we nevertheless posted net profit slightly at the same level as last year, up EUR540 million.

On Page 16, the policyholders surplus reserves in France, which stays after high level on long-term basis, represents roughly 1.3% of the technical reserves which is a little less, little under the two last years' figure but nevertheless much higher than the figures in the years before.

On Page 17, the net insurance revenue of the Company is spread between our different routes of revenue. But (inaudible) represents roughly EUR400 million contribution with certain specific items which are there where recurring international revenue stays at EUR566 million, up by 7.9%. And I recall you that there is an impact of currency in Brazil, the economical revenue would be higher by around 8% and recurring revenue in France, which is up by around 3% at EUR7058 [ph] million.

You have also here figures regarding the nonrecurring revenues. This deduction of the revenues is mainly due to effects of lower interest rates which imposes an increase of provisions of the Company which of course (inaudible) little of net insurance revenue.

If we come to Page 18 in France, the recurring net insurance revenue by business line, all in all, is up by 2.9%. And you see there that the revenue in savings was roughly at the same level as last half last year. The pension revenue was a little over. But it is mainly linked to a decline in investment income and group pension and different technical modification of our evaluation of premiums and provisions in the individual pension business.

Risk revenue is up 23.9%, which is due mainly to the term creditor insurance, which is up 14%. And also the consolidation of MFPrevoyance, the new subsidiary which we are not consolidating last year.

We now come to Page 19. The recurring net insurance revenue in the international was up by 7.9%, roughly 3 times more than the French one. We have a very good performance of cash (inaudible) growth and in local currency the net insurance provision would have been up by 18.5%, growth which is led by higher risk and pension technical reserves and an improved margin on our pension business.

The UniCredit Vita performance is similar to last year in spite of the reduction in term creditor insurance premiums. We have a good contribution of our Spanish and Portuguese subsidiary, that is Vita (inaudible). And consistent contribution of our Cyprus subsidiary.

On Page 20, you can check the fact that in France as well as the world, we had a good management of our administrative expenses. In France, we know -- you know that we have a process called F. Scheuer [ph] to improve our cost to income ratio which stays now at 40.8%. And in international we have in fact in local currency an increase in -- a general decrease of 5.4%, which represented a real reduction of cost to income ratio which is now at 26.9%.

On Page 21, you have a breakdown of our EBIT on the left by segment. And on the right by geographical region, which shows, among other things, the very strong status of our international businesses in this figure, in this conception. And also on the left the constant increase of a part of the risk business compared to savings business in the constitution of our EBIT.

On Page 22, you can see that the margins by business line were differently moving on savings and pension businesses ratio of EBIT to average technical reserves was slightly lower. I already explained the context of our savings performance. Regarding the pensions, the explanation lies of course in the different financial and technical decreases of contribution.

Conversely, the EBIT by revenue of our risk business is up 14.6% during the term compared to 12.16%.

Now, let's come to value creation of the Company. NTV [ph] was increased by 4%, the new business value ratio is 10.5% and the LOE of the Company stays at 10.6% which marks an improvement to last year's end.

If we come to Page 24, the net asset value is then at 15.3%. And the value of in force at 3.8%, which is a little below last year's value of in force. And in sum, the increase of net asset value more than compensates the reduction of the value of (inaudible) by share.

On Page 25, you have the view on operating cash flow of the Company. You are of course to multiply by 2 the 2012 first-half figures to compare the figures to last year's complete year figures. I do not insist on the fact that our ability to produced stronger operating free cash flow is preserved through the current crisis. And in spite of different reduction of business and of -- despite very contradictory environments.

This effect is also observable in Page 26 when you see the evolution of ATE [ph]. Here too you have to take into account the fact that the first-half figures are not annualized and the new business value as well. It is clear that, on an annualized base, the new business value is declining by 21.9%, this decline being mainly due to the contribution of France. And we will see in a moment which are the tendencies below these figures.

The new business value margins below are at 10.5% globally to be compared to the 12.3% of last year. These (inaudible) being mainly attributable to a reduction of this ratio in France. It comes from 8.9% to 6.4%. And a very slight decline in International division with nevertheless a very strong new business value creation.

On Page 27 and 28, you have the evolution of this ratio country-by-country. You see that, in France, the ratio was jeopardized by the evolution of financial markets, mainly low interest rates and a relatively negative evolution of the product mix linked with lower production of term credit insurance in this half year.

In Brazil on the right of the slide, Page 27, we have conversely an improvement of a ratio and of the product mix. In Italy, on Page 28, we have a relatively lower ratio of 9.8%. This reduction was mainly due to a less favorable product mix in Italy.

And in Spain, to finish with it, the new business ratio stays around 30%, which is very considerable.

You will note in this slide the ratio for Cyprus. The Company is just too small to justify a specific slide. But their business ratio is around 50%.

Page 29 traditionally because (inaudible) near the Company which is just above 10.6%.

Now we can go to the last section of this review regarding the risk management of the Company with (inaudible) capital in the Company of move around (inaudible) sovereign debt and the reduction of equity rating.

On Page 31, you have different information of our structure of investments with equities representing now 7.7% of the portfolio. This is comparably more -- with more than 9% during the last year. The evolution and duration and the yield of (inaudible) portfolio, the property and property (inaudible) contribution and other things, you see there that we have an important liquidity to be compared to a potential increase in sovereign price. We have reduced the exposure to (inaudible) sovereign debt by 17% during this month. We have eliminated complicated (inaudible) Greek sovereign debt exposure and continued to invest steadily in property in order to increase our property ratio of our investments.

There are several details on our sovereign exposure by country on Page 31. I do not go through these elements which are also illustrated by a slide in an appendix.

And I go straight to Page 33, which makes the point on the solvency capital and required capital at the end of June. In Solvency I, the coverage ratio the Company is up 183%. Without annualized gains, it stays at 130%. And we also mentioned the fact that the TAC is estimated at EUR22.1 billion, a little higher than at the end of last year, which has to be analyzed in liaison with the amount of economic capital which is less important due to our decrease of investments in equities and (inaudible). That means that TAC represents a higher proportion of our capital needs than before.

In Solvency II, the coverage is around 155% at the end of June, which is roughly similar to last year's figures. And to finish with this, we have gathered all the group's robustness figures which illustrate from different points of views the capacity of resilience of our situation in a context of crisis. It is on Page 35 and 36, just a few words about these elements which you know mainly already before. But we consider necessary together then in once one or two slides.

The equity and IFRS is at around EUR14 billion. I already mentioned the Solvency I and Solvency II ratios. And you see that we are very sticking to our policy of having always more than 110% in Solvency I, excluding unrealized capital gains.

We have also recalled the figures on the MCEV with very robust adjusted net asset value at EUR9.7 Billion. But in force now is slightly lower than the interest two years ago but I think we are not the only company in this situation. And the MCEV is at the high point in terms of history of the Company of EUR12.2 billion.

I ready mentioned the (inaudible) adjusted capital. On Page 36, you have also different elements on the unrealized capital gains of (inaudible) which are, in IFRS terms, at around EUR10.9 billion at the end of June. The policy order surplus reserves already mentioned in the course of the slide. And unrecognized deferred participation assets which are also spread in different documents in our presentations. But we wanted to make them together with other elements depicting our robustness as a whole.

And we'll finish with traditional mention of the evolution of the value of the shares in the market. And now with my colleague Xavier Dandedique [ph] who is in charge of all the commercial departments and international departments of CNP. And my colleagues from accounting, risk and actual departments and investment departments, we are at your disposal to answer to your questions. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Michael van Wegen, Bank of America.

Q - Michael van Wegen {BIO 6435238 <GO>}

Yes. Good afternoon. Two things. First of all, in one of the slides you've, shown to yield on the different asset classes, bonds at 3.7%. That is down 10 basis points, if I'm not mistaken, with the average for the full year. Given the derisking that you have done, that doesn't seem to be a whole lot. I recall that Mr. Benoist said the full-year presentation indicated that the yield for this year likely would come down 20 to 30 basis points based on the expected derisking. What's the current view on the impact of the running yield for the full year from the derisking done and the future derisking expected? That's question number one.

Question number two is on the lapses that you've shown, the comparison of CNP versus the market, even though you're still lower than the market, you do catch up very fast in H1 after being relatively stable last year. Can you talk us a little bit through why you think that is? And do you expect to get even closer to market levels. And how do you generally see lapses developing going forward? Thank you very much.

A - Gilles Benoist {BIO 1824462 <GO>}

Thank you for your questions. On the first element, I would just say that the risking of course costs a little. But on the (inaudible) and we had last year very important costs due to different impairments we had to observe in Greek bonds and in different other equities. That means that all in all there will be no very important effect on the policyholders dividends this year, which could so far be at the same level as last year. That means that the costs of derisking in 2012 could be of similar magnitude, or at least the impact of this cost could lead to similar returns for the customers as the very important impact of the Greek default last year. Therefore, we consider that the derisking must be absorbed over several terms. It is in a way the second year of that that we are protecting first our company's margins. And second the policy -- all the surplus dividend attributable to customers which could be as last year at 2.7%.

Regarding the lapses, when we discuss with different partners in commercial departments, that appears that we are in a very specific moment where people are sometimes deciding to rebalance their assets, it can appear -- it appears that there are many re-investments in buildings, in homes in France. And there have been several lapses due to the needs by people to buy back their house if they have mortgages, which explains this movement. It is one of the explanations. But it is the most specific we have registered from our partners. Therefore the lapse rate for the whole year could stay at the same level as this half year. The figure issued by the -- not by the IFSR but by private analysis company in France shows that the lapse rate could stay at the same level over 2012.

Q - Michael van Wegen {BIO 6435238 <GO>}

Okay. Thank you. Maybe getting back to the first point because I am not quite sure that I fully understood your answer given the running yield. If I understood correctly, what you were saying is that you're effectively protecting the Company's margin. And therefore I think I understand that you feel that the margin that you made on savings of 26 basis points last year. Do think that is sustainable because you went to 24 basis points in H1? And if anything I would expect more pressure there. But you seem to suggest the opposite.

A - Gilles Benoist {BIO 1824462 <GO>}

I come back to this explanation in another way. The portfolio return as a whole last year, the net portfolio return was at a certain level. And it was dented by impairments on risk and over assets, which in the end resulted in a policy order surplus dividend of 2.7% after full margin for CNP and its distributors. This year, the return of the portfolio will be of course a little lower, natural returns will be a little lower for the portfolio is maturing.

But on the other side, we do not expect to have such an amount of investment. Therefore, we think that we will be able to pay a policy holder dividend at the same level as last year while conserving exactly the same margins -- rate of margin from assets as last year.

Q - Michael van Wegen {BIO 6435238 <GO>}

Okay. Thank you very much.

Operator

Michael Huttner, JPMorgan.

Q - Unidentified Participant

Yes. This is (inaudible) from JPMorgan on behalf of Michael. I have three questions. The first is can you give us your net outflow -- outlook for 2012 remaining part of this year? You had a net outflow of $500 million for first half? Can you give us what should we expect going forward? And can you split that by region, especially France and international? That's the first question.

Second, can you give us some color on when do you plan to announce the fresh issuance of your debt of debt basically to refinance your maturing debt for this year?

And the third will be do you continue to go over to your DRIP, the dividend investment plan, for 2012, or do you plan to move to 100% cash from this year onward for your dividend? Thank you.

A - Gilles Benoist {BIO 1824462 <GO>}

Regarding your first question, we do not give any indications of -- however our custom is to be (inaudible) difficult to make any forecast in the current situation before knowing what will be the tax environment during the second half of the year.

The second question, could you recall it, the second and the third question please?

Q - Unidentified Participant

Yes. The third question is would you continue with your DRIP, the dividend reinvestment plan for 2012, or do you plan to move to 100% cash for your dividend for 2012? And --

A - Gilles Benoist {BIO 1824462 <GO>}

We have no plan to renew what was done this year.

Q - Unidentified Participant

So you will still continue with your DRIP plan. Hello? Hello?

A - Gilles Benoist {BIO 1824462 <GO>}

We have no debt maturing in 2012.

Q - Unidentified Participant

No, maybe 2013 I guess. But you have some debt maturing in 2013. So when will you make an announcement for that?

A - Gilles Benoist {BIO 1824462 <GO>}

It represents only EUR300 million. And in fact it doesn't seem to us being a very important issue otherwise for the time being. Probably we will make an issue by the end of the year. But the current level of the market and the rates of the market dissuades us to rush here. We think that that is better to wait for Mr. Druggies' [ph] contribution to the stability of the market before raising long-term bonds to the level of CNP.

Q - Unidentified Participant

Okay. And just for the last thing, do you still plan to continue with your DRIP, the dividend reinvestment plan?

A - Gilles Benoist {BIO 1824462 <GO>}

Yes.

Q - Unidentified Participant

Okay. Thank you.

A - Unidentified Speaker

(Spoken in French) -- hold on one second actually because that translates (multiple speakers) is dividend reinvestment plan.

A - Gilles Benoist {BIO 1824462 <GO>}

(multiple speakers) I didn't get the sense of your question. Okay. We do not plan to make another straight dividend next year. Okay?

A - Unidentified Speaker

Did you get that Ashik [ph]? In any event, the answer to the last question on the DIP is no. Current policy is not to continue that; it was a one-off.

Q - Unidentified Participant

Thank you, thank you.

Operator

Ralph Hebgen, KBW.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Hi. Good afternoon. Just a few things. First on Solvency II, I notice that the solvency was on that basis very strong, in fact stable on full year 2011. It would help me if you could give us some comments on why that was possible. And especially it would be great if you could comment on the various components of how the Solvency II ratio moved. For example the interest-rate environment was clearly adverse to development of the solvency ratio on a Solvency II basis. And yet we've seen your Solvency II ratio stable relative to full year -- to the full-year basis. So that will be very interesting.

And second, I have more questions but I will limit myself to two. On Slide 18, we can see that the risk, the net investment, the net insurance revenue derived from risk has increased quite strongly. That is in part, as you explained, due to the first-time consolidation of MFP. Would you be able to disclose how much the MFP consolidation contributed to the insurance revenue? Thank you very much.

A - Gilles Benoist {BIO 1824462 <GO>}

It contributed EUR17 million.

A - Unidentified Speaker

I'm sorry, did you hear that Ralph? EUR17 million.

Q - Ralph Hebgen {BIO 6297020 <GO>}

No I didn't hear. The line is a bit faint, sorry.

A - Unidentified Speaker

The answer to your second question, the contribution of MFP to that was EUR17 million.

Q - Ralph Hebgen {BIO 6297020 <GO>}

EUR17 million?

A - Unidentified Speaker

Correct.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Cool. Thank you very much.

A - Gilles Benoist {BIO 1824462 <GO>}

Regarding your first question about Solvency II at the end of June, it is, to be clear, it is an estimation and we must be very cautious when analyzing these figures. But there was one stunning thing when we analyzed these elements which was the effect of a derisking policy we are left during the first half of the year. The costs in terms of SCR of detaining an important equity portfolio is very important. And the decrease of this equity portfolio resulted in a very dramatic decrease of SCR in itself. Even if all the elements were contrary, in the end, it resulted in a stability of a ratio.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Very good, thank you. Maybe just as a follow-up, now that you have done some derisking, would you be able to give us a sensitivity analysis of what would -- of how your Solvency II ratio would respond to changes in macro indicators, specifically interest rates, equity markets. And corporate spreads?

A - Gilles Benoist {BIO 1824462 <GO>}

If I knew that, I would probably reflect on that elsewhere. But here I will look at the people there who are working on it and preparing that. And it seems complicated even to I would say to explain anything about these sensitivities widely.

But I note that your question is on how we get forecasts our Solvency II ratio with different simulations and it is certainly a target of our work nowadays to be able, with different models, to be able to simulate Solvency II on the long-term. But so far we have no efficient stability in the strength of our simulations to disclose them.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Thank you very much.

Operator

Federico Salerno, MainFirst Bank.

Q - Federico Salerno {BIO 2565091 <GO>}

Hello, I hope you can hear me fine. A couple of questions. Just on the risk products which are going very well, how long do you think the present positive trend can continue, in especially France?

Then the second question on the other hand, concerning the weak production of the civics [ph] banks are you talking with management to solve the various issues? What is the situation in here?

Then last question concerns some say the French government might try to convince life issuers to channel more money into social housing. I was wondering if you are aware of such projects or not. Thank you.

A - Gilles Benoist {BIO 1824462 <GO>}

Thank you for your third question. It appears the French government has more relationships -- relations with financial analysts than with insurance companies. But we had never heard about this. But several analysts ask us about our implication in financing social housing. I hadn't heard about it. But very clear that there is something (inaudible) insurance companies (inaudible) which is designed just precisely to finance the social housing and I heard that what they did there was to be increased. Therefore, I don't see the need to go over interest to do so.

Regarding your first question about future of our risk business, how long will this increase go? Forever, sir. It is our business and very clearly we are one of the leaders of a market which has high needs. And we are one of the only technical -- technically able providers of those sort of protections. Therefore, we think that there is important progress which can be made on that field.

And for your second question, yes. Of course, we are discussing with the problems we have about the way to push for production. But the context -- in the context, the present context, there are several over-constraints, which have to be taken on board.

And to be clear, our willingness to collect too much money and invest too much money at the current level of returns on the financial markets is not so important that we insist on funding again large production now.

Q - Federico Salerno {BIO 2565091 <GO>}

Thank you.

Operator

Rutge Frenz [ph], Societe General.

Q - Rutge Frenz

Yes, hello. Just a couple of questions. First of all, a follow on to Ralph's question. The (inaudible) the effect of the reduction of the peripheral (inaudible) exposure on your Solvency II ratio is only minor. Then second question regarding the deferred policyholder liability. What policyholder dividend is actually assumed for that? Is it the 2.7%? And last, at the quarterly update, Jim told me that the Solvency I ratio includes an assumption about the full-year net income or earnings retention. Is this still the case? And second, has this assumption since then changed? Thank you.

A - Gilles Benoist {BIO 1824462 <GO>}

Ian [ph], could use sum up the different -- the two questions please for me?

A - Unidentified Speaker

I stand by what I said. The assumptions haven't changed. It's the same dividend and net income assumptions that we gave you for the solvency. Those haven't changed on the Solvency I.

Q - Rutge Frenz

Okay.

A - Unidentified Speaker

Your first question as to the impact on the solvency ratio of the pigs [ph] derisking --

Q - Rutge Frenz

Yes. The Solvency II ratio.

A - Unidentified Speaker

On the Solvency II ratio -- the sovereign risk isn't included in there. So it's the same.

A - Gilles Benoist {BIO 1824462 <GO>}

(multiple speakers) the equity is derisking. Not through Solvency II. So in that derisking.

Q - Rutge Frenz

So you do not charge for any structures of sovereign debt which is in line with the standard formula?

A - Gilles Benoist {BIO 1824462 <GO>}

(inaudible) understand that we will do it under OFSA [ph] but it is (inaudible) figures (inaudible).

A - Unidentified Speaker

And what was your second question again?

Q - Rutge Frenz

The DPL, the (inaudible) policy [ph] liability, policyholder dividend is assumed.

A - Gilles Benoist {BIO 1824462 <GO>}

It is an assumption we made. And --

A - Unidentified Speaker

Yes, yes, EUR270 million. EUR270 million working assumption we used for that, yes.

So did we answer your questions?

Q - Rutge Frenz

Yes. Thank you very much.

Operator

Marcus Rivaldi, Morgan Stanley.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Good afternoon. Couple of questions please. First on the derisking assets of the Group, clearly the first half was a very uneven half in terms of market conditions. Can you maybe sort of discuss a little bit about the pace at which and when the derisking really took place?

My point really is if markets stay as they are, are you likely to hit your derisking targets for the full year, both on the sovereign risk and are you pretty much there on the equities anyway?

My second question really comes back I'm afraid to the balance sheet and solvency issues again. S&P are looking clearly at their ratings criteria. They've got the Group on a negative outlook. They have concerns about the balance sheet. And clearly with the derisking (inaudible) you're putting in place, you'd like to see maybe some volatility in the Solvency I ratios. Are there any other things you're planning to do a few months later down the road now in terms of trying to improve that balance sheet even further, take it to a place where there's really no question marks about it? We've seen other groups, such Aviva [ph] in the UK taking much more drastic action around that in recent months. Thank you.

A - Gilles Benoist {BIO 1824462 <GO>}

First question (inaudible).

Regarding the rhythm of the derisking and the (inaudible) we did a large a large chunk of it (technical difficulty) the First Quarter. And it depends also on which Solvency you were talking about (technical difficulty) we did for instance on Portugal we tried to profit -- stay profitable (technical difficulty) if possible it was more regular than the thing in Italy. Regarding Island, we (technical difficulty) didn't sell anything as to the timing.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

So does that mean -- markets as they are, are you unlikely to meet your derisking targets or are you -- you said you're waiting for Mr. Druggie [ph] to do something to help you on?

A - Gilles Benoist {BIO 1824462 <GO>}

We welcome Mr. Druggie [ph] but we would have done the target (technical difficulty). It is a target (inaudible) (multiple speakers). We are (technical difficulty). We said EUR10 billion a year (technical difficulty) total. Which is just a question of market (technical difficulty).

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Okay. Then the second point just on whether you feel your existing plans are sufficient at the moment given I guess the environment we are in and maybe pressures from S&P?

A - Unidentified Speaker

(spoken in French).

A - Gilles Benoist {BIO 1824462 <GO>}

We do what is necessary. We have improved our situation so far. And we are in discussion with all the (inaudible) about it (inaudible) Standard & Poor's. But we do not see the need to rush here. We are in a very comfortable situation in the current market and we do not feel it is necessary to move quicker.

We do not intend to sell real estate to certain (inaudible). We do not intend to sell space of our different subsidiaries to grow (technical difficulty) which is we know where (inaudible) unrealized gains (inaudible) the balance sheet regarding these different elements of our assets. They are substantial. For instance, everybody knows that we have more than EUR2.5 billion [ph] of unrealized gains on our Italian subsidiary but it is not to sale.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Ralph Hebgen, KBW.

Q - Ralph Hebgen {BIO 6297020 <GO>}

It's me again. Just three short things. On Page 17, you showed the impact of owned funds on net insurance revenue. That has increased quite potently. Would you be able to explain what the drivers behind that was?

Second, if you look on Slide 25 where you helpfully disclose the operating free cash flow for the half-year, these numbers on the (inaudible) the in force contribution shown includes experience variances. And I wonder whether you have the number shown for the interim 2012, if you exclude these experience variances.

And the third one is simply to ask whether when you sold Italian bonds as part of your derisking policy relative to sovereign debt, what was the loss you made on them? In fact the question is did you generate any loss on this. And if so would you be able to quantify it? Thank you very much.

A - Gilles Benoist {BIO 1824462 <GO>}

On the third point, we of course made some losses which were offset by gains on core bonds. We sold the (inaudible) at the same moment. Okay? We offset the cost of the derisking by the sales.

On your first question regarding the owned (inaudible) returns, the revenues of this part were increased by a move on central provisions which was last year we had a very negative contribution on this figure. And this year that contribution is positive. It is just a move on technical common provisions.

What was your second question? Oh, it was about operating free cash flow, (inaudible)

A - Unidentified Speaker

Spreads due to operating activity (inaudible) are EUR63 million on the (inaudible) EUR17 million. (inaudible). And the expected in force contribution, experience adjustment is only EUR63 million on the 8EUR17 million.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Sorry, I must admit I didn't quite follow. I apologize. So what did you say there?

A - Unidentified Speaker

So you ask us -- if I'm right, you ask what was the amount of the experience adjustments which are inside the expense (inaudible) in force contribution. Was it your question?

Q - Ralph Hebgen {BIO 6297020 <GO>}

That's correct. Because in 2011, the EUR1.738 billion, which you show as being expected in force contribution, includes a number of EUR333 million for variances. The corresponding number for the interim result of EUR817 million, I was wondering what that respective variance was, which is presumably included in that number as well.

A - Unidentified Speaker

Last year, it was around EUR300 million. And for our share is EUR63 million. (multiple speakers)

Q - Ralph Hebgen {BIO 6297020 <GO>}

I see, that's what you said. Okay. That's fine, thank you very much.

A - Unidentified Speaker

On the EUR63 million, on EUR870 million. Okay?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Perfect, thank you.

Operator

We have no further questions at this time, gentlemen.

A - Unidentified Speaker

Thank you very much everybody. And see you next time. Bye.

Operator

Ladies and gentlemen, this will conclude today's conference call. Thank you for your participation. You may now disconnect.