Q4 2014 Earnings Call

Company Participants

- Antoine Lissowski, Deputy Chief Executive Officer-Finance
- Mikaël Cohen, Investment Director
- Thomas Béhar, Chief Actuary Officer
- Unverified Participant

Other Participants

- Michael I. Huttner, Analyst
- Ralph Hebgen, Analyst
- Simon David, Analyst

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Please go ahead.

Antoine Lissowski {BIO 4384399 <GO>}

Great. Hello, I am Antoine Lissowski CFO of CNP Assurances. I'm happy to welcome you at this call. If you have different slides in front of you, I indicate you go to page on which I am. I go direct to the page five to start with our activities in different countries in 2014.

In France first, there was a very strong growth in unit-linked business, where premiums in general in traditional savings and pension products were up 14.5%, whereas the premiums in unit-linked business were up 78.7% and personal risk/protection products are slightly lower with growth of around 2%. This is the first protection part our group to have a very strong shift towards unit-linked contracts. We have a 13% of total savings on pension premiums last year we are much above the former performance of a company.

Our APE ratio in France was nevertheless down last year, we have APE ratio stayed at 9%. You see there that the economic environment meaning lower interest rates account for the largest part of this negative performance whereas the technical and operational performance factors were significantly up by 4.3 points.

Now, on page six we go to the revenue in France. They were resilient, sustained by the personal risk business line. There was a very sharp rise in net insurance revenue from personal risk and protection by 8.8% as you see, whereas the savings and pension net insurance revenue was down 2.2% reflecting the low interest rates. You have on the slide as well, the technical levels on different parts of the business in France where you can observe as usually that what represents one-third, more than a third of our net insurance revenue comes from just €10 billion out of €283 billion in terms of technical reserves.

In page seven we go to Latin America. Also they are growing the personal risk and protection business. The year was troubled by political and sporting events, but the most profitable business lines of the company were up. You see there that like-for-like figures which are significant for we are not to account for decrease of the real, like-for-like these figures in terms of premiums were 17% up and the APE margin on the customer risk were at about 40%.

In savings and pension business the figure of premiums went down by 21% in reported and 14% in like-for-like and the APE margin are nevertheless at above 20%. Just a word about that. We noticed in Brazilian market important moves on the pension business, and we refrain from following the pension on these markets and we prefer to keep action profitability in spite of losing some market share in this business rather than to follow the rest of the market.

Doing that, we have covered the purchases which incorporate a little part of risk protection in the pension business which explains the maintained level of APE margins.

On page eight, you have net the insurance revenue coming from there. In like-for-like figures, it amounts to more than €1000 this year, a growth of 16.7%. What is very significant there is that 80% of that is made of personal risk and protection business which growth is more that 20% where savings/pension remaining at the same level, roughly at the same level as last year in like-for-like figures €228 million.

Now let's come to Europe area with their response to lower interest rate environment. The premiums there, if we exclude group pension contract which was sold in 2013, the premiums are roughly at the same level up as last year, and you say that the traditional savings are up just 2% – 1.7%, whereas the unit-linked products are up 42% and the personal risk business are slightly down by 16%. In this area, we have had very dramatic developments of the sale in Italy and Spain in terms of traditional savings product during first half of the year. We stopped it during the second half but because of that move we registered a very low APE margin, which is for the whole year, at 2.8% down by nine points to last year. The net interest revenue in Southern Europe stayed at €218 million.

If you have a look on page 10 on the summing up of our new business values, we see that roughly we're at the same level as last year at the group level, €357 million compared to €376 million the year before, but this move is made by a very slight decrease in France due to economic conditions and environment of low interest rates, very strict, important decrease in Europe with new business value coming to €7 million only for the same reasons. But in business models which are moderately made of traditional savings products, and conversely, continuous growth of our new business in Latin America of €142 million.

In page 11, we have highlighted the cost aspect. We have an improved cost to income ratio at the level of the group. You see that on the right side of the slide. The cost ratio is now at 35% and when you have a look on the different areas, you see that the costs were very slightly up in France, 1.2% which is consistent with the amounts budgeted. They were slightly down in Europe because of our first very strict cost management in area of Cyprus or Spain, and they were developed in Southern America with a growth in like-for-like figures of 14.3%. This growth, if you exclude the tax effect because our FX is included in that figure in Latin America, the growth there is around 8% and in an area where average inflation was about 6.4%. That's the thing that in Latin America our costs grew slightly weaker than the inflation.

On page 12, you see that the EBIT in general is growing by 3.7% at €2.4 billion. This growth is attributable essentially unit-linked to personal risk and protection businesses with the growth of 9.2%, and with a stable digit figures with savings and pension business at €1.373 billion. You see also there that the like-for-like figure of growth in Latin America is very consistent, 13.6% whereas a solid performance in France 4.4%, and as already mentioned, a slight decrease in other European countries.

On page 13, several indications on different financial aspects of the management of the company. The finance cost which represents the cost of our debt increased last year in line with issue of two – Tier 1 or Tier 2 issues. Income tax expenses grew by 3.8% in line with the result itself. The recurring profit is therefore up by 3% – 3.1%, and all the lines represent the effect of the management of the assets of the company on the net revised gains on equities and investment property and the impairment effect. The fair value adjustment to trading, there is nothing specifically noticeable there, and what we call non-recurring item which this time represents first, the fine by the French insurance supervisor of €40 million at the end of the year, and additional rotation to policy order surplus which is there.

On page 14, you have different consideration on how we are managing the investments in the context of very low interest rates. In a few words, there is a double diversification in course in the company, first, regarding the bond and fixed income investments as a whole there is a switch from govvies to corporate and financial bonds, the figure for corporate was about €7.5 billion last year, the investments in financial bonds were €5 billion where the new money invested in sovereigns were much lower this year.

The second aspect of diversification is accent put on equities. We invested more than €2 billion last year on equities, we have also invested €1.4 billion in property, and in private equity we remain probably the most important insurer in France, in that respect, we have around €800 million new capital committed in 2014. I'll just add to that, that we will remain in the same direction in 2015. We intend to invest more than €2.5 billion or around €3 billion in equities to keep the same amount in 2015 for private equity, around €800 million, and to invest around €2 billion in investment for properties.

On page 15, I do not insist on that. We give some examples of the way these investments now are channels to different economic sectors, mid-cap sector, corporate debt funds and real estate and infrastructure project financing.

On page 16, you have the view on the operating free cash flow of the company. We have made a specific mention of the subordinated debt which was issued last year which accounts for €1 billion in the measure. If you exclude that, you see that the In-Force contribution is about €1.7 billion. The required capital for the new business of the company is €120 million roughly. That means that it leaves €880 million for operating free cash flow which is much sufficient to pay the dividend and to contemplate different diversification if necessary.

On page 17, you have some elements regarding the equity. It amounts to around €17 billion at the end of the year, €16.680 million at the end of the year. And the MCEV which is at about €17.5 billion, meaning €25.5 per share, with the value of In-Force climbing from €4.5 billion to €5.9 billion in a year. You have different detail in the next pages of the comments regarding these figures.

On page 18, we draw your attention to the Solvency capital. Page 18 is just on Solvency capital in Solvency I which is still the official norm. Of course, the decrease of interest rates resulted in a very important surge in unrealized capital gains. And all-in-all that means that the coverage ratio is at 403% which is of course not very meaningful if you consider the volatility of unrealized capital gains. What is more important is the subordinated debt and equity together through the Solvency capital requirement and there our ratio is at 118%. You see on the right side of the slide how it evolved along the year with the contribution of the profit and the subordinated debt issues and to cost change in the SCR, in the capital at work and the Santander acquisition which we already announced as having had the cost of 3 points of coverage ratio.

If you come to page 19, you have our measurement so far on the Solvency II ration at the level of Group which is at 160% to 185% last year and this figure is the present figure of what we consider as our ratio. But the work is not over, we've got different assumptions which has to be taken before the end of 2015 to come to a definitive measurement of Solvency II ratio which will be of course published and official and it is probably this figure of 160% certainly I would say downplayed in terms of possibility to show the real picture of the ratio.

If look at down of the slide, you have two interesting informations I think. First, the part of the French and Latin American operation in terms of capital requirements. You see that the French activities represent roughly 90% of the capital required, whereas the Latin American represent 8%. And if you compared this 8% to for instance the part of new business margin made in Latin America, which is €142 million off of €357 at the Group level. It shows that we are developing firstly in the regions which capital requirement by being of activity are much lower.

On the right hand side you see that the capital requirement by risk is very specific to our business model. We are the large savings and pension manger which results in a very important activity in terms of market risk and in terms of counterparty risk. If you consider that, the life risk in comparison also lots of risk which is rate sensitive which shows that our capital requirement by risk is clearly marked by the level of interest rate. And it is one of the explanation of the sensitivity of economic risk coverage ratio to interest rate environment.

On page 20, you have just a view on what could be the dividend in 2014. The dividend will be proposed at the same level as last year, but not completely payable in cash. There's no scrip dividend this year and the payout ratio is paid-out roughly 50% as we saw.

The next pages illustrates different aspect of our activity and strategy. We have results – an important results delivered by La Banque Postale which registered a very good success of the new Cachemire range. We have a very brisk growth in personal risk and protection premiums in France and Brazil. We have very quick growth in unit-linked sales in France and Europe, everywhere in Europe.

We have launched different platforms for small businesses in the world. We have launched a new AMETIS, the new in-house network of insurance advisors to support our partners in serving the SME market. We have signed yesterday a new partnership with BPCE and we have also a new partnership with Santander which becomes operational now.

If you come to Santander, you are on 23, I skip on the page 22 where only additional question is the sale of CNP BVP to Barclays, but it will account in 2015 account. If you go direct to page 23, you see that, well, regarding Santander participation where acquisitions cost was around the €300 million. The key figures of the company was premium of €650 million in 2014 and an EBIT by €15 million. And we count on growth levers first with insourcing of the insurance business within this global consumer finance business.

The last is, the certain part of insurance were outsourced at the level of Santander Consumer Finance, the insourcing piece now at 70% and we intend to completely to have monopoly of the interest of activities of Santander Consumer Finance in the countries where we are operational by 2019. There will be also a higher retention rate. The activity was majority only REIT insured in 2014, 55% were re-insured and we intend to reduce the re-insurance and to have a retention rate of 95% in 2019. There will be also market synergies and economies of scale which will result in a very prudent view in premiums around €900 million in 2019, and then EBIT which should be around €80 million of performance. This is a very careful assumption of what we are having.

On page 24 and 25, we have some complementary views on the impact of our new partnership with BPCE. This is a seven year-term contract which was recently renewable for successive three-year periods. The partnership is focused on growing the personal risk and protection business, so it's growing very good risk protection business with the two networks of the BPCE, Banques Populaires and Caisses d'Epargne. This group business will be triggered by the coming in force of the new French regulation called Accord National Interprofessionnel under which the small inter-majority businesses will be compelled to cut the group protection from their salaries.

And second, there will be larger scope for term creditor insurance for CNP. We will be the term creditor insurer of not only the Caisses d'Epargne as before, but of Banques Populaires and Crédit Foncier, will be co-incurred with Natixis Assurances. And all-in-all this represents a potential increase of 50% at least in the new business volume for us after 2016.

On page 25, we have some views on the future of savings and pension activities. There will be an incremental reduction in the exposure of this business for CNP Assurances. We will continue to manage the existing contracts and future payments and for the first time we disclose report of the path of the future premiums under the existing contract and the future earned premiums in the business. You see that the new business represents which will be kept by Natixis Assurances represent in 2014, €4.3 billion realized in 2014 for new one and existing contracts represented €4.6 billion, this is the part we will keep in the next business.

This will have gradual implementation during 2015. That means that some cash deposited we still sell CNP products in 2015; partnership with them will be completely closed only at the end of next year. We will have an additional reinsurance treaty creating it with Natixis Assurances based on 10% of the technical reserves of the company, of the portfolio Caisses d'Epargne at CNP Assurance level.

That means that 10% of our risk to the savings business with Caisses d'Epargne will be reinsured by Natixis Assurances. It is a way to be better protected against I would say too much competitive aggressive commercial activity by Natixis Assurances which will sell the new product in the same network, and we have the disposal of different protected mechanisms, protecting the CNP values especially in the case of rising interest rates. This year we evaluate the impact of the New Business Value in 2015 as non-material, meaning that it will be low if the agreement has been effective in 2014. We consider that agreement with an effect of less than 5% of New Business Value – because of New Business Value.

The two last pages of representation with regards to different strategic views. In 26 years different consideration with our first, we have to finish our renegotiation with La Banque Postale. This partnership will be renegotiated and rejuvenated by end of this year. We will also put new target with Brazilian partner CAIXA with which we already went to an agreement on an increase of the premium by more than 50% by 2019 and we have decided to open notice of CAIXA Seguradora in Colombia which will be operational by the mid-year and which will be a possibility to explore the Colombian market.

We are also innovative in France with different contracts; CNP One and euro-croissance which were launched in February. We have created a vehicle for partnership with multi-channel distributor in group health – death and disability and health insurance. And in the end we indicate that in 2015, we will make significant progresses in the use of digital technologies and we will disclose our strategy on that respect with first step being the launch of the all digital company in Brazil which has been decided at the vote of the company Brazil last week.

Okay. I am over with this part of presentation and we will be open that they are very eager to answer to your questions along the table.

Q&A

Operator

Thank you. Our first question comes from Michael Huttner of JPMorgan. Please go ahead.

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

Thank you so much. Thank you. as just three questions if I may. The first on slide 59 and maybe I missed it, the return on equity on the pension business seem to have come down quite sharply, and I just wondered what happened there? The second, what is the duration mismatch you have across your portfolio now? And the third is, in terms of the Solvency II which I think that's partly why the share price is down so much is the number is clearly down. What is the current level, what would be, or how could we estimate the current level of Solvency II given that interest rates have dropped further since the end of the year? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

On the first question, it is clear that the pension business profitability was very strongly affected by low interest rates which resulted in supplementary provisions this year. The second question was the duration mismatch, I'll turn around my side, Mikaël Cohen for Michael Huttner.

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

Thank you.

A - Mikaël Cohen

Well, you could have approached this duration mismatch by several indicators, but you're correct, they were the ones that figures that is stated in the presentation on page 50 and it's regards – no, on page 49, you have the sensitivity of our value to interest rates, yes, it gives you some insight about the – what is interesting to shareholder, I mean they mismatch in duration at the – from the shareholder perspective and there you have the figure impact.

A - Antoine Lissowski {BIO 4384399 <GO>}

Sorry, Mikaël, do you have any sort of indication even just back of the envelop....

A - Mikaël Cohen

Yeah.

A - Antoine Lissowski {BIO 4384399 <GO>}

Six months, a year, year and a half, between the year?

A - Mikaël Cohen

Yeah, now from the insurance perspective, you have two main activities. The first one is the savings life insurance and the mismatch is less than six months if you – given with our measure. And on the rent activities, rent, not rent..

A - Antoine Lissowski {BIO 4384399 <GO>}

The annuities activities.

A - Mikaël Cohen

Yeah annuities activities, the mismatch is a bit longer. We have a duration of around more than 10 years on the assets, and but more than generally 15 years, sorry, on the liability.

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

Okay.

A - Antoine Lissowski {BIO 4384399 <GO>}

And the first question, Michael, was about the sensitivity of our Solvency II ratio, we can trace that, I think.

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

Yes, please.

A - Antoine Lissowski {BIO 4384399 <GO>}

I am sure that Thomas is ready to bring you an answer; and guess that, we will also consider the page 49 which was already mentioned. Thomas?

A - Thomas Béhar

But we are – we not publishing our sensitivity on Solvency capital ratio, so you got only on the book the sensitivity on the side, you get that under value of info which is stated but for the Solvency of the capital ratio you have just to wait one year to get that.

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

And I didn't quite catch that, the line was bad, so notes on the available capital, but there is no answer on the required capital as such, is that right?

A - Antoine Lissowski {BIO 4384399 <GO>}

No, sorry, Michael, on slide 49 you have the sensitivities that we usually publish on MCEV different line items. We do not today publish sensitivities for the Solvency II, but should we when Solvency II is in effect. But next best thing as the French say, you can sort of gather a similar sort of sensitivity, although it's not exactly the same thing from the sensitivity of the...

A - Mikaël Cohen

Okay .

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

When you say on .

A - Mikaël Cohen

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A - Antoine Lissowski {BIO 4384399 <GO>}

Okay, Michael. And Thomas will give you a rendezvous next year, it means that the Chief Actuary Officer thinks that the company will be still alive next year...

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

Yeah.

A - Antoine Lissowski {BIO 4384399 <GO>}

Which is an indication I would not have given myself.

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

Thank you. Thank you.

Operator

Our next question comes from Ralph Hebgen of KBW. Please go ahead.

A - Antoine Lissowski {BIO 4384399 <GO>}

Hello Ralph.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes hi. Hello Ralph Hebgen from KBW. Thanks for taking my questions. I would like to start with a question relating to the MCEV disclosure; I have seen that there was an opening positive adjustments to the value In-Force of €1.6 billion. Now, that's a size of a chunk and explains why the VIF increased so much at a time that interest rates went down. You make one comment saying that this relates to a change of scope in France, and my question relates to that, what precisely is behind that?

And that leads me to the second question. Did this have a positive impact on the economic Solvency ratio as well? And if so, would you be able to disclose what your Solvency II ratio would have been had that €1.6 billion been excluded?

Question number three remains with Solvency, and it's basically going back to what Michael wanted to explore. The sensitivity of the economic Solvency ratio appears to be quite high. We were starting from 185% in 2013, now we are 25 percentage points lower, during that time the French yield in the main has dropped. Would I be right in saying that roughly for 100 basis points drop in the yield on the French govvy you are experiencing between 14 points and 15 points drop on the economic Solvency ratio? And well, that's it for now. Thank you very much.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. First about the statement in our MCEV the €1.5 billion Thomas will give you some supplementary views, he is rushing to the phone.

A - Thomas Béhar

Yes, we are preparing ourselves to Solvency II and trying to match and all what was done between the MCEV process and the Solvency II process and we are also speaking with the management a number of assumptions during our projections. And for example, we have worked on a model about the critical insurance, and we are – it's a part of the game that we are seeing and the restatement we have worked also with our control management team of the way we are considering internal expenses, the way we are projecting them during the life of the contracts. And we have also considered the way we may modernize model, the participation that you consider every just before the profit and now this discretionary participation is inside this number and is in the value of MCEV and inside the value in Solvency II.

A - Antoine Lissowski {BIO 4384399 <GO>}

That means that in fact, Ralph, the vision of the MCEV is including now much more consistent with our view, model of business and that's conventional and much more realistic assumptions are embedded in this new vision and it is simply because we are contemplating environment where MCEV measures and the Solvency II measures will be very alike, we're putting them to aside.

Your next question rather it was sort of a guess from your side was to guess what was the sensitivity of our ratio 200 basis points interest rate moves. Okay, I don't – I would say, I cannot confirm in term of where you calculated this, but it is clear that we have to consider and to discuss where the disclosure – the definite disclosure on Solvency II will look, because all the brackets we need to rule out these issues. So far we've just disclosed the sensitivity in MCEV which is just one of the legs of the ratio in itself. It is clear that to disclose the compounding of the two legs and sensitivity of the two legs is the next step, but we will do it later.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Can you just recap, so I think you were saying that the value In-Force adjustments related at least in part to a higher proportion of the policy holders' surplus reserve which include, did I hear this correctly or...?

A - Thomas Béhar

Yes, part of it, as you will see many differences we're changing the model, I just explained some, some numbers. On top of this, we have credit insurance with expenses and also taking into account what we call the policy on those surplus reserves that we are doing on the level of the entity.

Q - Ralph Hebgen {BIO 6297020 <GO>}

And would you say that inclusion of the policy holders share or a portion of it was that the driving force behind the increase? Which of the components dominate?

A - Thomas Béhar

It is a substantial explanation of the increase, yes.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay, good. Now there was just one other question which I had which was would you be able to guide what the economic Solvency ratio would have been had you not included that €1.6 billion adjustment?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, you just have to notice that when we include this kind of policy holders' surplus reserve which were some billions, you got also an increase on the Solvency capital ratio on the same time. It's a parallel requirement. The Solvency capital requirement is increasing at the same time we are taking into account the policy holders' surplus reserve. So on the Solvency capital ratio, it's quite neutral inclusion of this reserve.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Thank you very much indeed for your time.

Operator

Thank you. As there are no further questions I will now hand you back to your host for any additional or closing remarks. We just had an additional question signaled from Ralph Hebgen from KBW has a follow you question. Please go ahead. Your line is now open.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes, sorry it's me again. I only didn't continue because I thought there were more questions. So now I am going to monopolize this talk entirely. Well, there were just some small things outstanding which I know it is. There is I think some new disclosure which I find fascinating often or – do you know I can't find it, I think it's on slide 44, and it is something which you call marginal new business value. Could you explain what that is?

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes, Ralph you know that usually when the company disclose a new business value, all the companies to our knowledge consider that the new business is made of – the value of the new business is made up of return on these net investments made with the money plus part of realized gain which was attributed to this business which results in higher new business margin, but when you take it for the loan meaning that when you consider that all the money which is collected in a year is invested in the same year at the current levels.

But as we were in fact probably the only company which was publishing figures in a standalone basis which is in decreasing interest rates environment were to reduce the figure, we decided to let go to marginal disclosure as everybody and to give correct information to the market, with insight, make the confirmation between what was effective communication over the last four years and what would have been the communication if we would have considered the marginal structure.

For instance in 2011, we would have had the new business margin by 9.4% where it was at 8.9 and so on and so on. And this year, the 9% which we have in France would be in marginal approach maybe 11.12%, and in the future we intend to publish on marginal basis for the future.

Q - Ralph Hebgen {BIO 6297020 <GO>}

So that means that the number for 2014 on the standalone basis, did you say – intuitively this goes the other way round for me, standalone would exclude a subsidization of the current new business from previous generations of policies?

A - Antoine Lissowski {BIO 4384399 <GO>}

Yeah.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Oh, that's correct, fine. Perfect.

A - Antoine Lissowski {BIO 4384399 <GO>}

It is exactly that.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. And then, one final thing, this relates to the BPCE agreement. You were saying that you would expect 50% increase of new business volume in the risk and protection line. You left it open over what time that might materialize. Perhaps, you can talk about what sort of timeframe it is you were having in mind there, and also as you're losing the new business on the life and savings, traditionally written Caisses d'Epargne, can I clarify what's the first new business generation, if you're losing? Are you still writing new business in 2015 and then over 2016 that would be a transitional year phasing it out?

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes, yes. That's it. For the savings you've got, we will have last year of – this year we had our new business from Caisses d'Epargne, next year in 2016 we will have just few months of activity with such and such Caisses d'Epargne but let's say you can achieve for your model that way we will have, let's say, the half of the previous years in terms of new business and after we will have no more in new business on new premiums, okay.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes.

A - Antoine Lissowski {BIO 4384399 <GO>}

For after 2016, meaning the reform will be completed in 2017 in fact. And to come to first part of your question, the figure of potentially 50% increase of new activity, increase of activity in Tempo Dental insurance with them, in fact the basis of our activities will be enlarged much more, but we want to be very careful because in our present – current environment the structure of the housing market and loan market in general in two years, it is difficult to anticipate. But we prefer to be very careful when we give figures saying, but it might mean an enlargement of 50% of premiums of the first year on the contract. But then it is still in the new business of 2016 which might be higher to a new business, traditional new business with Caisses d'Epargne by 50%. All things being equal, but this occur in conditions of markets of loans, housing loans were similar to those which we have in 2014.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Very clear, thank you very much indeed.

Operator

The next question will come from Simon David of Credit Suisse. Please go ahead.

Q - Simon David {BIO 17536566 <GO>}

Hi. Good afternoon, two question from my side. I just wondered in the VIF transfer to free surplus, we've seen a big step up from €787 million in 2013 to €1.1 billion in 2014 I just wondered what caused that.

And the second question, I wondered if you could give us the dividend, upstream, per geography in 2013 and 2014, please?

A - Antoine Lissowski {BIO 4384399 <GO>}

An answer for your first question in fact you have to consider, you have taken the number on page nine...

Q - Simon David {BIO 17536566 <GO>}

Yes, nine, I know that...

A - Antoine Lissowski {BIO 4384399 <GO>}

...of the report. You have to consider the full operating MCEV earnings on page eight of the report. You will see as the numbers are certain VIF and required capital to free surplus on the third line which are the different components are the operating and MCEV earnings. So you got the new business value. The expected existing business contribution, the transfer experience variances and all of that give €1,068 million. And as we have changed some model, you will see that between 2013 and 2014, you've got some changes between experience variances and transfer of the VIFs, is a way we are now where we model the results and we're forecasting the results inside our model.

And if you go to operating MCEV earnings, it will go from €1,008 million last year to €1,068 million. So it's a progression of 5.9%. Doing the same thing under three different geographical zones is 4.6% for France, 8% for Brazil, and 16% for Europe outside France.

And so it's something that's more linked with all our other key performance indicators with this provision of the operating MCEV earnings of 5.9%. And if you want to reconciliate that with the operating free cash flow which is behind your question, may I recall you that on page 51 of the booklet, you've got – in the operating free cash flow, we have made appear the operating MCEV earnings

Q - Simon David {BIO 17536566 <GO>}

Okay.

A - Antoine Lissowski {BIO 4384399 <GO>}

Does it answer your question?

Q - Simon David {BIO 17536566 <GO>}

Yeah, it should.

A - Mikaël Cohen

Okay. And regarding the dividend stream, we have a policy to give between 50% and 75% of payout by our subsidiaries depending on their situation in general, but with Brazil it is usually around 75%.

A - Antoine Lissowski {BIO 4384399 <GO>}

And as the – question was given by team in the MCEV report we've got the exact numbers...

Q - Simon David {BIO 17536566 <GO>}

Yeah, I just wondered...

A - Antoine Lissowski {BIO 4384399 <GO>}

...coming from Latin America and Europe outside France. And for France, it's a deduction between the dividends of the group and the dividends paid inside these two geographical zones.

Q - Simon David {BIO 17536566 <GO>}

Okay. Thank you.

Operator

We have a follow-up question from Michael Huttner of JPMorgan.

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

So I'm a bit concerned. I mean I'm not particularly reassured that – excuse me, what Ralph Hebgen was implying but the number now may be about 150% which doesn't sound very high, but I may be wrong. And I just wondered if you have a kind of internal view of what the minimum would be, would you still run yourself on the French number the 118%?

And then follow-up question to that would be, come January 2016 you'll be under the French minimum, you just moved to Solvency II, just to understand a little bit the sensitivities. I feel that there's more pressure here in terms of interest rates, and I had felt I haven't reflected on the sensitivity of the pension book. And then on the cash flow, I thought it was a fascinating answer, really helpful. And I just wondered if you could just name a few of the figures in the columns. I'm looking at the report, but I can't quite reckon – I'm looking at the France bit, and I'm not sure which number I should be looking at. Any indication of what the amount, dividended up by France would be really helpful? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

I'm not sure that I perfectly understood that you don't feel at ease with our Solvency figures at all. For your second question, I am not sure that I could exactly what you – what precision you wanted, Michael?

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

Okay. So on the first one, I just wondered if assuming Ralph Hebgen is right and the number if we were to do Solvency II today were 150%. What is the level at which you decide well, no, things now have reached a level where we need to take additional capital measures?

And on the second point, I'm looking at, I suppose, page 16 of the embedded value booklet, so that's a bit which relates to France. And I just wondered which of those figures, is the one which relates to the cash paid up to the group?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, regarding the first question, sorry, I've absolutely nothing to tell. Specifically to that, we have not contemplated to fix a limit which we consider that something has to be done. And so far, we feel very quiet with the measures we have. This thing was mentioned – these figures were mentioned at the audit committee of the company at the board of the company and everybody around the table seems – feels well with these figures. So the question of having a capital action was not even raised by any of our board members. Regarding the second question, perhaps .

A - Unverified Participant

And dividends, if you are, again the question of the opening adjustments?

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

I just wanted to – you're explaining to what the dividends are in terms of geographies.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay.

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

And I just wondered which of those figures it is?

A - Antoine Lissowski {BIO 4384399 <GO>}

Yeah, its opening adjustments, slide number 28 for the opening adjustment for the group and it's under page 16 for France, page 18 for Latin America, Latin America is €175 million and on page 19 for Europe is €29 million and as for CNP Assurances the [holding] is also the French operator. The difference is what remains for France is €324 million.

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

So, just to understand, so that's really helpful the €324 million because it's a holding figure already includes Latin America and Rest of Europe?

A - Antoine Lissowski {BIO 4384399 <GO>}

No, not at all it's only part of the dividend that we consider that's coming from, paid by the activities in France.

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

I beg your pardon, okay, that's very clear, okay. Maybe just on the France, maybe I can ask it in different way. So the drop from the 185% to 160% is offset is a substantial drop and this was after you made this adjustment of $1.6 billion of adjusting the MCEV to your business model. And so in the current climate where interest rates are actually lower today than they were at the year-end, I could understand why certain investors would say, well, what is the figure today and I understand that this is a not a concern for you. But maybe you could explain why it is not for the same concern to you as the market may think. You know your company must better than anybody, but it's just that I'm not quite – maybe I'm looking at it in a wrong way and I'd be very grateful for any guidance.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, you're right but the adjustments we made is included in the figure we published, but what we cannot know, that might be, I would say, further adjustments what we consider that would be very legitimate to make and that would represent in fact the improvement, possible improvement of the things. And we are not – we are still not in the Solvency II environment completely. We are just making a very tentative approaches to manage that. And we know by and large that there are different things on which we can work to represent more realistically the coverage ratio of the company consistently with renovation. And the reason for which we are not so worried is that we consider, but there are still groups to represent better the wealth of the company in terms of a ratio if you see what I mean.

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

Absolutely no, no I, that's a bit I was missing. Yes, that's very helpful. Thank you.

Operator

We'll now take an additional follow-up question from Ralph Hebgen of KBW. Please go ahead.

A - Antoine Lissowski {BIO 4384399 <GO>}

Ralph 2?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes hello, I'm sorry it's me again. Can I just ask one more thing relating to slide 44 and the new concept of margin, new business margin. I hear sniggering in the background...

A - Antoine Lissowski {BIO 4384399 <GO>}

So go ahead...

Q - Ralph Hebgen {BIO 6297020 <GO>}

It is just because you said that in future, you will move your reporting of the new business value and therefore of the new business value margin on to the basis of marginal methodology. And that has so far produced higher margins than in the past. And I'm not quite clear yet why the margins are higher. I don't want to paraphrase what my misunderstanding is. Would you explain again in which way the new business value or indeed the margin is being supported by the marginal methodology as opposed to the standalone methodology?

A - Antoine Lissowski {BIO 4384399 <GO>}

The value of the new business is better on marginal approach than on the standalone because you've got an unrealized gain that we have, in all this period we had unrealized gain on bonds. And we consider them a marginal approach and there is nothing on standalone approach.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Oh, I see. So I think my understanding was exactly the one way around. So in fact you're saying on the marginal approach you take into the consideration the contribution of gains of all prior generations of contracts.

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes.

Q - Ralph Hebgen {BIO 6297020 <GO>}

I understand. Yeah. Perfect. Thank you very much. That at least clarifies it.

A - Antoine Lissowski {BIO 4384399 <GO>}

And it's what we are doing invariably when we are delivering every year. So discretionary participation to the contract, we are not splitting between the past and the present.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. And the APE would not change because of that. That would stay the same?

A - Antoine Lissowski {BIO 4384399 <GO>}

No, no change.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Thank you very much.

Operator

As there are no further questions over the telephone. I will hand you back to the host for any additional or closing remarks.

A - Antoine Lissowski {BIO 4384399 <GO>}

I was very happy to speak with you and say you good bye and hope to see you next month in London at our usual meeting. Thank you very much bye-bye.