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Q2 2014 Earnings Call

Company Participants

- Antoine Lissowski, Deputy Chief Executive Officer-Finance
- Michel Bois, Head-Programmes & Organization Systems
- Thomas Behar, Chief Actuary Officer

Other Participants

- Benoît Pétrarque, Analyst
- Jim Root, Director-Investor & Analyst Relations
- Michael I. Huttner, Analyst
- Ralph Hebgen, Analyst
- Vittorio Sangiorgio, Associate
- William H. Elderkin, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the CNP Assurances Interim Results 2014 Conference Call. Today's conference is being recorded. And at this time, I would like to turn the conference over to Antoine Lissowski, CFO. Please go ahead.

Antoine Lissowski {BIO 4384399 <GO>}

Hello, everybody. Glad to speak to you this afternoon. We are ready to commence our first half 2014 results and I will start the presentation by page three, you have in front of you. And our half year was characterized by a continued shift in the product mix of the company with important growth in personal risk and protection business mainly in Brazil and growth in the unit-linked savings and pension businesses.

Second, we have important innovations in our product line. We have two new products], Cachemire 2 and Cachemire Patrimoine launched at La Banque Postale and a new premium savings platform which is now launched.

And we have last – new strategic partnership in Europe with Banco Santander which was announced three weeks ago, on long-term European insurance partnership on loan insurance.

When you turn to page four, you see that our figures on the half year are up. The premium income is up 12.5% up to €15.7 billion. In fact if you take into account the shift of Brazilian

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real, the change like-for-like would have been plus 14.2%.

The net revenue of the company stays at €1.6 billion plus 8% in like-for-like figures. Administrative expenses are up 2%. In reported figures, it is minus 1.7%. And resulting that EBIT is up in reported change 3.2% at €1.2 billion, roughly. The net profit of the company is at €601 million, it is net reported profit we have posted this morning which drive to ROE of 9.3%, I will come back on this later decline of ROE compared to last end year.

The new business margin is at 12.4% also slightly below last year's and I will give the explanations on it. The Solvency I coverage ratio is at 374% comparable and MCEV per share stays at €23.8, the book value by action being at €19.5.

If we move now to activity in France on page five, we have first the figures regarding the premium income with traditional savings and pension business being dramatically up by 21.1% at €8.8 billion with a very dramatic increase of unit-linked savings business plus roughly 60% with €1.167 billion. And personal risk and protection business up by 3% that reflects the strong sale which was already observed.

The APE ratio in France is 9.6% to be compare to the 10.6% in last year in fact favorable mix of product in this half year due to personal risk and unit-linked was partly offset at lower interest rates which in an environment of low interest rates and minimum guarantee rates existing results in slight decrease of APE ratio.

Page six, you have views on net insurance revenue which is up in France by 7% at €621 million with savings part of this revenue staying roughly at the same level as last year at €413 million and the personal risk part of revenue being up 28.9%, i.e., at €208 million. The technical reserves regarding that business in these businesses in France represent €281 billion.

On page seven you have the similar figures regarding our Latin America businesses. When you compare on like-for-like figures, the premium income stays roughly exactly as the same level as last year at €1.6 billion, the decrease in reported figures being only due to evolution of real to euro change.

We have had in Brazil a slightly lower pension business in our activity but it was offset in a very robust performance in personal risk and protection business as you can see in posted figures. The APE ratio in this country is at 31.4% slightly lower than last year. This is due to effects of pricing of some of our contracts in loan insurance mainly.

On page eight you have a view on the contribution of Latin American business to the net insurance revenue which is in like-for-like figures up by 13.5% at €569 million. And it is still majority due to the personal risk and production business which registered a very strong increase in this ratio.

On page nine you have key elements about our business in other countries in Europe, excluding France where premium income is roughly at the same level as last year around

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€2 billion. But there is an important shift between the pension business which was very important last year and which is now only €14 million.

This move is due to the importance of the specific contract which was underwritten last year for more than €420 million which was not – there was no over similar contract this year. But conversely you have very important growth in savings business with the growth of 37% in traditional savings and a growth of roughly 18% in unit unit-linked savings.

The APE ratio is down by 5.1% to 6.7%. This decline is due to low interest rates environment and which explains that our traditional savings business in Italy which used to be based on minimum guaranteed rates has very low APE ratio. I insist on the fact that starting July, 2014, we are stopping selling this minimum rate guaranteed contracts in Italy, therefore, this APE ratio should be mechanically improved during the second half of the year.

The net insurance in Europe out of France is at the same level roughly at the same level as last year at €97 million.

If you consider the sum up of new business value on page 10 you see that the amount of the new business value during the half year was around €200 million at €196 million with a major part being in France €114 million and a growth in core country by 8.2%. And American (sic) [Latin American] (10:45) growth in reported figures by 7.5% and decrease in Europe excluding France for the already mentioned reasons to €10 million.

On page 11 you can observe another aspect of our management with regards cost/income ratio which is down from 37.8% to 36.5%. And you can consider on the left of the slide that the costs were maintained under control in France with the increase of 1.1%, decreased in other European countries, Italy, Spain and Cyprus, of course. And where in like-for-like figures that contained to 9.8% growth in Brazil whereas in this country we have an important effect of taxes on sales, which are included in the administrative expenses in this ratio. If you exclude these taxes effects, you obtain growth of expenses in like-for-like exchange figures, which is below the inflation in Brazil. That means that in real term in Brazil, we have kept preferably the cost under control.

On page 12 we sum up EBIT by business with – as you see a decrease of the EBIT in savings and pension businesses as above mentioned reasons and an important growth conversely on personal risk and protection and P&C – we incorporate that in Latin America, which results in global growth of the EBIT by 3.2%.

When you look at the figures by country, the major part remains France with €693 million, plus 8.5%. You have also an important stake in Latin America, in like-for-like figures it is €434 million and a slight decrease in Europe with €61 million contribution.

On page 13 we depict different other figures below the EBIT with finance costs a little above last year, with income tax expenses import – quickly rising significantly above last year. It is due to mainly the taxation effect in France, which are supposed to be provisory, that means some taxes which were decided for three years, we all expect that they will be

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over in three years. And the minority interests which are slightly decreasing in connection with our Brazilin contribution expressed in euro.

The recurring profit of the company therefore is at €542 million, which represents a change by 2.3% to last year. The net gain and losses on equity, property and AFS figures represents a loss of €12 million exactly identical to last year.

The fair value adjustments for trading portfolio are a little by €70 million compared to the €54 million of last year. And there is slightly non-recurring item in this half year. In sum, we have a net profit of €601 million with growth of 3% is completely inline with the growth of the EBIT.

If you consider on page 14 the equity of the company it is up by 9.9% at €15.5 billion. You see there that the fair value adjustment to AFS, available for sale portfolio and currency effect represents an accounting increase of the equity of more than €800 million, which largely explain why the ROE of the company appears to be below last year's. In fact you have to correct the ROE, if you want to compare this figure – today's figure and last year's figure.

The MCEV is at the end of half year at €23.8 per share, €16.3 billion.

Last page, I will comment is solvency capital with Solvency I ratio up 374%, the coverage ratio is at 119% as you see on the right of the slide the coverage ratio which was at 115% at the end of last year was increased by the issue of subordinated debt in May. A part of that, the change in SCR was completely offset by the H1 profit and translation adjustment.

We precise there but, our Solvency II ratio is at about 175%, the policyholders' surplus reserve is still at €4.5 billion which is roughly at 2% of the technical reserves. And we precise that the expected acquisition of Santander Consumer Finance insurance subsidiary which was decided that it should be closed by the end of the year, would have an impact of around 3% of the group's coverage ratio. That means that it is clearly not an issue in terms of solvency for CNP Assurances.

There were main figures I wanted to develop now and I am ready to answer with my whole team. We are 100 – 25 people around this table and we are all ready to answer your questions. But Jim is the main answerer.

Jim Root {BIO 2545921 <GO>}

Your quantity and quality.

Antoine Lissowski {BIO 4384399 <GO>}

Hello?

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Q&A

Operator

We will now take our first question from Michael Huttner from JPMorgan. Please go ahead.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Ha, fantastic. Thank you very much and I had three questions. The one is on the slide on operating cash flow and I just wondered whether you can say what the one-offs are in order that I can have an idea what it would be for the full year. Because I – if it's – uses the dividend cover figure, I have been – I'll try to use it with funds and something that we have.

And then on the net profit, the €601 million, I just wondered again of items in there which I could should treat as one-off or exclude as to gain an idea of what we might expect in the second half.

And then finally on MCEV embedded value, so the number went up, it didn't go up quite as much as I had expected and I just wondered whether you could give a quick update where you see it going with the current level of interest rates. Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Regarding the operating cash flow we have well specialist of that in the room who is Thomas Behar who is preparing these figures and he is the only one who understands them. Thomas to my rescue.

A - Thomas Behar {BIO 18964489 <GO>}

Yes, in this half year, we have the (20:58) of subordinated debt of €400 million, €500 million and the impact on the operating free cash flow that you have to take into account is €436 million, then calculation is based on the solvency margin that we have for the first half year.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay. So – if I do that, then I get a figure of €390 million and if I double that €780 million. Is the €780 million a run rate – normal run rate or there things I should exclude – because I – it would be a big jump €780 million from the €606 million you had last year?

A - Thomas Behar {BIO 18964489 <GO>}

Yes and you will have to take into account when we'll have the closing of (22:06) the fact that we will have Santander, the fact that we will have to take into account the solvency margin of this new acquisition.

Q - Michael I. Huttner {BIO 1556863 <GO>}

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Okay.

A - Thomas Behar {BIO 18964489 <GO>}

And the fact that we have paid something for this acquisition.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Right. Okay. Okay, but that's still a big figure. So if I do the math it's €826 million minus €436 million it's €390 million times two is €780 million. I add back the (22:39) because it's done, that's about €1,200 million. And then I take something off for Santander €290 million may be €400 million if you have – if you go ahead, so that gives me €800 million?

A - Thomas Behar {BIO 18964489 <GO>}

We don't probably add it to give some forecast by the end of the year. But we will try to see for Jim how we can need him (23:06) about the driver of this free cash flow for the year.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay.

A - Antoine Lissowski {BIO 4384399 <GO>}

And right – to sum up – let's say what we are clearly having a very precise look on these figures and to be able at the year give an update, an expected – the dividend expected by the markets and to have sufficient margins of development for ourself. Then on that respect, we do not make any forecast – public forecast. But we are internally very, very cool on that issue.

You asked also about the MCEV growth, saying that you were disappointed, does it mean that what we made was disappointing or what your assumptions were?

Q - Michael I. Huttner {BIO 1556863 <GO>}

Maybe my assumptions are a little bit high, yes.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, thank you for the answer. And the last year is about – in fact, implied question was can we consider the €600 million to be multiplied by two to reach this year result. In fact, very clearly – I would say, in the history of CNP, the half year never represents exactly – the half of a year result, there are different adjustments which are made at the end of the year. It also depends on the financial environment but (24:48) of course.

But I would say that as we now (24:54) four times of a year accounting accounts, I would tell you the volatility of that or at least the predictability of yearly figure based on the half year is higher than before. I cannot be more explicit. But whereas five or six years ago,

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there was clearly (25:23) driver, it was driven differently. Now you can infer by the first half what should be the end of the year by and large. Also being whoever large one by.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay. Understand that. Just on the MCEV, I know June isn't that longer, but interest rates have moved since then. Is there – can you just give us a feel for what it might have done?

A - Antoine Lissowski {BIO 4384399 <GO>}

Could you repeat that?

Q - Michael I. Huttner {BIO 1556863 <GO>}

Interest rates have fallen a little bit since June. And I just wondered what's – if one thinks of sensitivity what it might mean in terms of MCEV.

A - Jim Root {BIO 2545921 <GO>}

In fact, on page 29, you have an overview of the variance analysis of the MCEV. As you may have seen that the net asset value is growing, as a result the income of the undertaking is growing. And the value of in force was clearly not growing too much higher linked with the economic environment and so decrease of the rate have a negative effect on the value of in-force. We have given you the number of €248 million as a decline of value of in force due to the decline of the rate. However, on the positive, but as you (27:00) the contribution of new business which depends of what we are selling we are notably during the month of June, a very good number of unit-linked that were sold in our post (27:23) partnership and savings partnership.

A - Antoine Lissowski {BIO 4384399 <GO>}

Just really quickly to talk on that.

A - Operator

My natural question about recent trend since the end of June, I think you talked the interesting thing a little counter intuitively is the fact that despite everything that's going on, the volatility in the market has been spiked up as one – as much as one might have thought given what's going on – I don't know geopolitically in attention of so forth. If I'm not mistaken we have thought that the volatility and if with the impact on the MCEV would have gone up given what (28:04) didn't, kind of the dog that didn't bark.

Q - Michael I. Huttner {BIO 1556863 <GO>}

I understand. (28:12) volatility is low. Okay that's helpful. Okay. Brilliant. Thank you very much.

Operator

Thank you. We will now take our next question from Benoît Pétrarque from Kepler Cheuvreux. Please go ahead.

Q - Benoît Pétrarque

Yes, good afternoon. I've got four questions. The first one is on the slide six, on the – so on the personal risk and protection the net insurance revenue which is up significantly year-on-year, you mentioned in the text that it's due to favorable technical effect. Do I have to see that as one-off and could you maybe quantify and explain a little bit what are those technical items, why we get such a positive this half year?

A - Antoine Lissowski {BIO 4384399 <GO>}

Benoît, I'll take first this question just not to forger after. There are two things behind this short explanation of technical effect. The first thing is that last year's figure was impacted by the decrease of interest rate more than this year's and it is clear that the improvement between last year and this year is one-off effect.

But the second part of this improvement is due to the renegotiation we make of some of our contracts and improvement of increasing profitability during this half year. Therefore, you cannot relay on – you can not count on a similar technical effect for the future. But nevertheless that will remain an improvement in the figures if management of the claims and of the prices remains in the line that we have purchased (30:17) this year.

Q - Benoît Pétrarque

So can we say that the truth is probably somewhere in the middle?

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes.

Q - Benoît Pétrarque

Okay. Then on the same slide actually if I look at the second part of the chart which is on the savings and pension business, I see a figure which is very flattish actually slightly decreasing to €413 million in H1. I do see better inflows in H1 versus last year. I also see higher assets under management in France. So I was expecting actually this figure to be higher.

And if I look at the slide 26, I see a small increase on commission on premiums which makes sense, but I do see a decrease on the revenue – net insurance revenue on the slide 26 linked to the technical reserves. I think we were at €462 million last year now we are at €440 million. So I was wondering if you could explain why we are trending down slightly. That's question number two.

Number three is on the slide eight in Latin America, yes, I think here you've got a big increase especially in the personal risk and protection segment. We end up at €462 million and it's up 21% year-on-year. So I was also wondering here if you have any kind of one-off technical items because I was expecting something more negative given the FX (31:55) but on the like-for-like it's very nice.

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And then just may be just final to prepare ourselves with – to what could happen after closing tonight. Could you tell us a little bit more about the kind of profitability of the Assurance Santander (32:10) in France, especially, the contract you have in France? I mean, could you tell us a little bit more on return on equity and how attractive is this business for you in France? Thanks.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. On the last question, I would say that the new business margin figure in Santander (32:31) is something which starts by something between 3 and 4. It's a figure which starts by 3 and – something between 3 and 4 sometimes even more than 4. That means more than 40%.

Second, regarding your question about Latin American contribution and the increase in personal risk protection, there is no specific technical explanation at this time. It is really very, I would say structural growth of the business, the development of the business and the development of the margins. And the switch between different type of contracts produce this effect among which for instance we have in loan insurance two contradictory moves – a slight decrease in loan insurance business, but which is offset by an increase in consumer insurance business, consumer's loan insurance business. The real estate loans are little down but the consumer loans are a little up and all in all it represents a growth, nevertheless. The first question I – could you reformulate it, please?

Q - Benoît Pétrarque

Yes. Now I come to page six, on the net insurance revenue the orange parts, so the savings and pensions, it goes from €419 million to €413 million so it is down 1.5% in the year. And if I look at the page 26 where you provide a little bit more color on the split of the net insurance revenue. As indeed that the commissions on premiums on flow is going up which makes sense because of turnover growth.

Even if you could have expect a little bit more like that what you have done but it's more of the technical reason, it looks like you have been – you have suffered a little bit of margin pressure there. I was expecting higher figure because of the turnover growth and the higher assets for management and now you get there actually a small decline year-on-year which is on a big figure obviously.

A - Antoine Lissowski {BIO 4384399 <GO>}

There are different things to say about this figure the first is that at the current level of interest rates we pay every quarter for the existing minimum guaranteed rates portfolio which exist we are at relatively low model (35:21) if you compare it to many other European companies but nevertheless it represents a cost nowadays. And we are considering the way to get out of this problem in the next quarters or years. It might be possible to reduce outstanding amounts of these contracts at minimum guaranteed rate. But we haven't proceeded so far, but we are studying how to get out of these commitments.

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For the rest it is clear that the profitability of the new flows is slightly lower than before. It is due to efforts made by the networks to sell the products which are in our view rather high level products to customers which are in a position to negotiate the level of fees which is not the case of our, I would say, average portfolio customer. And the development of the products over last months were more focused on segments of customers which are in position to negotiate that results in a slightly lower revenue and new flows..

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Q - Benoît Pétrarque

Okay. Thank you very much.

Operator

Thank you. We will now take our next question from William Elderkin from Goldman Sachs. Please go ahead.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you. Hello, everyone. (37:04) questions have been asked so I can come back to slide six again and the net insurance revenue from personal risk of €208 million. Is that €208 million in itself a fairly sustainable number, it's just the rate of growth year-on-year we need to be a little bit cautious with.

And secondly, just on your Solvency II ratio, you've given the 175%, I thought about you focus on get a sense of, is that a good number, is that a bad number, where is it in relation to where you want it to be? And also can you give us an idea of where the main sensitivities are in terms of the calibration of that number, I believe still we're waiting for the final details of level II (37:49) tax and how that could move?

Final question with the sub debt issue in May the €500 million, does that mean second half interest cost will see a little bit of a jump as the cost of that debt is there for full six months rather than for just one month?

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. And first regarding the personal risk and protection increase, I cannot – just repeat what I have said that was a increase due to – I would say evolution of interest rates compared on first half last year and first half this year and additional technical management of the portfolio and that we consider that just part of this increase is reproducible (38:38) on the next period.

Second question was -

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A - Jim Root {BIO 2545921 <GO>}

Solvency II ratio.

A - Antoine Lissowski {BIO 4384399 <GO>}

The Solvency II ratio and the sensitivity, it is slightly below last – end of last year and it is mainly due the decrease of the interest rate which means that options cost a little higher. In other word, in some of the scenarios because it is (39:12) in some of the scenarios we have of course more difficulties to get our revenue and our ratio takes account of that element. It is sensitivity to interest rates. And it is clear.

But an insurance company in an environment of decreasing interest rate has an ability to account on future revenue which is slightly decreasing that means that the value of in-force is affected in such environment.

Last regarding the cost of our debt and the issues we have, it is clear that the last issue was in June it's taken into account just for one month. But in fact when you compare that with other issues which were made over the time somewhere (40:14) last year and all-in-all, the different moves result in evolution of cost not only the June issue.

Q - William H. Elderkin {BIO 3349136 <GO>}

Can I just clarify just in terms of that interest cost question the €82 million – sorry not – the interest cost you had at the group at the first half – sorry I think it's about – yes, €83 million, what – can we expect the second half interest cost to about the same level given those – all those different financing movements?

A - Michel Bois {BIO 18964501 <GO>}

Yes, it's Michel – Michel Bois. Well, the number should be hopping a little bit higher because of the new issue. But this issue was at a very reasonable rate as you may have noticed 4.3% cost and moreover there is a part of the actual debt which has turned to from fixed to variable with a lower level, so the increase shouldn't be very important.

Q - William H. Elderkin {BIO 3349136 <GO>}

Okay. And then just staying on Solvency II, I didn't ask my question very well, what I was really getting at is when you're saying that Solvency II number are you having to make any material assumptions about how the final Solvency II takes and particularly the calibrations you use – need to draft it, or is that a number you see as stable?

A - Antoine Lissowski {BIO 4384399 <GO>}

I'm looking around me, but we have no specific statement to make that. I would say only one thing which is that we do not use to the extent of possibilities open so far by what is not clear in the regulation that means that there are some elements of future regulation which are not completely negotiated between the industry and the supervisors. We take – in all the cases we take the worst assumptions in terms of solvency when we make our calculation. That means that in fact we consider that 175% is a little, I would say, under valued ratio. In fact, it's probably 5 to 10 points above that level.

Q - William H. Elderkin {BIO 3349136 <GO>}

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Very clear. Thank you.

Operator

Thank you. We will now take our next question from Vittorio Sangiorgio from Twelve Capital. Please go ahead.

Q - Vittorio Sangiorgio {BIO 20732870 <GO>}

Good afternoon, everyone. I had a couple of question – capital and debt. The first one would be if you could give a bit more color as of today on your capital tiering and the Solvency II, because you have quite a much of undated depreciable unit of debt and I was wondering whether you have sufficient room for all of that under Solvency II.

And the second question would be about the debt (43:42), and if you give a bit more color on when do you see it at year end and if you expect to strengthen it or not?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, I'm not sure that we are understanding exactly the sense of your two questions. In fact could you repeat the first one?

Q - Vittorio Sangiorgio {BIO 20732870 <GO>}

Yes, the first one was – because I got your Solvency II ratio for the time being but I have no idea on how the tiering of capital is, so how much would be Tier 1, Tier 2, Tier 3?. And as there are some limitation on how much debt you can put into Tier1 and you have lot outstanding of potentially ineligible?

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes, you mean that we are not disclosing the tiering of our Solvency II capital?

Q - Vittorio Sangiorgio {BIO 20732870 <GO>}

Yes. The question behind is do you have sufficient rooming of Tier 1 capital on the Solvency II for whole year outstanding Tier 1 debt or not?

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes. By definition, what we calculate is consistent with the regulation and the assumptions we take and the limits we put in our calculation are completely consistent with what we know of the regulation so far. Then I do not see what the question on the suggestion still that (45:10)

Q - Vittorio Sangiorgio {BIO 20732870 <GO>}

Because, I would think that you have probably more Tier 1 than you'd probably put in your Tier 1 capital.

A - Antoine Lissowski {BIO 4384399 <GO>}

We have – we have not so much Tier 1 debt. And...

A - Operator

No, we are – we have a not that much Tier 1 perpetual debt, in fact. The last thing we issued was a Tier 2 – clear Tier 2 debt, but we – it was the only a question of well the markets, the rules are not sufficiently precise as of today. About the condition for – in which the debt would qualify for a Tier 1 and Tier 2 and the condition in which – with which the perpetual debt should be grandfathered as Tier 1 so we preferred for the last issue to well to choose a clear Tier 2 format. But we think we should have – we could have issued definitely a Tier 1 format too if the things were – had been more precise.

Q - Vittorio Sangiorgio {BIO 20732870 <GO>}

Okay. And thanks. My second question was on profit sharing reserves (46:50)

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes.

Q - Vittorio Sangiorgio {BIO 20732870 <GO>}

And – but well at which level does it stand now and if you have any plan to strengthen it or not and where do you see it at the year end?

A - Antoine Lissowski {BIO 4384399 <GO>}

It stands at – it is on the place by the way 2014 or 2015 I don't – 2015 and its size stays at €4.575 billion which represents 2.02% of our technical reserve. And well we feel comfortable with that. And our general consideration is that when the time is – appear to be quiet it is normal to assume rate reserves for worsening times that means that we are not preparing the future prices but we want to be prepared if something happens and we were certainly not our view of but basically has to be reduced, in fact we will try to increment this concurrently (48:05).

Q - Vittorio Sangiorgio {BIO 20732870 <GO>}

Thanks.

Operator

Thank you. We will now take our next question from Ralph Hebgen from KBW. Please go ahead.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. Hi guys, Ralph Hebgen from KBW. Just two questions on your networks, first the new one, which is the deal you did with Santander Consumer Finance. I was wondering whether you could tell us a little bit more about the profitability and other data of this

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company, in particular, new business volume margins and perhaps the revenue sharing terms and conditions with SCF.

And second is about the – perhaps outgoing network which is in France, the French savings banks network if you could just update us on what the negotiations are and at what stage of the discussions you are? Thank you very much.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Ralph. For Santander, we have decided to sign acquisition, but we are in process of making the purchase accounting and the closing of the acquisition will take place by the end of the year. We decided together with Santander to not to disclose any specific figures on that before the closing. That means that you will have further information probably at the end of the year or when we publish our yearly results. The only thing that can say is that new business margin in this area is roughly at the level of our new business margin in Brazil, in general, and it is comparable to the new business margin we have in loan insurance, in general. That means it is clearly a very high level of margin.

For the rest, the business model, some of the French analysts have had a look on the figures published last year's about this insurance company in the global figures of Santander Group and say that it seems to be very low profitability subsidiary. It is real of last year, why, because the main results of the company – the economic profitability of the company was in reinsurance of the commitments to other reinsurers. The company in itself was a sort of shell without – just with administrative functioning, but all the revenues were put in reinsurance. And what we have decided to do in accordance with our Spanish partner will be to re-internalize all insurance business and we will be the direct insurers of that which (51:24) reinsurance contracts maturing will not be renewed and the business model in the future will be based on this progressive re-internalization of reinsurance. That means that you can now have an idea of the future profitability of the company based on the existing share. And again we will give more details on this acquisition after the purchase and the closing – the definite purchase and the closing.

To come to the relations with our French networks, you will get in less than two hours a press release made by CNP and another made by BPCE about where we are and what our relation's looking now and how this will look in the future. For legal reasons, as our own boards were held today, we are not able to disclose anything by the end of – by the close of (52:44) in France today. But you have just two hours to wait and the suspense will be over by the end of the day.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay, perfect. Thank you very much indeed.

Operator

Thank you. As there are no further questions, I'd like to now turn the call back to the speaker for any additional remark.

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A - Antoine Lissowski {BIO 4384399 <GO>}

Thank you very much, everybody.

Operator

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

FINAL

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