S1 2019 Earnings Call

Company Participants

- Antoine Lissowski, Chief Executive Officer
- Thomas Behar, Chief Financial Officer
- Xavier Larnaudie-Eiffel, Deputy Chief Executive

Other Participants

- Benoit Valleaux, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Thomas Fossard, Analyst
- William Wade, Analyst

Presentation

Operator

Dear ladies and gentlemen, welcome to the Conference Call of CNP Assurances regarding the Half-Year 2019 Results. At our customers' request, this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. (Operator Instructions)

May I now hand you over to Antoine Lissowski, CEO of CNP Assurances who will lead you through this conference. Please go ahead, sir.

Antoine Lissowski {BIO 4384399 <GO>}

Hello everybody. I'm glad to have a new opportunity to speak with you today. And I am with Thomas Behar, CFO; Vincent Damas, the CRO of the company, and with my faithful Deputy Xavier Larnaudie-Eiffel.

And let's have first different views about -- first important elements of the first half of 2019 on page four of the presentation, which was provided to you. During this half year, several things occurred, which seem important to me to underline.

First, it was an opportunity to reaffirm international multi-partner business model of CNP Assurance. We have noticed a very robust growth in Brazil, in which country we have now more than 11% of market share. We have a stronger position is Cyprus, where we have got the majority, a whole -- ownership of capital of the subsidiary and we have noticed the agreements made by LBP and BPCE to the extension of our partnership with them.

I will come back to that. That is first element. The second is that we operate in France in an environment which is a great appeal of life insurance in the markets. The market was up 3%. The technical reserves are still up and we have observed an important debate about the PACTE Act, which opens a large spectrum of new opportunities for our sector.

That means that the life insurance in France is in process of reinventing itself. Of course and it is a third element. We are in a low interest rate environment, which involves clearly difficulties for all the financial sector and for insurance as well. Then we have SCR coverage ratio at 169% under standard formula and we have increased the policyholders' surplus reserve, which amounts now to EUR12.7 billion. That means that in spite of that environment we are able to increase our reserves to prepare if any if it occurs longer period of low interest.

Doing that we have also to think of transforming and optimizing the business model of the company. It goes through a digital strategy and cost management discipline, which are absolutely necessary in a period where the clear [ph] experience and the management of interest rates of the costs will be the hallmark of all what we have to do.

Doing that we also to keep in mind the fact that in the countries where we operate for social responsibility of economic operators is important, and it is important for our customers, for the teams of the company, for the partners to heightened these commitments from CNP point of view.

And you will see in the presentation how we operate to increase our investment in social responsibility. And the last element of this slide regards to change in ownership structure of CNP Assurances. The different elements of that -- of transforming the ownership structure within the state-owned financial group are present.

The company should have the same -- shareholders, but in an other order meaning that we will switch from shareholding structure under which CNP is detailed at 40% by Caisse des Depots plus different stakes by the La Banque postale, French State and BPCE to structure under which CNP is detailed by La Banque Postale at 62% then by La Poste, which is the only shareholder of La Banque Postale.

And then by Caisse des Depots which will be the major shareholder of La Poste and that is the respect of the remaining float, which will remain at around 22% and we are keeping BPCE on board during a long period of time. If I come now to the next page on page five. It illustrates the multi-partner model in different figures. If you look at the EUR17.6 billion of premium income during this half-year. La Banque Postale represented 25.9%. This partnership is today until 2025 and it is to be extended to end-2036.

The second partner is BPCE with 21.2% of premium income and the partnership which was exclusive until 2022 will be and it was confirmed last week extended to end-2030 without any possibility to stop it before 2030. The third partner Caixa Seguradora represents 18% of our premium income and you know that this partnership was extended and an agreement signed last year until February 2041.

We have several other partnerships with UniCredit with Santander. We have developed premium savings products with non-exclusive partners recently and we have different other partners. What is important there is to show that no of our partners has the majority of the business of the company.

That means that all the shareholders including clearly the state-owned shareholders interest is, but we develop the multi-partnership model in the future as it was a success in the past. If you come now to the page six of the slide show you have a different figures regarding the business during the first half of 2019.

If you look at the premium income in the like-for-like changes you observe growth by 4.6% during the period at EUR17.6 billion. The total revenues were up by 5.4% at EUR2 billion and the attributable net profit stays at EUR687 millions plus 3.3% on like-for-like.

The cost to income ratio is still decreasing as well as a combined ratio as you can see. Then all the figures seems to be in the good sense if you expect the impact of low interest rates in fact of the decrease of interest rates on two figures.

The consolidated SCR coverage ratio, which is now at 169% and the APE margin ratio, which is down 4.5% at 16.9, but it is clearly a purely mechanical effect of low interest rates, which were clearly present in the presentations we made before. We have always underlined our sensitivity to long-term interest rates and it will be illustrated in the slide regarding the solvency ratio.

I give now the floor to Thomas Behar, our CFO to develop on our business performances.

Thomas Behar {BIO 18964489 <GO>}

Thank you, Antoine. So, let's go for each of the places where we are present beginning by France. In France, we have an unfavourable economic environment with this low environment of low rate environment. Despite that, the premium income has an increase of 3.9%. And if you go for each of the business segments, you can see there was a traditional savings/pensions that you have an increase of 8.7%. We have a decrease of 6.3% for the savings and pensions activities and a slight decrease for risk and protection.

The increase of the traditional savings/pensions of 8.7% is below the increase of the market, which is 12%, but in the same time, the decrease of our unit-linked of 6% is below the huge decrease of the market of 80%. We have now 20% share in our business for unit-linked proportion of 20%, which is not far now from the markets where we have a 23% as a proportion of unit-linked in the sales of savings and pensions.

The decrease for unit-linked comes from two effects. First effect is we have less Fourgous transfer in comparison to last year. And the second effect is a boosting effect coming from the decrease of the equity markets at the end of the year, explaining less sales also at the beginning of this year. And risk protection has decreased due to the effect of the critical run-off, an increase of BPCE sales, but also trying to find and keep only the best activities for protection business. Let's go now to VNB and APE margin. So, the evolution of the

VNB and the APE comes from the same things, which is the impact of the low environment. And so we have now decreased from 19.7% to 13.3%, which is still high for an activity that we have for savings and pension premium, but also for the risk and protection activities.

Let's go now to the next slide, which is slide nine to explain the evolution of the total revenue for France. We have an improvement in the net insurance revenue for the period and you can see that net insurance revenue grew from EUR860 million to EUR919 million, an increase of 6.6%. This increase came mainly from the saving and pension path as we have an improvement in the margins and technical reserves for this first half year. At the opposite you have a decrease of the own-fund revenue. So, it's a second places where you have the effect of the low environment rate. And it's also in this place last year we have done some net profits of bonds that we have not done this year.

Let's go now to slide 10. So, we have a very huge control of the administrative cost. As you can see an increase of 0.2%. So, they are quite stable and with the increase of revenue and the control of the cost, you have an improvement of the cost to income ratio to 31.7% and that's why the EBIT stayed quite stable to EUR1 billion for us this year.

Let's go now to other places Europe excluding France. We have improved the profitability despite what I will explain that has happened in Italy. So, you have a decrease of the unit-linked that are being solved in Italy from EUR1,500 million onward to EUR1,200 million, so decrease of 22.4%. It comes from the fact that we stopped the sale of one product that used to have an tax incentive last year, but the government decided to change the product and we were waiting from the new elements which were necessary in the regulation to define what are the eligible unit-linked for that product.

The product is Piano Individuale di Risparmio, PIR. And the -- our subsidiary had 18% market share of these products. Instead we have developed multi-branch products that were not sold before. You have an increase of the traditional saving/pensions of 27.9%. Among this number you can see the increase of CNP Luxembourg, which has a increase of EUR501 million on the Euro part, but also on the unit-linked part as in this kind of business we have more than 40% of unit-linked when we sold the saving and pensions.

For risk and protection, we have an increase of 6.8% is due to the addition of the layer of generations for credit insurance for CNP Santander, but also for the increase of the risk products that are being sold in UniCredit branches following the agreements, the new agreements that we have in UniCredit.

As an addition you can see that the VNB and the APE in the second white part of the slide. VNB is quite stable due to the effects that you have seen. On the left the increase is June notably to all the credit insurance that you can see in this part of Europe.

Let's go now to the next slide with the total revenue has hugely increased of 31.5% from EUR109 million to EUR144 million. The increase come from both business segments saving/pensions and risk protection. You have an increase in the revenue due to the -- of the risk protection innings with additional the addition of generations to CNP Santander and also an increase of savings/pensions as last year we had exceptional fees due to the renewal with UniCredit.

But also we have a new partners that we have in Italy. For the administrative costs you see an increase of 8% is clearly linked with the improvement of the revenue of 31.5%. So it's a lot below the increase of the revenue and as due to the evolution of the revenue and the cost you have an increase of the EBIT of 58%. You can see that the increase is present in all the different subsidiaries that we have in Europe for CNP Santander, but also for CNP UniCredit Vita and for the other activities such as Cyprus or the Luxembourg.

Let's go now to a focus. Assume that we have chosen to do on page 13. It's the activities of CNP Patrimoine, which is not very well known for the people. It is a new activity. It's now our third largest distribution network in France as a percentage of premium income. The unit-linked part represent 42%.

We are doing that in an open model. We have a lot of different partners. There are more than 40 partners in France and in Luxembourg. It's private banking institutions, family offices, brokers, independent financial advisors. We had no exclusivity for each of these partners. So, it's a really open model. We are building that with the help of a back-office that we have acquired.

We have bought its quality insurance services management platform. You can see on the right the evolution of the premium income coming from quite nothing to a very strong EUR2,300 million, which is slightly below the number of last year.

So, it's mainly funds with EUR1,846 million and EUR501 million for Luxembourg for people living in France or Belgium. And it's also a very good laboratory for us because it's organized with a lot of digital engineering and at each stage of the customer experience everything has been digitalized to be able to keep all the delay in a very narrow manner. The documentation, management, the underwriting is digitalized.

So it's a very good laboratory, and all for that to mix all the requirement of the high wealth customers. We are then now on page 14. A slide which is the synthesis of what you have seen before. It's the addition of the funds and Europe -- excluding funds and funds and Europe excluding funds is in fact Europe. And in Europe you can see that the business is up as a summary of 2.2% mainly for Europe traditional savings and pensions and you have this both effects good thing effects in France and in Italy and the tax incentive in Italy explaining the 30% and in Europe it was also the case in Italy. You have the impact of the low environment on the VNB and APE margin. Let's go now to oversee to Caixa Seguradora has last year a very good increase of its activities.

You can see that at constant exchange rates you have an increase of 16.3%. And if you look in details this increase coming from the pension part of 22.1%. The business that is sold for unit-linked. It's more than 90% of unit linked for this sales.

And it's an increase of 22% in a market that has decreased 0.6% for this pension. That's why now we are the third largest insurer in Brazil with 11.4 market share for all businesses excluding Elf and Consorcios. The VNB and APE margin slightly decreased, but it's quite, it's still at a very good level of 28.8% with a quite stable VNB of EUR91 million.

This margin is stable because the growth has also been done. We have a compensations with the margin as we have a competition of the margin in pensions, but we succeeded to have a competition. The compensation between the increase of the sales and the margins.

As an effect of the progression of activity you can see the total revenue on page 16. We have an increase of 14% of the revenue to EUR569 million at constant exchange rates. It comes from the addition of all the stock in pensions and also an improvement in the personnel risk and protection loss experience.

You can see that an interest cost of increase of 7.5%, which is below the 14.1% of increase of total revenue leading to an EBIT of 15.5% improvement. And we have still an improved cost to income ratio at 17.1%. Let's go now to the which is very low. Let's go now to the financial performance and solvency.

So, you have seen that the activities were very good and we are keeping on track all the financial performance and the EBIT is EUR1,566 million. We have a very good increase of more than 6% with the 6.2% on a like-for-like changes.

I will not comment all the figures as you can see that's not very much. We have an increase of the cost of the debt due to the emission of the new subordinated debt in February. And also last year you have an attributable recurring profit of EUR1,168 million. Income tax expense of EUR370 million and you have traditional non-recurring items including the dotation to the PPE of EUR325 million.

Leading to a very good attributable net profit of EUR687 million. Let's go now to the advance indicator for the dividends, which is a net operating free cash flow, it is up to EUR846 in progression in comparison to last year.

The operating profit is up to 9.5% at EUR789 million. The reduction in required capital of our in-force is quite the same as last year, but of course we need much capital for new business using impact of the low environment rate to new the business value. And as you know less VNB we have more capital we need in the Solvency II framework.

For the solvency capital ratio. So it's the first, third place where you have the effects of the low rate environment. We have a 169% of SCR coverage ratio. This is down of 18 points in comparison to year-end 2018. You can see the 10-year euro swap rates on the right and that decrease is clearly linked to that curve. You have the details of the breakdown of the ratio and the major part comes from an unfavorable market condition of 16 points.

It's a decrease of the rate on one sense and on the opposite you have the improvement of the equity market, but the addition of two goes to 16 points. And of course this ratio reflects the issue of the debt in February 2019, but also in advance repayment of the $500 million has been done in July.

In next page 21 you can see last year that we have no guarantees in the new business. So we have still a guarantee for the capital for a lot of parts of the business, but we have no other guarantees above that. And of course the stock the guarantee in the stock is reducing at each and terms of the other contract and is now only 0.24%.

That's all for all the business performance. And I give back the floor to Antoine.

Antoine Lissowski {BIO 4384399 <GO>}

Thanks. I precise the outlook of the company. Starting by two views and two aspects I would say important aspects on liabilities and an important aspect on assets.

For the liability side it is on slide 23 regarding PACTE Act. I will comment a little bit mainly for our international investors who are less familiar with this new regulation on the French investors. The objective of this new regulation was to increase the French pension market's technical reserves by EUR100 billion over three years coming from EUR200 billion nowadays.

That means that new pension products will be introduced in the market from beginning of October. And of course we as an important actor in this market we represent roughly 20% of this market in France. We will be a key actor to that. If you look at the changes involved by PACTE regulation.

There are two-folds. First, the pension products, a new pension products will be created in individual or group pension savings product with different compartments. And these compartments will receive voluntary individual payments will be used by employees to reinvest with statutory and discretionary profit shares and they will also receive compulsory employer and employee contribution.

It will be a package under the control of each employee which he will be able to manage and to change company if he wants. The second new aspect of this reform is regards the life insurance with option opened to the policy orders to transfer the savings from one contract to an other.

Within the same company without interrupting the qualifying period for tax benefits. That means that people will be able to change contract within the same company. If they decide that another contract fits better with their needs that contracts they have had before.

The combination of these two elements is a clear sign that the structure of life insurance sector will be changing with the possibility for people to change contract within the company in life insurance or even to change life insurance company when pension contract are concerned.

That means that for us it will be new management of the customership base and way to discuss better with our concerns during the life of a contract in order to adjust the producers, which are offered to them and provided effectively to them. A long time of presence as a company and long depending on the different needs they can have longer time.

It is a clear change in the strategy for the French market and it is representing different challenges for each company as for CNP Assurances. We will have to protect the technical reserves. We will have to work with new customers to develop up-to-the-minute products offer and new service. And we improve the customer experience, which will be an important part of faithfulness of customers.

And we will have to manage ultra-fast execution nowadays, but on the liability side, if I come now to the next pages, page 24 and 26.

We will have -- first we will have to increase the commitment to socially responsible investing. When you consider not only the needs of customers, but the views of the public in general, and also which is important message received by people at distribution and within the company.

It is clear that the role of an important asset owner as insurance company to improve socially responsible investing is important. You see that we have settled different objectives and the green investments are already growing half-year by 13% to represent 11.7%. The equity portfolio's carbon footprint decreased dramatically from 2014 and now it represents a 0.25 equivalent of carbon equity.

We will have to increase the effort to have socially responsible investing and sales are need to fix new targets during the second half of the year in order to precise and to improve this policy. This represents and you have a list of that. The important issue in terms of rating and indexes regarding the company's activity. And as you see we have already good ports on that respect, but will certainly have to be maintained and improved through renewal of this policy. If I come now to the last page of this presentation.

This page is extracted from the board -- five I presented to the Board of the company on June the 4th. And I have an opportunity with my friends to develop the strategic priorities of the company, which were all approved by the Board.

If you look there you have five directions. First, to leverage the closer ties with La Banque Postale in order to create value. The position of La Banque Postale in life insurance market was relatively poor and decreasing over the last 10 years. And it started to regain ground during the first half of this year. It is promising and we have to develop this position in the coming years as well as to develop personal risk protection and explore opportunities to diversify into the non-Life market in the future.

This will give a new profile to the company in the future and it is the second element. The personal insurance will remain the core of our activity, but we will have also to provide non-life producers to our customers, which we haven't done so far in France.

The third element being to develop and extend our partnerships and expertise in Europe meaning partnerships and expertise will think clearly of existing partners in Italy with our credit, UniCredit. In whole Europe with Santander Consumer Finance and the increase of our share of interest in Cyprus is the sign of a unanimous support of our board.

This increase was approved in May. Unanimous approval support by our board to a strategy in Europe of -- expansion in Europe. We have also to leverage our position in Brazil and expand our footprint in Latin America. You know that we have signed a new agreement to do the business in Brazil until 2041 on the certain parts of existing business with our partnerships.

We have also agreed with the new team at Caixa Economica Federal in 2019 to adjust these agreements to fit with the very dynamic tone they give to the life to the insurance business within the network. You can have observed that the current team has good action on development of life insurance and of the insurance in general and it made the company the third in Brazil.

And it is clearly an opportunity to adjust the agreement of 2018 and to extent at least its duration. And the fourth, the fifth element of strategy will be compounded of both digitalization and action put on the costs and operational excellence. It is clear that in a world where I mean in Europe where interest rates are very low. We have to go on digitalizing our processes.

It is not only necessary to keep our costs very low, but it is also necessary to improve the experience of our customers and to resist to an eventual offensive, which can be made by the different new actors of the economy on insurance.

Clearly, we are now becoming a digital actor. The difference between us and the startups, which could attack that, but we have already the customers. We have the assets and the liabilities. And the only effort we have to make is to propose to our customers a similar experience as well as digitalize the experience which can be proposed by direct networks proposed by new companies. That within a very good discipline of costs in the company.

We have new gains in terms of costs in group of EUR45 million by 2021, which are planned. And we do that through over-holding of all the processes regarding savings business, regarding loan insurance business, and regarding the functioning of the group activities of risk and financial management and over transversal

activities of the group.

Then the strategic priorities of the group were reaffirmed by the Board last month. And it is clearly that would be the guideline for the coming years. And the new structure of the capital, which in fact was already compounded of people which were present at the Board in June.

Thank you for your attention. And now with my team we are okay to discuss and to have your questions.

Questions And Answers

Operator

Ladies and gentlemen we will now begin our question-and-answer session. (Operator Instructions) The first question we received from Michael Huttner of JPMorgan. Your line is now open. Please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you. And I had three questions please. The first one is on the solvency ratio. Is there a level where you would say, oh, that's a little bit too low. And we need to take additional actions and you might review your dividend policy. And the second is on slide 21, which has the lovely, the difference between the new interest the money return on new investments 1.03% and the guarantee of 0.01. And here I spoke with one of the your lovely IR team earlier. And on the new business I thought that the guarantee is in fact capital guarantee less your own cost of 75 bps and here which would be an an annual guarantee of negative if you like. And here I see a positive guarantees. So I don't -- maybe I'm misunderstanding something. And the final question is on the new agreement with [Indecipherable] on the payment protection policies which are now 50-50. Is this 50-50 worst a ratio or better ratio in the fall? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

It is 50-50 on the group contract on the income -- global income of two companies. And regarding the new generations until the end of the generations. And it will be completed by an agreement on the individual product, which will be proposed by the two companies together to the customers if they are not interested by the group, the contract.

I come back to the first question about our solvency ratio. It was expected. We have always said that our solvency ratio was completely sensitive to long-term interest rates. And for the current level just proves that we are right, and it is absolutely not a surprise for anyone, and it is completely consistent with the model of the competitiveness. No reason to wonder about it.

We are still, as you have seen, increasing the PPE and the level of security of the company is not, it is not reduced by the simple of this element, which is simply explainable by the environment and not by the inside management of the contract. For your second question in fact you have a guarantee which is growth of course only for some specific activities such as CNP Patrimoine, but for all in-force all the stock and for some activities that we have in France. The guarantee is still net of cost.

So, it's possible evolution that you can see in the future, in our contracts, but not decided at this time. So, it's the guarantee for the main part of the new business and for the in-force is net of course meaning that we guarantee the capital and there is no financial projections so we can't take our costs.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay. I understand. Thank you.

Operator

The next question is from Nick Holmes of Societe Generale. Your line is now open. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thank you very much. Just a couple of questions. First one, do you think there will be big operational changes when La Banque Postale becomes your majority shareholder. And if so when can you tell us about that and then second on IFRS 17. Just wondered what's your thoughts are about cost and how it will affect the business? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, regarding La Banque Postale it is very simple. The changes already occurred in terms of commercial activity with them. We have developed different new initiatives with them to sell contracts within La Banque Postale. We are present or will be present in the different new products digital new products that La Banque Postale is launching its networks.

And we have decided to replace the middle office tool, which we had together by the new generation tool, which will be built in the next months or years. Then from operational point of view. We are clearly making a very much closer relation operational closer with La Banque Postale as distributor. Regarding its role as shareholder it remains the role of our controlling shareholders as before. I mean that's Caisse des Depots, La Banque Postale as well as BPCE where we have been packed and they will continue to operate. I mean, Caisse des Depots and La Banque Postale within this new structure as controlling shareholders. It will not change. BPCE will be aside of that, but still in the capital and probably, still in the Board. And in fact there is -- there will be no substantial change. The change will be in the structure of ownership of capital, an ownership starting by Caisse des Depots and La Banque Postale and CNP, replacing an a reasonable partner, order ship under which we are packed between different public orders.

Now the public shareholder order, the public meaning the state-owned shareholders will be revisited at the Board of the company by La Banque Postale, but in general, the structure of their holding will be just the same with Caisse des Depots on the top. And our controlling shareholder at the highest level will remain like Caisse des Depots.

Q - Nick Holmes {BIO 3387435 <GO>}

Great. Thank you on -- for answering that. Just a very quick follow-up. I guess I was getting at some revenue opportunities that you see with La Banque Postale. Do you see more scope to drive growth?

A - Antoine Lissowski {BIO 4384399 <GO>}

We have just started for instance, to change within the existing product some specific elements in order to help selling these products. For instance, the initial amount payable by a customer on such and such product (inaudible) went from EUR25,000 to EUR5,000. These modifications are controlled, but it is a start. And of course we intend with La Banque Postale to modify the structure of existing products more and more in order to fit with the customers' needs, and certainly to create a new generation of products in order to be more accurate within a world of low interest rates, but it's clear that in insurance company you do not change all the products in a couple of months.

You start by modifying the technical characteristics of most popular products in order to improve its efficiency. And after you engineer a new generation of products and a new generation of customers experience. It is a two-fold assets activity. First, we have a short-term activity to re-launch the distribution, and second, we have a longer term relation in order to create a new set of products and offers.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay, thank you. And IFRS 17?

A - Thomas Behar {BIO 18964489 <GO>}

For IFRS 17, in fact the new standards will come into force in 2022, but there is still the (inaudible) process. So, if I'm right in my calculations, perhaps we will see it in 2023. As there is a lot of different positives that have to take place in Europe and it need some times. So, if you compare that to the low interest rate environment, which is now the -- for the lower interest rate environment I think will drive much more evolution of the process of the products and also all the digital environment than IFRS 17.

However, we are continuing to adapt and develop our IT system to be ready for IFRS 17. We -- the developments that we have scheduled are coming into force in our IT system during this summer. And I hope that, we will be able to tell you something perhaps next year according to the numbers that emerge from the different calculations that we are doing. And to enjoy our summer of course, we have the exposure draft consultations that in parallel to the Solvency II review. Exposure drafts that all our regulators are continuing and potentially are making our August month much more enjoyable.

Q - Nick Holmes {BIO 3387435 <GO>}

Thanks, Thomas. Yeah, that sounds great on August. Thank you very much.

Operator

There are currently no further questions. (Operator Instructions) The next question is from Benoit Valleaux, Oddo BHF. Your line is now open. Please go ahead.

Q - Benoit Valleaux {BIO 2443205 <GO>}

Yes, hello. Good morning. Two question on my side if I may. First one is regarding policyholder's crediting rate? What has been the assumption that you've taken into account for your H1 results. I mean, did you assume that well pay one half of last year crediting rate as in the past or not. And it's maybe a bit too early, but what do you expect for the full year because we take on very low interest rate. We expect some significant decrease in the policyholders crediting rate for this year. And second question is maybe on CNP Patrimoine. Can you give us an idea of the new business margin of this company because you mentioned 42% share on using product, but it's also a business, which is made with owners versus individual. I'd just like to know what has been the impact of this business on your new business margin. And I also have a question on this new business margin in France, which has been quite low for H1 even compared to Q1, sorry, which implies more or less maybe less than 15% new business margin for Q2 on a standalone basis. So, just would like to know if you have felt some, I don't know, negative impact from product mix in Q2 if there is some impact only due to market variances? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Regarding this policyholder dividend, yes, we have taken the assumption of policyholder dividend similar to last year's for -- just for the purpose of making the half year accounts, but it is not an expectation of what will be policyholder dividend at the end of the year. It will be clearly lower, and just the only comment I can make is just that we will have to discuss with our network very soon, really very early in the autumn because this year, the management of the decrease will be dedicated clearly that we have no interest rates on the bond market. We will have to be careful in order to avoid even to losing customers or to be overpaying customers and gaining too much inflows if we posted two high policyholder dividends. Then it is clearly one of the delicate files which wait for us after August, which worked. Other questions, Thomas?

A - Thomas Behar {BIO 18964489 <GO>}

For CNP Patrimoine of course we don't disclose exactly the margin. What you can know about this business is that more than 40% of sales in unit-linked. So, it drives the margins. The second point, the fees that we have as insurer are growth of cost. And the third point is that, we have a fixed fee. And it's the partners which adapt the fees that is taking in the network position with the customer. And so, we have a fixed rate that enables us to have written and to finance the on-funds that we have on that business. On the negative mix, Antoine, you want to say something?

A - Antoine Lissowski {BIO 4384399 <GO>}

Yeah, as you mentioned, I can confirm that the drop of the new business value is due to market environment and the drop of the interest rate mainly.

Q - Benoit Valleaux {BIO 2443205 <GO>}

Okay, thank you.

Operator

The next question is from Thomas Fossard, HSBC. Your line is now open. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good morning, everyone. I hope the line is clear. And sorry I have been late to the presentation. So, if I'm raising questions, which have been already addressed please tell me. The first thing would be on the French market to link unit-linked sales. Just going down Q2 versus Q1 while I mean equity markets have been strong so far this year. So, I just wanted to better understand if you are starting to see some better trends in terms of inflows that you could talk about?

The second question is specifically related to Italy the revenues are significantly down similar to what we've seen in Q1. I think that you're mentioning some tax changes which is affecting the effectivity of your unit-linked products there, but I'm not sure that we are seeing such a decrease for the other Italian companies. So, I was wondering you were facing specific order with your products and what could be the immediate actions.

The third question will be related to the low interest rate, and I think that in the past especially where interest rate were going up. I think that you several times added disclosure that you were less strengthening these low interest rate reserves or even you had some write-backs. I guess that now with this new environment we may see the reverse coming back. So, you gain adding up to these low interest rate reserve on pension product, but also on the some risk product. Could you tell us if it was already a negative item in the H1 number or if not how we should think about them for the full year and maybe 2020. And, I think, yes and the last point just to come back on Benoit's question regarding the policyholder's rate. With the benefit of hindsight, I mean, do you regret now to have, I would say, boosted a bit the the policyholders crediting rates full year '18 or I mean and that make things a bit more difficult when talking about the policyholder's rate for 2019? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

I first link the two questions, the first and the fourth regarding the situation we have policyholder dividend and so on and the unit-linked. As you can observe, we have a better performance in terms of unit-linked and the market in general that results in a narrowing of rates of unit-linked between rates in the market and the rate at CNP.

We have a rate of unit-linked, which is just 3% below the average of the market, which is completely new in CNP experience at a level global level of 20%, which is not so high on the other hand. What that means? That means that the effort we made last year in terms of policyholder dividend to boost the sales of our different partners and mainly La Poste and CNP Patrimoine helped us also to improve the structure of the sales.

That means that of course it was a certain cost for all the content of having maintained a dynamic policy of policyholder dividends in euro, but its maintained also I would say an appetite for selling life insurance from our networks. And these appetite was correctly triggered and organized to improve the mix in terms of savings, which would not have occurred if we are completely if we have decided to reduce dramatically the policyholder dividend, it would not have helped our partners to sell more life insurance than before.

Then the effort was clearly to help our distributors and to teach our distributors to educate these distributors to sell more unit-linked. On that respect it was a success. Regarding Italy, I give the floor to Xavier Larnaudie who chairs our activities in Italy.

A - Xavier Larnaudie-Eiffel {BIO 6035391 <GO>}

Well, thank you, Antoine. Regarding the unit-linked market in Italy it's fair to say that as you have noticed we have diminished our production.

It's mainly because of the specific fate of one given product. The Piano Individuale di Risparmio, PIR which used to be the only unit-linked product with a specific tax advantage for the customers as it was dedicated to finance or to investments in Italian SMEs.

Now I won't get into many details, but the change in regulation has made it absolutely impossible to commercialize anymore because of the conflict of rules, which make it not available for sale anymore. We used to be with our partner UniCredit, the absolute leaders on this product.

So, it has come as a very bad news on the commercial front. Now it's also fair to say that we are specifically exposed on the unit-linked market in Italy given the fact that we enjoy a very good ratio of 70% of our sales in savings products in unit-linked and 30% only in traditional.

So, it's a combination of those factors, which explains the diminution in our sales there. This being said the reaction with the teams and the partners are to work on the other lines of the unit-linked products, and also to get more steam in commercializing multi-support products with still a very high rate of unit linked, but these new generation products begin to meet the actual success in our public.

So, we remain confident that we will be able to progressively catch up the difficult beginning of the year. Now I say a difficult beginning of the year that's true for the UL products, but it's not at all the case, if you look at our performance for risk products. You will see that the growth there is very, very steady and are diversifying our presence and we now enjoy a good and stable market share of more than 10% which is not new thing.

A - Antoine Lissowski {BIO 4384399 <GO>}

For your question about the impact of low interest rate environment for the second part of the year. What I can say that is something that you have not yet asked, but you usually ask it half of the year. It looks like half of the year for the key indicators. So we've -- if everything keeps as it is we may say something like that. And that's why about your question of course you can have pension and risk products implying some additional reserves especially for the risk product you have 24 months minimum for the calculation of the reserve.

So, we will see, but it doesn't change the sentence that I told just before. As you have seen we have still have a good addition of PPE in this accounts. At the opposite for the Solvency II, the new business value. So, we have fully taken the low interest rate environment in this half year accounts. You have now around seven to eight years where the Europe curve is negative. So, it has been taken into account in the Solvency II calculation and also in the new business value.

Of course in the future you will have a decrease of the value of in-force as the bonds are coming to their terms one by one. And it means that you have a reduction of the rates of our bonds in our portfolio meaning a reduction of the unrealized gains that we have on the bonds, reduction of the portfolio. So, it's even if the rates stay as they are you will have this impact on the solvency capital ratio. But your main point about the impact of the account you can take my usual sentence as it is.

Operator

And the next question is from Michael Huttner, JPMorgan. Your line is now open. Please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you so much. Just a little follow-up question. I noticed the attributable income is up 1% or like-for-like 2%. The EBIT is up much more. And I just wondered, which is the right number to try and understand the earnings going forward. Should I assume the current environment really gives you this 1% or 2% growth the attributable income or should I use the EBIT growth which is much stronger. Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Michael take the one you prefer and probably the highest is the best.

Q - Michael Huttner {BIO 1556863 <GO>}

The highest is the best. Fantastic. Thank you.

Operator

And the next question is from William Wade, JPMorgan. Your line is now open. Please go ahead.

Q - William Wade {BIO 19104398 <GO>}

Yeah, hi. Good morning. This is William Wade from Credit Research at JPMorgan. Just hopefully a quick question regarding the green bond CNP recently considered issuing and ultimately didn't go ahead on. I was just wondering if that was something that would still be of interest to the company in terms of as I say issuing that green bond and just generally any other comments you might have about hybrid debt issuance in the short-term would be great? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Just one word about it we had contemplated to make this issue and we postponed it in link with a different announcements, which were made by our shareholders on the structure of CNP, but now it will be possible to resume the possible file and to make something in the coming future.

Q - William Wade {BIO 19104398 <GO>}

Okay, thank you very much.

Operator

And we have a follow-up question from Benoit Valleaux, Oddo BHF. Your line is now open. Please go ahead.

Q - Benoit Valleaux {BIO 2443205 <GO>}

Yes. Hello. Good morning. Just a few follow-up question. First of all, which is currently your duration gap. And is it stable compared to last year. And the second question you gave us 1% average in the one-year over the first six months of the year. I just like to know what was the figure only maybe for June or July or maybe another way to look at it is if everything remains stable what will be your investment yield for the second half of this year? Thank you.

A - Thomas Behar {BIO 18964489 <GO>}

In this period where you have assets with low rates. We are trying to increase as a division of the assets, the duration of liabilities have not changed. Even if we have slight decrease of the lapse rates. So, all-in-all with the increase of the division of the assets due to the search for higher maturities to have better rates. And on the opposites decrease of the lapse that we have. I must say that we have quite the same kind of duration gap as previously. And the second question was about the prediction of the investment yield of the next quarters. Is it -- was it your questions?

Q - Benoit Valleaux {BIO 2443205 <GO>}

Yeah, my question is, I mean, it was 1% on average for the first six months of the year, but I'm sure that it will be lower than that only in June, let's say, June, July. So, if market condition remains unchanged and if you have, let's say, a stable capital allocation or investment allocation. What could be or what will be then the expected investment yield for H2?

A - Thomas Behar {BIO 18964489 <GO>}

So there is, as you know, the rates have decreased during the first part of the year. From January to June and so the number that you have is a medium is a mean between January and June. And as we have a very low points now in June. So, I can't know what will be the rates between July and December, but as they are, of course, you will have a decrease of the rates of the new investments due to the levels that we have reached in June.

Q - Benoit Valleaux {BIO 2443205 <GO>}

Okay, thank you.

A - Thomas Behar {BIO 18964489 <GO>}

Because it implies also to know which corporates we will invest or in which kind of bonds we really invest during the next quarter.

Q - Benoit Valleaux {BIO 2443205 <GO>}

Thank you.

Operator

We haven't received any further questions. So, I hand back to the speakers. And we just now received a follow-up question from Thomas Fossard, HSBC. Your line is now open. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, sorry, just two remaining question. One will be on the operating cash flow. So, maybe, Thomas, if you could say a word of how we should think about operational cash flow of CNP trending in the low interest rate environment. I mean I think that you did some sensitivities for the H2 and thing like that. But should we expect, I would say a drop in the coming quarters. And the second point will be on your perception of the credit exposure of the group. I mean we are in a late cycle environment I mean you've got 19% exposure to corporates and 13% to banks. What's the mood currently at CNP? I mean you can pension to cut some credit exposure or you believe that it is too worse to invest. We should expect this to grow going forward? Thank you.

A - Thomas Behar {BIO 18964489 <GO>}

For your first question about the net operating free cash flows. So, as you know, you have the three parts. For the required capital for new business. So it means that your question is about the prediction of the VNB for the next quarters and what are the levels.

So, it's quite hard to tell you in advance what we did. If you are able to do a prediction of VNB, I'm interested by your model, but not always give the results, but it's well -- it's behind the required capital for new business because it's clear linked to the value of the new business that we will issue during the next month.

Of course we have taken all the impact of the low investment rates in the first part of the years, but it will clearly depend on about what we will sell and we'll not give prediction about the sales. It's not what we have to do in such kind of exercise.

So, the other part is a reduction in required capital for in-force. At this stage I would say that it's something that is much more predictable because we know that the trends about lapses and we don't see in this low interest rate environments, an increase of the lapses or surrenders during the next month.

So, probably this numbers will be quite the same multiply by two. And now we would like to know what will be the profit of which is first components MCEV operating profit is clearly linked with the operating profits. And perhaps you can go back to the questions that I answered previously about the prediction about the results, operating result for the year.

A - Antoine Lissowski {BIO 4384399 <GO>}

Regarding the asset structure of the company and the investments we are contemplating to make. It is clear that the low interest rates are a challenge for insurance company, but we must have to resist the temptation to enlarge the scope of risks we take without analyzing very properly. And in fact what we are doing now is to extend the duration of certain very traditional limits, which we had for instance Spain. On which we will operate to have longer-term investments then were authorized so far.

On the other side we of course consider the spreads on the different credits, but the period of decreasing interest rates didn't make possible sufficient discrepancy between the spreads. That means that regional selection and everything is expensive nowadays. Even a very, I would say, a relatively poor issuer finds now interesting conditions. Then we have to refrain from the temptation to rush to the race or to spreads because at the current level risk is not paid. And so far we have too much short-term investments it's clear. We are proceeding to developments in for instance real estates or in assets, which we analyze one by one.

I need just to remain a word here. It is rather to bind assets which you analyse than to buy lines of various largely spread assets on which everybody has the same rating because this rating is not meaning to me it is not meaning that the quality of the asset is maintained. It is simply because the leadership quality of these asset appears as being good. And it is clear that in the current situation the issue of having no reward for risk is almost worse than having low spreads -- low swaps in itself. It is most important than it helps us. We need to have more time to analyze each asset than before, but we do with the help of our asset managers.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay , Antoine. Thank you.

Operator

And there are no further questions. I hand back to Antoine Lissowski.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Thank you everybody for attendance to this meeting and I wish you pleasant holidays. And I'm sure that our lives will be very interesting when we come back because if interest remains at the level we will have plenty of works we to make the business and you to analyze what we do. See you next time. Bye, bye.

Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.