S2 2010 Earnings Call

Company Participants

- Antoine Lissowski, CFO
- Gerard Meneroud, Assistant Managing Director, Director of Business Development and Partnerships
- Gilles Benoist, CEO
- Jim Root, IR Team
- Unidentified Speaker, Company Representative

Other Participants

- Unidentified Participant, Analyst

Presentation

Gilles Benoist {BIO 1824462 <GO>}

(Spoken in French) Hello, to our friends in London. We just discovered (spoken in French). You understood that our friends in London will be very busy looking at the results of Alliance. I'm delighted --- I've just realized that it's the 13th time. I hope this will bring me luck to present the results for CNP Assurances.

Now if I were to sum up 2010, I would say that we had a choice between two things, quality rather than quantity. And prudence and caution rather than using up reserves. And I think you'll find this as we go through our usual presentation in detail, which Antoine will give the financial results. Now as we've done each year, I will make a few comments on the business and then Antoine will give detailed comments on the results and I'll be back to try and be concise. So as not to take up too much of your time and without making comments on all the slides. And far less the appendices, which we provided in order to enable you to ask the questions that you would like to ask.

Now first, 2010 was a difficult year for life insurance, in particular due to three factors which are summed up in the first slide, the most important of which, of course was the decline in interest rates. Now let's recollect that this spectacular decline triggered on the part of the two major ratings agencies and an alert along the lines of historically low interest rates augers badly for life insurance in general and in Europe in particular. And all European insurance company shares were down.

And what I've found is that the markets did not make any distinction between countries and players. And we know, regarding countries that practices -- the yields or guaranteed performances we know between two identical companies, the rate of shifting in the portfolio, the part of the business which has little to do with interest rates. In other words, the risk profile and indeed the guaranteed performance for most of the portfolios are not the same. And this is why we've reminded you of some of the components, saying that our premium income in some instances is less than 1%, including the faculty which is a crucial component, which is to adjust the profit sharing, which varies from company to company. And depending on the country.

So the first aspect is the environment, the economic climate, which saw a turnaround at the end of the year, maybe not for the good reasons. But this weighed quite heavily on 2010.

There is a second aspect which can have a positive or a negative influence, which is the reform in the retirement age in France, which clearly has an impact on claims in personal risk contracts, even though one may feel that as far as pension liabilities are concerned, in that sense, it has a positive impact.

And finally, the third aspect which weighed on performance is the evolution of the tax treatment of life insurance. Not the two first aspects, which are mainly related to policyholders for health policies and social security contributions on savings products. But in particular, the form of the taxation on capital reserves, which has a clear impact, EUR145 million in our case, creates, given that we set up this reserve on the basis of a 34% deferred tax, has a one-off effect, positive effect which in the purest tradition of CNP Assurance recycled as a reserve to protect us against shocks, the central PSR, as we call in our jargon and which stands at a very high level. And Antoine will go back on this.

Now notwithstanding all this and looking at market trends in the countries where we have a presence, apart from Spain, where you will understand that we're delighted, looking at the figures, with the partnership with Barclays which is extremely efficient, as far as Life products. But France was no longer on the growth rate -- the growth path of 2009. Brazil is still on the same track. Italy, for once, because it's a fairly cyclical country, Italy performed fairly well.

Now looking at the overall new money, premium income, you can see that the overall erosion of the Group's premium income is fairly moderate. And if -- apart from what happened in Italy in the second half of the year, the activity was fairly strong, both in France and overseas, despite the rather difficult environment. Market share -- we've reminded you of market share in the three main countries, France, Italy and Brazil.

Looking at France, I think it's important to look at our two main partnership networks and there were mixed performance. Savings banks drew in historically high new money and high unit-linked business -- through the unit-linked business involving bonds issued by the network. La Banque Postale, which performed very well in 2009, was -- put in slightly more muted performance. But both networks brought in over EUR10 billion of new money.

CNP Tresor, despite the implementation of the joint venture with Malakoff Mederic held up well. And I should add that in the other areas, banking clientele, loan customers, reflected the rush to buy property at the end of last year.

A good performance in the Mutual Insurance business.

Regarding retirement products, there was only one IRS left in 2010 after the rush in 2009. And these were one-off deals.

Regarding the International business, looking at this year's results, this morning I was saying to the journalists you have to refer increasingly to the CNP Assurance Group because the international contribution is becoming increasingly impressive. Not so much through the premium income per se, which stands at around 20%. But on the operating margin, as it accounts for about 40% of the operating margin. So what is interesting to look at and analyze in the analysis of 2010 is that Brazil is doing really well. There is a foreign exchange effect which has to be taken into account, which pushes the results down a bit. But even so, they're still highly satisfactory.

We see, for the first time, the evolution of the CNP/Barclays partnership. And you also see that the Cypress subsidiary held up well. And the UniCredit network has suffered since the reorganization in the autumn of this network. In terms of value, fortunately the decline in new money was offset by revenue because loan insurance picked up. And unit-linked and non-unit-linked businesses also picked up.

Now two slides, which go into a little more detail on Brazil and Italy. So it's very clear. You can see what happened on new UniCredit Vita. The merger was a major shock in the network, which has not been fully absorbed. But I do hope that it will be -- we will be able to put it behind us.

As for Caixa Seguros, its performance is excellent in all the areas, with one exception, which is the margin on loan insurance because, as you know, any loan insurance offer has to be made by two different companies. And for that reason, we had to push our prices down. This was offset by volume. But it does show up in the performance. And the technical result of Caixa Seguros is really impressive.

A few comments on 2010, on the highlights. Since the beginning of January, MF Prevoyance partnership has been set up and has enabled us by taking control of the business of the civil servants' insurance to consolidate and build up closer ties in a longstanding partnership with these mutual companies in the civil service. And the important thing is that the MGEN, which is the biggest mutual company in the education department, wanted to be part of this partnership by becoming a large shareholder of the main holding company for this business. And we have really consolidated a longstanding partnership in this way.

Now regarding our project to set up a joint company, the joint venture with Malakoff Mederic we, at the end of 2010, we had some problems. Well in fact, I was far more angry when what happened actually took place. But this unpleasant development was due to the fact that our partner attempted to negotiate for rather too long a time on the transfer of a major portfolio from 4N. And he was negotiating with the regulatory authority and when our partner saw that the regulatory body would not go back on its decision not to see this portfolio transferred, then the calendar was completely in turmoil. And we were unable to deal with all the legal matters before the end of the year. So the transfer of portfolios was no longer possible, nor was the transfer of employees. Valuations became out of date and everybody had to -- everything had to be started again from scratch. And this was a long process.

And this is why I suggested -- I recommended to the Board that we should devote 2011 to the current process, which is setting up a product range under a shared brand aimed at top-up pensions for employees and senior managers in small and medium enterprises to draw together, to merge our employee savings scheme staff. And if this proves to be a successful venture, given that each team will insure and reinsure the companies. But if this venture turns out to be a success, then in 2012 we can renew the -- restart the project for a JV.

But it's a long-winded process which takes anything from seven to nine months. And which implies obtaining many, many approvals. So it's a bit of a shame. But the energy which the teams have put into setting up the product ranges is not gone to waste because before the summer this product range will be ready and will be tested. And we'll be setting up the architecture for the new IT systems as well.

Now regarding the International business, as a reminder, we disposed of our Portuguese subsidiary. And this is the first year -- the first very positive year, we feel, of the partnership with Barclays on Portugal, Spain and Northern Italy.

Finally, there is no question of resting our roles in terms of creating products. Client requirements are shifting. The regulatory environment is shifting. And we continue to launch either new products or restructure -- we continue to restructure existing product ranges. For example, our partnership with Barclays, we had to create 18 new products in a matter of months. But we're very happy about this. And of course the exercise is far from over.

So I'll leave it at that. And I will hand over to Antoine for a detailed review of the financial performance.

Antoine Lissowski {BIO 4384399 <GO>}

Thank you very much. We'll review these results in the customary manner, starting with our new money focus, EUR32.3 billion for the year. Attributable net profit, I'll show you how that breaks down.

Reserves, not counting deferred PD EUR283b. MCEV is up 7%, EUR20.3 per share. Dividend EUR0.77 and market cap, well that's your business.

And so now, taking that in turn, stable revenue and commercial performance, more about that later on. But we'll be talking about -- also about the Group's improved profitability, with EBIT up 9% -- sorry, EBIT up 8.8% and net insurance revenue up 9%.

We're also involved in value creation which we express in terms of the MCEV market, consistent embedded value, 6.8% up and the dividend, as discussed.

A word about risk control as we move forward in terms of our solvency ratio plus exposure to market risks, which have changed considerably over the past few months. And we'll talk a little about Solvency II because we're involved in setting up for Solvency II, as of now.

So business supported by unit-linked business, which obviously mirror the performance of our partners. Brazil up 30% in revenue. And as we progress, you'll also be seeing that there's very little -- that essentially in Brazil we're talking about pensions, much more profitable than the equivalent product in France. Growth of reserves at the end of the year, 6.9% and net new money 11.4%, slightly lower than the figure recorded last year, which I think was 12.5%, to be expected.

We have not had a negative figure in December, whereas that was the case for the French market, as a whole, no negative inputs this time at all. And including deferred participation, reserves up 9.3% for business 2010.

Now seeing how the segments break down. Savings down. And in euro EUR19.9 billion to EUR18.6b. So we've lost EUR1.3b.

Unit-linked, multiplied by a factor of two. And I should point out here that this is IFRS. So this doesn't necessarily include all the new money. And when you break it down, France plus International goes from EUR3.3 billion to EUR5 billion in Unit-linked new business.

Pensions down slightly. However, providence. And personal risk and loan insurance up accordingly. So the overall result abroad is a slight dip. Reserves continuing to increase, up 20% abroad, 8.3% in France.

So the balance sheet reflects its usual structure. It is highly concentrated for the International sector EUR35 billion versus EUR255 billion in France. And this is a situation you are familiar with. Business in France is essentially given over to pensions and retirement products, very high margins -- or rather, very low margins, whereas on the international markets, it's the other way around. And here we have the same thing, expressed in terms of segments. And there is another slide, explaining the percentage of risk-related activity in the net insurance revenue. It's roughly 30%, whereas it's 3% of reserves. So symmetrically, we have exactly the same thing in the other segments.

I said we would discuss profitability. Net insurance revenue up 9.1% to almost EUR2.8b, with -- fueled by growth in reserves in France, giving us an EBIT up almost 9% and net profit accordingly.

The chart we usually show you here gives you the subtotals. I won't go into too much detail. But net insurance revenue is insurance related, plus own-funds businesses, a combination of both. And insurance revenue was up 14.4%, with EUR2.2 billion for the total you have here, whereas on account business is down, essentially because cash placements in France were libor[ph] plus something. So there is obviously -- this is generating much less income. So 553 to be compared to the 630 odd last year, down 12% year on year. Various provisions, leaving us with a bottom line of approximately plus 9.1%.

Administrative plus 9.9%, 4.5% for France. And after exchange, a little over 9% abroad, deducting exchange effects because the Real obviously is impacting this significantly, giving us an EBIT of plus 8.8% 1.9.

Financial -- this is the cost of the bonds in the balance sheet, slightly up, simply because we're replacing new lines for others at somewhat lower rates. But the impact is moderate, followed by three specifically financial lines. The associates, because 32 was Natixis Asset Management. This investment is no longer there.

Tax is costing us a little more than before. Tax rate up to a little over 34%, due to the fact that Brazilian tax rates are slightly higher. Average figure is 40%. And since the overall contribution of Brazilian is business up, obviously the average tax rate due is also up.

Minority interests is the part of EBIT corresponding to minority interests. Since the most dynamic part of our business is abroad, unfortunately this is also where we're seeing the biggest shortfalls, at least in book terms. And so of the EUR235m, EUR202 million are due to our Brazilian partners.

So at the end of the day, when you take the aggregate recurring profit before capital gains, we have a slight dip of minus 4.3, EUR961m.

However, what you see below is a little more to be expected, because when you take the two inputs, then you can see that we go from EUR961 to EUR1,050, whereas last year we had two exactly equivalent figures. Last year we had impairment results which were greater than the capital gains made, whereas this year we have enough capital gains, especially on equity, whereas last year it was essentially on real estate. Then the market effects on trading effect is really low, essentially because we're trying to reduce the impact of this portfolio because of its volatility.

Then we have one-offs, which we felt it was worth discussing here. First of all, a non-recurring balance after the deferred tax EUR402m. And the fact that it's been ploughed into general provisions of 406.

And the mechanism is that we have a capital reserve of approximately EUR1.6b, historically non-taxable, meaning that we had built up a provision for DTAs of roughly EUR570m. The fact that it was not taxable didn't necessarily mean that in our consolidated accounts it should be considered as fully paid up. There was still a degree of risk there. So today we tax the reserve. So we're giving EUR165 million to the government and we're left with EUR400m, which is sort of a windfall effect, if you will. But what we're saying is that the right way of handling the windfall is to plough into a reserve to try and serve as a buffer in the balance sheet against contingencies.

And so this is what is illustrated in the following chart, which shows the growth of what we call PSR, policyholders' surplus reserve, roughly 2.4 now. And so we have a ratio, the likes of which we haven't seen since 2007. This is something we hadn't provisioned for, for quite some time. So compared to technical provisions, it's done. But in terms of the coverage ratio, well we felt this was a good way of hedging against potential problems.

Now to the breakdown of net insurance revenue, page 20, which here is broken down. First of all, own funds, which I told you the reasons why this is down, essentially because of the drop in cash. The non-recurring we have singled out. It is roughly the same amount as last year, EUR102m, versus EUR111m. For this year, remember that non-recurring includes inputs related to the impact of the drop in rates, not on cash. But on provision, EUR85m. In other words, reduced rates cost us EUR85 million in new provisions. The retirement age change is costing us EUR26 million and so this is recurring. And the negatives were offset by other factors.

So we're able to focus on recurring insurance revenue, up 39% abroad, up 3.5% in France. The connection between the two being that this year recurrent foreign is 40% of total insurance revenue.

Just one additional word on recurring insurance revenue France and elsewhere, as an indication, our three lines of business are up. The pensions and retirement products is up, up to EUR52m. The savings line is also up, a little over EUR1b, up 10% and the risk line up 21%, EUR983m, giving you the -- a little more than EUR2b, which represents the total of the red and blue parts at the bottom of the histogram. If you add the non-recurring, we're just a little over -- we have the figure just over EUR2b, which when combined with own funds give you the figures at the top. So that was the breakdown of contributions this year.

Let's now focus, if you will, on France, next page, up only 3.5%. So to speak. But you can see that this risk part has not grown. In fact, we have a slight loss, 3.3% on risk, essentially because we identified a number of areas where there was an increased claims ratio. And so on this part, we have started contacting partners and customers to readjust tariffs or terms applicable to some of the contracts. It's a highly local thing. It's a collective provident product, affecting only a small part of the clientele.

Recurring net insurance, there are various conditions affecting technical margins here. But on the whole, the result is stable. Then the recurring savings part, up 8.7%. And this obviously is due to growth of reserves. There is no impact here on margins at all, once again due to the rates reductions.

So in fact, we could have said earlier on that the reduced amount of new money coming in, in traditional products, was not particularly bad news for us. It was particularly comfortable to be able to invest in rates markets in 2010. And good luck to the market last year as market leader in traditional products, non unit-linked.

The other part is the International part, up roughly 40%. And the point here is that when we talk about business abroad, since it is the lion's share, we tend to think in terms of Brazil. But the Latin American region also includes Argentina. And it is posting very strong growth. Never forget the bit at the top, Europe and France, which is growing significantly. There is a UniCredit effect on reserves and a new product mix. But also improvements reflected in the subsidiaries and which are now part of CNP BVP. I'll be talking later on about specifically the welcome surprise we registered in Spain. It is a fairly significant factor.

I said that administrative expenses were up. That figure is 9.9%. International 21%, 9.6% at constant exchange, with this being due, essentially, to the growth in business. But certainly going up less than insurance revenue.

4.5% in France. We've had many one-offs as an explanation for this, many of them pretty corporate. We had to involve -- invest in Solvency II, for instance. There was a lot of IT spend. The quarterly closing cost us an extra EUR7m. Gilles talked about the Malakoff Mederic partnership. Last year this was roughly EUR10 billion on our budget. Add it all up and you end up with plus 4% growth in administratives for France. But no, obviously we're not bragging about it. No one is happy with administrative expenses going up faster than insurance income, which is why we have mentioned it here.

EBIT up 8.8%. And here we have, on page 34, we have broken it down geographically or in segments, segments on the left. This is another view of the same with some additional inputs. Own funds down. We mentioned this. Risk up very strongly, as we also noted, essentially because of International business. Pensions, here somewhat down. But we have EBIT lines, including non-recurring which we mentioned earlier on. And so the EUR85 million non-recurring provisions that I mentioned earlier on show up here. Then the savings part, up 22%.

If we now look at the same through the regional approach, Latin America contributing 25% at constant exchange to overall growth. Very strong in France, even though there was a strong BVP factor here. And then a slight drop, roughly 11%, for the French side of the chart, which gives us ratios. The EBIT reserves ratio is stable. And this is by and large the case. And on the basis of individual networks, there is nothing particularly actually. No improved margins, no margins seriously down.

So all of the discussions that you may remember from last year about the impact of the rates reduction on margin turned out to be unjustified. There is no such impact. At the time, I had mentioned that even though reduced rates were going to have a staggered effect over several years, this ratio would not budge because we have a buffer in there. Pensions, retirement -- there has been a change in the regulatory environment. And the risk activity is up fairly positively, due to International business. The ratios you see reflect this fully.

Value creation. MCEV 6.8% up. The dividend of EUR0.77 and ROE, a little over 10%.

Let's start with MCEV. And here we identify both the stability of ANAV -- you have the details on page 52. There is a growth of in-force business up here, from EUR4.6 to EUR5.2 per share. And in the appendices, on page 53, you'll see one very interesting chart, which shows that the overall increase is 12%. De facto, this is the result of an increase in the value of future profits, plus 14%. But once again, this year, we have risk costing us more, as calculated in this aggregate, up by 25% relative to itself. So the volatility is not all behind us. We have had non-realized capital gains. And so all of this spells pressure on this line. The histograms on the right are simply another way of saying what we just said.

Regarding the estimate for the new values, you see that the value of new business is up by 9.2% to EUR393b. It's up strongly for International business, 15% and a bit less than 5% for France. And you can see here that the proportion of International business and new business accounts for approximately 45% of the total amount, France accounting for 57%. Looking at the value in force, the ratio is 23% for overseas and the rest for France.

As a trend, looking at how the results are shaped, the result is more heavily weighted towards International business. And this year, what we're seeing is the illustration, the implementation of two combined shifts, which are a move towards risk management, moving away from savings. And also a shift towards International business, moving away from French business.

The annual premium equivalents on the right of the chart express it differently. So I won't go back on this. And what's interesting to see here. And you have this in detail on the following pages, the shift in the ratio between the new business margin which is, in total, up from 11.5% to 12.3% for the CNP Assurance Group. And here again, this is different from what we've had in previous years, since the French margin has gone up. It's below average but it's gone from 8.3% to 8.9%. And also, an increase in the International business, which is more profitable, from 24.5% to 24.9%.

So I'll go on to the next page, because it's important to see how these margin improvements are shaped. The French margin reflects the combination of various factors. But mainly the fact that there are more unit-linked -- there is more unit-linked business in the system. And new business in this area increased. And the new business generated in unit-linked business in CNP Assurance was the highest level that we've seen and is the closest to the market, in terms of producing new business. So our new business ratio is close to that of the market and reflected in our margin.

In Brazil, we had a decline in the margin, which reflects the fact that in loan insurance, regulations required that two offers have to be made to clients. And therefore the competition forced us to push our tariffs down. And this means that the margin goes down somewhat for the business in that area in Brazil. In Italy, this will come as no surprise. The margin level is down, due to the decline in the margins on non-unit Linked business. So the new business there was rather lower than last year. And the more positive aspect is that in Spain we have entered markets which generate very high margins, to the tune of 35%. And this is because the emphasis in our Spanish affiliate on risk management products and savings products is significant and well entrenched.

Now going back to what I was saying earlier, the logic of the systems development is that overall, selling risk products around the world and to sell savings products only in regions where there is a high margin and high interest rate. So sending -- selling on a massive scale traditional savings products is not particularly profitable. So you have to sell unit-linked business wherever you can.

So 17% for the return on equity.

A few words on risk control. Our usual margin on Solvency capital, our Solvency I ratio stands at 173%. And unrealized capitalized gains, under French standards, are at EUR7.1b. And excluding unrealized capital gains, we still have a 111% coverage ratio, which is the same as what we had last year at the same time. So there is little change in that respect.

We have emphasized the fact that we are a little better off in terms of S&P ratios than was the case last year.

We also wanted -- well there's no point talking about this until we get to the Solvency II period. But we wanted to talk, nonetheless, about Solvency II ratio because insurance companies have to report on this in November. And at the end of 2009, we have a coverage ratio of 200% up, multiplied by two, in relation to the previous ratio which was 300%.

The parameters have changed and have pushed this ratio down. But in actual fact, the same can be said for the whole of the industry. And this Solvency ratio of 200% is compared to 187% of the French market is on average. At the same time, we've also added an estimate. This was a quick estimate on the coverage ratio at the end of 2010 which would be -- we're struck by the sensitivity of this coverage ratio because neither the asset allocation nor the business model for liability management really changed on the whole.

And the explanation that can be found is that -- well there are different components to this -- but it's a tax decline, which reduces the capacity to absorb the deferred tax. So obviously we had to put to use -- and in fact what this led to, by the way, is that when you have the PSR under Solvency II, it doesn't appear. So there is a bias in the model, whereas the same model which was on the deferred tax appeared in the coverage ratio. And the second point is that the impact on equities is smoothed over, spread over a period on shares, if the shares have been below their historical average. And this effect ceases after three years. Then you come back onto a loading level which stands at 49%.

Now this raises a few questions. It doesn't raise any particular concern, as far as we're concerned. But it does lead us to look at it more closely, not just for changes -- not just for the benefit of the analysts. But also because we have to repute the regulatory supervisory bodies. And we're going to tell them that we're moving into a method of presentation of the coverage ratio which is going to be extremely volatile and very much governed by changes only due to the technical aspects of the model. So intrinsically, this system is going to be quite dangerous if we don't follow it extremely closely.

Now the Group's investment strategy remains conservative. We have 11.8% of exposure to funds. And equity funds and equities. 83.9% of the portfolio is invested in bonds, mainly in call government bonds with a duration of 6.2 years and a portfolio -- a property portfolio that represents 2.2% of exposure. And I've given general investment guidelines in this slide, which we are applying systematically. And we have a shift -- a general direction regarding lending, which is the -- as the instruments are not really covered instruments we have to analyze. And nor are they structured products, regarding infrastructure because there are very few infrastructure funds and direct investments take a lot of time in the insurance industry. This has to be negotiated. It's quite complicated because these are not investments which were basically packaged to be sold to insurance companies. So it takes quite a long time to obtain a substantial change in the balance sheet in this regard. But you can see what are the main thrusts of the business.

Now, as some people are asking questions about this, we have shown the exposure to sovereign risk of CNP Assurance both on a net basis, which we have already published in the past and on a gross basis which we have not done hitherto.

Rather than going into a logic where we stigmatize the PIIGS countries, well we put everything in. You've got Slovenia, Canada, Cyprus. All these countries exist, of course. And we've given you a broad picture. And in the Appendix, there is a note which goes over all this, in terms of the balance sheet.

Now what you'll notice is that -- and this has not been well assessed, taken into account by everybody, is the ratio between gross and net exposure of our balance sheet. So I'll take two items and then I'll move on to the following page for comments. So two items. So as to avoid giving bad examples, we'll take examples which have been specifically set aside by the IFMI as being complex situations, Greece and Ireland, since the FME and the EU have a rescue -- a bailout package. Net exposure, EUR198m. Greece, gross exposure EUR1.9b, net exposure EUR127m. And overall -- and I shall now move on to the next page -- the ratio of exposure, the gross net exposure ratio stands at 9.8%, approximately.

On the right-hand side, you have the explanation for this ratio, which is higher than some of you had estimated. Overall, even though we historically keep less than the 15% that we could, it's less than in France. But this is offset by the fact that we had a number of non-PPE contracts. So on average, we are under 15% and we have the impact of the deferred tax. And this leads us to an actual impact of this exposure for shareholders, which is less than 10% of gross exposure. And this is something that has not been properly analyzed to-date because the people who drew analogies with other insurance companies could not pinpoint the Life/Non-life aspects in balance sheet. Well they couldn't do this.

And looking at general insurance companies, if you're in the Non-life business, you don't have any PSR. You don't have any attribution scope. So you keep -- nearly all the risk impact in Non-life business is kept for the policyholders. So in our case, we are almost exclusively in the Non-life business. And in this case, you have an attribution based on the lines I've -- on the rules I've indicated, hence the gap between net and gross. And on the left-hand side, we have given the overall figures, EUR10.5 billion on net exposure and EUR107 billion on gross, which is the comment I was just making. Gilles, over to you.

Gilles Benoist {BIO 1824462 <GO>}

I trust your patience has not been worn thin. The prospects -- the outlook for 2011. Looking beyond what you have on this chart and the extreme prudence of the French industry organization FFSA which is naught to 4%, there are, beyond that, two uncertainties affecting the French market, not the Brazilian market.

In Brazil, the election of Dilma Rousseff has led to very positive stability in Brazil. Obviously there are going to be changes in economic policy. We're starting to see them appear. But as far as we're concerned, our partner, it is still there. And the -- it's will have a leader rather is still in place. And we're still getting on very well.

In France, we're looking at reform of tax, applicable to assets. Not to put too fine a point on it, the government, once it has agreed on a level of taxation applicable, will this apply to insurance? There is an enormous amount of reserves. I would say that this is very good news for the French economy as a whole. But that is the first cause of uncertainty. And it will only be dispelled in a few weeks.

As I said earlier on to the media, before deciding on tax measures applicable to life insurance, it is extremely important to beware of the violent impact that that can produce downstream.

Remember, the tiny change in the tax system applicable to the PEL savings account just a few years ago but which caused a massive swing to insurance. And once you've broken the toy, you can see how to fix it. But you may not necessarily have the right glue.

And the second cause of uncertainty is the fact that our liquidity, as opposed to the solvency ratios, Basel III, are setting very, very high standards for European banks and, in particular, French banks, to put it very mildly. And the requirement to satisfy those ratios is going to lead the banks to go all out on a liquidity drive. In other words, balance sheet type products. And it is to be feared, we think that bank products are going to appear in a great wave and that they will channel part of the new money, channel away some of the new business going into insurance from where we would obviously like it to remain.

And so the result may be, for some banks, to try to calm their insurance captives. And this is something which we have to take into consideration. We obviously are in a rather unusual situation because with our two partner networks in France, one is much less affected by potential liquidity as the others. Le Banque Postale, it is well known, was in periods when liquidity was very rare, a source of liquidity. Not meaning that it is necessarily in the same position today. But then comes BPCE, the Caisse de'Epargne, which is going to be facing that potential issue when it arises, if it arises. And so it is for that reason that we have been working on ways of satisfying them and us in the form of these unit-linked issues which are win/win for both of us, plus the customer, win, win, win.

And the reason I'm saying this is because I am convinced that if such a ground swell were to emerge, this would not be good news for the world of insurance. But it wouldn't be for the economy as a whole and certainly not for our customers. The overwhelming majority of our customers today want to beef up their pensions before they start thinking about inheritance and what they can pass on to their children. In other words, if futures contracts were a good way of funding pensions, word would have got around surely.

So when you look at all of the characteristics of the savings and pension products in France, there being no pension funds in France, remember, I am convinced and you will see that the specialized press agrees with me, that the best, most flexible, most appropriate product to augment your pension is certainly a life insurance contract or contracts. And in terms of what they contribute to the economy as a whole, where the Federation said very clearly, they are putting in 5.6% of the income over the counter, corporates, whatever I can't see how the amount of new money intended to satisfy, to meet the liquidity requirements would be invested in the same way. There is no reason for them to be. And so I think that long-term savings is sufficiently valuable to warrant consideration and respect, as used to be -- as the expression used to go.

So it may seem self-evident. But nonetheless, in 2011 there is one piece of very positive news which we think will enable us to continue growing. And that is the somewhat less pusillanimous approach of savers, of account holders, to unit-linked products, including equity. And at the same time, the overall problem for the economy as a whole, as you know, is the enormous credential requirements that are obviously not good news -- and I'm putting it mildly -- to equity investments.

I should add that nationally, as you know, there is a discussion about long-term care insurance. I am not absolutely sure that is going to be fielded -- is going to be addressed over the course of the year. There may be announcements in autumn of this year. But I think what really matters in terms of long-term care is something which is going to become apparent after the presidential elections in spring of 2012. What I am convinced of is if the government, in the generic sense of the term, wanted to finance the cost of long-term care without penalizing the powerless position of our public finances, are going to have to come up with some form of complementarity between solidarity -- between all citizens for the insolvent categories and appropriate treatment for the solvent classes. Insurance will cover the latter because they are well able to identify and set a price tag on that risk.

There are lots of very young people here in this room. It is not my case. But even in my age bracket, there are only 15%, statistically, of people in the 50/15 year bracket, even 60, who will actually be affected. 85% will not be affected by long-term care. And so it is a risk we can assess, qualify and insure. And as proof, I offer the fact that long-term care products are starting to be marketed in France. And collectively, we are obviously a very significant -- the nation's largest player. And Gilles Benoist's decision to convince MGUN to include in its basic tariff all of its members, plus their kin, plus their family dependents. In France, it is reckoned that of five people in France today, we insure three. So I'm sorry I was a bit long-winded. But I felt it was worth saying.

A word on our objectives. And I can skip pretty quickly over the remaining slides. Well basically, keep up the good work. In other words, prioritize margins. Not volume, margins in France or abroad. So margins will be priority and cost control. Last year, we recorded a number of non-recurring costs. For several years, at least four years, we have implemented a program Efficio[ph], which is no medals for originality. But the idea is that it's not just cost cutting. It is the restatement of processes, the reorganization of some of our in-house methods and processes, improving processes between our agencies and us, management deeds and papers. And the purpose, over several years, will be to get a delta of about 10% in the annual aggregate costs. And obviously, it's going to be indispensable, while all along funding, because we have no choice. The improvement in our management systems, IT, asset management, the lot, we have no choice. So that in due course, by the end of 2012, we are in a position to face and factor in the Solvency II requirements. That I think was the most significant point. I'm going to skip pretty quickly over the others.

The concerns that I've just discussed, costs and margins and so forth. But obviously this we cannot do if we don't develop new products. We shall be constantly updating and adapting our products. We have new products in the funnel. Some of them depend on the overall state of the economy. Others will be meaningful only above interest rates at a certain level. We're ready to go. We will do it once circumstances smile.

And I'm going to skip very quickly over the next few. Provident products obviously are our priority. Personal risk. La Banque Postale Prevoyance is a considerable success. As of today, our friends -- I can't talk about the squirrel anymore. The squirrel is disappearing. But our friends in the (inaudible) are in the process of developing long-term care products. And well and good. They're doing very well.

For La Banque Postale, we want to continue capitalizing on the success of Banque Postale Prevoyance and continue with new products, including top-end ones, which include Toscane Vie, in chart 41, CNP Tresor. Ah, you will say. But I thought CNP Tresor was supposed to be one of your main sale arguments in the shared sales vector you're setting up with Malakoff Mederic. Does this mean you've dropped it?" No. We have not dropped it, no way. Its revenue is up. It was up in 2010.

And next, because some parts of this portfolio did not have -- their advisors did not have their sales personnel and we're going to organize things so that this network will continue to develop with positive P&L results so that the shared vector will re-emerge in 2010 with Malakoff Mederic. Obviously, that will be MF Prevoyance's first business year.

We -- our concern with the need to put our loan insurance business on a permanent strong footing.

We celebrated the 50th anniversary this year of our partnership with the (spoken in French) Credit Agricole. This is a flourishing partnership. And both players are extremely satisfied with the results.

From time-to-time we innovate. Just one comment on this. On page 44, we have concluded through our Irish associate, a major pensions product with a major international group. As you can see, it's EUR450 million in premiums for this year. And the deal was only finalized at the end of January. And the payment is happening now.

Additionally, discretely, we're continuing to implement operational synergies between subsidiaries. Our Spanish subsidiary has become a service center for managing high-end products, not only Barclays' products in Northern Italy. But also for Banque Postale products and in Ireland. So we're consolidating this type of synergy. As for the rest, our energy will focus on restoring performance in the UniCredit risk network and diversifying the product range. On Barclays we're launching new products. I won't dwell on that.

And I will conclude with a slide which is really quite encouraging, since it's the history of our share performance since the IPO. And as you can see, the gap between the insurance index and the CAC is significant. And even more so when you look at our performance. And what I should add is that if you look at the bar chart on dividends of CNP Assurance since the -- since it went public, the Company's dividends have never gone down. And if you look at 2000, 2010 dividends have increased threefold.

So that's it. Thank you for listening. And we're happy to answer your questions, meaning that Antoine, myself, plus the Deputy Managing Directors and the teams, who you know quite well by now, including the excellent authors of the MCEV, whom I admire greatly.

Questions And Answers

Q - Unidentified Participant

(inaudible), Societe Generale. Two questions. One on strategic asset allocation. I thought you had more in property and that you had reduced equity exposure. Now post-crisis, what, in terms of the optimal allocation, in terms of solvency, what is your position? Is your attitude one whereby well we're seeking to buy equity? Or do you feel that you've already reached the optimal exposure?

A - Unidentified Speaker

Yes. Please go ahead.

Q - Unidentified Participant

And the second question is a more technical question on MCEV. Could you specify whether you have change in your assumptions?

A - Gilles Benoist {BIO 1824462 <GO>}

So regarding the first question, I'll let Antoine deal with that question. There is an aspect which of course made us think in the given (inaudible). There are two categories of shares. There are the shares which are held by policyholders, which are protected, as it were, by shadow accounting and by the PSR. Then you have the central portfolio of the shareholders or policyholders, which does not have any particular protective cushion. So Antoine can now explain.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well in fact, every year we wonder whether we shouldn't reduce equity exposure and every year we fail to do so. So we still have the 11.6 market value. We continue to buy equities. And we bought EUR600 million net in equities for savings products. But for own account, we no longer do this. We'll continue to buy property, credit products. But I'm not sure that the impact on the solvency ratio on asset allocation is as big as people thought two years ago. And the very simple reason for this is that two years ago, you had higher spreads, higher interest rates. And at present, the risk/reward ratio is -- well, you have to take on more risk than you did three years ago.

The second point, regarding the specific aspects of equities, when we analyze what would be an optimal -- the best possible portfolio and equity exposure in a portfolio, this exposure would be 6% to 7% on equities. And I'm talking about a savings portfolio. And also, we see that approaches whereby we would only pay out the profits after eight years would mean that you would not have any immediate risk and you can improve the ratio to the tune of 3%. Now there are different estimates which are going around. But that's the kind of figure we're talking about.

Now the trend we'll have will be to try and find solutions to maintain high equity exposure rather than moving away from equities all together. And last year, well, there's no particular point in withdrawing from an equity portfolio or stopping to invest in shares as opposed to other asset classes.

Now in relation to what was this wave of protest as it were of the insurance companies, I would say that we're far more prudent and we will probably adjust things to the tune of 1% or 2%. And the real adjustments will be made within the asset classes.

Now on your other question, we adjusted some of the MCEV parameters, simply because we re-use parameters and methods which were in the QIS. Now Olivier will be able to talk more about this. But for example, the impacts on us, these shifts, is much less than the impact of somebody else for the same adjustment. Now Olivier, perhaps you could say a little bit more about this.

A - Unidentified Speaker

Yes, hello. I'm in charge of Actuarial Studies. Now, regarding the -- we have overall assumptions, actuarial assumptions. And we always have a margin. And this remains in the calculation of MCEV. There is no major change, deterioration in the Prudential margin in the assumptions. The assumptions which have changed are, for example, one regarding subordinated securities which were 37% last year back to 40%, which was the level we had, 40% two years ago. And the other major assumption which has changed is simply the updating -- the annual updating of the buyback of contracts for the mortality levels, on which there has been a small adjustment which has created value.

Regarding risk products, there is no major change in assumptions. And we have maintained a prudential level which is still similar to what we had in previous years, which generates an increase in value creation each year.

We'll talk about this again because what is going to happen is a silly thing here. But on the one hand, we're calculating MCEV on the one hand and Solvency II on the other hand. Whereas what we're talking about its effectively one and the same thing. So the logical trend would be to try and align the parameters and risk assessment between the two, on the Solvency II basis. And Solvency II is extremely market sensitive and risk -- indeed, risk sensitive. So what we traditionally did was to maintain safety margins in MCEV. So it's no longer -- so the question is do we reduce the gaps to get down to an MCEV calculation which will be analogous to the one we do for Solvency II or, we still use two different metrics and we try to reconcile them over time, which is more or less the same?

Q - Unidentified Participant

Hello, Cheuvreux. I have a few questions, if I may. Could you tell me what is the appetite of your two main networks for liquidity? After the statements that you have made, I think that this should be factored into the budget.

And also, what are your recommendations to the industry to stabilize the in force products, outstanding products?

Now on Santander, what diversification premium did you take? And how much do you achieve through the application of a standard formula?

And could you give us the share of VIF on future disbursements?

And finally, could we have some idea of the margin on new business for type of business savings, personal risk, etc.? Thank you very much.

A - Gilles Benoist {BIO 1824462 <GO>}

Right, the first question, the appetite of our networks for liquidity, it varies, depending on whether one is talking about the Banque Postal or the savings banks. And what you have to keep in mind is that this appetite for liquidity is more apparent in a group such as the savings bank given their specific situation. But there is a specific point for the networks, which is the need they have in their resources to have the commissions from CNP Assurance to sell the product. What I mean by that is that even though there is this concern, which is a genuine concern with the Banque Postale, there is also this wish to keep the income and the commissions that we pay out to them. Therefore, when we make up these unit-linked bond products, provided they are not hindered by any particular regulatory constraint, we fully meet the requirements and wishes of our network -- of our partner network in the savings bank.

The fundamental point here is what you're taking about is "recycling". And what we've agreed is that as this need, this important need exists. And as a reminder, when we undertook comparisons to see whether our networks were better -- as well commissioned as the other networks, the commissions was just as high. And this means that this income is very high. It's a major source of revenue. And there is no certainty that they would be offset by other income from other products, for example from banking products. There is absolutely no certainty about this. So the dual concern -- and this differs from one network to another -- are products and the investment instruments are not the same. And this is very clear. In 2010, you can see that we did not develop with the Banque Postale any form of unit-linked bond product simply because they didn't need it.

So this is fine-tuning of products, of product categories, bearing in mind that it's not our job to go into detail regarding the reality, the intensity of the ratios. We know that this concern exists. We had already factored it in because obviously we anticipated this. This didn't appear yesterday, liquidity requirements. People worked on Basel III, announced and then the shock was fairly strong. But the shock was an expected shock. So I don't know whether Gerard wishes to elaborate on this. But what we're doing is fine-tuning the adjustment so as to enable our networks, one, to continue to generate high commissions from life insurance. And secondly. So that they don't feel that the money is going far from the network itself. Now of course, there's a whole host of other issues. Now Gerard, you wanted to add something?

A - Gerard Meneroud {BIO 1504395 <GO>}

You mustn't forget that these are decentralized networks and that the situation between the various -- the different groups is not the same. It's not a homogenous situation between ourselves and the banks within which we work. Antoine.

A - Antoine Lissowski {BIO 4384399 <GO>}

My colleagues will provide data which I don't have. But the diversification premia stand at around 10% -- between 10% and 20%. This is the diversification premium. The VIF on future disbursements that we have at present in the QIS5 calculation, we took this into account. I can't give you an exact figure. Nor can you. Well it must be negligible then, really very small. The pickup in relation to the standard formula, a journalist this morning that probably you have an internal model problem, etc. Well there is no internal model, the -- CNP. What we have is an optimized formula.

So when we look at the standard formula in recent years, as it increased, we felt that this thing, which is the result of a negotiation is complicated enough as it is. So we're not really going to draw up some fancy internal model. We look at the standard formula. We look at the results and then we see where and how it can be improved. Now we've pinpointed four areas where improvements are possible, according to our view of things. This disability insurance where the prices are too high, we feel, on death and on natural disasters and on structured portfolios. These are the four areas. And what we're doing is we're working to pinpoint the four development areas in the internal model that we will submit to the CP in March.

Well everybody submits the same letter to the CP in March. And we'll develop -- and this will set out what we plan to develop between now and March 2012. Now all this reflects not progress in terms of modeling. But the possibility to substitute statistical data, CNP statistical data for generic statistical data, which we use to set up the standard formulas.

So it's clearly on the first issue, on disability schemes, where we feel that we have the biggest margin for maneuvering. It's not easy to pinpoint. But I think there was a coefficient of 20%. And whereas we have 14% if we present our statistics properly. So that's the order of magnitude.

But retrospectively, we're doing quite well in that we didn't develop an internal model previously because those who did now have to examine it item-by-item how the pre-existing model corresponds to the standard formula, which you have to calculate in any event.

So the last point on this is in addition to all this great fun, there is a new thing, which is Yousar[ph], which will enable one to identify one's own risk.

Typically, we were talking earlier about the spread on sovereign debt which was factored in as zero for the standard formula. And I'm not quite sure that that's what we'll use, nor that it's something that anybody who has commonsense will continue to use. So there will be benefits, disadvantages. But there is no big internal CNP model that we're going to try to sell to the supervisory bodies.

Q - Unidentified Participant

A number of questions. The first was the cost of risk, which you said was up 25%. Why? What are the main driving factors? And what part has been positively paid back? I'm talking about 2010.

And the second one was your comment on sovereign debt. You talked about gross versus net. What is management's view today of your sovereign exposure? Do you think it is within manageable bounds? Would you say it's a bit high. And so you'll be reducing or trying to reduce the gross exposure? Could you give us an idea of your perception as related to gross exposure? What does management think of your gross position?

And the third question, Brazil. We're getting some very interesting growth figures here. Could you talk about Solvency, about market cap? Are you paying a dividend or are you applying back all of your profits internally? Yesterday we saw the Santander deal in Latin America, probably a Basel III effect, affecting that. And the need for a bit of bank funding.

Is this the harbinger of other deals involving banks? The feeling is that this has reduced the funnel, the Santander deal is counter-intuitive. But do you have contacts which could give rise to opportunities? And if so, how would you fund them?

A - Gilles Benoist {BIO 1824462 <GO>}

I didn't understand what you said about cost of risk. You're talking about MCEV? That was the variation between solvency ratio at the end of -- yes, okay. You've got an Appendix stating this. It's simply the cost of risk taken from the present value of future profits which increases because of increasing over the period. And so you have the real value figures in an Appendix. In other words, it's a volatility factor.

And the second question was on sovereign risk. Let me make a comment. Three years ago we discussed exposures of -- the exposure of insurers in commoditization. And on page 73 -- securitization, sorry. And on page 73 you have a presentation on that subject. Total historic value, EUR3.13b. But who knows how much provisions we've sunk into that? A few tens of % over EUR3b. But who noticed this? Meaning that when you have a highly diversified balance sheet, every now and again there's going to be an asset class that is struggling. And the main issue is to have time to work with and absorb the risk, cushion the risk. If you're simultaneously have an incident in four countries then obviously you're on delicate ground. If today there's a 30% default in Greece, this would amount to EUR600 million gross. And maybe EUR60 million net. It's a non-event.

And we can then get into a scenario like what combination would it take of possible difficulties that would get an insurance company like us to have a -- that's the basis we're resting on. However, put it the other way round. If you think the opportunity cost in divesting, in selling that debt, now if you sell you're going to get a capital loss. You've got reserves that are disappearing and equity that is disappearing. In other words, reduced as one. But at the same time, you have to have capital gains to offset this.

So lots of bonds on both sides. And you're going to have to buy back more bonds still for the rebound. And the opportunity cost is going to be extremely high. And knowing nothing about the maturities, about the dates and amounts involved in these defaults if they occur, initially what is sovereign default? We've all read this time is different, right? Great fun. There have been an awful number of sovereign defaults over the last century. But what exactly is -- what's your definition? For instance, carry over, staggering reimbursement of capital or interest over a long period. Is that going to have a book impact? Well some say it would, others not. It's not a CNP subject. It's a subject that affects the entire community. But we're in the same position.

So we're going to do exactly as for all of the other subjects. We're not -- we're going to stay, we're going to keep calm. We're not going to going to try and flog out any outstanding sovereign debt. The problem is not a problem. In practical terms. There's no secondary market. If we were to set up efficient secondary markets and we'll look at prices, we'll look at opportunity costs and if necessary we'll provision, we'll take our time doing it. And the system at least in terms of savings, is generating something like EUR8 billion a year. So on that basis you have a little time ahead of you.

At a given point in time, non-realized capital gains plus PSR, EUR13b.

Q - Unidentified Participant

On Brazil, you talked about personal risk provident products. A strong point of yours. Risk by and large, apart from personal casualty and life, automotive being an obvious example. And Group health. Well Group health is something new. And the third sector is loan insurance. And Gilles showed us the results in view of the changes in the regulatory environment, relatively stormy weather.

A - Gilles Benoist {BIO 1824462 <GO>}

Okay. But there is another partner out there. Do we have much of a potential to develop loan insurance? In view of our positions in Morgan insurance, we have obviously every interest in maintaining and building the volumes. And at the same time, we are now talking about loan insurance for consumer loans.

Now obviously this makes no difference to the fact that our ambition is still to have significant market share on the retirement insurance market, the pension's products in Brazil.

Solvency is extremely well covered in Brazil. The requirement is we have a model of about four.

Q - Unidentified Participant

And you mentioned the dividend?

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes. The subsidiary pays out a dividend; varies with each successive year. I think my last -- the last figure I have in mind was about 75%.

And as to the Santander deal, this is not really -- and Gilles will correct me if I'm wrong, come as a surprise. We felt that changes in the banking business, Basel III, regulatory, the fundamentals, is meaning that banks have an ever greater need of a specialized insurance partner able to shoulder risk on his own behalf and work on a long-term basis. So this seems like a very sensible deal. And it will probably for us be an opportunity to recall that our long-term partner is very much part of our lifeblood.

In terms of regions, obviously we're very comfortable in Latin America. And we intend to continue developing business there. And obviously we discussed this with our partners as we progress. And this obviously would be subject to the proposed partnership being compatible with the criteria I just mentioned. Subject to that caveat, yes, obviously we're buyers.

A - Gilles Benoist {BIO 1824462 <GO>}

Antoine and I try to dream -- have an idea of the value of Caixa Seguros compared to CNPS France. And it's a very impressive figure, shall we say? Well good news, basically.

Q - Unidentified Participant

Raymond James[ph]. Two questions, one on unit-linked contracts. Given the products which have shifted, what are your goals in terms of unit-linked business? You were talking about 10% last year. What is it -- obviously a different premium income? This is the first question.

Second series of questions, looking at net commitments, liabilities which are up from '09 to '10 since June 2010, have you reinvested in this type of debt? For example, Ireland, Portugal? Or is this just a change in the calculation methods, allocation methods?

And regarding the figures which were given, are these things historical costs, or is it the market value? Can you specify the unrealized capital gains on the four high-risk countries?

A - Gilles Benoist {BIO 1824462 <GO>}

Right, first of all Antoine and then I'll answer.

A - Antoine Lissowski {BIO 4384399 <GO>}

The unrealized capital losses are in the Appendices to the financial statements under the relevant country. So they're indicated.

Secondly, the strategy on this, in April 2010 we -- April 2009, I'm sorry, we stopped buying debt on Greece and Ireland. In April 2010 we stopped buying Spanish and Portuguese debt. And in December 2010 we stopped Italy and Belgium. However, we continued to buy Italian debt last year and we're still buying it in areas where we have a presence. That's what we've done. And frankly one day we're going to have to ask ourselves when we'll actually start to buy these things again because core Europe isn't going to be very profitable for clients.

So we're trying to manage everybody's stress. But we're not going to be able to do this for too long because investments do have to produce performance. So that's more or less our approach. And you have the unrealized capital gains on both, bearing in mind that these countries are countries where we have a presence. So we can't really tell our subsidiaries in Portugal or Greece or Italy that we're going to stop everything.

Now looking at the unit-linked business, given what is beginning to emerge, if we stabilize this percentage that'll be good. And we'll try to produce some incentives so that our networks improve. These are well-worn techniques. But on both combined it's EUR42m.

A - Gilles Benoist {BIO 1824462 <GO>}

Other questions? Yes, please go ahead. Yes, over here. Can we have a mic please, for the question?

Q - Unidentified Participant

Hello, Exane BNP, first question. The calendar for hybrid securities, the issue of last December was to pre-finance a first call debt in 2011. What is the impact on the solvency margin, which shows up as flat?

And secondly on net new money, you said you had no outflows. Does this still apply in January?

A - Gilles Benoist {BIO 1824462 <GO>}

Yes. It does apply to January.

Unidentified Participant; And the second subsidiary questions in terms of outstanding amounts, what would you have -- do you have a net new money objective? Or you're just basing yourself on the revaluation of the outstanding amounts?

Well we've budgeted a small growth increase in new money in agreement with our policyholders, our shareholders. Both of our major networks sit on the Bourse. So we work hand in hand. It's a cautious estimate, for all the reasons I gave previously. But -- and regarding hybrid securities, well, the good news for the bankers in the room. We're going to reissue some hybrid securities. And there's a maturity date which falls before the summer in May.

Q - Unidentified Participant

Question on Solvency II. You spoke a little bit quickly, as far as I'm concerned, about the factors which -- the reason why the coverage ratio declined in 2010. You talked about the smoothing out of the equity component. But once this smoothing out has been taken into account for the weight of equities.

A - Gilles Benoist {BIO 1824462 <GO>}

Right, Marcel, do you have that? Take a -- use a mic. Use a mike. Or just shout, Marcien.

In Solvency II there's something which reduces the impact of simulated shocks when the market has already fallen significantly. In other words, when we're below the three year moving average. Now this dampener has increased. The ratio between the moving average and prices has moved a lot because moving average has declined significantly whereas the stock price has not moved much. So the gap has widened so the simulated shock last year was 23 -- 33%. This year it should have been around 42%, except this dampener is based on MSC, the MSCI World Index which is mainly driven by the emerging markets. So it's well above the three year moving average. And in the QIS5 this was consistent. Conversely this year with the European equity market, which basically stagnated, we would have taken into account a 49% dampener which is the absolute maximum. So this, the cost of this is close to EUR2. So the real problem, it's not the dampener per se. But the decorrelation, the deconnection this year between the impact of this dampener and the stock market performance of the shares that we hold in the portfolio.

Q - Unidentified Participant

Regarding MCEV, you've talked about the Prudential component. What are the most important ones for you in the assumptions that you will use?

A - Gilles Benoist {BIO 1824462 <GO>}

Well you're meaning that by definition we're prudent. Well let me say we have traditions in this Company. And among our traditions there's one whereby we put money aside when money comes in, especially when these are windfall inflows. Otherwise when we calculate an intrinsic value, this is what we did on the first day, for the first time in France, the first French company to publish intrinsic values. So this tradition continues. And perhaps Olivier can say on what -- in which areas, the traditional area, where we have

Prudential margin. This is natural, both in MCEV and provisions. This is in the collective personal risk and private loan insurance where the bonuses are gradually generated over time with the confirmation of the claim level. So these Prudential margins appear in the overall provisions of the Company and in the calculations of the net projections of the forecast.

I think that was a good example. Are there any other questions? Yes, please, go ahead.

Q - Unidentified Participant

Three questions. Number one. The level of remuneration of balance sheet with the banks which would really have a negative impact on insurance companies. Are we close to that level?

Secondly, the yield of your bond portfolio, is the decline at an end? Are your investment levels close to the 4.2 level you quoted?

And thirdly, in 2011, do you expect to go back to capital market gains to profits on equities?

A - Gilles Benoist {BIO 1824462 <GO>}

Well the reinvestment level stood around 380, 390 for the year on average, as I remember it. Of course it's improving. The TME, which is an index, has moved up from 274 in September to 360 in January. So our reinvestment level is working pretty well, because everything is indexed on that. Now as far as capital gain generation is concerned, well, we have a multi-year program. And depending on the year we can be equities property. Last year we had capital gains on the disposal of the Portuguese subsidiary which came under the program. We're also in a long-term management approach. And this all -- everything depends on the category of instrument or investment in which you intervene. So we don't really emphasize this particular aspect of generated capital gains.

This is a traditional, because there was a time when the level of capital gains was 10%, whereas the market had 50% to 60%. Now this was before the 2002 crisis.

I forgot your first question. On the remuneration of bank deposits. It's difficult to -- well, there's a precedent here. The precedent is autumn 2007 when all of a sudden the rush for liquidity facilitated by the inverted yield curve enabled the banks to offer sight or term deposits for anything from 4% to 6%. I think you remember this period. So the problem here is it's a complex problem because it depends on the maturity. In other words, if you have rates offered for a three-month deposit, then it won't have a major impact. It's the construction, the generation of higher yields on longer maturities which could begin to bite and could begin to convince some investors, persuade them to change their attitude.

Now 2007 was a very interesting experience because we didn't see people moving out of life insurance to move into term deposits. What we saw was people not moving to life insurance for some time and keeping their funds in deposit accounts and then shifting back to life insurance.

Now why do I say this? Because we're talking about flows. So you shouldn't mix up inventory on the one hand and flows on the other. Obviously it's essential, not just for CNPS France. But for the market as a whole. And so what you have to bear in mind is that -- I've said this before, sorry to repeat myself, maybe. But there is a strong link between the insurance, life insurance company. And the company, the life insurance company, which is significant. We measured it. We wrote -- you remember the problem, about the right of cancellation. We've written to over 1 million clients. And the cancellation level has remained at 0.3%, whereas at least half of those who cancelled had contracts which showed a capital loss, whereas the remaining half, had capital gains. So they probably simply needed the money when we wrote to them.

So all this to say that on -- this would depend on the flows. And this would depend on the profile and the maturity of the products. And this is what I've said, maybe a little bit too fast. But in terms of our duty as an investment adviser explaining glibly to a client that you should move to a term deposit account for your retirement, quite frankly, it's quite difficult to accept that. So I think you have to keep that in mind as well.

Q - Unidentified Participant

Two additional questions. Prior -- this emphasis on margin in France, do you have any figures in terms of the business? Or do you have any information that would enable us to measure the scale?

A - Gilles Benoist {BIO 1824462 <GO>}

Well we give advice to our shareholders based on a certain number of indications and then we explain to them how things are actually done.

Q - Unidentified Participant

But can we -- we can expect visible effects on the business in France, on the margin?

A - Gilles Benoist {BIO 1824462 <GO>}

Well we're going to try to do that. But that's an objective.

Q - Unidentified Participant

Other point regarding Efficio[ph]. Maybe I didn't follow it very closely. But I heard about it in an Ashafi[ph] article, read about it.

A - Gilles Benoist {BIO 1824462 <GO>}

But just a sec, I'll dwell on this for a moment. Now, we launched with the Board a strategic plan on five areas. And this will come as no surprise. But two of them concern Solvency II implementation, adjustment, financial management policy, aligning, everything on Solvency II, the whole of our accounting. There are three other areas.

Number one has been called New Products. In other words, this is the whole problem of adapting the product range to the new requirements of the clients and of the networks to do what I was talking about earlier, adapting to the profile and requirements of each network, etc. So that's a project in itself. And each project is managed by either Deputy Manager, Deputy CEO or by member of the Exec Committee. And you'll, for example, you'll be quite -- you won't be surprised to hear that all products are managed by Gerard and the Solvency II project is managed by Antoine. That won't come as a surprise either.

Now there are two other areas. Number one, the improvement in the relationship with the major partners. I'm steering this one. This goes from revisiting the role, or reallocating the role of development of -- the role of epure development[ph] which is our JV for managing the sales in the combined networks.

Secondly, studying how we can introduce the dematerialization at middle office level which were in our -- implemented in both of our partner networks. And this is how to redefine all the death files. This is not really the main role of a distribution network to deal with deaths. So we're seeking to fully exploit the relationship with the network.

Then there's a fifth area which we have called Efficio because we have to call it something. We didn't call it the cost-killing project or the cost-cutting project because this is only one aspect of the project. We've set ourselves a goal, a figure has been put about. But for global, the overall objective is to cut the company's operating expenses by 10% a year, which is a lot. That's a large percentage. That'll take at least four years.

And this covers many different areas, restructuring of the purchases department, changes in processes, in-house processes, changes to structures or even organizations. Going through with a fine-tooth comb costs, deadlines for all the projects under Michel Bois, who is with us, who steers all the major projects of our company on the implementation of Santander[ph] accounting, taking into account the rescaling of the teams in order to optimize the headcount of the teams. What I mean by that is, regarding the shape of the teams, the structure of the teams, to take into account all the components of the workload, to take into account fixed term contracts, outsourcing, temporary jobs.

So all this is one project after another. It's a wave of projects which will be spread over four years. And I think that CNP as a company is beginning to get used to this. And if you've seen this number, that means there was a leak and this is why, because the trade unions are getting a bit scared of Efficio, because they have extrapolated and just interpreted it as a layoff, as an intention to have layoffs, which is not the point. What the best proof of this is that we've reallocated permanent jobs and temporary jobs.

And regarding deaths, the death aspect, this is 40 jobs which have to be created because it's a legal -- it's a binding obligation on companies. And these files have to be dealt with. So it's not just an obsession with cost-killing.

Jim, do we have any questions from London?

A - Jim Root {BIO 2545921 <GO>}

Quite a lot. But you've already answered most of them. Just one from Ralph, if I may.

Q - Unidentified Participant

Could you give us your quality view of the increase in margins in France in second half of 2010?

A - Gilles Benoist {BIO 1824462 <GO>}

Well this is euro linked. When you examine the increase, there's also the personal risk success story. I can't tell you precisely what the exact percentage of each might be. But in 2010, even if we include the launch of the new provident products for the Caisse d'Epargne were successful. And this further strengthens the Banque Postale contribution in the same field. So I'm not sure there's a great deal more to be said. But that in any case is how -- would be my view of the contributing factors.

Gerard, you may have a more detailed focus?

A - Gerard Meneroud {BIO 1504395 <GO>}

Yes, loan insurance, which continued to grow in France in 2010, with claims performance and margin remaining at previous levels. So there we have a volume effect reflecting the development of loan insurance. Yes. There was a sharp pickup in pace at the end of the year, which the market perceived in the form of the increased real estate lending by banks. And we had a very strong share of the insurance on those loans. Premium income on those loans increased by something like 10% or 15% over 2009. I'm sure Ralph will get the point.

A - Gilles Benoist {BIO 1824462 <GO>}

Jim, have we answered the questions from London? And have we any more in the room.

Okay. Well thank you very much indeed for your attention. And the refreshments are right next door.