

First-half 2007 Results Presentation

Q&A

From the floor

You've talked about long-term care being a growth driver for CNP Assurances. We've also heard that a fifth pillar of the Social Security system may be created in France. Are these complementary or contradictory developments?

Are you currently looking to buy risk? And, lastly, how do you value CDOs?

Gilles Benoist

Concerning long-term care, the two developments that you mention are complementary. Creating a fifth pillar of the Social Security system would only be a partial solution, as the cost of long-term care is extremely high. Caring for someone who is truly dependent, such as an Alzheimer's sufferer, costs several thousands of euros each month. Insurers have made it clear to the authorities that they intend to supplement the social security effort. The government currently pays out €4 billion, which is not enough.

Antoine Lissowski

As for CDO pricing, we use the quotes provided by the structurer.

Olivier Mareuse – Investment Director

We're mainly positioned in very high quality AA to AAA tranches, which have similarly high quality capital guarantees.

Antoine Lissowski

In answer to your question about risk, we'll buy once the repricing process has ended.

Gilles Benoist

We're long-term players. If we see that some shares are trading at very low prices, we'll seize the opportunity to buy.

From the floor

Could you give us more details on the change in net new money? Is this a structural trend driven by factors such as demographic changes?

Also, if you were publishing your results for the period to 31 August, how would you go about reducing earnings volatility?

Antoine Lissowski

We don't publish results for the period to 31 August!

Gérard Ménéroud

The flow of money remained comfortably positive, although admittedly, net new money was down on last year. We're seeing the effects of the high basis of comparison created by last year's major transfers from PEL home-savings accounts. That said, you've raised a valid point. The increase in claims and benefits is due to the strong sales growth in prior periods.

Gilles Benoist

It's a market-wide phenomenon that's affecting all life insurers.

Gérard Ménéroud

Changes in new money are very uneven across the industry, ranging from an increase of 15% to a 40% fall.

From the floor

What are the effects of the higher APE in France? When do you expect the erosion of in-force business in Italy to end? What is causing margins to shrink?

Gilles Benoist

The first thing that high net worth customers do is to try to negotiate a reduction in the front-end load. As a result, when there's a shift in product mix towards high-end products, this automatically leads to lower margins. Over the long-term, we make up for that by increasing the annual loading.

In Italy, life insurance carries no tax benefits. That's why portfolio turnover is so high.

Xavier Larnaudie-Eiffel

At the current rate of policy terminations on the products concerned, we should soon see the end of the in-force business decline.

Antoine Lissowski

In answer to your second question, premium income and APE growth rates can differ, as the portion of regular premiums included in the APE is not necessarily the same as that included in reported premium income.

Adding to what Gilles Benoist said about margins, it's important to mention the effect of Fourgous transfers.

From the floor

Can you provide details on the five-year plan that you'll be preparing at the end of the year? Could you explain how you would determine corporate bond impairments in a context of rapidly widening spreads? Would you base your calculations on cash flow or market values?

Gilles Benoist

In answer to your first question, shareholders will naturally be the first to know the details on the five-year plan. That said, I can assure you that we're not planning to change the CNP Assurances business model, but rather to come up with ways to improve profitability, which will be a core strategic focus in the years ahead. You'll find out more at the beginning of next year.

Antoine Lissowski

We apply the shadow accounting technique for most of our corporate bonds. Most of the proprietary bond portfolios are classified as available-for-sale and not as trading securities. Corporate bonds are different from the CDOs I mentioned earlier because we can obtain prices from official sources. We use those prices unless there is a compelling reason not to.

Olivier Mareuse

We only test for impairment when there is a risk of default, and that risk was minimal as of 30 June.

From the floor

Have you identified competing savings products that could explain the fall in new money, such as guaranteed mutual funds? Doesn't it harm your business to have the Savings Banks distribute this type of product?

Gilles Benoist

We're fortunate to have more than 300 front-line financial advisors. According to them, in August some of our customers preferred to invest their savings in time-deposit accounts. It's true that the large banking networks and other financial institutions have been offering a wealth of such products for several months.

Gérard Ménéroud

We haven't seen any major competition from guaranteed mutual funds. Our main competitor is still cash: customers follow the advice of the financial press and currently prefer to keep their savings in easy-access accounts. Added to this, the Livret A passbook savings account rate has been raised, which has boosted new money invested in these accounts.

From the floor

Your net insurance revenue increased by 7%. Personally, I was expecting a higher figure. How is net insurance revenue calculated? At the same time, the ratio of EBIT to solvency capital was unchanged at 8%. Do you expect that to last? What are your forecasts? Lastly, could you provide more details on your effective tax rate?

Antoine Lissowski

Net insurance revenue is calculated for the Group as a whole. It was flat as a percentage of premiums, mainly because the margin on new money stagnated. That was due, in particular, to our focus on promoting unit-linked products. We're encouraging our partners to increase unit-linked sales in exchange for higher commissions.

As for EBIT, growth was driven primarily by international business rather than French business.

Lastly, I have to confess that I haven't looked closely at our effective tax rate for the period.

Olivier Mareuse

The effective tax rate was down by nearly three points, mainly due to liquidation surpluses from prior years. The impact is however fairly marginal.

From the floor

This is going to sound like a very naive question. You present the various measures used to reduce earnings volatility, but what's the insurance rationale behind your management of capital gains on the trading portfolio?

Antoine Lissowski

We haven't ignored the insurance rationale because there hasn't been any change in asset allocation. We don't set profit-taking targets and so our management strategy isn't deformed

From the floor

I understand what you're saying, but I was thinking of financial assets that you've been obliged to classify as held-for-trading under IFRS, like hedge funds. The same logic doesn't exactly apply. Doesn't IFRS have a slightly artificial effect on the trading book?

Antoine Lissowski

Yes. In fact, it's the term "held-for-trading" that's artificial. "Held-for-trading" simply refers to a method used to measure assets.

Olivier Mareuse

Similarly, under IFRS, earnings volatility is reduced when we sell dedicated mutual fund units and buy non-dedicated mutual fund units, even though this doesn't affect the way we allocate assets.

From the floor

Most insurers indicate the impact of differences between Solvency I and Solvency II. What about CNP?

Antoine Lissowski

The impact on our life insurance business is the same as for the rest of the market. However, our business is still only slightly diversified, relatively speaking.

From the floor

Could you give an overview of the campaign launched through the Savings Banks in June and July? What progress has been made in combining savings banks? Also, I understood from the short video you put online this morning that Brazil was going to be a key component of your development strategy. Could you elaborate?

Gilles Benoist

The campaigns we launched were very successful. Sales through the Savings Banks have recovered as a result. The major process of consolidating the savings banks, led by their management, is more or less intense depending on the region. Given the large scale of the operation, it still could take some time to complete. A slight dip in performance is understandable under the circumstances. That said, we were very impressed by the willingness of the Savings Banks teams to work on building sales of personal risk products.

As for Brazil, we don't currently have a development opportunity, but we are carefully examining every possibility for expansion.

Thank you for your attention.