Company Participants

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

Other Participants

- David Barma, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Thomas Fossard, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the webcast conference for the presentation of CNP Full Year 2017 Results.

I would like now to handover to Mr. Frédéric Lavenir. Sir, please go ahead.

Frédéric Lavenir

Good morning, everybody, Frédéric Lavenir speaking. Thank you for being with us for our full year 2017 results presentation.

So, you've noticed from our press release an attributable net profit of €1,285 million and EBIT of €2,889 million, which are quite good results and I'd like to comment it starting with on our presentation. You can follow my presentation on your small book, page 5.

I want to start with the underlining, very robust, and dynamic business performance. First of all, after a few years, we continue to implement our new business mix and 2017 was the year where the business performance was especially dynamic in the most profitable segments with a 42% increase in the unit-linked savings/pension's activity and a 12% increase in the personal risk and protection insurance business. Those two product lines are our priority lines, you know it, and has been a priority for many years and this year I think the performance, especially good.

On the other side, as you know, we manage cost discipline policy, have been doing it for many years. In this year, we continued to improve our performance with the cost/income ratio going down from 32.9% to 30.8%, a new improvement after a few years' improvement. And I want to stress especially our performance in France where our administrative costs are going down by 2.6%, going down.

So, page 6. Consequence of those good performance in the business mix and in the cost control, very strong growth in the new business value at 80% in comparison with 2016, which is at least very dynamic and an APE margin going – increasing from 13.9% to more than 23%, exactly, 23.6%, which reflects quite good improvement of the business mix and the improvements of the economic environment.

In terms of profit, our EBIT is growing by 9.5% and you can read on the page 6 that the structure of this EBIT is continuing to change, 52%, that's more than 50% which is symbolic, of the EBIT comes from the personal risk and protection insurance business, which is of course in line with our strategy and our objectives. And last but not least, the attributable net profit, I mentioned the figure, but the growth is interesting, it's growing by 7% in comparison with last year.

Those good performances explained that our board decided to propose to the General Assembly an increase of the dividend for the second year. Last year, we - coming from €0.77, we increased to €0.50 - to €0.80, sorry. And the proposition of the board is this year to continue growth up to €0.84. It is fully consistent with our operation performance as I said. That's also with the increase of the earnings per share, which is increasing by almost 10%, you can see it on the left of 7. And also consistent with the increase of the net operating free cash flow, which is growing by 5.4% up to €1.62 and which is able to cover this proposed increase of the dividend.

Let's now go to the detailed explanations by geography, page 9. In France, very strong improvement in the APE margin, explained by the new improvement of the business mix. The premium income is going down by 5.9% in France following the full implementation of our new partnership with BPCE. You can see the decrease of the premium income in the savings and pension business and growth in the personal and risk protection business, which is in line with the new partnership and in line with what we intend it to do.

Second point, in the middle of the page, is a very visible change of the structure in our technical reserves. You can see a small decrease of the traditional euro business by 1.8% and a strong increase of the unit-linked technical reserves up to - going up by 14.1%. And for the first time, technical reserved in the new Eurocroissance product, which is a product including guarantee at the end after 12 years and no guarantee during the accumulation period. This product is much less capital consuming, it's a long-term contractual product. We think it will develop, if the regulations are simplified and changed and we hope it will be done in the coming months or years. But anyway, we are confident this product is a very good product for the future.

Well, so in one word, a very positive change in the technical reserves structure in line with our strategy.

The improvement of the business mix as described is one of the reasons why the new business value is going up very strong. And the second reason is the improvement of the economic environment especially of course higher interest rates in comparison with last year. So, the new business value is more than doubling going from €232 million to €498 million and the explanation is on the same page. The APE margin is more than doubling from 10% to 21.5%.

So, this is now page 10, translated into the revenue growth, which is very good and strong increase of the insurance revenue by 7.2%, explained by confirmed growth in term creditor insurance revenues, improved loss ratios in our protection business, and for the first time this year after many years of decrease in the interest rates, a stable regulatory discount rates. So, it's the first year where the discount rates are stable. So, it is of course very positive for the personal risk and protection segment's revenue.

Page 11, you have more details about our cost control policy and our cost performance. As I already told, the administrative costs are going down by 2.6%. The cost/income ratio in France is continuing to go down from 39.3% to 35.7%. So, it's a medium-term constant evolution, of course, very positive. So, no surprise with the dynamic revenue growth, very strong cost control, the EBIT is going up by 8.7% in France from €1.6 billion to €1.7 billion.

So, the reason why we continued to control well our administrative costs is the success of our Operational Excellence Programme. I remind you that our objective was €60 million recurring annual reduction in the cost base in France. At the end of 2017, so the second year from a three-year program, our objective is achieved – is 72% achieved with €43 million recurring annual reduction in the cost base, and we are very confident in our ability to achieve the full objective by the end of this year.

I must add that our 2017 costs, €612 million, include the €25 million non-recurring cost which was decided by our board to support our digital strategy. We'll come back to that later.

If we go now to Latin America, page 12, the premium income is very, very dynamic in all segments, 15% increase in the personal risk and protection business. But of course first of all, you can see it on page 12, very, very strong increase in the savings and pension business, 60.5% increase on like-for-like basis and then more than 71% increase in the reported figures. We achieved that without any problem on the APE margin. As you can see, the APE margin remains on the 30% area going up from 29.1% to 32.6%/. So, very strong increase in the volumes and a good or small increase in the APE margin is enough to explain that the new business value is increasing from €146 million to 225% (sic) [€225 million] (00:15:01), so very strong increase.

Just page 13, a small focus on Youse, our start-up in Brazil. We are very satisfied with the first year of Youse. I remind you Youse was technically launched in May 2016 and was commercially launched in September 2016. So, 2017 was the first year of our baby and the growth is very good, we are very satisfied. Our objective of 100,000 contracts was exceeded last year and the brand awareness of Youse, which is of course one of the main assets we are building now, is very satisfying; 11% unaided brand awareness last October and it's growing regularly. So, it's for us very satisfying and one of our main objectives.

We sell 900 contracts every day in January, so it is quite good and the image of Youse as market leader in the digital insurance business in Brazil is clear and we are very proud of it. So, confident in the development of this new initiative in Brazil.

Page 14, going back to the mainstream. The insurance revenues in Southern America are continuing to grow, it's also very good with a 13.2% growth. The administrative costs, if we exclude Youse which has a pure start-up profile, the administrative costs of the business are going up by 12% which is under the revenue dynamic and it is always our law which explains that the EBIT continues to grow on a very good pace with 13.8% in comparison with the last year.

Just one word about our cost control in Brazil, it is going on the right direction with a positive difference between revenue growth and administrative costs growth. But if we come back to the figures themselves and not to the changes to the valuations and you can read it on page 14, the cost/income ratio, if we exclude Youse which is a specific model, is 15.6% which is quite very good cost/income ratio, and we have room for expansion for such a model.

Europe excluding France, page 15. The premium income continued to grow and the dynamic part of the business, most dynamic is the personal risk and protection business with a more than 11% growth led by development of CNP Santander mainly in Nordic countries and Poland this year which were especially dynamic. And the saving and pension business, which is a little more than stable with a 1.4% increase like-for-like has a very good structure. The unit-linked contracts reach now 73% of the global saving and pension premium income, which is again in line with our strategy, and contributing to the improvement of the business mix. So, the new business value is stable, as well as the APE margin and a very good and strong business model.

Page 16, the revenues are continuing to grow in Europe including France. Administrative costs are under control. So, the EBIT is continuing to grow at a good pace with a 3.1% growth on reported figures.

So, those very strong and dynamic performance allow us to define again an objective for 2018 and this objective is to achieve an organic EBIT growth of at least 5% in 2018 compared to the 2017 baseline.

So, based on this good operational performance and EBIT achievement, I will leave Antoine going into details on the financial part of our results. Antoine?

Antoine Lissowski {BIO 4384399 <GO>}

Now, we are on page 19 of the slide show. And I start by the EBIT being at €2.8 billion. You see there that the part of this EBIT coming from personal risk is this year higher than the part coming from savings and pension. It is a significant improvement of our business model, which was a target of the company for a long time and now, we are at the beginning of the majority of EBIT being constituted from pure insurance businesses.

If I go to the different other figures on this slide, first you that the financial costs on average reduced over time. Second that we pay an income tax to about €1 billion. There were different changes in France this year. There was another taxes short tax (00:22:40) exceptional in order to refund the tax on dividends repayments. But it has had a very marginal effect on CNP Assurances, about €31 million. And we are contemplating a reduction in French corporate tax rates to 25% in 2022, which in terms of deferred taxation results in a slight increase of taxation.

I just draw your attention to one element of this slide which is the non-recurring items. We had to face this year with a withdrawal by the French State from the financing of what we call (00:23:34) statutory uplifts for life annuities where our life annuities which were granted for 70 years in France after war and since 1948, the French State were adding some money to annuities paid by insurance companies to certain customers. It decided that - French State decided to stop these compliments and we have to provision for the portfolio, it is a run-off. But we have to provision for the portfolio's remaining part, it represents €212 million before tax and we have made a specific provision on that respect.

Notwithstanding that disagreeable surprise, we are in situation to increase our attributable net profits to €1,285 million.

Now, I come to page 20 to have a look on the operating free cash flow of the company. You see that it is up 5.4%. When you look at the figures, you see that the operating profit itself is sharply up from €1,135 million to €1,346 million. This year, we had a smaller reduction in required capital which is linked to our rehearsal of different biometric and behavioral assumptions. And we have the required capital for new business, which conversely is slightly lower than last year's because there is sufficient production of new business value in order to finance a part of this new business. All-in-all, the operating free cash flow stays now at €1,113 million which is much better than last year.

When you look on page 21, the generation of cash flow between 2012 and 2017, you see that on these five-years periods, we have globally generated €10.2 billion of cash. Cash in, operating profits was €6.6 billion, we have had a reduction in required capital meaning that's a contract which we've achieved represent €2.8 billion, and the disposals of different subsidiaries, the remaining part of €700 million.

On the cash out, we had an organic growth representing €4.2 million (sic) [€4.2 billion] (00:26:49), we have paid €2.2 billion in terms of dividends, we have acquired different subsidiaries for €400 million and we have been able to increase our fee surplus by €3.4 billion which among other things explains our solvency ratio.

I come now to this precisely figure of solvency ratio you have on page 22. The consolidated coverage ratio is now at 190%. You see that as we have noticed from the beginning, very narrow link between this coverage ratio and the 10-years' swap rates in euro. And the increase this year is due to different elements where is financial market performance, where is an increased operational contribution which was already depicted, and the shift of business mix towards unit-linked which are less cost capital in the business.

The rate sensitivity was reduced over time because favorable economic environments meaning that the stop of decreasing interest rates helps, and the sensitivity to changes in share prices also is reduced and it reflects the hedging program to which I will come back in a moment.

On page 23, we sum up different figures to show how we can consider on five-years' time how we are creating value. If you look at the share price and at the total shareholder return including reinvested dividends over a period of five years, CNP Assurance has a performance of 16.6% a year, above insurance sector as it is depicted by the STOXX Europe 600 Insurance Index. And it is also the case in 2017, we have a performance of CNP Assurance of 14.3% to be compared with 11.7% for the sector. The net asset value per share is now at €24, it was in 2012 at €18 and the MCEV is now at €33.85 per share, it was €21 five years ago and it was below €30 at the end of 2016.

If I turn now to our management of the balance sheets on page 25, first, a glance on the guaranteed yields and our exposure on the in-force and new business. You see that's a return on fixed rate investments in the in-force is now just below 3%, 2.96% to be compared with 3.11% last year, it is a decrease of around 15 basis points, which was of course completely consistent with the decrease of long-term interest rates. And the average guaranteed yields in the in-force is now at 35 basis points.

What is more interesting is that the new business, how it looks the new business. The average return on fixed rate investment is slightly improving compared to last year's at 1.23%. And what is important, average guaranteed yield stay much lower than before, it represents almost nothing 0.02%, it is just new fresh money under existing contracts, so few contracts. That results also in very high level of policyholders' surplus reserve. We have now €10.9 billion of these reserves, this represents 4.7% of total technical reserves. Last year, figure was 3.8% of technical reserves. We have added €1.8 billion to this policyholders' surplus reserve in a context where we consider to be correctly protected that is more necessary than ever.

On page 26, you have a view on the investments inflows of the company last year. We have invested 52% of the money in government bonds, 23% in corporate bonds, 13% in different property and infrastructure, 10% in equities, and 3% in private equity. All-in-all, we have roughly half of the flows who come to predictive economy and half who goes to all these in general.

And when you see on the right side of the slide, the place of govies in our investments is mainly due to the necessity we are – to hedge correctly our long-term liabilities and on long term, there is nothing better – there's nothing more existing in terms of availability than for sovereigns. When we are on shorter maturities, we of course prefer to seek better return in spite of the fact that corporates' prices looked very high this year and we were not very eager to add corporates bonds to our portfolio this year.

On page 27, we have underlined the hedging strategy of the company, which is specifically important this year. At the end of 2017, the level of equities was very high and it is still very high. The interest rates in the market were very low and they are still very low. But the vision of different people, that's the risk of interest rates growth and some, I would say, threats on the quality and solidity of markets in equity, but there was some risks in current environment. Therefore, we have increased very dramatically the equity edges in the balance sheet in order to be able to keep our portfolio in case of set back or crisis in equity markets without having to reduce our position.

And regarding the interest rate hedges, we have maintained the total notional amounts at €53 billion as it was already before. But we have indicated there that we have reduced the strike on this swap rates in order to be protected at lower level against an increase of interest rates which could happen in forthcoming months.

Now, I finish with different views on our specific new investments in 2017 with page 28. I first draw your attention to the fact that we are still investing very much in private equity and different mid-caps €600 million (00:35:48) in 2017. We are one of the world's largest investors in private equity. And we consider that it is our role – normal in terms of interests to remain important in this sector. We have made important investments in property and forestry assets with a view to have some 100% green investments in this field. We have also increased very much our infrastructure exposition. We have investments in electricity transmission networks and different energy sector tools. And in addition to that, we have increased our corporate debt detention in loans and bonds to support different companies.

And last but not least, because it is on page 29, we consider that in spite that it is not strictly a financial figure, but it is very important from economic and social point of view, we have a very strong commitment in favor of energy and environmental transition. We have already announced a couple of months ago our intention to increase our green investments by €5 billion by 2021, there already stay at €2.4 billion. It will be a significant move.

And what's more, we have decided this week to increase the objective of reducing the carbon footprint of our equity portfolio. The former objective was to have a (00:37:46) CO2-equivalent tonnes per thousand euro invested at a level of 0.33. And now, we have decided to reduce the footprint in terms of CO2 produced by our portfolio to 0.25. It will be a significant move, but we consider that it is one of the rules of insurance company in general of investors to take their part to the protection of our world.

Frédéric?

Frédéric Lavenir

Yeah. I come back for conclusion to this presentation on page 31.

Just to come back to 2017, I think we could demonstrate, Antoine and me, that we are building based on our strategy a strong and profitable company, but we are also building for the future and a few examples here of new partnerships and digital innovations and investments. The new partnerships, just to remind you that (00:39:13) very new fundamentals, our partnership with UniCredit and we are very confident in our ability to develop it with our friends and partners. A new partnerships with the non-profit personal insurance companies in France AG2R LA MONDIALE, Klésia and Malakoff Médéric which we are developing our pension business with AG2R LA MONDIALE and I remind you that we founded with them a JV, which is the number one in pension in France and the development of the protection business with Klésia and Malakoff Médéric based on small and medium enterprises customers and the model we are developing with that has proved this year that it is very efficient and powerful.

On the more digital side, Youse, of course, I already spoke about it and about the very positive and dynamic development of this subsidiary. We invested at the end of last year and beginning of this year on two pure digital brokers Azimut in France and iSalud in Spain. And we continued in 2017 to develop our digital health and well-being portal Lyfe which is including in our offers to two partners and which is developing quite well.

Page 32, just a few figures in fact about the tools we are using and developing for acceleration of our transformation and preparation of the medium and long-term future of our company. The investments in digital are continuing to grow very, very fast, and as you can see, page 32, and it will continue.

And our specific partnership programs with the disruptive start-ups is continuing to develop, and we invested in very, very promising companies: Lendix, which is very, very strong, good and quick developing company in the crowdlending; H4D in telemedicine; Alan, which is the only new insurance company in France developing in the health business, which is together the competitor and a partner for us; and Stratumn, which is one of the stars in the blockchain technology; MyNotary, which is a specific business model in real estate inspired by a company which was very, very successful in London, and which is developing this company, MyNotary, in France; and last but not least, Lydia, which is challenging PayPal as you know and developing very, very fast at students community on payments business.

So, those partners are very good partners for the future of CNP which is called CAP 2020. CAP 2020 is a strategic program including a very strong cultural change program and based on two big priorities, the first one is CNP Digital, which is a client-centric change of our processes, tools and a big change in the way we are working on based on robotization, artificial intelligence and all technologies and new processes which make it possible to (00:43:50) fully our organization around the customer itself based on digital tools.

And the second side is what we call the CNP CLIENTS CONNECTÉS, Connected Client CNP, with development of our direct business towards the clients, business with digital brokers. I mentioned the two acquisition we made at the beginning of this year and development of affinity groups which is – it is our vision of the future, a key element of the new digital world. We need digital tools, we need reactivity, customer-centric processes et cetera, but we also need reassurance, confidence, communities and our strategy is based on the development of those communities. So, it is a very long-term vision, but we need such a vision as our DNA is a long-term vision DNA.

Thank you very much for your attention and so, we are all at your – we are all here to answer your questions, comments and – about our 2017 results or any other. So, thank you very much.

Q&A

Operator

Thank you for holding. The first question is from David Barma from Exane BNP Paribas. Sir, please go ahead.

Q - David Barma {BIO 21843622 <GO>}

Hello, everyone. Thank you for taking my questions. My first one is on your solvency ratio. Could you maybe explain what the key moving parts in the Q4 were? I'm mostly thinking about the biometrical and the tax adjustment you took and maybe the market movements as well with the relationship between the interest rates and the spread movements in Q4.

My second question is on your 5% growth targets now back on the table which implies that the discussions in Brazil are taking much more time than expected. Could you perhaps give us some color on the reason for such a delay and the implications for the scope of your future operations, given that, I guess that (00:46:51) is probably going forward with its formal bidding process on the other business lines?

My last question would be on French protection and more generally how you – the division had a growing and important contribution in 2017. How do you see that going forward in 2018 and after that and how does it fit into your group growth targets, given the dynamics we're seeing close to that on the – on some of the protection lines and on the saving side as well? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

First to start with, I'd say a few words about solvency ratio and give call to Marie Grison, Head of our Risk Department to develop on that. But we've had different elements. One very, I'd say, positive is clearly our interest rate structure which looks better because we are facing a higher level of interest rates. What is also important is to see that we have shifted part of our equity from corporates to sovereigns which costs less in terms of capital which is an important element in computation of the solvency ratio.

As regards the question of our, I would say, assumptions in terms of different sensitivities – different, I'd say, technical assumptions, we have had at the end of the year, to upgrade different assumptions on the lapse rates on different portfolios. And it explains, in fact, an impact at the end of the year of about 5 points. Then between September and now, you had these specific element which is made yearly and which explains why between September and now we have made a little move.

Perhaps...

A - Marie Grison {BIO 15895562 <GO>}

Yes. Well, if I understand well, your question was between September and December. So Antoine explained that this update of biometric and behavioral laws on different segments had an impact, a negative impact of around 5 points. Markets were slightly under, well, at the level of September, it's a slight impact. And there's another impact that is worth mentioning is decrease of the tax rate for the future because it's not – perhaps not very intrusive (00:50:17) to say that, but it's less tax to absorb shocks in the solvency formula.

A - Frédéric Lavenir

Well, reducing tax is bad news from a solvency ratio point of view. About your question, the Brazil situation, yes, we announced as you remember a memorandum of understanding or MOU last September, so and we expected that at this time to finalize our discussions by the end of the year, by the end of 2017. We announced in last December at the end of the year that it would take a little more time than expected. So, we are still in those negotiation which are running very well with our partners, everybody is very positive and constructive, so it's taking a little more time. So, nothing special to announce, except the fact we already announced that it would take a little more time. So, we are still discussing and negotiating in a very positive mood with our partners.

And as you could – you can see on our figures the fact we are discussing probably because we are discussing on the very positive basis is, is it doesn't change anything on our performance and the quality of our business in Brazil. But to also reprise very precisely to your question, the framework we described in our press release last September is still the framework in which we are discussing, so nothing to add to that. Thank you.

Q - David Barma {BIO 21843622 <GO>}

Thank you.

A - Frédéric Lavenir

And then, your last question was about our perspectives in the protection business in France for 2018. So, we are confident in our ability to continue to develop a profitable business. As we already said, the loss ratios are improving. We are now catching quite good and then profitable business. We develop our relationship with the new partners, AG2R LA MONDIALE, the new partnerships I mentioned. The business is developing quite well, so we're confident in the coming year for these segments. Thank you.

Q - David Barma {BIO 21843622 <GO>}

Thank you.

Operator

The next question comes from Michael Huttner from JPMorgan. Sir, please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you so much. These are fantastic results, really lovely. And I had just one question and it's really enough, I would like to ask you to give me a kind of scenario analysis. The reason in the past we've never been the biggest fans of CNP is we look at the balance sheet and we see this huge portfolio of corporate bonds and the small shareholders' equity and we think the leverage, the leverage is not good.

Now, you've created lots of buffers, you're very prudent, you get sensitivities, but let's assume that corporate bond spreads rise a little bit more than 100 bps, say, 150 bps, could you walk me through the scenario of what it would mean in terms of earnings, balance sheet, solvency, so I feel kind of things are good and then I can just look at the upside? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Precisely, I mentioned the fact that we have reduced our new investments on corporate bonds over the last year. You know that we reduced our sensitivity to that risk, it's precisely the opposite. We have concentrated our investment, I would say, in predictive economy, in our tools, in our instruments than corporate bonds last year.

Q - Michael Huttner {BIO 1556863 <GO>}

And maybe a Sedalia (00:54:58) - maybe?

A - Antoine Lissowski {BIO 4384399 <GO>}

(00:55:02) you mean the sensitivity?

Q - Michael Huttner {BIO 1556863 <GO>}

Yes. Let's just imagine things will be really bad, people think, oh, gosh, the company is not doing well et cetera and corporate bond spreads rise sharply, what would be the impact on your economics? It doesn't have to be on earnings or shareholders' equity, but how would you - how does it change the way your business works and produces value?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, in Italy, we have such an amount of unrealized gains in the balance sheet, but we do not imagine that a specific movement in that topic would occur any immediate impact case. The portfolio is sufficiently small in order to allow us to support any move even in important in corporate bonds.

Q - Michael Huttner {BIO 1556863 <GO>}

And what is the duration of that book, are they corporate bonds?

A - Antoine Lissowski {BIO 4384399 <GO>}

I do not catch exactly what you are meaning.

Q - Michael Huttner {BIO 1556863 <GO>}

So, the duration, just I can work on sensitivity irrespective of how Solvency II calculates these things. So, if interest spreads move 150 bps, how much of the corporate bond portfolio change in value and how much would be left to shareholders?

A - Marie Grison {BIO 15895562 <GO>}

Okay. It's Marie, again. You have the impact on the Solvency II ratio which is quite positive due to the mechanism of the volatility adjusters on Solvency I. We are not very sensitive to corporate spread and you can see in the appendices that also page 57 especially and page 58, that's – we are very careful about the quality of the corporate bonds, meaning we try not to go too far on (00:57:17) credit quality and also using that when we – when Antoine commented the new investments of the year, we try not to go too long in duration, and it also explains to you that our sensitivity to the solvency is not so high, because the duration of corporate bonds is not so long. So, I'm not – it's different elements that can answer partially to your question.

Q - Michael Huttner {BIO 1556863 <GO>}

Understand. I understand the way you answered the question. I'll ask this again maybe offline, because I don't feel that I'm fully reassured quite yet. And the reason I say that is I regard volatility adjuster which works in a funny way relative to reference portfolio, et cetera, as I mean it's valid et cetera, but it may not reflect what investors feel when the impact happens of rising corporate bond spreads, that's why I wanted to ask the question in a more basic way, what's the duration of the portfolio, how much have you got and how much will policyholders take of that share, but maybe your IR team can help me with that later. But I don't feel we've addressed this at the moment. Thank you.

A - Marie Grison {BIO 15895562 <GO>}

You have the standalone (00:58:43) duration on page 56.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay. Thank you very much.

A - Operator

So, we have now two questions from (00:58:55) the first one is about the savings pension business in France. Liquidating rate in France has been on average more or less stable this year, 1.49% versus 1.52% last year at this stage. And taken into account the recent increase in interest rate, what do you expect for next year?

And the second question is coming on the Brazilian discussions again asking when do you expect to finalize the new agreement and when could it enter into force.

A - Antoine Lissowski {BIO 4384399 <GO>}

On the policy of the dividend, well, of course, we even not comment very much what we have done last year, but we will clearly not comment what we will do next year. But the analysis you can have is that in 2017, we considered that moment was to improve the liability structure, that means that to reduce the relative impact of fuel to unit-linkeds. But the issue of reducing the global amount of portfolio is not in our mind. That means that if we had decreased again the policyholder dividends, it could have been a signal, but we are not confident on the possibility of our interest rates growing sufficiently in the forthcoming years in order to balance the new liabilities.

We are clearly in a scenario under which the interest rates will grow by something between 20 or 30 basis points a year off of last year for next years and this explains why we have stopped decreasing policyholder dividends last year. Then probably next year, we will see, but we are in the mood that it is our role now to favor the transformation in terms of structure of portfolio of liabilities, the increasing transfers from traditional to unit-linkeds, developing Eurocroissance products in our network, rather than reducing the policyholder dividends, we have a consequence of reducing the balance sheet of the company.

A - Frédéric Lavenir

Yeah, Frédéric Lavenir speaking. I insist on the last point Antoine mentioned that we are now really on a vision in which the transformation of our liabilities of our technical reserves is the key point and it's our job for the coming years, of course, the way Antoine described.

Then about Brazil, so I cannot give any information more than we already said, but you can feel through my words that the discussions are going quite well et cetera. So, I think the time we need to finalize is probably shorter than the time we already consumed to discuss and then implementation, it will be included, of course, in our final agreements and will be disclosed when we will disclose the details of our agreement.

Operator

And we have a question over the phone from Thomas Fossard from HSBC. Sir, please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon. Three questions. The first one would be on Youse. Will you be able to or willing to share the combined ratio of the book? I fully understand this is still not mature and may be not fully diversified, but could be interesting to know where you stand currently.

Second question will be related to the recent court decision regarding the freeing up of the churn or the potential churn in the creditor insurance. Should we expect or – I mean, should we expect some margin pressure on your creditor insurance book going forward and maybe could you give us some sensitivity analysis or I would say the way you will be able to offset some of this pressure?

And third and last point will be regarding the stabilization of the regulatory discount rate. So, the way I understood your message is that, last year, so 2016 full year, you had a reserve strengthening of €100 million, which was zero this year, so no impact or positive €100 million impact – variation on your account. Now, could you help us to understand how these reserves are going to work in a rising interest rate environment? Are you going to keep the reserves unchanged or, I mean, are you going to release those reserves according to higher interest rates movement? Thank you.

A - Frédéric Lavenir

About Youse, at this time, we do not disclose technical information about Youse which is in the period of stabilization and building of its model. So, the time will come, but now, our main objective is development, building the trademark and, so it's a time when we are working hard to build the technology platform and the business model, so it's not something we are disclosing now.

Creditor insurance, well, of course, the environment in France is changing. Just one word about the fact that we are working and developing in creditor insurance in 12 countries or more in Europe and Southern America, so we are used to very different legal environment. We are not only in the traditional French environment, so we have now a new environment in France. We already adapted our commercial approach, products, tariff structure, et cetera. So, we think we are now very competitive and able to manage this new situation and new environment. It's very newer because things started a few weeks ago and we are quite confident in the quality of our offer which was, I repeat, adapted.

Second, of course, we didn't wait for starting new initiatives, and we already worked on partnerships with the brokers for selling individual term creditor insurance in order to be able to use this new opportunity, if there are new opportunities. So, we think we are quite robust and able to manage this new situation, but of course we are traditionally cautious people and as you said, and that's right, the market is changing, so it's new competitive environment.

And we included in our 2017 account provisions - specific provisions to be able to absorb the possible consequences of this new competitive environment. So, we are confident in our ability to continue to develop, because we adapted our offer when it changes structure (01:08:18) of that market. But we are very cautious and we decided to prepare things. And...

Q - Thomas Fossard {BIO 1941215 <GO>}

How much was that?

A - Frédéric Lavenir

...we did it. We did it based on the hypothesis which are quite cautiously prejudice (01:08:34) and we do not disclose them of course, because we think that nothing will happen and we will on the contrary develop on this business with new opportunities.

Well, Antoine, perhaps you can add something about that.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Well, it's clear that we have taken into consideration this element, there is a provision in the accounts to match this risk. We have reduced the value of in-force in order to take into account these risks, we have reduced the calculation of new business value in order to take into account this risk. Then on different respects, we have taken in mind a certain assumptions on what can be the consequence of these risks.

So far - but the new regime is very young, but so far, we have not observed any substantial move than we - so far, we can say that we are very well protected against a risk which was not materialized since the beginning of the year. But nevertheless, we have already taken a certain margin in our accounts and this margin will be probably was not necessary, if all the policies of offering another service to customers which would like to leave is successful which we expect.

If I come to the next question about the impact of expected increase of interest rates on our accounts, next year in 2018, first, I remind you that under the regulation, the actual rates we take to evaluate our provisions are not control (01:10:48) interest rates, but average on certain periods, six months, one year or two years. Then the increase of interest rates should last at least several half years before we have to register something in terms of accounting. Second, if it comes, well, there will be perhaps different other opportunities to make provisions, then do not expect to quickly to have a immediate return on the bottom line of accounts.

A - Frédéric Lavenir

Have you noticed Antoine Lissowski, CFO, was speaking?

Q - Thomas Fossard {BIO 1941215 <GO>}

Antoine, can you just confirm that it was still a reserve strengthening of about €100 million in the 2016 account and it was a (01:11:45) in the 2017 account?

A - Antoine Lissowski {BIO 4384399 <GO>}

The impact is of this on average of this amount.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you.

Operator

The next question comes from Nick Holmes from Société Générale. Sir, please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi there. Thank you very much. Two questions. The first is what sort of effect does the recent market volatility had on your unit-linked sales? I mean, obviously, these have been really good, I'm just a bit concerned they might be dented. Second one is now that you've increased your dividend for two years in a row, are you thinking of setting a more specific dividend policy? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Yeah. First regarding the impact on unit-linked, we have not noticed an impact so far.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Great. Really, none at all?

A - Antoine Lissowski {BIO 4384399 <GO>}

No. Nothing so far.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay.

A - Frédéric Lavenir

And on the second question, well, we have a long tradition of answering this question. Well, if you look at the past, you could see that we did not reduce our dividend during the crisis, it's a long time goal now, but some people remember perhaps that and it's something which is important. And, yes, last year for the first time after a long period of stability, we decided to increase the dividend and this year I hope the General Assembly will decide to increase again the dividend, so that's the past. There is no specific guidance for the future. But as you know, CNP Assurances is a company which is, well, used to have stable behaviors when the environment is stable. That's all.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you very much.

Operator

The next question is from Michael Huttner from JPMorgan. Sir, please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. And on slide 20, there's the second box, the €199 million and prior year €541 million. Can you give us a feeling for how this will change going forward? Is there still a lot of capital being released from the back book or have we kind of reached a kind of run rate now? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Michael, could you read for me like your question, we – I'm not sure what we have all understood.

Q - Michael Huttner {BIO 1556863 <GO>}

Sure. On slide 20, there's the figure €199 million and in brackets, €541 million. It's a decline in a positive and I was just wondering which way is the trend going forward. Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Referring to the figure of €199 million to be compared to €541 million last year. Is it that?

Q - Michael Huttner {BIO 1556863 <GO>}

That's right. Yes, yes.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. The actuaries there had to rehearse different assumptions – actuarial assumptions. And in fact, the amount of capital we have saved by coming to the nano (01:15:48) part of in-force is relatively reduced compared to the balance sheet reduction in itself, because the costs in terms of risk slightly higher than it was modeled before. And it is just an increase in terms of capital costs of different assumptions in the model.

Thomas Béhar, (01:16:11).

A - Thomas Béhar

Yes. As you know, since we are in Solvency II environments, the capital that is needed is in – and primarily, we used for the operating free cash flow is 110% of the solvency capital requirements minus the value of the portfolio of inflows or value of the new business for the two different columns. So, this year, the main effect was the movements that you have noticed in the value of new business and the value of in-force.

And especially for the value of in-force, what Marie Grison said just before about the impact on the solvency capital ratio, about the evolution of the biometric law can be seen also there, and a reduction of deliberation (01:17:18) of the required capitals comes also from that, meaning that we have an increase of the duration of the contract in this low rates environment.

And so, we will go back to some kind good (01:17:40) effect in the next year. So, this year, we have this effect of the longer duration and it will not be the same, I hope, in the next years, but we will see that.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you very much.

A - Frédéric Lavenir

Frédéric Lavenir speaking, just to add that. Of course, structurally, the increase of the new business value and of the profitability of our business through the improvement of the business mix is, of course, the best way to reduce the capital consumption, so to new positive evolution in this year, it's a quite specific year for the reasons Thomas had brought (01:18:26).

Q - Michael Huttner {BIO 1556863 <GO>}

That's very helpful. Thank you very much.

Operator

We have no other question.

A - Frédéric Lavenir

Thank you very much. Frédéric Lavenir speaking, again. Thank you very much for your attention and I hope I'll see you soon. Goodbye.

Operator

And ladies and gentlemen, this conclude the conference call. Thank you all for your participation. You may now disconnect.