S1 2011 Earnings Call

FINAL

Bloomberg Transcript

Company Participants

- Antoine Lissowski, Finance
- Corporate Participant
- Gilles Benoist, Chief Executive Officer

Other Participants

- Analyst
- Michael Huttner
- Ralph Hebgen

Presentation

Gilles Benoist {BIO 1824462 <GO>}

Well, good afternoon to everybody. Do you hear me? Okay. So, let's go for this presentation of our First Half Results. For us just when beginning looking at the environment of CNP, it's clear that not a very pleasant environment because we at the same times we had to face a weak economy growth in France and most of that a decrease in the life insurance market. And of that our sovereign debt crises, the very new of course you can't find in Solvency II regulation.

Well, what is interesting is that as you've seen looking at the results and even with a decreasing global revenue, results of CNP are in fact stable. Behind that stability there is in fact a progression because more than a €100 million have been put in provisions. And second aspect the present view on what the ratios be treated, the debt creek has been absorbed rather easily by CNP by a movement of the parity order surplus reserve by the combination of supplementary provision of little more than 100. And of course any variant of €353 million due to the method, the 21% method used in France by . So, I think till that of course those of you who knows well the business model of CNP and gets that for getting this type of results means that of course the global assets of CNP are going up and that's true. But also that international activities are bringing more profitability and that the mixed products has improved as in a parallel way compared to the margins.

So, let's just have a glance on some of our markets. And after that of course Antoine will comment on the detailed results. Now, for global markets two were declining. The most impractical decline is in Italy more than 25% but in France for the first time in a Rome history been more than six months customs decline of the premiums in life insurance of course still is a next premium collect. But a decline, of course the main reasons are identical in the two European countries, partly identical, first is the reason are competition between banking products and life insurance products and to be a strong need of liquidity. The European banks prompted to the base of three liquidity ratios. But of course there are other reasons for the decline that are of course the global economic environment. And of course in France, the number of weeks or quite months of hesitation of the French government on the tax regime of life insurance. And so we see modest customers putting their money in the liquid Livret, tax exempted Livret as far as they have not saturated the limit of this product.

And only medium and high network customers remain in life insurance for this period. On the contrary looking at the two other regions of market going up, it's of course clearly the case in Brazil. And it's not a something brand new. It's a constant and wonderful increase, of double-digit increase. What is interesting is the fact that despite the environment, Spanish market is going up and in fact we are going up in this market with a very efficient partner. The next slide is just a way to remind that behind it sometimes there is some volatility of the business in some years. It's a global long-term trend of increase of revenues that is of course as far as CNP and its story it's clear that you have this data some in mind. As you can see there we try to summarize what I just mentioned of the reasons of the decline of progression of life insurance. If we stay for one or two minutes in France and looking by type of product and by partner.

As you can see the decline of our two main networks as far as savings products are concerned is on the first half apparently different, let's say apparently because there is a base effect in the comparison between first half 2010 and first half 2011. Right now the performances of the Banque Postale last year was impressive. Well it's clear that at the end of the previous half year the two networks are at the same level of revenue. But behind that you must check in account the fact that under two networks one needs liquidity as explained the evolution because they as many banks in France and even in Italy they have launched banking saving products to grab their liquidity and they have of course accepted without any discussions the new inflows of Livret. Don't forget that our two main networks were historically the two main distributors of Livret in France. It is clear that the Banque Postale doesn't need liquidity and explains that the resistance was better on the first half.

But looking at and trying to get what could happen up to the end of 2011, we think that the base effect we have disappeared at the end of this year and the two network could be at performances quite similar. Looking at the group insurance partner it's the global stability and except or financial institution meaning debt repayment cover or private insurance, because in that field despite the disappearance of one of our partners Cofidis was a both by the activity is still going up. Looking now to outside France. You can see clearly on the graphic that there is only one as far as revenues are concerned bad news, it's clearly Italy. The problems of organization in the network of UniCredit in Italy by the merger of all the old banks and the operations of collecting liquidity by UniCredit has made a sharp decrease of premiums in the first half while twice decrease of the Italian market.

Of course, this situation couldn't last and after a strong discussions with UniCredit, they have accepted to adopt in the end of June in the Board of UniCredit Vita, a new business plan for three and half years coming back to better figures in revenues and savings. To be honest, it's clear to say and it's visible in other slide that as far as risk products are concerned, they are good, they explains the increase of the margins and in the same stages in Italy. Of course, all the other activities as you can see were going up. And of course that's important to understand the good resistance of those global results of CNP Group. Just one circled focus on the two main subsidiaries. As you can see well, cash have the gross is always bringing good news and in every time of activities through different progressions. And on the contrary, UniCredit Vita has suffered from sharp decrease but I hope it's now past story.

So, let's go now to Antonie, who will give you many details on the results and I just give you after that some views on the future.

Antoine Lissowski {BIO 4384399 <GO>}

Alright. Hello, everybody Antoine speaking. Well we'll go through the figures you have in front of you on slide 11, the main figures. Group, the level of revenues and new money are on the left chart. The technical reserves are also up, that's by 5.6% up to 290 billion. The attributable profit is stable at 543 million, slightly the same as last year. And the MCEV is up €21.1 per share at the end of June, which is highest level of history of CNP. We'll come back with different figures and elements. The next section is about the revenues. We've already mentioned we are at about 15.3 billion at the group level. This decrease is due to the decline in savings revenue in Europe only, but there is nevertheless a continued growth in personal risk and credit insurance revenues in all our areas of business. Outside of France, please note that there is still very strong growth at Caixa Seguros and an exceptional level of growth at Barclays Vida in Southern Europe which is started but starting very well.

Average technical reserve are up 6.2%. We will comeback to this in a second. But I just want to point to draw your attention to the fact that we are still in a case where there is a positive net new money at the level of the group as well as in France things where there is no reduction of revenues in France of net revenue very secure, net positive revenue is in France as in the other countries. On Page 13, you have the revenue by segment and by origin. We see there very well but there is a large stability of term creditor insurance at €1.5 billion. But since that the loss of some customers was completely offset by over development. On personal risk as well, there is a great stability of the business which is up to 3.6% and this growth is attributable essentially to foreign activities. In fact in France there was a little decrease. The pension business is up dramatically by 33% which is due to two elements, substraction of the in fact by our Irish subsidiary and also growth, significant growth of our Brazilian activities. And the last being the savings business which is down €3 billion.

The 3 billion being divided between France, less 2 billion and international less 1 billion which is to be understood in the context of European turmoil on interest rates and sovereign debts which add its consequences in the or life insurance by our customers. On page 14, you have the level of technical reserves of the company 289.9 billion plus 5.5% at the Group level, which is spread between 26 billion at international and 263 in France. It is clear that our international business model is quite different from the French one. French one results in a very low margins in large amounts, where the international raise consideration of risk business which is we with new balance sheets, low balance sheets but highest margins and margins resulting in accruals and in the risk policy.

The technical reserves by segment of what is the same structure as last year with 85% at a Group level on savings, 12% on pension business and the rest risk, representing the risks. Now on the next section, we come to the profitability with net interest revenue of the company, which is at margin before expenses up 9.7% or €1.5 billion, which was led by the saving business and international operations. Please note that the revenues for own funds portfolios are also up 18%, which reflects better return from dividends and money market rates. The EBIT is up 11.7% that reflects a very good cost initiative which we will see in second. And the net profit is stable, provisions which I will explain in a second. When you see on page 16, the break down of these revenues, you see that the net interest revenue at 1.2 billion is at 7.4%. We will explain in a minutes how it is represented by the different sectors, segments of the activity. The revenue from the own firms are up 18%. It is attributable to France first where we got better return on our fixed income portfolio which is growing.

And also a better return on dividend on equities not withstanding the fact that we reduced slightly the exposure of the own fund to equity portfolio. But the rate of dividend rate is higher this year. Then the net interest revenue is up by 9.7%, administrative expenses being under control at plus 5.2%. It results in an EBIT which is at €1.96 billion up 12% roughly. Below that we have financial terms which are up yet to replace progressively subordinated debt which was issued more than 10 years ago by a fresh subordinate which cost is of course higher. But income tax expenses are of course higher because of the EBIT being higher but it is normal. And the minority interests which represents the interests of our minor shareholders in foreign countries are up 29%. It is of course due the success of the Brazilian business and also of Italian and even Spanish business which starts to be accretive. The recurring profit before capital gains being at €552 million up by 5.6% which is incidentally the same growth of, the same rate of growth as the average reserves of the company.

Below that you have net gains on equities and property and fair value adjustments which are at the lower level, lower than the last year. And fair value adjustments to trading securities are conversely slightly higher levels than last year, but nevertheless it is not very material in the global management of this profit account. And the net profit is at 543, because we decided to pass the specific provision on the balance sheet in order to complete the policyholders' surplus reserve. In fact there are two lines, this one and another which is in the net interest revenue under which we have decided to improve the protection of our balance sheet and to add provisions to the existing policyholders' surplus, policy surplus reserve. We're coming back to that now on page 17. You see that this reserve sounds like €2.7 billion which represents 1.1% of our technical reserves where last year it was at the end of 2010 at 2.9 billion.

Bloomberg Transcript

But please remember that investments we decided to provision more than €500 million plus tax through this policyholders' surplus reserve in order to increase the protection of the balance sheet against the low in prices. It was a good felling because as you can see on the right of the slide we have to use this policyholders' surplus reserve to enter the Greek government bonds we have on the balance sheet. We will come to that in a minute, because cost of the impairment being of €353 million at the end of June. On page 18, we have the structure of net insurance revenue for the period. You see that the recurring business himself is down by 7% whereas the growth coming from business that conversely it is offset by a decline in risk business, I will come to that in a second. The international business is up by 28% and this rise is attributable to the change of quality mix, project mix of all our subsidiaries and branches abroad and of course the increased level of technical reserves at the in former slide.

And own fund portfolios also have posted an improvement. I already mentioned improvements in France. There was also a contribution from Brazilian own fund portfolios. You know that the interest rates in Brazil stay up to 12% and add the balance sheet of the subsidiary and its own funds are growing, it is of course an opportunity to improve this pair of contributions. On page 19, we have the recurring net interest of revenue by segment in France. The savings business brings 5.5% revenues more than last year as a same which can seem due to the fact but nevertheless the revenues are lower. But as you remember of the driver into net interest is the increase of technical reserves by 5.5% and this move is completely reflecting the growth of these technical reserves. The pension business is up by €30 million, which represents an improvement in mortality assumptions in accounts of a company. And the risk business is down by €100 million. It's notes and explanation.

We have had an increase of and different risks even last year in 2010 and we have had to account it also as well in the first half of 2011. We are working for the figures representing the pressure business meaning the figures representing the whole 2010 business which I am not still not available. Total it is a Group business where the different insurer represented by intermediary which takes some time to make its own account and reporting. Thus we will start to report the informations regarding 2010, only at the second half of the year. Nevertheless we always start to renegotiate the conditions of really different and trend. And we have already obtained an increase of some verifications or notifications of the way we pay . That means that these figure or this tendency should be reversed if not in the second half of 2011 but certainly in 2012. This situation is clearly not sustainable, it is natural but the process of renegotiating with the partners and correcting the claims policy is under control and we are confident that this tendency will be reversed next year.

On page 20, you have recurring net insurance revenue by subsidiary. Out of the €529 million growth by the subsidiaries which are not so far below but French contribution which is out of that you have of course a huge contribution almost €400 million by the Brazilian subsidiary which the revenue on all of our business lines. But it's also interesting to see that business, our Italian subsidiary as first half of year contribution doubled, almost doubled compared to last year. It reflects the better management of this model and price effect in savings. But we have also include the results of CNP Barclays Vida and marginally of over subsidiaries. Administrative expenses of the Group are described in page 21. In France the level of expenses is exactly at the same as last year at €1 million and it will be the same, the case for the whole 2011 year. We have decided and we will maintain the level of expenses in France exactly at the same level of last year.

It is I will say absolutely normal and natural in area where we note a reduction of new revenues by customers to make, to tighten our costs. It's of course quite different in international operations where the growth of 23 million is mainly due to the Brazilian business which has increased level of business, which has increased taxes and you have also foreign exchange level which accounts for it. Note that in Italy where we had posted poor results during last year we have put in order to enforce plan to reduce administrative expenses and this plan is successful. The expenses are down 15% now a days. On page 22, we have write-down of the EBIT by segment and by the geographical region. About savings we have already explained regions, we have an EBIT which is up by 28%. It represents a €400 million out of 1.1 billion. The pension business is also up, I already mentioned, the improvement in France and the new development in Brazil and other contract in Ireland, which means probably brings some revenues.

The decline in risk business is only attributable to activity in France, which we have already commented. And I've also already explained to group of the own fund contribution. Other writes you see breakdown between France and international role and the constant and consumed tendency of international operation which represent almost a half of our EBIT in the . We will perhaps reach the half in one or two year, but it is already very significant increase. You will see also in another slide relative to new business creation. On page 23, we have the ratio of EBIT on technical reserves. It is of coursing improving our savings business where the ratio is traditionally relatively low which is improved in pension business, very strongly improved. And it is decreased but for reasons which seems not sustainable and which we changed the next year on the risk business.

On page 24, we have the ratio of an EBIT to solvency capital requirements that reflects the same illusions as already commented and also the allocation of our solvency capital to the different business line. The current situation confirms the fact that the risk business remains of highest importance to the ratios of our company and that the savings business is at relatively low level but nevertheless improving in spite of the crisis. Now, we come to the value creation. This section is related to value creation of the company as a MCEV. The MECV is up by nearly 8% to €21.1 per share, even increase is the value of in-force as well as in net asset value of the portfolio. There is also a sharp rise in ratio of new business value we'll develop this point and results in consolidated ROE at 11%. The level of page 26, the level of embedded value at €12.5 million it's at its best since we calculate this concept. The last peak was in 2007, before the crises has its effect on our portfolios and activities.

And please note there that we have reconstituted not only the ANAV but also the value of in-force and the value of in-force is coming from 2.4 billion to 3.5 billion 2008 through 2011 this figure is annualized by mitigating the two figures of first half. If you have now look at the new business value and the new business ratios in a minute you also observe that we have reconstituted our ability to create new business and what is more interesting is that the level of the new business created by our international activities is now almost at the same level as the French activities represent 40% to 16% for our French business where the comparable figures in 2007 were something between around 20% for our international business to 80% at the French level. Clearly for creation of value now there is in international department nevertheless the business in France is still accreting and still rolling in its business for two years.

On slide 28, you have the detail of these different elements with very well net asset value, the value of value of in-force, the revolution of value of in-force, while you note that the value of in-force was improved in France, which is mainly due to the technical element, which is the volatility on the French equity and the rates, the lower operating rates curve is lower as well as APE is lower, which for technical reasons expense but induces but the fact about the cost of options is nowhere and therefore the value of in-force is relative. The MCEV is at 21.1, I already mentioned it and you see how it is moved from the end of last year. On page 29, you first view on our net new business value and the new business value APE ratios, which are up in all the areas of our activities. On average, it is up by two points from 12.3 to 14.3%, moving a period of but we have decided to focus rather on the margins and on the absolute growth of revenues. And please note that in France, where a new business margin is up by 1% where it is up by more than four points in international.

We will now go through the different levels of margins by country. You see on page 30 that in France the move is due probably to projects and mix improvement and also probably to financial market elements, it is for equation of volatility, I have already mentioned. But nevertheless, the improve in project mix is positive in the . In Brazil we have a margin at 30% with a product mix extending more than the different because of experience and financial markets elements were negative. Now, page 31 you have, figures for Italy and Spain. In Italy you have an impressive growth from 10 to 18% which is mainly explainable by the revolution of the project mix. Clearly the business of risk and unit-linked were up in this periods compared to last year, which brings of course much better margins probably for a new business. In Spain, you see that the growing, but firstly growing the business of the company is also a business which level much in this most impressive almost 50% of new business margin at both CNP Vida and CNP Barclays Vida which are the two subsidiaries we are prepare. And it is here also mainly the project mix which in both these improvement.

On page 32 you have the ROE of the company which stays at the same level as last year, I do not develop this slide. And the last section for year is risk management of the company where the solvency capital at 158%. We have an investment policy which remained very prudent and which was marked by no long-term investments in the infrastructure business in France and in other countries of Europe. And the exposure to peripheral sovereign bonds on which I will give you some details. First on page 34, you have the solvency capital requirements and the ratios. You see that the ratio is at 58%. If you except the unrealized gains stays at 113, which is the same level as six months ago. It is clear that this ratios are particularly under control by the company. I feel that there is nothing to add to it, the precaution of solvency is not an issue for any at any angle.

On page 35, we gave you nevertheless the results of the stress test made by the EIOPA concerned regarding you see there that the coverage ratio of the MCR remains at the level of 300% or slightly below 300%, under the different stress test situations, which we were dictated by . But not only you can see that the severing shot, which was desired by the AFR has very slight effect on our MCR coverage ratios. We have added initially, which was not conveyed to the which was made for our under control which is the evaluation of our SCR solvency ratio in each of these cases it is the SCR is covered more than 1.45% bur multiple notable in other cases in all the tests. On page 36, you have of what is our investment strategy which remains correctly are into then equity and equity funds. But we are making a shift away from equities towards that very which is low shift is probably not relevant to make a very dramatic shift.

And at a new rate it will never come at levels contemplated but by some of our competitors never contemplate with 3 or 5% where average will be somewhere runs 8% probably or at least seeing from today. The bonds represent 85% of our portfolio primarily core sovereigns and the yield of this portfolio is about 5 to 4.1%. And the property represents 2.3% of the portfolio 5%. The guidelines I of course first to reduce the equity weighting begins to capture emerging market growth to the external possible. And to capture assets which are exposed to inflation which is it is already it's slightly higher the two years of but we consider it as a good momentum to improve our production against inflation by infrastructure. And for with regards fixed income portfolio we have of course focused our investments in French and German government bonds and credit instruments when available and at correct level of risk.

On page 37, you have next track of figures we have given in our complete report which is posted on the web. It was one of the accident I don't remember which of the . But we have outstanding figures regarding our sovereign exposure, with gross exposure up, net exposure up at value at the end of 2010, at the end of 2011. You see the line regarding Greece, one explanation the net but of course the gross exposure up cost, our original cost was not increased. These around €1.8 billion, but the fair value which we used now is based on the 21% discount which was decided last week, which explains why the marked model used at the end of June 2011 is slightly higher, there was a mark-to-market which was used at the end of 2010, which was representing at €1.2 billion, the increases only due to the reevaluation of value of the portfolio for accounting reasons, due to the fact that we use now much modeled base on the assumptions given by the recent agreements made at and by the IRS proposals to which we will idea.

On page 38, we have some revenues from the methodology and we not come to that specifically and specific analysis by country. We will enhance regarding our Portuguese exposure, our Irish exposure you will see that they are relatively short-term. And breakdown of our Greek exposure to although the time you see that largest part of this exposure is concentrated on areas covered by the plan exposed last week by European governments. To finish this section, you have some information first on the fact that we have improved our coverage ratio by issuing subordinated debt. In two tranches in April, which was a compliment to four months issue which was made last year in September when we kept the market relatively significantly over the last 12 months. I think that it was a right moment to do it before the crises embraced all the Europe. The investments in GRT Gaz which is infrastructure, network of gas transportation in Europe was made by the CNP.

We have this stake of 25% in this network in France and in several other countries in Germany, in and so on. The solvency 2 ratio is still as already indicated more covered SCR measurement at 1.45 times. And the impairment of the Greek exposure is the last figure that already mentioned which is staying at 353 million which were absorbed by the policyholders' surplus reserve.

Now, I give back the floor to Gilles for conclusion of this presentation.

Gilles Benoist {BIO 1824462 <GO>}

Just a few words, I'll be brief and the last line because most of them are devoted to subsidiaries. And if you look at the an even the one that are describing our target in France. You will see that in each slide there are three or four similar targets. The strongest are very clear, more products with higher margins, less expenses of the subsidiaries, more synergies between subsidiaries. For example, between international subsidiaries or between these subsidiaries and . And all that with of course trying to cope with the evolution of the customers the type of products, that of course with the higher priority on risk products. So I just give you one two feelings on the market that slide number 41. If we look at the provisions of the French Federation I'm a little skeptical on the figures that their model of provision is given to my felling that the French market can be at more than 6% decrease at the end of the year.

I don't see no serious reasons for the improvement on the second half. And one of the reasons of this feeling is that the rate given to customers of tax exemption at Livret will come up to 2.25 in next week. And the global environment is not good. So the customers should be at anxious in the second half as they are. So I believe more in a stability in the present decrease then only anyway that move our strategy in France. And the only country where the increase could be better is Brazil. And I'm also skeptical on the only decline of 5% in Italy estimated by ANIA. Looking at a market that is still at mid year at 25% decrease. If we look to CNP that environment we estimate the global group declining revenue between as you can see in slide 42 from 4 to 8%. But of course rise in December than the first half meaning that in the mixed products in unit-linked and so on our target is to go on improving margins and technical reserves that makes the results of CNP.

As Antoine has mentioned, I have given very precise indication on the fact that I wanted not to use the authorization of our Board last year to have an increase by an average 3% of the operating cost. I want to a pure stability and only excepting increase outside France mainly in Brazil. Don't forget that Brazilian taxes are really higher, even higher than French taxes that's very punishing but that's the truth. And of course you can see we are happy to have the same reaction that we had historically since the IPO, meaning that as soon as we have profit, and excess profit. We beat the buffers and so the buffers are there when the crises is there, even when this crises as a name as sovereign debt. So, of course we stressed unit-linked with networks and newly find in all the slides on the commercial activities, the same times new generation of products and so on and so on. So, I go quickly on that, of course for example that it is clear that the savings bank in France as of now estimated that they've being too hard on giving the indications to their commercial force that they should sell banking products.

So, they have been conscious that on the second half, they have to compensate that and come back to because they be honest they also need the commissions that goes with the premiums. I never forget that for ENP distribution costs are variable cost if our network doesn't say, they don't get commissions. So and even, we trying even in term credits or we try to innovate. And we have clearly absorbed the reform that the government has imposed on the term credit or insurance without any damage. So, after that I'm just of course and as we have started to do mainly by creating and taking the power in the what you call MFPrévoyance we intend to develop with the

Bloomberg Transcript

new tools biometric risk products and even to extend our activity in long-term care. So, I'll just go rapidly on the different clients, just one remark on Caixa Seguros. We have launched at the beginning of this week the new Group as insurance with Tempo, it's now Rio. And since now the beginning of , we have launched our new partnership with Sul-America who will make a higher developments in automobile insurance and better margins in that field.

With UniCredit we have as I mentioned sooner, we have obtained from UniCredit a clear engagement in the Board, in the new business plans to come back to better figures in savings products even if they are very good up selling risk products and as you've seen in the margins. And of course trying to find the better mix between as far as savings products are concerned between euro and unit-linked. There is from the recent months the re-emerging part of the experience that are done in unit-linked but of course in modern unit-linked products not the kind of products we have a problem with Lehman two years ago. We are very happy of the partnership with Barclays. Very efficient with a very good mix product and very high margins exactly the kind of margins we dreamed of when we signed with Barclay. Even in Cyprus things are going good. Don't forget that Cyprus is living a drama with an incredible explosion of military ammunition sports that was caused, it represents €2.7 billion compared to a national product of Cyprus was only 17 and so they are living hard times. But to be clear we were not the insurer neither of the army, neither of the both, neither of the electricity plant that has being destroyed by this explosion.

And last slide, it's only a way for me because to stress the fact that of course anybody can find a logic or more or less logic reasons to try to decrease the value as compared to the embedded value of an insurance company, but I'm still surprised by the level of the difference between our share price in the market from the recent weeks from lets say 13 to €14 compared to an NPV of €21, that's the part of the difference I just mentioned to your colleagues in Paris this morning that if had a fortune that I deserve that will be something like Warren Buffet, I would like to buy CNP except the fact that it's been privatized. So that I couldn't do that, but good bargain just wait for the value one day to get the more near from the real value.

That's all, I hope you have well heard all Antoine and I have said so. I think now we will shift to the questions not yet. So we are at your disposal to answer your questions that could be now up to us. Thank you for having and being in any case with us for this presentation.

Questions And Answers

Operator

[Operator Instructions]. Our first question today comes from Micheal Huttner of JPMorgan. Please go ahead, sir

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you. Good afternoon. I hope you can hear me. Thanks a lot for this conference call and I have number of questions. The first one is could you give us again the reason for the decline in France, the risk margin? And what sort of numbers we should be thinking about the second half, should it be lower? My guess is if you were take go lower ? And the second is the pension, the things in longevity. Could you just give us the feel of the assumption again some feel for the second half? And the third is I guess upon you noticed the presentation I go that total sold on behalf of the cash apparent to your clients or their client is total of 2.3 billion. Now I wonder what the risk is if one day same things would happen or whatever but all have to reimburse the policyholders which would not make exactly great news. And then the last one, I don't actually mentioned it, if you have a figure for the net interest for the first half? Thank you.

A - Corporate Participant

Last question was was 1.9 in France and 4.7 for the Group. Okay.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you.

A - Corporate Participant

So coming back to risk products, under the control of Antoine. I think that what the impact of this slight increase in the mainly disability and capacity shouldn't have on the second half different impact because there is no reason of we have no taken in accounts the impact of the figures we've just received. And of course some of the measures were increase of tariffs, for example are already decided. And we are already discussing the way this supplementary cost will be offset by special legal provisions on this contracts accumulated in the past. But we are, we have already of the average increase of tariffs between 5 to 6%. And I must remind you that there are in fact two impacts in this difference of outflows for . First is the beginning of the impact of the decision of the French government to put the retirement age two years later. Okay. In that case there is a mechanism of progressive taken in accounts of this cost that we appear in providence contract from now two or three years. It's only it will be done year-after-year and this will be neutralized, I mean the global customers will be neutralized completely by the companies. On the second there is a specific increase in capacity and in validity exactly like we had four or six years ago in our customers of local authorities. Perhaps you remember the way we brutally modified the conditions to go back to gains and to margins on that fee some years ago. I mean the problem is not of that dimension, it's less important. Thus, so there is no reason for to mind on it any approbation on the second half. But there will be good news on the first half of 2012, because at that time, we will have taken back the provisions after discussions, increased the tariffs. And so it's exactly the same scenario that we have managed six years ago. And I'm not anxious at all on the capacity, because just remember for example that on the specific problem of coverage of as of six years ago the provision that was used necessary the first time was to my memory €60 million. And the impact the year after the decision was plus €35 million on the first year of impact. So, it's just a question of having the time to left the measures, but I don't see any case of any region of our correlation in the second half of the year.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay.

A - Corporate Participant

Do I answer...

Q - Michael Huttner {BIO 1556863 <GO>}

The second question was when the change in mortality functions in the pension segment, we get the feel for the second half.

A - Corporate Participant

No, these mortality assumptions are adjusted just once a year. But there any over effect on the second half of the year. It is once for a year at least.

Q - Michael Huttner {BIO 1556863 <GO>}

Brilliant. Thank you.

A - Corporate Participant

Okay. And the precise very last question from Michael was actually we give a little bit more color on the unit linked...

Yeah it's clear that -- the program with the Savings Bank on the second half is quite as ambitious on the first half. And the share of profitability between the customers is very clear now in France. The

FINAL

authority of the market as issue the regulation.

Explaining exactly in which way the customers should be rolled of the risk you get in fact against it's own bank because it has bonds of its own bank. And now that things have been clarified and we have no problem with that because we were already very clear upon on this type of unit linked supports.

And so as there is no specific problem on that type of product which represents a great part of the unit links made with the Savings Bank, it's clearly now in our premiums. Am I clear on last one?

And Micheal you must know that this policy of issuing unit link to investors -- was not going to -- to the development of problem life insurance products in the network, it was because they were needing long-term resources in the bank that we settled this policy. There is one thing on which I would insist which is that, now I am not contemplating such a restricted regulation as we were assuming six months ago.

The thing is that they will probably direct more of our customers to traditional insurance policies -- in balance sheet of the company and strong unit linked which -- We think and when we discuss with them, it is confirmed that the policy to have balance sheet producers sold to customers, we received a little bit compared to the first half of the year.

In fact they have discovered it a bit too hard in moving towards banking products and most of that on a moment where it is discussed and quite designed, that the liquidity ratios of Basel III should be less severe than the first -- that was disclosed.

Bloomberg Transcript

Q - Analyst

I understand. Thank you.

Operator

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

A - Corporate Participant

Hello Ralph, how are you?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yeah, hi guys. I'm okay, good afternoon. And actually I've got quite a number of questions, but I'm only going to ask three and then I'll -- there's going to be time for me to get back to you.

And there are a little bit technical, I mean first of all can I talk about the move to mark-to-model on the Greek ones? Can you just tell us if you had not on that and less the fair value in the interpretation mark-to-markets? That's obviously the alternative so then moving to mark-to-model, could you outline what the effect on the P&L solvency to shareholders' funds and the reserves were?

Then the second question is if you look at net insurance revenue and it is close that there was 1,549, split up in 1,197 from insurance business and 309 from basically revenues and shareholder funds et cetera. Now that last number 309 may also include reserve movements and here is now the question, does that number include any strengthening or release from reserves?

And finally number three if you look at slide 37 you say net exposure to sovereign debt overall is 5.9 billion. I take it that after tax and after policyholders' share, would you be able to disclose what that number is also after minorities? So, those are the three for now.

A - Corporate Participant

Okay. So, I'll try to -- to your three questions Ralph.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Thank you very much.

A - Corporate Participant

Okay. The first was the move to mark-to-market -- the impact of moving to mark-to-model, if we were mark-to-market as before, there will no impact on the revenues of the competitors on the total cost because these mark-to-market only impact -- so far okay. Then it will be a slight -- with improvement of the revenue because it could be considered the mark-to model is based on the discount of 21%.

The mark-to-market would be probably roughly rather around 45% discounts. As you can consider that it would move from mark-to-model to mark-to-market which reduced slightly that only 3% of the difference okay, because this is just a 3% -- of the establishment of these bonds which are attributable to shareholders' and all is going -- right. But it would be very minor I cannot evaluate it now by far, but it would be 10 or €30 million not more. So, we like it, right.

The second question was about -- reduction of provisions which we say is strengthening our provision. Globally, we have under 16 million provisions after tax in these income statements to the policy owners of -- before having reduce this policy order reserve by 353 to -- but the normal move regarding the weak -- to include the policyholders'....

In the one word, we have decided to -- profit at last year in order to increase the -- The third question was

Is it clear, Ralph? Ralph, do you hear us?

Hello Ralph. You leave?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Hello?

A - Corporate Participant

Ralph, did you hear the...

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes, this is clear. Sorry, I'm on the slight delay, which is amusing. So, that level is fine. Thank you very much indeed.

A - Corporate Participant

Okay. It needs to be clear as we know -- each other that the natural results would have been more than 100 million more. Okay?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes, absolutely.

A - Corporate Participant

FINAL

Bloomberg Transcript

Means that as we used to do. If you look at our policyholders -- it means quite something that was near from 2.9 plus more than a 100 less 353 for the Greek problem okay?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yeah, I understand, Makes sense.

A - Corporate Participant

Okay. And -- question

The last question was on the sovereign exposure net after policyholders...

Q - Ralph Hebgen {BIO 6297020 <GO>}

But there was say, sorry, there was another question on net insurance revenue and the reserve movement.

A - Corporate Participant

The net interest revenue was after we using provisions of around €50 million of that level -- reserve with...

Yes to explain Ralph, they are little more than 100, are in two parts, half of this provisions made deducted from the P&L. Okay, and the other part is deducted below. Okay?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Sorry. I'm confused what were you talking about, are we still talking about -- so I'm on a slight delay here which is annoying. My second question related to the net insurance revenue and the part of it which is not derived from insurance business that is 309 million in first half. And part of 309 may relate to a reserve movement, I was wondering whether there is a reserve strengthening or reserve release in that number.

A - Corporate Participant

Reserve strengthening, obviously all the surplus reserve overall was strengthened to the tune of 110 to 116, -- exact number at two levels, one level in the basement -- and one half roughly 50, 55 at the upper level in the -- net insurance... so the straight answer to your question is that 309 own funds contribution includes or incorporates or reflects the fact that asset level of 50, 55 reserve will strengthen.

Q - Ralph Hebgen {BIO 6297020 <GO>}

By how much 50 million did you say?

A - Corporate Participant

Yes

Q - Ralph Hebgen {BIO 6297020 <GO>}

And that was done in the first quarter or the second quarter?

A - Corporate Participant

Second.

Q - Ralph Hebgen {BIO 6297020 <GO>}

It was. Okay, good perfect. Thank you.

A - Corporate Participant

Question on exposure after minorities can we get back to you on that?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes absolutely.

A - Corporate Participant

Thanks

Q - Ralph Hebgen {BIO 6297020 <GO>}

Thank you very much.

Operator

Our next question today comes from of -- Société Générale. Please go ahead.

Q - Analyst

Yes hello, actually most questions are already answered. Just one more actually on the Greek debt, you said that were down 21% on the all the Greek debt and I assume that implies that you will let's say volunteer for the good cause but also does it means that you rolled on all -- bonds so which mature after 2020 and if yes why did you do so? Thank you.

A - Corporate Participant

Well, in fact we calculate the amount on the bonds maturing until 2020 and the rest of the bonds, it was a very legal -- around €130 million -- then it's really secondary. Okay

Q - Analyst

Okay. Thank you.

A - Corporate Participant

Reflecting 1% we have calculated on 90% or 95% of the global demand.

Q - Analyst

Okay. Thank you.

Operator

[Operator Instructions]. Our next question today comes again from Mr. Michael Savner of JP Morgan. Please go ahead sir.

Q - Analyst

Hi, thank you very much. I have two questions. One is your own -- I called it trading -- but that's because I work in the bank I think proprietary account -- how big is it, how much money is it. And given the very strong return we had in the first half partially due to -- So, we expect how much level it would be once the dividends are taken out? I am assuming dividends happen only once again.

And then the second is a little bit of a philosophical question and the IR team, Chairman and colleagues -- trying to explain the working, it becomes a bit theoretical but in one of the sets of presentation you show the growth in the net and I think in your accounts you talk about the net be roughly 5% of the gross, 2% tax, so 7% would be the pretax relationship.

And just to gain a -- would you feel would one stop during this conversions from gross to net and say no it's all a 100% or 90% for shareholders'. It's a bit too theoretical but just to get the feel for how extreme the crisis would have to be to kind of consider that? Thank you.

A - Corporate Participant

Okay, Micheal. To your first question roughly what we call -- somewhere around -- around 16, our new -- as the figures around €15.5 million, right?

Billion.

Billion euros. That is the amount of this portfolios and we do not -- still a split between equities, so nearly -- revenues coming from the second part of...

Q - Analyst

Okay.

A - Corporate Participant

...of the

But we have given in the past an idea of our treasury, it is always at 6 or €7 billion.

Q - Analyst

I understand, that gives me the feel. Thank you.

A - Corporate Participant

Regarding your second question -- vertical question it is already question -- The question is how -- to what extent can we imagine to attribute to -- the losses attain certain expense.

Then we are contemplating the future on the basis business as usual and not of crisis. There is a systemic risk that means if too many -- go bankrupt in Europe it will of course not be possible to attribute 90% or roughly 90% of the losses to the insurance.

But so far it comes slowly and we -- the possibility to attribute the remaining revenues, all the revenues of the insurance the part of the losses, which is attributable to that. Of course there were too many losses in one moment, it would come over the ability to absorb it by the portfolios -- will come to the net revenue of a company and at last to the capital of the company. This is a situation of the systemic crisis on that moment -- at Central Bank pleading for having loans.

Don't forget we had this kind of question this morning in Paris. And that's first as far as the buffers are concerned does not I mean the PPI is not the only one. The other one the name is called the unrealized gains. And of course most of these gains belong to also the policyholders and I remember that at the end of 2010, I said that if you look at the global buffers at that time the figures were 10 billion unrealized gains plus 2.9 PPI. Now if you look at the same figure it's little more than 8 billion unrealized gains and 2.7 and something PPI.

So, that's the first and to the other reaction is clear that as far as we want to make scenarios there is a moment where we go through limited crises, where we can face, we can grow because we have a tradition of always building buffers and reserves. But if we look into systemic then everyone will be suffering it only would be difference of quality and intensity of suffering.

But for example one can imagine that suddenly Greece is not the only one but there are two, three, four, five countries in Europe then it's a problem of everybody and the only consolation that we could have for us -- would be to say that our suffering is little less painful than the other one but everyone would be in case in purely systemic risks.

Q - Analyst

I understand. Thank you. Thank you very much.

Operator

As there are no further questions in the queue. That will conclude our Q&A session today. And I would like to turn the call back to Mr. Benoist for any additional or closing remarks.

A - Gilles Benoist {BIO 1824462 <GO>}

So I just -- that if they are for example -- then new questions exited what they can ask as soon as Monday. And I will be very pleased to have any other questions and just thank you for having being with us for the conference.

Operator

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

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.