

Q2 2018 Earnings Call

Company Participants

- Antoine Lissowski, Deputy Chief Executive Officer, Finance (Chief Financial Officer)
- Frédéric Lavenir, Chief Executive Officer & Director
- Marie Grison, Group Chief Risk Officer
- Thomas Béhar, Group Financial Performance Director

Other Participants

- David Barma, Analyst
- Nick Holmes, Analyst
- Rahul A. Parekh, Analyst
- Ralph Hebgen, Analyst
- Rötger Franz, Analyst

MANAGEMENT DISCUSSION SECTION

Frédéric Lavenir

Good morning. Frédéric Lavenir speaking. Thank you for being here for our First Half Results Presentation. Well, you got our press release this morning, so you know the main figures, and I think you can follow my presentation on the slideshow you have on the screen. Yes.

So on page 5, for a short introduction about the main figures and main performance. I think this first half is a good period for our company. Our financial results are improving with a 2.3% growth of our net profit, almost 8% [Technical Difficulty] (00:01:00-00:01:16). Is it okay? Yes. Is it working? Yeah, I can speak. So, I'm sorry. We had a technical problem, but I think it's solved now.

Well, I was speaking about the growth of our EBIT by almost 8%, and quite good growth of our operating free cash flow by almost 30% for this first semester. So, those metrics are based on very sound business momentum. We can illustrate through a few figures which are on the top of this page 5. The business mix is continuing to improve. The unit-linked contracts represent now 42% of our savings and pensions premiums, which is far from our situation a few years ago and continuing to improve.

Our combined ratio in the risk and protection business is quite good with 81%. And consequence of the improvement of the business mix and good level of the combined ratio, the APE margin is growing to 25.3% (sic) [24.3%] (00:02:47), which is, I think, the best figure we ever had. So, it's a sound basis for good financial metrics and it allows us to

confirm our objective of an at least 5% organic growth in the EBIT in 2018. We already announced as an objective. This is a good dynamic.

And, now, page 6 [Technical Difficulty] (00:03:17-00:03:47).

Operator

Ladies and gentlemen, sorry for this technical issue. We will invite you to please hold the line. We will be right back. Thank you.

[Technical Difficulty] (00:03:56-00:08:33).

Ladies and gentlemen, we are very sorry for this technical issue. The conference will resume. Gentlemen, please go ahead.

Frédéric Lavenir

Okay. So, I hope there is still somebody on the line. So, if there is somebody, I start again and I'm really sorry for this technical problem, but I think it's now really solved, not only temporarily, and we will have no more incidents during the presentation.

So, I was - page 6 - I went to page 6, saying that this strong earnings momentum was - had been hit by the currency effect. You can see it on page 6, with a very good evolution of the net insurance revenue, a positive change in revenues from the own-funds portfolio, good control and monitoring of the administrative costs, and a very strong currency effect. Despite this currency effect, so I repeat, our EBIT grew by almost 8%, which is quite good figure.

And, now, we will, as usually, go to detailed presentation of the results and performance geography by geography and I will leave Antoine doing that starting with France.

Antoine Lissowski {BIO 4384399 <GO>}

Hello. We are now on page 8 of the presentation to start with France. We've an improvement in APE margins and product mix. As you see, premium income was slightly down this half year, with growth in unit-linked business decreasing traditional savings and pension business, and specifically technical decrease in risk and protection which is due to another classification of some of our activities. All in all, APE margin of business in France was up at 24.7% during this period.

If we now come to page 9, you observe a very strong revenue growth, which is due to better business mix of our sales, higher unit-linked technical reserves, also an improved loss ratios in the employee benefits segment, which is a result of constant negotiation and improvement of our relations with our partners in this business and good sales of term creditor insurance in spite of new regulation, which was not to repeat (00:11:34) in favor of bank insurance, but nevertheless, we passed the period with a growth of term creditor

insurance revenues. We have also posted higher revenues from our own-fund portfolios. This all results in an increase of 8.8% in total revenue in France.

If we come now to page 10, you see that administrative costs were slightly higher than last year. In fact, if we discard reclassification of some of our cost which did not figure in this category before, we are, in fact, exactly at the same level as last year and the cost/income ratio is still decreasing compared to last year and to last years in general. We are in constant process of decreasing this cost-to-income ratio. Now, you see also that EBIT growth due to two aforementioned evolutions is growing very quickly by 11% from last year and is above €1 billion in the first half of 2018.

Now, let's come to Latin American business on page 11. We have a very sharp increase of premium income. The like-for-like figures shows an increase of 37.2% in local currency. They are led mainly by very strong growth in pensions and term creditor insurance, you see for instance, but pensions is growing by 56% here.

We have APE margin at 27.5%, slight decrease in terms of margin due to the proportion of pension business which is higher than before in our business mix. And the value of new business in fact in like-for-like figures would be slightly higher than last year's, but it was, of course, reduced by the 20% decrease of value of real meantime (00:14:07). Let's notice the fact that Caixa Seguradora market share is now above 10%, 10.2%, up from 7.8% last year. Then, a very good economic and commercial performance.

Among the different satisfactions we have, you see on page 12 the performance of our digital subsidiary, Youse, which accounted BRL 400 million (00:14:41) written premium after two years and has now 150,000 active policies in the period. Then, it is constant development of this subsidiary since the beginning in May 2016.

On page 13, you have a view on the revenues in Brazil. You see that the like-for-like figures, which incorporates the - which do not incorporate the decrease of real, are up by 9.2%, with a very strong growth of insurance revenues, meaning personal risk and saving pension net insurance revenue and a slight decrease of our revenues from own-funds, which is attributable to a decrease of interest rates in Brazil.

For administrative costs, they were slightly above last year's. We have exposed IT investments over the period and it results all in all in an EBIT which change like-for-like is plus 8.5% at €446 million, plus effect of like-for-like of a decrease of the real.

If we come now to page 14, we have activities in Europe with a very, very important increase in premium income, plus 41.3%. And you see there that this increase is attributable to the three parts of our activities there. We have an increase - the main part in terms of premium income comes from sales in unit-linked which grew by 44%. We have also an increase with traditional savings and pension business by 74% and a constant growth in personal risk and protection activity which is due to our partnership with Santander.

These results are compounded by the increase of Santander as already mentioned and also by the new partnership agreement with UniCredit which helped together to increase the unit-linked sales and to increase better quality pension traditional – savings in pension traditional businesses and better technical basis.

All together, that results in an increase new business value which stays now at €36 million and a slight decrease of net APE margin decrease being, of course, attributable to the fact that increase in premium income is made of savings businesses which are of less interest in terms of APE margin than risk and protection.

If you say on page 15, revenues of our company in Europe or France, these revenues decreased slightly in savings and pension net insurance revenue. This decrease is attributable to the new agreements which we have with UniCredit. You know that we disclosed the fact that now we have an agreement which incorporates an extra commission during three first years in order to pay the new agreement and to replace an upfront payment which was made before in the former agreement.

Please note there also that personal risk and protection net insurance revenue increased over the period. The administrative costs are relatively stable if we accept the natural growth of Santander and EBIT is, of course, damaged little by – dented little by the new agreement with UniCredit and the payment of an extra commission this half year.

If we come now to the further elements on the financial performance on page 17, starting by review of EBIT at the end of the half year, €1.5 billion roughly, with major part of EBIT being represented by personal risk and protection business. We have also financial costs which were slightly below last year, and income tax expenses which grew a little bit, but last year was marked by some economies in taxation in Brazil, the equity accounted and non-controlling interest which were marked by negative currency effects in Brazil, and also by new equity accounted interest regarding GRTgaz, which is participation we made in a distribution company in France. The fair value adjustments and net gains and losses, as well as non-recurring items are roughly at the same level as last year, and all that results in an attributable net profit of €672 million.

If you look now on page 18 at net operating free cash flow, it amounts to €809 million coming from last year – and €624 million last year. This is sum of different elements. The operating revenue is at €720 million, up by 8.5%, roughly growth of EBIT. The release of required capital amounted to €283 million, up to last year's – release was lower last year for different reasons linked to assumptions in biometric and behavioral measurements. And the required capital for new business is lower than last year. It is linked to the fact that then VNB rise was very sharp, and in itself the VNB is financing the growth of the capital. But all results in a net operating cash flow – free cash flow at €809 million, which is much better than last year.

If we come now to balance sheet view of our Solvency II coverage ratio, it stays now at 198%, which is 8% above last – at the end of last year. There are different reasons to this increase. One of the reasons is that we now take into account an issue of Tier 1 subordinated note which was made in June. It represents 4% out of this 198%. As we think

that we will make redemption of an existing Tier 1 by the end of the year, you can consider that this 4% will disappear in a way by the end of the year and that increase without this element is about 4% increase due to revenues made of the company. You see that capital is improving whereas SCR remains stable to last year's SCR.

We also want on page 20 to highlight the robust position recognized by financial rating agencies of CNP itself. We have same rating as last year's from Standard & Poor's, A with stable outlook and it was confirmed in April 2018. And as you know, we have a first-time rating granted by Moody's, which is A1 with stable outlook. And the two agencies based their profile opinion of solvency of CNP on different elements which were reminded in this slide.

We are also - one further and last for me - element in this presentation on page 21 which is very important, with regard to our commitment in term of environmental investment. You see there different visions of grades we get from different agencies on our environmental investments, all that to say that we attribute very great and growing importance in this criteria when we choose our investment. We consider the role of the company which balance sheet is above €400 billion is clearly to impose an evolution of a business model of companies in which we invest, either on equities and in bonds, and we follow very specifically the views by the different rating agencies on that respect.

Frédéric Lavenir

A short conclusion, Frédéric Lavenir speaking again, on page 22. To underline, that's - our strategy is continuing to create value on a long-term basis. You notice that our balance sheet is changing. Our technical reserves are slowly, but constantly changing in structure with more unit-linked and less traditional euro, technical reserves which means more profitable savings business and also less capital-consuming balance sheet.

You'll also notice that our revenue structure is changing with now a preeminence of risk and protection business, which leads to a more profitable, but also more diversified and more resilient business mix. And last but not least, you'll notice that we continue to improve our operational efficiency through a very positive evolution of our cost/income ratio which is continuing to improve year after year. Altogether that means a much better margin rate, APE margin which reaches now very, very good level in Europe as well as in Southern America. And at the end, really value-creating strategy, page 22, with MCEV per share which grew by almost 75% in the past six years.

And I want to insist on another figure which is on page 22, which is as important as the financial figures, which is the teqCO_2 per euro invested, which is now 0.28 teqCO_2 by thousands of euro invested - sorry, 28 with an objective of 0.25%. We think at CNP that our long-term growth is linked to the success of pro-climate strategy because we are on the long term for our corporate strategy and it's based on the long-term vision on the environment in which we are working and everybody is committed in this strategy. And I see around me here people who are really committed in that. So, I think it's another very important point.

I wanted to end our presentation with that point. And we are now with Antoine, of course, at your disposal, available for your questions, comments about those figures. Thank you very much.

Q&A

Operator

Thank you. First question is from David Barma from Exane. Please go ahead.

Q - David Barma {BIO 21843622 <GO>}

Yes. Good morning. Thank you for taking my questions. My first one will be on slide 38 of your presentation, the conversion of the new business into future profits. Thank you for that slide. And I was wondering if you'd be able to give us some color on how the €720 million number changed compared to last year or the year before and how the development of the curve evolved in order to understand the impact of your improvements in the business mix.

My second question would be on slide 26 with the breakdown of the net new money for French savings, and I was wondering how the slide will look like (00:30:58) protection and especially the evolution of surrenders and death benefit.

And my last one would be on Brazil and your overall development strategy, if the distribution agreements in Brazil is renewed under terms of last year's MOU, I was wondering what we can expect in terms of strategy to make up for the loss of earnings in that area. It will be through a greater focus on French protection or trying to find alternatives in LatAm or developments elsewhere in Europe? Thank you.

A - Frédéric Lavenir

Sorry. I didn't hear your fourth question because - well - could you repeat it, please?

Q - David Barma {BIO 21843622 <GO>}

Yeah, sorry. The last one was on Brazil and if the distribution agreement is renewed on the terms of the MOU of last year, what we can expect - how we can expect your make up for the loss of earnings of the parts of the business which is not included in the MOU and if we can expect that to come through more focus on French protection for example or trying to find alternatives in Brazil or LatAm or developments elsewhere in Europe?

A - Frédéric Lavenir

Okay. Sorry. No, I heard the question. I thought you had a fourth question. But I'll answer the last one myself and I'll give the word to Antoine for your second question and to our CFO, Thomas Béhar, for the first question.

So, the last question is about our strategy in Brazil. So, I can confirm we are continuing to negotiate with our Brazilian friends. As you know, we had change in the governance of

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our partner Caixa in last April. So, it led to a few changes in the management, et cetera, but we are now again in a very, very positive move towards agreement.

So, I don't have anything to add to what we said a few weeks or month ago. It is taking some times. And of course, as we announced the MOU last September, we expected quicker end of the negotiation, but it's going very well in the - exactly the same - in the same frame. So, what we issued last September continue to be exactly the framework in which we are working. I cannot give any limit, but we really hope to go quick now and it's going very well.

About the change in our strategy, as you can see in our figures in Brazil, business is growing very, very well, better than ever. And we hope it will continue to grow better than ever. We expect no significant change in our business mix, except, of course, depending on the way the excluded products as you remained - and it's right, there are few products which are excluded of the scope we are negotiating now.

So, it's not possible to know exactly now what will happen with those new products after signing or closing of our new deal, but we hope to continue to work on some of those products. What I can say is that most profitable products in Brazil now are in the scope of the future exclusivity, which is in negotiation now. So, we will continue to develop. As you know, we have projects in Brazil and outside Brazil, including Colombia and continue to work in Argentina. So, our development strategy in Southern America in the whole scope of business has no reason to change in the coming years.

I hope I answered your question. So, I give the word to Antoine for your second question.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, the second question was related to page 26 as far as I remember, regarding the savings and pensions net new money in France. Few things to underline there. First, in terms of percentage of mathematical reserves, the premium income during the period was slightly lower than last year's, 6.6% rather than 6.8%.

But simultaneously, the surrenders decreased, they represented 4.5% where last year where we're at 5.5%. The death benefit and other withdrawals are roughly at the same level. All that results in a net new money, which is now negative by 1.4% in term of mathematical reserves to 2.4% last year. What is important there is to see that as last year, we have an important growth in unit-linked and the growth was higher than last year. And that traditional products are constantly negative, which results in a negative net new money by €2 billion, where it was negative last year by €3.3 billion.

Let me just add one thing which is that when we compare to the rest of the French market, we observe that CNP is probably the company which traditional production is still negative, whereas the other companies on average or at least the market on average has an increase in traditional products this year. That means what? That means we were the company which had a policy of maintaining negative production of traditional products.

We continue to consider that these products are not to be promoted today and whereas the other competitors started to develop sales into additional products. But this is the main difference and it must be also said that surrender rate which we have at CNP decreased more than the surrender rates of other companies. I'm referring to statistics which were published by the FFA last week, but for this page.

And the third question you have was linked to new slide published on page 38, and Thomas will give you some clarity on that.

A - Thomas Béhar

Yes. So, you ask how the €720 million might have evolved comparing to that numbers last year that we have not yet disclosed. First, it comes from the evolution of the new business value which is up to €415 million coming from €391 million, so there is a difference about €24 million. This €24 million comes from operational improvement. We have an operational improvement in the three different areas: France, Latin America and Europe, of €35 million.

You have a decrease, a negative effect of economic change of €6 million, a positive effect in France, and a negative effect in Brazil due to change there and light restatement of €5 million, explaining the €24 million of the evolution of the new business value.

Going now to the end of the curve, so where the profit might emerge in the future, the €720 million. So, part of it is explained by the evolution of the new business value. Last year, the number would have been €674 million. And it comes almost from the saving and pension activities. It's quite the same curves from last year for the risk and protection activities and all the evolutions come from the saving and pensions part of the activities for the group, and the explanation comes mostly from the evolution of the mix from one year to the other year.

Q - David Barma {BIO 21843622 <GO>}

Great. Thank you. I just had one follow-up, sorry, on the second point, which was on the slide 26. I was actually wondering how the slide will look like for protect - for French protection and if we've seen any big changes in the surrender rates mostly and the other withdrawals from - compared to last year in protection, in mortgage insurance, but not only the rest of the portfolio as well.

A - Frédéric Lavenir

I suppose that, in fact, you're referring to new regulation in French protection business and the impact of this new regulation to our business. Okay. If it's the case, so far, we have not noticed very, very particular movements from our customers linked to this new regulation which allows more surrenders than before. But it is too early to pronounce definitely on the success of this new regulation. We are very cautious. So far, we have not noticed very much. We will observe at the end of the year whether the new regulation has an impact on the production and on the outstanding contracts. But so far, there is no specific effect, which (00:41:57).

Q - David Barma {BIO 21843622 <GO>}

Okay. Thank you.

A - Frédéric Lavenir

Well, the provisions which were made will remain under scrutiny. We in fact do not know if we will maintain, we will need to use these provisions or not.

Q - David Barma {BIO 21843622 <GO>}

Yeah. Thank you.

Operator

Our next question is from Nick Holmes from Société Générale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thank you very much. I had a couple of questions. The first is on the dividend policy. I wondered if you could give us an update in particular because your cash generation has been so strong. Does this give you more confidence that you can raise the dividend?

And the second question sort of on the same thing, looking at unit-linked growth, I mean, this has been really very good. But how sustainable is it? And if there is a market correction, do you think you can carry on growing unit-linked? Thank you very much.

A - Frédéric Lavenir

I will answer the second question and will leave Antoine answering the first one. About unit-linked, we always said that – well, in French, we say the unit-linked figures will not go until the sky. Of course, it is something which is going to slow down, but you have to know that we are very different from the market we were. We had a very, very low unit-linked activity in the past.

So, we are under the market and we are still under the market. So, we have improvement room for that. Then, our improvement in the structure of our activity in the saving – in saving activity is based on the development of our patrimonial (00:44:11) activity which was zero three years ago. So on this side, we have still improvement areas.

So, it is not only the market, but it's also our position in the market which explains the growth and the change. So, yes, it will not go at this pace for tens of years, but we came from very low. And what we are starting to do is going to continue our hope.

Then, for the first question, perhaps Antoine you could take the word.

A - Antoine Lissowski {BIO 4384399 <GO>}

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Okay. Regarding the dividend policy, just a word, Nick, of course, operating cash flow increase is pleasant for us, but there is absolutely no indexation of our dividend policy on any aggregate which is - which could be EBIT or net revenue and so and so, and there's no indexation on the operating free cash flow. It's just a sign that the company is in good shape and that we can face different developments in the future. But the dividend policy will be decided for our 2018 year by the board at the beginning of 2019, and it is not time to mention it.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you very much for that. Just as a very quick follow-up, when you review the dividend at the board level, could you remind us again what are the main criteria to assess the dividend?

A - Frédéric Lavenir

No. Frédéric Lavenir speaking. I'm sorry, today, you cannot expect from me a new dividend policy. So, it's, of course, something which will be discussed every year with our board and with our shareholders, but I'm really sorry, but today, we'll not change anything to our traditional disclosure about the dividend policy which is not to be changed or more commented today. I'm sorry.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. No problem. That's very helpful. Thank you very much.

Operator

Thank you. Our next question is from Rahul Parekh from JPMorgan. Please go ahead.

Q - Rahul A. Parekh {BIO 18787842 <GO>}

Hi. I have two questions, please. The first question is on solvency. You said that - I didn't get you properly when you said that 4% from the solvency is going to disappear by December. I didn't actually - the audio wasn't correct, so could you explain that again? And the second question is what is the excess capital, given your solvency coverage ratio that you have set aside for deals? Thank you.

A - Frédéric Lavenir

Well, Antoine?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, regarding the Solvency II, I just mentioned in my presentation the fact that 198% now incorporates the result of an issue of Tier 1 in June, which represents roughly 4%. And that by the end of 2018, we will have to reimburse another Tier 1 which, by and large, will also represent between 3% and 4% of Solvency II ratio. That means that by the end of a year, technically, you should not see 198% figure, but rather a figure lower by 4%, just that.

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A - Thomas Béhar

And about your first question, as you noticed, we didn't conclude our discussions with our (00:48:35) in France. At the time when we when we concluded and I hope it would be as soon as possible we will disclose the financing aspect of that. So, you will have all the information, all necessary information with necessary comments in due time.

Q - Rahul A. Parekh {BIO 18787842 <GO>}

Okay. Not an issue. Thank you.

Operator

Thank you. Our next question is from Rötger Franz from Société Générale. Please go ahead.

Q - Rötger Franz

Yes. Hello. Thanks for taking my question. Just one question regarding your capital structure. I mean, in the past you have been rather reluctant to commit to new RTI issues and indicated that you prefer to increase Tier 2 capital. Now you've come to the market with an RTI and where do we actually see your optimal capital structure going forward and how do you want to get there? Thank you.

A - Frédéric Lavenir

Well, meantime our Restricted Tier 1 format appeared and we considered that it was a good opportunity to increase our Tier 1 capital, which will allow us next time to have more choice between increasing Tier 1 or again increasing Tier 2 capital. But we didn't consider that before the terms of Restricted Tier 1 allowed us to have a relatively non-expensive source of capital which was the case. I'll remind you that our issue was made at very low rate, and it was very positive for the shareholders and the balance sheet.

Operator

Okay. We have a next question from Ralph Hebgen from KBW. Please go ahead.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yeah. Hi, guys. It's Ralph Hebgen from KBW. I've got a few things I'd like to ask, but many of them are just confirmation of numbers to the extent that you are happy to disclose them, so it shall be quick. So, the first longer one is just looking at the net operating cash of €809 million, you have analysis on the slide, of course, reveals that this is mostly driven by higher MCEV profits and then also a lower reduction - sorry, a higher reduction in required capital for new business. Just a question, how sustainable do you think these two dynamics are in the future and what drove specifically the reduction required capital for new business? So, that's question number one.

The second question relates to your risk and protection business. Just on the combined ratio there, if you look at the development of combined ratio in the past interims, there is

some volatility there. If you just look at the numbers, it's 85%, then 82%, 81%, then 84%, back to 81%. What drives this volatility and do you think that volatility will be a factor of your risk and protection business in the future?

And then, to simple numbers questions. Can you disclose how much the contribution to EBIT was from your explicit expense savings program, the OpEx program that you announced a few years ago? And second, how much is now the capital held in Brazil that is not included in the Solvency II ratio? Thank you very much.

A - Antoine Lissowski {BIO 4384399 <GO>}

Regarding the first question about the sustainability of the structure of operating cash flow, it is a measurement which relies mainly on MCEV different assumptions. And if we take apart these assumptions, our policy is clearly to have more intensive capital allocation and to improve the substantial cash flow to capital. Of course, with a different over assumption regarding the environment move negatively, it would not be positive. But on the core of that, you must have in mind that these figures realize not only an improvement of environment, but also a policy of a very, I would say, prudent capital management in terms of MCEV.

Regarding combined ratio, the volatility of it is clearly partly made of the Brazilian volatility, the volatility of the real, okay. If you look at the like-for-like figures, in fact improvement is very constant. And what we are doing is to try to improve this combined ratio in the different areas of our business in France, of course, without – naturally without any change effect, in Brazil as well with specific elements regarding expenses in IT system in Brazil, which we have to renew. It was one of the conclusions of new CEO of our Brazilian subsidiary. He has to – overall different IT system in each company, and of course, it will be also the case in different other European activities.

A - Frédéric Lavenir

On this last point, and you have to take into account the weight of our Brazilian activity in the risk and personal – personal risk business. It's very heavy. So, it's naturally sensible to the currency effects and it explains a part of this volatility you noticed.

And on the first point, just to remind what I said in the conclusion of our presentation, the change in the structure of our balance sheet, of our technical reserves, and the change in the structure of our revenue is focused on less capital consuming business mix.

On the operational efficiency, we announced €60 million objective at the beginning of our program. So, we will reach this objective and hope a little better than this objective. And those €60 million are the main explanation of our operational performance. You have, of course, to take into account the fact that we invest in new business or in regulatory needs.

And for those reasons, you cannot have a direct link between the realization of our program and the evolution of our cost/income ratio, but you cannot use it since two years

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starting this program. Our cost/ income ratio is going down much quicker than before, so it's an effect of this plan, of this program, which is going very well.

The last point about the excess capital in Brazil, if I understood your question, perhaps Marie Grison, our Chief Risk Officer will give the answer.

A - Marie Grison {BIO 15895562 <GO>}

So, on Solvency II group ratio is around €2 billion corresponding to the excess of Brazilian capital over the contributed SCR which is not (00:57:23) taken into account.

Q - Ralph Hebgen {BIO 6297020 <GO>}

That's great. Thank you very much, indeed.

Operator

Thank you. We have no other questions.

A - Frédéric Lavenir

So, we have a few written questions from Thomas Fossard, HSBC. The first one relates to the PPE at 5.5% of the French provisions, how should we expect this figure to trend going forward, (00:58:01) have started to stabilize and may be gradually increasing?

A - Thomas Béhar

Antoine is specialist for that question.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, what we do is to compare our situation with our different competitors in France. And when you look protection of balance sheet in terms of different elements, unrealized gains in equity, unrealized gains in bonds, PPE and other aspects, we are roughly at the same level as other companies.

As we are in a period of very low interest rates (00:58:44), we do not consider that it is a moment to reduce impulse (00:58:52) to protect the balance sheet. And it is clearly not actual to reduce the speed of increasing the PPE in the half year.

A - Frédéric Lavenir

Two other questions from Thomas. Any update on the current discussion regarding the renewal of the agreement in Brazil and clarification regarding the timing for reaching an agreement? And if not already made, could Frédéric comment on his personal decision to leave the group?

On the first question, I think we already answered. We are continuing the discussion. They are very positive. And so, it's going very well, longer than expected for many reasons,

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mainly governance reasons in Brazil. And we are still in the framework we disclosed in last September. So it's a little longer than expected, but going the right way as far as I know today. So, that's exactly what I said and I think there is nothing else to say. I don't have any other information to give today. And as soon as we have new information, we will, of course, disclose it.

And on the first question, thank you, Thomas, for the question. Well, we disclosed a press release two weeks ago. And I said I was leaving, decided to leave my position for personal reasons, so I can only repeat that it is a personal decision, for personal reasons. And by personal means that it is linked to my personal, I cannot give any other comments because there is nothing else to say than a personal decision. Sorry. But there is nothing else. It's very simple.

So we have three questions from Benoît Valleaux, Oddo BHF. First one is what has been the current investment yield in the first half of 2018? And what has been your reinvestment yield over the semester?

Antoine?

A - Antoine Lissowski {BIO 4384399 <GO>}

You find it on page 42 of the presentation. On European portfolio, the average reinvestment rate was 1.1% in the first half of 2018. Okay. And you see the split of different bond investments we had over time. And if you look on the page before, 41, you see that the average return on fixed rate investments in 2018 first half year was 2.81% to be compared with 2.96% last year.

A - Frédéric Lavenir

Another question from Benoît regarding the reinsurance result in the P&L, and what explains the variation of around €80 million for the first half of this year compared to the first half of 2017?

Thomas?

A - Thomas Béhar

Let us go the third question and we have time to review the first and second one. Which is the third question?

A - Frédéric Lavenir

(01:03:08).

A - Thomas Béhar

Okay. Well, Benoît, we'll give you answer on the website which is very precise and nobody around the table has it in mind.

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Operator

Okay. Thank you. We have a following question from Ralph Hebgen from KBW. Please go ahead.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Again, just one follow-up on the combined ratio explanation. You said the volatility, such as it is, is driven to some extent at least by Brazil, and it would be a forex effect there. I'm unsure how to interpret this, because it's a ratio and it's a P&L ratio, so I would have thought that any forex effect will affect the numerator and the denominator equally, and, therefore, be largely neutral on the combined ratio. So, any explanation on that would be - yeah, go on.

A - Antoine Lissowski {BIO 4384399 <GO>}

Ralph, when you have a ratio, there is one figure which is higher than the other, and even if two figures are affected by the same change in terms of currency, the ratio changes itself.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. And one other question is...

A - Thomas Béhar

Do you understand? It's very simple, but you have just to think that when you have two different ratios, if the way to one of them is changing, then the average ratio is changing.

Q - Ralph Hebgen {BIO 6297020 <GO>}

The average - okay, fine. Fair enough. Okay. And one last one, this perhaps is more open-ended. There are ongoing negotiations it seems on the shareholder pact in France. Are there any updates which you can share with us on developments there?

A - Frédéric Lavenir

No, I'm sorry. So, about that point, the only people you can ask a question are our shareholders. So, if you want something very simple and which is a fact, we disclosed a press release on Friday evening with a few words from Eric Lombard, so you can read it. And if you need comments or explanations, I think he is the best person to be asked. But I do not comment either press rumors or the expression of other people who are, of course, able to comment their own words. So, I'm sorry, but I do not have any information and I cannot comment those rumors or the words of Eric Lombard. I'm sorry.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. That's great. Both things are perfectly clear. Thank you very much.

A - Frédéric Lavenir

Regarding Benoît's question, about the reinsurance result, we will publish on our website a short answer to this question. But we are happy to answer any other question, if there is someone on the line or by the Q&A on the chat.

Operator

We have no other questions over the phone. Thank you.

A - Frédéric Lavenir

So, thank you very much to everybody. And so, we are - we have a question pending, we will answer. Thank you for your interest on our company, for your attention and have a nice summer. Goodbye.

Operator

Thank you. Ladies and gentlemen, this concludes our web conference for today. Thank you all for your participation. We sincerely apologize for the technical issues that occurred during the beginning of the call. You may now disconnect. Thank you.

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