

## Q4 2016 Earnings Call

### Company Participants

- Antoine Lissowski, Chief Financial Officer & Deputy CEO
- Frédéric Lavenir, Chief Executive Officer & Director

### Other Participants

- Michael Igor Huttner, Analyst
- Thomas Fossard, Analyst
- Vincent Damas, Head-Investor Relations, Analysts & Ratings Agencies

## MANAGEMENT DISCUSSION SECTION

### Vincent Damas {BIO 18954595 <GO>}

Good morning, everyone. Thank you for joining this event. I am Vincent Damas, Head of Investor Relations at CNP, and I would like to welcome you to our Annual Results Conference Call. I will now leave the floor to Frédéric Lavenir, CEO, and Antoine Lissowski, Deputy CEO and Group CFO, will present the key elements of the full year results. And this presentation will be followed by the Q&A sessions with the members of the executive committee.

### Frédéric Lavenir

Good morning, everyone. Frédéric Lavenir speaking. To introduce this 2017 results presentation, I would like to start with the slide 5, key figures, and provide you a quick comment on those figures. First of all, we announced you know that net profit up 9% to €1.2 billion. I wanted to stress that this good result is based on a very strong operational performance. First of all, it proved that our strategy of changing the business mix is successful. You can see that the heavy margin is very resilient in our low and going down interest rate environment.

The combined ratio is continuing to improve in the risk business. And globally, the dynamic of the revenue is very strong with 8.1% growth and 11.7% growth in like-for-like. This is the revenue side.

On the cost side, I want to underline that if you take the figure, the growth of the costs around the (02:40), which is almost exactly the amount of the costs of our Operational Excellence Program. So, if you exclude one shots, the non-recurrent investments of our Operational Excellence Plan, the costs are almost stable at group level and even you will see that decreasing in France.

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So, not surprising, the EBIT is growing. We have delivered more than promise a strong 12.8% EBIT growth. The consolidated SCR coverage ratio is 177%. And the operating free cash flow is up 10% to €1.54 per share and as you can see, covers the most - twice the proposed dividend. That's why in that context, strong operational result, growth of net profits up 9%. And the different point, I remind it, the board has suggested to increase the dividend to €0.8 per share and this will be recommended at the Annual General Meeting of 13th of April, next April.

If we go now page 6, a few highlights just to give a few examples of last year's achievements, which explain the results I just presented. The ongoing transformation of the group is in line with the strategy. That's key point. A few examples, CNP Patrimoine, a high-end savings business, a new business coming from almost zero three years ago, is developing quite well, reaches almost €1 billion premium, up 121% with a 33% unit-linked share in the business, which is fully in line with our ambitions and above our expectations in terms of volume.

CNP Santander continues to contribute strongly to the performance of Europe and to the development of our Protection business. In Brazil, we have launched, as you know, our digital platform, YOUSE, which is the first full digital insurance platform in Brazil. After a few months, technically, we launched it in last May, June. And commercially, the kickoff was last September. So, in a few months, we can say the success, the growth is accelerating month after month. We have now 32,000 contracts in the portfolio at the end of January 2017. And the growth is very quick and it's real disrupting initiative and perceived and understood like with disruption on the Brazilian market.

The EBIT is, as I already said, up 12.8% like-for-like, well-above the guidance delivered last year, which was an average annual 5% growth. And I want to mention something special that one of the last year's highlights is the successful Tier 3 notes issued in last October with the largest coupon ever reached for an insurer, which is quite good for our balance sheet.

So, those are the key figures and key facts I wanted to mention as introduction to this presentation. I will now give the word to Antoine Lissowski, which will go into details for each geographical zone and give you all details on our figures. Antoine?

**Antoine Lissowski** {BIO 4384399 <GO>}

Thank you. I propose you to go to the page 7 of the presentation. We will first - views on France premium income structure, then you see that the premium incomes in France were slightly below last year's, but we stress - we think that the quality of the production is improved. If you have a look on Savings and Pension net new money in the center of the slide, you see that we have had increased net new money in unit-linked by roughly €1.9 billion and negative net inflows in euros by €2 billion. Then, it is an improvement, constant improvement of the structure of our balance sheet.

The second item there is the production in Personal Risk and Protection businesses. We have decided to close some of our contracts, which were not profitable, and that explains

this figure. It clearly also contributes to the improvement of the overall claim ratio, which you have on page 1 of the presentation.

Then, the new business in the area is down by around €40 million, from €271 million to €232 million. That is explainable by different elements, of which the fact that we have lost part of La Banque Postale Prévoyance subsidiary, which we take before.

If you have a look rather on the APE margin, it comes from 11.4% to 10%. It is a decrease, which is limited in a context of very negative environment in terms of interest rates. In fact, the impact was offset, partly offset by the positive effect of contribution of the operations you see there. But this impact - the positive impact of operation was 4.6%, and we have registered by the way also, of course, negative impact of the environments.

If we now come to the page 8 of the presentation about the revenues of the company, you see that we have an important improvement of our revenues coming from the Savings and Pensions net insurance businesses. It is explainable by the fact (10:36) cost of negative interest rates, which was very high last years, and we have published the figures of last year, it was lower this year, about €100 million this year to be compared with more than €300 million last year.

And that we have had also Personal Risk and Protection net insurance revenue (11:04) the sale of La Banque Postale Prévoyance, which represented a loss of €42 million. But without this loss, there have been a growth of this part of our net insurance revenue.

Of course, the revenues coming from our bond portfolio, they are slightly below last year. It is clearly outcome of the structure in terms of interest rates.

If we come now on page 9 to the action or the management of our costs, you see that on the left of the slide, our costs in 2016 amounts to €628 million in France, of which €51 million are representing the cost of the program of Operational Excellence, which was launched last year. We have decided to account for this program. In 2016, it represents a cost, without which, we would have registered a decrease of our cost from €597 million to €577 million next year.

But nevertheless, we have decided to reduce service cost. The objective of the program is to save €60 million in recurring annual cost by 2011 (sic) [2018]. And we have already have achieved a reduction of €14 million in rough basis, so that means that the program is clearly on the track and we think that it will successively be applied.

We have a continuous improvement in cost-to-income ratio. This cost, 39.3%, includes of a burden of a €51 million (13:29) mentioned. The cost without that would've probably been at 46%. Cost-to-income ratio would have been 46-something-percent, I think, as a whole. And all that results in a very dynamic growth in terms of EBIT in like-for-like figures. The EBIT growth difference is up by 11.8%.

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If we now turn to Latin America on page 10 of the slideshow, we have a growth of premium income in like-for-like figures by 16.9%, with a very dynamic growth in Savings, mainly in Pension business by 19.6%. And also a dynamic growth in Personal Risk businesses by 13.5% last year. We have also a way to represent the things by the new business and (14:43) continue to see that the APE margin have registered an increase of 3% from 26.1% to 29.1% last year. Then it was also a very successful achievement in our agreement (15:00), which was hoped (15:02) to be difficult by service.

I do not come back to figures about YOUSE, which were already mentioned by Frédéric and which we will come back at the end of the presentation.

If we now look on page 11, at the growth in net interest revenue in Brazil, we have a growth in like-for-like figures by 9.2%, more than €1 billion of revenues in Brazil. If you have a look at the cost, you can see that out of the cost of YOUSE itself, which amounts in 2016 to €24 million, we would have registered a decrease in terms of cost up to €152 million, compared to €153 million last year in Latin America. That means that we have, in fact, a cost each growth in all the subsidiaries, Brazilian but also Argentinean subsidiary, below the rate of inflation in these countries. But all results in an increase of EBIT in like-for-like figures by 9.5% in 2016.

Now, I come to page 12 to Europe, where the premium income was up in like-for-like figures by 5.9%, up to roughly €3.7 billion. You see that we have the Savings and Pension business, which is slightly (16:56) as last year, €2.8 billion. In fact, there were different moves in terms of the perimeter of activities last year. But all-in-all, volume of activity is slightly at the same level.

We've (17:14) of the business on unit linked which was the focus of our management last year. You perhaps remember that during the first half of the year, we had premiums in unit link representing only 49% of the total of Savings and Pension premiums in this region. And in the second half year, we are at 66% and it is clearly the focus of our management of the relations with our networks (17:48).

Very important (17:50) is clearly - the most important (17:52) is clearly the very weak (17:56) of the business in Personal Risk and Protection coming from €733 million to €847 million. It is a growth mainly attributable to our business with Santander. There is also the growth in long-term insurance - assurance insurance in cover activities. But all results in a further improvement in the new business margin, which stay now at 19.3% in 2016.

If you have a look at the revenues on page 13 in this region, the revenues are at €240 million. The Personal Risk and Protection, the growth in this part is the red part of the left figure, it grew by €45 million. It represents the main explanation of the growth of the total (19:10) to the coming in-force of business plan of our subsidiary with Santander. It is clearly there where we get the most revenues.

The administrative costs of the European structure were up by 14%, but it is mainly an effect of perimeter and the growth of former subsidiary is neglectable and we have also, of course, the growth of Santander itself, but it is in accordance with the business plan of

the company. Then, all that results in a very dynamic growth of EBIT attributable to this region by almost 70%.

Now, if we come to the global figures at CNP, we have made - we have entered into the details of the structure of the EBIT on the left side of slide 15, €2.633 billion (sic) [€2.638 billion]. We have registered this year, a slight increase in the financial costs, which are to be computed. And part of this increase is also due to the fact that the part of the bonds which were replaced were not counted in the income [ph] costs that's (20:54) in terms of capital.

The financial cost, as a whole, have nevertheless improved. The income tax expenses are slightly higher than last year, and we have different other figures. I'll just draw your attention to the fact that we have, before taxes, had made - net gains and fair value adjustments represent €319 million last year, and we have decided to put our nonrecurring items €312 million.

That means that we have kept in terms of nonrecurring items almost all that were represented by capital gains and fair value adjustments in the balance sheet of the company. But all results is in attributable net profit at the level of the company of €1.200 billion for this year.

If I now come to the net operating cash flow, which is I know an element which was scrutinized cautiously with all of the insurance company, you see that the operating profit of the company is now at €1.135 billion up to last year's. We have had moved in terms of required capital, we have hopefully spent a little more required capital, but we have a reduction of interest matured at the end of last year.

And all that results in the net operating (22:57) meaning out of new additions of subordinated debt. But the net operating free cash flow is up by €100 million to €1.056 billion. Then, we have there an improvement which is significant this year.

We have also, on page 17 of the slideshow, different elements on our exposure to guaranteed yield. You see there that the In-Force business is bearing simply an average guaranteed yield of 0.42% on the old business at CNP, which is very neglectable and it has to be compared with the average return on the fixed-rate investments, which we had last year.

And regarding the new business of the company, we have a very, very little guaranteed yield into the new production 0.05%, almost nothing, to be compared with our average return on fixed-rate investments made (24:16). We have also made public the fact that we have now a PPE, which is (24:25) Policyholders' Surplus Reserve, which at the end of the year, presents €9.1 billion and a 3.9% of the technical reserves of the company.

If I come now to the investment strategy of CNP Assurance now, you see on page 18, that the ratio of - the investments in 2016 clearly, we're are still in (25:03) 83% of the investments. We have also made important investments in property and infrastructure. In equities, a little less than traditionally, but we have maintained an important investment in

private equity. And on the right part of the slide, I will not comment on it. We have structured the relative part of our different bond investments in different type of risk of credits.

On page 19, we have focused part of the investment strategy of the company, which is focus we make in investing in real economy or rather directly in (25:53). We are not only on capital markets but directly in companies or assets. In private equity, we have confirmed our interest for this sector and this interest was welcomed by a new board last year. We are one of the 50 biggest investors in the world in this area. In property, we have made a significant new investments. And now, we have an exposure similar to most of our European or, at least, French companies.

In infrastructure, we have attributed €0.5 billion of new investments to equities in infrastructure through a fund made with Méridiam Transition Énergétique. And we have also reminded of the fact that according to the agreement with EDF and Caisse des Dépôts, we will make in 2017 a very significant investment in RTE for more than €1.1 billion.

And we have invested in private debt, loans to companies, not listed loans for €1.5 billion company which helps us to finance SMEs in Europe, which we consider to be one of our main growth.

We are also - and it is depicted in page 20, we are a responsible investor and we contribute to the climate objective which was set. Internationally, we are reducing the carbon footprint of the portfolio as equity. We have already reached the green investments target. This target was raised from €1.6 billion to €3 billion by 2018. We are in process of reducing the energy use of our properties, and the program is clearly on the track. And we have reduced completely the exposure of our portfolio of equity to thermal coal, that resulted in reduction of our investments and different divestments from listed companies. And we have met now the objective of having no shares in companies that have more than 25% of our revenues coming from thermal coal.

Now, I'll finish this part of this presentation. We will look at our Solvency II coverage ratio. It stays now at 177% at the end of 2016. You remember that last year, the figure which was published was 192%. The different reset of this figure and notably the fact that we now integrate negative interest rates in the consolidation of this ratio, then if we have had made these resets last year, rate would have been not 192%, but 189% at that moment.

And what is interesting is that what we have said last year proved to have been verified, which is that our coverage ratio is very sensitive to long-term interest rates. You see in the middle of the slide the comparative comparison between the evolution of our consolidated SCR coverage ratio along the year and the euro 10-year swap rate. And you see that there is clearly a set of (29:54) position between the two (29:56). Then, at the end of the year, we are at 177%. That means that substantially, we are at the same level, all things being alike at the beginning of the year. We have showed (30:11) slight sensitivities which are slightly higher than before. It's clearly due to the fact that now it incorporates negative interest rates in our model, then the sensitivity to interest rates are slightly higher.

We have also said that we apply Solvency II to all subsidiaries within the group, even in Brazil. But we use the Volatility Adjuster (30:39), but the impact of this Volatility Adjuster is for the company at (30:46). One supplementary thing I would add is that we do not take into consideration the €3 billion of excess capital coming from our different subsidiary because (31:03) as non-tangible at the group level, I'm not sure that all the companies do it, but represent 22% of the SCR of CNP. That means we have a potential increase if we decided to do by 22 basis points.

That is the end of the presentation of figures for this aspect. And I'd now give the floor to Frédéric for the strategic outlook.

## Frédéric Lavenir

Thank you, Antoine. I would start with a few words about the past. It's not very useful to speak about the past. Only to describe the basis on which we are building our future (31:56) to prove that we have medium and long-term action and that's - this action is efficient.

You remember that early 2013, we launched a new strategy but just on increased (32:16-32:22).

If you go page 23, you will see that the figure proved that CNP Assurance delivered on this strategic target. On Savings and Pensions, net new money has been strongly positive in unit-linked for three years. It's the first square on the left. First of all, Risk and Protection premium income is up 3.5% organic each year on average.

What does it mean? It means that our revenue growth is not based on growth of the balance sheet but on growth of the profitability of our activities. And we can see that with the increase of revenues, systematically faster than administrative expenses with a spread of around 2 points, less than 1 point average growth in administrative expenses, while the revenues are growing by almost 3% in average between 2012 and 2016. This explains net profit up 6% per year on average during this period.

Page 24. Quickly, our focus has not only been in part just to improve the P&L, but also to strengthen the balance sheet. With that, CNP is more robust now than it was in 2012, and you can see a few criterias on page 24, which, I think, are quite obvious.

If you go page 25, we wanted to stress finally that our strategic initiative and operational implementation of it have contributed to create value for our shareholders as testified by the increase of the book value per share, increase of the MCEV per share, and finally, by the medium-term increase of the CNP share price. You can find the figures on page 25.

What does it mean? It means, first, that we have a medium-term trend, which is very strong and positive that we have now conditions to develop and invest in our transformation and that we have also a method, which is building year after year with a clear vision of what we want to do, and ability to implement our strategic objectives.

That's what we are doing and while, of course, to accelerate, speed up in the transformation of our company on the long-term vision.

We mentioned a few times our initiative in Brazil, which is now not an initiative but a real business. YOUSE, it's a disrupting business. You have a few figures on page 26. You can see since last August the speed of our development. The figures are, of course, small figures. They are figures of a start-up, and it is a start-up, as disturbing as any start-up on the market in which it is developing, quickly developing, and we think it will be very - a key actor on the Brazilian market. We are the first full digital company in Brazil. It is also very important for us because it is a field where we can experience the new way to conduct business and to manage the products and the offer with very, very quick feedback from clients. It is not month or year feedback. It is a day, a week feedback. And this is a very important new way to make business. So it's just an example. But, of course, YOUSE will not stay alone in our business portfolio. I will come back to that.

So the second point I wanted to stress, and it is the Open CNP program. We announced it a few months ago. It is quite original program, very well adapted to our small company, because the businesses are very close to the investments' department and all people are very close to the general management. So the decision can be made very quickly and everybody can be in close contact with the start-up in which we invest.

The philosophy of the program is very simple. We're investors so we invest in start-up in which we believe. And we are also partners, we invest only and it's direct investments if we have an industrial, a business reason to invest. And we build partnerships with the start-ups in which we invest.

Of course, we are outside because those start-up are really independent, it's not an acquisition. But we are also inside because we work with them. The three investments we made until now are Lendix. You know Lendix, which is very, very successful crowd-funding platform and we start working with them in France and in Spain, in Italy. H4D, which is more a technical start-up, with which we start to work and to enrich, to strengthen our service offer. And Alan - Alan, which is this new insurance company competitor for us, but we are reinsurer and we start to work a lot with Alan, which is very disrupting initiative. So we learn from them as much as we try to bring to them and sometimes I think that we learn much more than what we bring. We learn and then we can use what we learned to build our new initiatives. That's the last slide of this presentation, page 28.

At the conclusion, we are confident in our ability to continue to grow and that's the reason why we decided to upgrade the EBIT target for 2018. The group is now aiming to deliver an average annual organic EBIT growth of at least 5% over the 2017-2018 period, compared or based on the 2016 baseline, which is, as Antoine already said is a lot above the initial objective, more than 12%.

First point, this growth is the level of our continued strategy of optimizing our product mix and developing our profitable business in all geographical areas. But while continuing to grow, we are also capitalizing on our strength to accelerate, to increase the pace of our transformation. I mentioned YOUSE. Of course, we will faster the development of YOUSE



in Brazil. But also, we have very strong views to expand it in other countries, in Latin America, where the markets are sometimes different but similar. And where we think it is possible to develop exactly the same model, capitalizing and using some of the investments we already made in technology and knowhow.

In France and Europe, we will go faster in our digital transformation. We started it two years ago with a strong control change with new investments in our operations with Open CNP. That will, of course, use our knowhow and experience with Open CNP program and, of course, with YOUSE and we'll probably try to develop in direct B2C distribution business in all new partnerships and new kinds of partnership we will be able to develop.

And just to point, to do that, we don't have any taboo of about what we can do. We can do a lot. Just an example, YOUSE is developing three products. The main product is a car insurance product. Then, we have a home product and a protection product.

So that means that we look at the clients, on the market, on the profitability or potential profitability on the business depending on the market where we are and open (43:37) market is very different from the Brazilian market, so we'll, of course, not do the same and not on theoretical limits. So I think that the investments we are going to increase, as you can see on the last page, the development is doubling every year - more than doubling every year, will be useful to support those ambitions.

Thank you very much.

**Vincent Damas** {BIO 18954595 <GO>}

Thank you. We now welcome any questions you would have regarding this presentation. So, (44:17), could you please introduce the first question?

## Q&A

### Operator

Yes. Ladies and gentlemen, we will now take questions over the phone. We have the first question. Please identify yourself and ask your question. Okay, (44:39), your line is open. Please go ahead.

**Q - Vincent Damas** {BIO 18954595 <GO>}

Good morning. I'm from Exane. Thank you for your presentation. I have three questions. The first one on France. So, on slide 7, you mentioned on your death and disability portfolio that you've taken some measures to improve the underwriting margins. I was wondering if you could give us some details on that, so if it's just what you mentioned earlier on the call.

My second question relates to the cost of the own-fund portfolio. They went up quite substantially from last year. So, here again, if you could give us some details on that or if

it's only from your program.

And my last question would be on Brazil. If you could give us any details or comments regarding what's the CEO of Caixa Seguradora said earlier this month regarding the renewal of your partnership. Thank you.

### **A - Antoine Lissowski** {BIO 4384399 <GO>}

Okay. Thank you for the question. On page 7 of the presentation, we made different points about the improvement of underwriting margins on Personal Risk and Protection. The fact is that we have reviewed the whole portfolio of the contracts we have in France, and we have renegotiated with all the maturing partners – contracts which were maturing in order to reshape the commitments made by the company or modify re-clarification (46:35). Or if it was not accepted, if we were not to reach an agreement with a partner, we have left the contracts, which were lost.

We have every week the committee at the level of general management of the company with different business unit and the risk department. And we now monitor very cautiously the return on economic capital of all the new contracts, which are made at the level of company.

As most of these contracts have an annual maturity, then it allowed us to renegotiate or to give up different contracts, which we have in this area. Then it resulted in a decrease of around €200 million of our premium income, but it also results in a reduction of claims ratio, negative claims ratio which was existing and now, we are in a process of improving this claims ratio.

The next question you raised was about our own-fund portfolio. This portfolio is made of different elements, some – but the main, I would say, element is linked to the return of short-term investments made by the company every year. We have different categories of investments but among which, there are some short-term investments and it is clear that in 2016, we decided to stop some long-term bond investments in govies notably. And to prefer to have cash even with no specific return, waiting for better times in terms of longer-term investments.

Then during this year, specifically, we reduced not only return on the bond investments we were making but also the scope of long-term investment adds to the benefit of cash kept in the balance sheet. And now, we have taken again the path to reinvest in longer-term instruments, starting I would say at the mid of autumn. We have re-invested progressively the money, which was left aside during the part of the year last year. Then all that results in a punctual reduction of our own-fund investment returns.

### **A - Frédéric Lavenir**

Concerning Brazil, there is no specific news. I'll remind you that two years ago, our Brazilian partners wished to discuss with us about the shift. The reason was they had a project of an IPO about the holding company holding the shares of our subsidiary, Caixa Seguradora. And they wanted to maximize the value of their shares. And For that, they

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needed to increase the maturity of the partnership, which is logical, what the investors require.

So, they have started to discuss with us. So, we were and we are today, of course, very open to any discussion, even if we do not need it because we have time until the end of the partnership. So, now the announced, the president of Caixa announced recently that they did not have in mind an IPO for 2017. So, perhaps, next year, I really don't know, but of course, if our partners wish to anticipate the discussions about the future years, we will be very open to anything.

Nowadays, there is no discussion and no project about that, so we are fully focused on developing our business and you could see that it's quite successful, our traditional business, which is going well, and the new business and our investments in Brazil and Latin America. So, that's the situation today.

**Q - Vincent Damas** {BIO 18954595 <GO>}

Okay. Thank you.

**Operator**

Thank you. We have a following question. Please identify yourself and ask your question.

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Hello?

**Operator**

Please go ahead.

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Yeah. Thank you. It's Michael Huttner from JPMorgan. Thank you very much. And brilliant results and it's so nice - I mean, my recommendation does match but you delivered, it's really nice to see. I have three questions and they're kind of a bit (52:22). Here in London, the main...

**A - Antoine Lissowski** {BIO 4384399 <GO>}

Sorry. We do not understand very well the question. I think there is something technical with - could you speak slowly or...

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Yeah. Yeah. Is this better? Hello? Is this better? Hello? Hello? Can you hear me? Can you hear me? Hello? Can you hear me? Hello?

**Operator**

Please hold the line, sir.

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Sure.

**Operator**

Ladies and gentlemen, please hold the line. This conference will resume in a few minutes.

Okay. Maybe participant asking his question, please go ahead. Thank you.

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Yes. Hi, there. It's Michael Huttner from JPMorgan. Can you hear me? Hello? Hello?

**A - Antoine Lissowski** {BIO 4384399 <GO>}

Yes. Go ahead, Michael. We'd like to hear you.

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Fantastic. Can you hear me now?

**A - Antoine Lissowski** {BIO 4384399 <GO>}

Yes. Yes. We hear you.

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Fantastic. Thank you. It's Michael Huttner from JPMorgan. Brilliant results. Well done and lovely delivery. Three questions. So in London, the main topic of debate is sovereign, sovereign spread risk. Could you walk us through very hypothetical scenario, I know from your point of view? But people in London, we've been through surprises. And what would happen if you had a surprise results in May, in the French elections? What would happen - if you could walk us through what would happen in terms of sovereign spread risk and what about the potential of these locations there might be, particularly given your strong track record with what happened in Greece a few years ago?

And the second question is dividend. So, you've increased the dividend for the first time since I've covered the company. So, a few years, not many, but a few years, which is brilliant. And I just wondered, what's the dividend policy going to be now.

And the last one is just numbers. I was working out as you spoke about the one-offs you had. So, you had restructuring costs, which I guess net of cash were about €30 million. You had an excess of one-off versus gains below the line of about €30 million plus, that's €60 million of understatement. And then the last item which I couldn't quite work out is how much the Brazil startup is costing you. It's just to gain an idea of what the underlying level of earnings would be without these one-offs. Thank you.

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**A - Antoine Lissowski** {BIO 4384399 <GO>}

Michael, we are showing our understanding of your questions because it was really not – the broadcast was very bad, very poor. Vincent, we perhaps try to reformulate some of his questions.

**A - Vincent Damas** {BIO 18954595 <GO>}

If I understand, Michael, your first question is regarding the French election, presidential election, in what the outcome could be and the consequences for CNP, if it's that question.

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Yes, please. Yes, please.

**A - Frédéric Lavenir**

Well, it is quite difficult question. I think I will not try to predict the result of the French presidential election. What I could say is we are happy we are on the Solvency II environment. So we include in our Solvency II scenarios a lot of very different scenarios, including heavy change in the interest rate environment, increase/decrease, and other assumptions which I think can quite well describe the different scenarios which would happen if there would be, I would say, a strong reaction of the markets to our results.

So what I'd say is if we are under Solvency I in a very quiet and conservative way of measuring our risk, I would say, okay, we have to test different scenarios. I think that's the way we are calculating and monitoring through the ORSA our capital and business. It's quite well adapted to very uncertain period. And I must say, our board is strongly focused on the ORSA monitoring. We have shocks on the Solvency II ratio, all kind of shocks and we are monitoring our capital on that basis.

So, I would say the best answer to your question is, yes, we know they are (58:10) and we are monitoring our company with our board on a very holistic way and we include, of course, in the shocks which are in the ORSA method many, many assumptions and situations which would happen – if I understand your question like that – if the markets would react strongly to a political event. So, that's what I can answer to your question now.

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Okay. Thank you.

**A - Vincent Damas** {BIO 18954595 <GO>}

And your second question, Michael, was, if I understand, about the YOUSE profitability and what are the underlying earnings of this new activity.

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Yeah. That's right. Yes, please.

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## A - Frédéric Lavenir

Yeah. YOUSE is a startup. So, YOUSE is burning money. We have six months development, so you can see the figures. We start from zero. We invested in four new platform, increasing very quickly. And of course, monitoring of the weekly pace, the economics of the metrics of the project. So, it's really a startup model in terms, of course, of business model, in terms of monitoring the business plan and in terms of monitoring the operations. So, since I am personally on a weekly report and now, of course, we have cost and the key indicators are growth efficiency of the marketing initiatives, marginal costs of the new clients, et cetera. So, we are monitoring it on that way.

## Q - Michael Igor Huttner {BIO 1556863 <GO>}

And is there any figure?

## A - Frédéric Lavenir

No. The figures - the only figures we disclosed are the figures which are in the presentation you have received.

## Q - Michael Igor Huttner {BIO 1556863 <GO>}

Brilliant. Thank you. And my last question was on dividends, can you say anything about the dividend policy now?

## A - Frédéric Lavenir

We are very clear. We explained why we proposed - why the board proposed the increase on the dividend this year. Of course, it is very important, and it gains our confidence. It's the first time after six-year stability of the dividend we proposed an increase in dividend. But we are - let's be very clear, we didn't have any guidance before, as I repeated last year and the years before, and it doesn't mean we announced a guidance in the dividend. Just it means, let's say, confidence in our ability to develop. We express it through our objectives in the EBIT increase. But we don't disclose any specific guidance on our dividend policy.

## Q - Michael Igor Huttner {BIO 1556863 <GO>}

Brilliant. Thank you very much.

## Operator

Thank you. We have a following question. Please identify yourself, and ask your question. Thank you.

## Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning. This is Thomas Fossard speaking from HSBC. So I had a further couple of questions. I just wanted to come back to the dividend policy, if I may, because you are increasing the dividend for the first time this year by 3%. You're pointing to a 10% growth in operating cash flows. Now, you're expecting your EBIT growth to grow 5%,

2017-2018. So what is the reason for increasing the dividend this year and not highlighting what could be the trend in dividend in 2017-2018? I'm not sure to understand why this is the case especially because you increased dividend this year slightly. So I'm not sure to fully understand.

Second question would be on the €3 billion of capital buffer, which are not taken into account in your Solvency II ratio. Could you update us on how the split is between Brazil and the European operations?

Third question would be on the BPCE distribution agreement. Could you remind us if you started already the protection side of the distribution agreement, and how much of that - if it is the case, how much of that is in your number reported for 2016?

And maybe last question just to come back on the first question of Michael, because Michael presented it in terms of spreads. But I wanted to get your feel when you're looking at the manifesto of at least three of the candidates to the French presidency, either they're talking of not repaying the French debts, either they are talking about renaming the currency for repaying the debt.

So how do you feel on that, not personally but as - of course, but as a management of a big French insurance company holding significant portion of French treasuries? Thank you.

### **A - Antoine Lissowski** {BIO 4384399 <GO>}

I'll start with next question about the dividend. Well, (01:04:56) this year, well, it is clear that there was with the entry into Solvency II area, there was different questionings about how the company's coverage ratio will react and so on and so on. But it was not time before to say, okay, we are able to increase the dividend to what was made before.

Now, we are in a period where you have all registered the good economic performance and the sustainability of our ratio, then it is time to show that all €0.77 which was paid the years before, six years before, is not in the heart of our policy. It might be something else. It might evolve, move. But it is not a signal that there will be such and such pace of growth, it's just to signal that it is time to say that there is no problem with the economics and with the solvency of the company and that €0.77 are updated.

Second, about the capital buffer. I mentioned we have €3 billion of capital out which are not incorporated in the figures published, out of which, the part attributable to Brazil is €2 billion.

The third question was about the impact of BPCE agreement for us. I understand on our personal risk and loan insurance businesses, just know that the term loan insurance business in France was up this year by 3% in equivalent terms and that it is due mainly to what we have made as improvement with BPCE.

And the last about a spread, well, there is a friction to speak about that. We have a portfolio which is made of different assets. I would just say that in a way, we have more liabilities which would remain denominated in France than assets denominated in France. And it is clearly not a concern.

**A - Vincent Damas** {BIO 18954595 <GO>}

If I may add, you have on, Thomas, slide 31, in the Appendix, a few figures about the first year of the new distribution agreements in France. And you've got the figures of the premium income in risk protection we do with BPCE, which is slightly below €1 billion. And it includes extension of the (01:08:18) to Banques Populaires and Crédit Foncier.

**Q - Thomas Fossard** {BIO 1941215 <GO>}

Thank you.

**Operator**

Thank you. We have a next question. Please identify yourself and ask your question. Thank you.

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Hi, there. It's me again, sorry. I hope you can hear me a little bit better, but just drew an outline (01:08:41). The first question is on the €9.1 billion, the PPE. And I just wanted to know how much of that is already included in Solvency II or what proportional, any kind of guidance would be helpful to know if it's an extra or if it's already in there.

And the second question is on Santander. I just wanted to know if you could give the actual profit number and give a feel for how much more growth you see or you can see today. I mean, of course, if we look many years ahead but in the short-term, how much more could emerge after that?

And then, the last question is on Brazil. Two years ago, it was a big worry and I remember the Brazilian (01:09:31) up to €2 billion amount for renewing the contract, which I think would be from 2021 to 2030 and I remember at the time thinking, €2 billion, that's a lot. I just wondered how you think of that. I mean, basically, do you have a cash to pay it? That was my question. Thank you.

**A - Antoine Lissowski** {BIO 4384399 <GO>}

We'll answer to your first question, I'm (01:10:03) to Vincent to reformulate the next questions. The first regarding the BPE. In fact, the BPE is substantially designed to come back to customers in the end, okay. And it has clearly an effect in the model at the end of 50 years period and so on and so on. But in fact, in the improvement of our - in the evolution of our Solvency ratio this year, the increase of the BPE is very neglectable. You cannot consider that it is due to the fact that we have a higher BPE structure this year.

The next question, Vincent.



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**A - Vincent Damas** {BIO 18954595 <GO>}

So, the second question was about CNP Santander, about the net profit contribution of CNP Santander this year, and what do we expect in terms of growth for the next years.

**A - Frédéric Lavenir**

So, we disclosed the figures which are in the presentations. So, we stress the level of the contribution of CNP Santander to the dynamic of our business and revenues in the Europe zone. You have in the presentation - page 38 in your presentation, please, if you could go there, I'll go with you. You have details on the CNP Santander insurance, if you are on page 38, with detailed figures on that. So, you have an EBIT contribution, which is - after amortization, €33 million EBIT contributions.

Did you find page 38? I think it has answers to your question.

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Yeah. How much do you think this could reach in the next couple of years?

**A - Frédéric Lavenir**

Growth...

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Okay.

**A - Vincent Damas** {BIO 18954595 <GO>}

And the last question of Michael was about the Brazilian distribution agreement, if we were to renew it in the amount of €2 billion which was speculated in the press, and do we have - would we have the cash to pay it.

**A - Frédéric Lavenir**

Well, you make the price, thank you (01:13:25). No. As I said, it's an odd question today so for the reason I already explained. For us, it's not a question for today. And for our partners, it could be if they had this ideal project which is now postponed. So, of course, it can come back and when it will come back, we think about discussions.

We never mentioned any price, so I know that some rumors run on the markets two years ago, something like that. So, times are different and we do not know which would be the questions. So, it would be difficult for me to give an answer today. I'm sorry. But really, it's not the question for today so it's really a theory.

I recognize there are some figures which were on the newspapers two years ago, but, well, it's really without any solid basis and we are now, as I said, focused on business, not of the price of a possible renegotiation for the new maturity of our agreements.

**Q - Michael Igor Huttner** {BIO 1556863 <GO>}

Brilliant. Thank you very much.

**Operator**

We have no further questions for the moment.

**Q - Vincent Damas** {BIO 18954595 <GO>}

Sorry for the technical problems. We'll try to improve it next time. And we would like to thank you all for your participation. And as a reminder, all the materials and the replay will be on our website. Have a nice day. Bye-bye.

**Operator**

Thank you. Ladies and gentlemen, this concludes today's Web conference call. Thank you, all, for your participation. You may now disconnect.

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