Q4 2015 Earnings Call

Company Participants

- Antoine Lissowski, Deputy Chief Executive Officer, Finance
- Thomas Béhar, Group Chief Actuary

Other Participants

- Avinash Singh, Analyst
- Michael I. Huttner, Analyst
- Ralph Hebgen, Analyst
- Rötger Franz, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the CNP Assurances Annual Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Antoine Lissowski. Please go ahead.

Antoine Lissowski {BIO 4384399 <GO>}

Thank you. Good afternoon to everybody. I'm glad to present to you the 2015 results of CNP Assurances. I propose you to start to go through the slide show by page five, which outlines the main figures which we published with this year's premium income staying at €31.5 billion, up – changed like-for-like, and all the comments I will make will be like-for-like due to the impact of real decrease last year, which is not economically specifically significant.

Then the increase of premium income was up by 3.4%. The new business margin is this year at 14.5%. The revenues of the group stayed at €3.3 billion, up 6.8%. The costs are at €862 million. The EBIT stayed at €2.426 billion, which is a change of 7.7% in like-for-like figures. And the attributable net profit is at €1.130 billion, which is an increase of 10.7%. In reported figures, it is an increase of 4.7%. This results in ROE slightly below 8%. The Solvency II coverage ratio, under standard formula, is at 192%. And the operating free cash flow is up compared to last year by 8.4% at €1.39 per share, which allows to propose to the general assembly to vote the same dividend per share as last year, €0.77 per share.

Then, on page six, you see what are the main items on which we rely this year. The premium income was important, and it showed an improvement in product mix last year. The business margin stays higher the last year, which shows – these two figures together show that we made a choice of privileging the quality of production. The Solvency II coverage of 192% shows robustness, the quality of the balance sheet and of the risk management of the company.

The attributable net profit is higher than last year and highest of the group of its history. And the dividend will be €0.77, which represents large coverage by the free cash flow, which represents 1.8 times the dividend which is payable.

When we go to page seven, we see that all this is underlying the ongoing deep transformation of the group, which is according to the – in accordance to the strategy announced at the beginning of 2013. First, we finished – we realized the new agreements with BPCE and La Banque Postale. The board of the company approved yesterday the new agreement with La Banque Postale. Therefore, we have 10 years in front of us with La Banque Postale and seven renewal after three years with BPCE.

Second, we registered the first year of partnership with Santander Consumer Finance, which is very successful and very promising. Third, we have announced an agreement AG2R La Mondiale to create a leader in group pension in France, which will become effective at the end of this year. That's for all the strategic moves with partners.

If we look at the internal growth of the company, we know it's a very important expansion of unit-linked business in all the regions where we operate, a very strong growth of activity in Brazil in spite of a crisis in this country, and improved underwriting results in health, and death and disability insurance group businesses in France, which you know is a sector of traditional activity, which, over the last years, were sort of feeble elements in our strategy, which is progressively improving.

On page eight, we start with more precise figure regarding the French business with a premium income, which increased by 1.1% last year with a relatively important growth, on average, marked by very important growth on unit-linked business, whereas from traditional savings, we posted a relative decrease of our production, which is exactly aligned with the strategy of producing more unit-linked and progressively reducing our exposure in euro traditional products. This resulted in an APE margin staying at 11.4%, and the new business value for this year is at €271 million, up by roughly 6%.

On page nine, you see the new money business, net new money in France. It is an opportunity to show you how, when you compare the figures for 2014 and 2015, the distortion of our production is obvious. Last year, we have a higher, slightly higher production in unit-linked in net than in traditional products. This year, it represents 10 times the production in traditional products, and unit-linked is clearly growing – pulling the business. That can be compared with comparable figures regarding the French market, in which the unit-linked business is still dominating, but not by very much. And the traditional product represents still roughly 45% of the business, which is not the case of CNP, where unit-linked business represent 90% of the business.

This is also – which is also important is new business value in personal risk and protection businesses, which is up by 32% with volume in creditor insurance activity, and the loss ratios which are progressively improving in health and death/disability insurance.

We also make an effort in the management of course, considering that in the major (08:48) industry in which we operate, the management of the cost is clearly one of the key elements of the growth of the results, and that low level of interest rate imposes us to be very scarce on this respect. Then the cost-to-income ratio was down from 44.2% to 43% in France last year.

When you see now on page 11 the operating profit, you see that, on average, operating – the net insurance revenue of the company was up by 4.6%, with growth in savings and pension businesses, and also a growth in personal risk and protection. This sector having been hampered by important additional provision, which were due to decrease of interest rates and low interest rates, and of course, we do not anticipate the decrease of interest rates, considering the level where they stay now, to decrease of interest rates having the same effect next year as they have a depressing effect last year.

Nevertheless, the net insurance revenue was up in 2015. The administrative expenses on this year (10:19) were up by 2%, which is completely conformed with the budget and the whole results in a growth of around 5% of our EBIT at €1.491 billion.

Now, if we turn to Latin American businesses on page 12, you see also the premium income on which growth was very tremendous. If you look the like-for-like figures, the growth of the business in itself was 32%. In euro, it represents only 22%, but which is still to be appreciated. And this growth was particularly important in savings and mainly pensions business with almost 50% growth, the pensions business being, of course, very important in a country where people look for ways to protect their money and to find vectors of good indexation of the assets. You remember that the pension contracts in Brazil are, in fact, relatively short duration.

The risk, personal risk and protection business, is on this side, posting a very comfortable growth of 17.5% in like-for-like figures. The APE margin in this country decreased from 32% to 26%. It is due to the evolution of the mix in the activity, which I just depicted. And the new business value is at €138 million in reported figures. If we have deleted the effect of a decrease of real, there would have been a growth of 8% at €162 million. You see, there was 97% of savings and pension contracts were in unit-linked in these contracts, which suggest that we will see the confirmation of that in a minute that the cost in terms of risk of this business is very low.

If we go in page 13, you have the view on the operating revenue, which is very resilient in spite of lower exchange rate. The net interest revenue stays in like-for-like figures at €1.081 billion, up 12.6% with a very strong growth in personal risk and protection. The figures, of course, in reported, meaning in euro, are of course lower and negative, due the decrease of real.

The administrative expenses grew by 12% in local terms, growth which is slightly below the rate of inflation in this country. And we have – the result of that is growth of EBIT in like-for-like terms by almost 14% at €1.019 billion, and there is, of course, a decrease of this contribution in reported figures due to the – still the decrease of the value of euro.

Now, have a look on page 14 on the European business, excluding France. The year was shaped by very important changes in consolidated scope. We sold our stake in the joint venture with Barclays in Spain and Italy, CNP BVP. On the other hand, this is the first year of consolidation of CNP Santander Insurance. And by the way, we have also relaunched the CNP Partners subsidiary, which is remaining subsidiary in Spain, which operates also in Italy, and which has a business concentrated on the risk and return – pension businesses.

Then, if you have a look on the like-for-like figures, you note that there is a slight decrease of net insurance revenue, but it is due to the substitution of relatively important part of BVP by Santander and the fact that the BVP was accounted for (15:37) in 2014. When you look at the expenses, there is also a certain growth, which is attributable to the difference of perimeter (15:52) and the relaunch of CNP Partners, which had justified as commercial cost. And as a whole, this results in EBIT up to €86 million, which is below last year's.

But what is more interesting on page 15 is to see that in the new environment, we have, first, a premium income amounting to €3.5 billion with an important part of this business being constituted by unit-linked and by personal risk/protection businesses. You see in the center column, €1.830 billion plus €733 million, that is more than €2.5 billion are made of businesses, which we want to promote, and the traditional savings purchases represent less than 30% of the business, where last year, they were amounting at more than one-third.

When you have a look at APE margin, you see the most tremendous effect of this shift in business model with the value of the new business growing from €14 million to €54 million. And APE margin in this zone, in this area, coming from less than 6% to more than 18% last year.

Then, in a sum, on page 16, you see that the new business value of the group increased as years before, but it increased significantly. In reported terms, it increased by 13%, and that EBIT of the company increased for like-for-like figures by 7.7% and is down by 0.6% attributable to the decrease of the value of the real.

If we come now to the more financial aspects of our business on page 18, and we start with the same figure regarding the EBIT at the top of the slide, €2.426 billion, you see that the different elements below are at similar level as last years. We have a slightly higher financial cost, slightly lower tax income and non-controlling interest, but it is linked to the decrease of taxation in euro in Brazil and non-controlling interest in Brazil as well. But all, of course, recurring profit which is at the same level as last year. And we have – below this figure, we have registered first net realized gains on equities and so and so of €295 million, which are much higher than last year.

You see there the effects of gains on the disposal of CNP BVP, of our part of CNP BVP, which is amounting €232 million. And as well, we have also a very small gain on the Chinese activities, which we sold half of our detention of Chinese subsidiary, which represent €10 million of gain.

We see also in the different figures in the €24 million of fair value adjustment, and so and so, the impacts, which we underlined there (20:20) of Brazilian real hedges, as you know, we are hedging the expected results of the subsidiary every year at the beginning of the year when this hedging brought a certain correction to the natural decrease of the contribution of the real.

And we were in situation to have the provision of €312 million in policyholders' surplus reserve, which representing, in terms of global amount, more than €7 billion and 3% of savings and pension technical reserves, which is a level of security relatively important, but justified by environment with very low interest rates and a higher volatility in the market, which encourages to take some provisions to face the future at short and longer term. Then, all that, to sum up, in a net profit of €1.130 million (sic) [€1.130 billion] (21:34) up by roughly 5% in reported figures.

Now, if you come to page 19, a few words about our investment strategy. We are still increasing our investment in equities. They represent roughly 11.5%, if we encompass our private equity investment of our assets with two departments, main departments, the traditional equities and the defensive stocks with low volatility firms and corporate firms, which we are actively buying as well as convertible and, of course, a strong geographic focus on European area.

Outside of this, you have constant fixed income strategy, which still represents a majority of our investments with corporate bonds – corporate plus financial bonds represented globally around €11 billion – more than €10 billion – around roughly €11 billion of our investments this year and concentrated on short to mid maturities. And the remaining is invested in sovereign debts with longer maturities and it represents just a little above €5 billion of new investments last year.

And in the bottom of that, we underlined the fact that we are still increasing our investments. In real estate, this year was specifically active in that area. In infrastructure, where we invested in different funds and assets and we even originated a new firm, Meridiam Transition, which was created at our initiative. And we are still investing €900 million per year in private equity. The portfolio representing now a level of diversification by country, by nature of firm, by themes and in history (24:04), which represents in itself a certain level of stability and security.

On page 20, you have different views. We wanted to add to your – to draw your attention on our hedging strategy with first, that I already mentioned it, the hedging of Brazilian real, which is, of course, important in a period where the real is in difficult situation. What we added to this strategy was also an equity portfolio hedging strategy, which was completed by out-of-the-money long puts which protect our portfolio against risk of fall in stock market prices and reduces the cost in terms of solvency of detaining (25:00) this portfolio on long term. The puts which we added to the balance were seven years puts then. It is a structural way to protect the extreme risks of the portfolio, while keeping an extra return compared to the very low and powerless returns in terms of bonds.

And the fixed income portfolio strategy is still active. We don't forget that the risk of increasing of interest rates and lapses is core risk of an insurance company. And of course, the current level of interest rates in the market stresses this aspect. Then, we complete as we have already done year after year for many times the hedging strategy of this portfolio.

If we turn now to page 21, and our Solvency II coverage ratio, you see that we have our coverage rate at 192% with €23 billion of eligible capital carrying (26:21) SCR of €12 billion. We will come back to the structure of these assets and liabilities. Just a few words, first, to draw your attention on the fact that we are a company which uses no internal model. We are using strictly the standard formula. And we are not using the faculties offered by transitional measures in order to smooth our entry in Solvency II. We are directly using definitive measures.

If you look at current rate sensitivity on the right of the slide, you see that there is a certain sensitivity to interest rates. The coverage ratio is up by 13 points, if the interest rates are up by 50 basis points. If that are down by 50 basis points, the coverage ratio decreases by 14 points. If the corporate spreads are up by 75 basis points, you note a degradation or reduction of coverage rate by 10 points. And if share prices decreased by 10%, it will have an effect of 3 points. That is to say that this ratio is extremely market-sensitive. It was clearly the view of everybody before Solvency II entered into force.

And now these measures of the sensitivity issuance – we are very conscious of the fact that even a relatively modest crises, which would result in a (28:12), meaning corporate spreads up and interest rates down, we'll bring our coverage rate from something around 190% to something around 170%. We consider that as an absolutely normal effect of sensitivity of the system itself and certainly not as an origin of any stress for the company.

If you look on page 22 at the structure of eligible capital, you see that out of €23 billion of eligible capital, 85% of these own funds are represented by Tier 1 assets, including the subordinated debt, which in turn represent also the Tier 1 162% of SCR. And there is a remaining flexibility in the group's financial figures due to, first, the quality of the capital in itself with no Tier 3 and no ancillary own funds, and the possibility – the ability to issue subordinated debt on the top of that for an amount around €2 billion – more than €2.5 billion.

If you have a look now at breakdown of the group SCR, by geographic area, you see that 90% of our capital at risk is in France, and only 6% in Brazil, whereas Brazilian activities represent roughly one-fourth of our results. But it is clearly explained by the structure of SCR by risk. More than half of that is in market risk, and out of this 54%, the majority being in equities. And the part of a risk linked to the business itself, underwriting business, meaning underwriting risk – life, underwriting risk – health, and underwriting non-life, represent as a whole, 17%, plus 12%, plus 3%, which is just one-third of global SCR by risk.

Then we have the business model at group level, with more than half of the risk in assets and one-third – just one-third in our insurance activities. This involves the fact that our flexibility – in case of necessity to decrease the risk, the flexibility is very great because, of course, the assets which represents 54% of the market risk are very liquid assets, and we will be able to dispose off a large part of these assets, if necessary, to improve our ratio in case of crisis, which is not something which we expect to do, but it is clearly a level of safety.

On page 24, we have the figures related to operating free cash flow of the company. The contribution of last year's business and in-force amount to €1.734 billion. Required capital invested in new business is around €780 million, which, as a whole, represent an operating free cash flow at the disposal of the company and its shareholders of roughly €1 billion, €955 million, which will allow us to propose them to pay a dividend at the same level as last year, keeping, nevertheless, the certain capacity to invest and enlarge our scope of activities with our own means.

If we have a look, to finish with this presentation, on the strategic views, on page 26, you'll see how we look at 2016. We consider that we will be able to develop the change in the multi-partner business model. In fact, we are already a company, which is a multi-partner company for a long. The renewal of our agreements with the two French networks will allow us to renew term credit insurance partnerships with two of them. We are developing distribution system of in-house distribution with Amétis, and we've a partnership in Alptis, in order to develop the benefit plan distributions. We are still, in fact, launching employee benefit plans with BPCE. It was started at the end of 2015.

And based on the very satisfactory performance in 2015, we now intend to ramp up the partnership with Santander Consumer Finance, develop the number of countries where they are operating, and develop an open model distribution based on the customers which are not yet consumers of purchases of Santander Consumer Finance.

We are as well developing high-end savings businesses with different developments with BPCE and La Banque Postale, which has a subsidiary specializing that, BPE. And we are launching, at the beginning of this year, a new subsidiary in Luxembourg, which will compete the activity of our new company, which is called CNP Patrimoine.

Adding to that, on page 27, you have the views we have on our digital strategy. It is an important element of our strategy. You see that (35:17) as well to develop traditional B2B to consumer business with data exchanges with traditional partners, with digitalization of different stages of a customer's relationship, when we are in B2B2C with new partners as with Santander and using the extranet and using the client extranet, it is a partnership with Alptis.

But it allows us also to have direct B2C activities with our digital company in Brazil, which will be operational in the summer of 2016 and which has already a head count of 100 persons which are working hard on this launch in August.

We have a service platform called Lyfe in France which was launched in September. And we are developing big data and direct marketing knowledge in order to be able to launch activities in Europe, already (36:33) that when going through the business with – the partnership with Santander Consumer Finance and it will be done at the second part of 2016.

Then, in summary on page 28, the roadmap of the company is very clear and, in fact, we are already in this roadmap and it proves to be efficient and we are already developing the strategy, which was decided that which proves for the first year its quality.

First, we underline the fact the company is with 5,000 employees. It's not large company which is much easier to digitalize and to transform in term of digital run rate at much larger groups which have problems with networks, for instance, when they introduce digital tools, it will be clearly not hampering to CNP and it helps us to see the digitalization as possible improvement in our business model.

We launched a program called Open CNP consisting in investing in startups in terms of capital, as well as developing digital services and customer experiences with the same startups. We have launched this activity at the end of last year, and we are on the verge of announcing the different partnerships we make with such company, in which we invest and in which we make partnership.

We have also an Operational Excellence Programme in order to manage our costs in the future. The target of this program is to reduce the cost base of the company by €60 million. That means 10% in France by 2018, but that doesn't mean that the costs of the company will be cut by €60 million simply. That means that the cost basis will be reduced, which will give ground to different developments without adding additional costs to the income account.

And in line with all of that, we can assume an objective to deliver an average organic EBIT growth of at least 5% per year over three next years. It is a guidance which is completely new in the CNP history, but it has been made possible by the successful first year of applying the global strategy and the launch after we have finished the renegotiation with our French main partner and the first year of, I would say, the new light offers of (39:58) CNP Assurances in this environment.

Okay. I am, myself with my colleagues, (40:06) you cannot see them, but you have a Chief Risk Officer, you have a Chief Investments Officer, the Chief Actuarial Officer. You have plenty of chiefs around the table. And we are ready to answer to your questions, knowing that some of us will meet tomorrow morning or tomorrow along the day in London where we go tonight. I am at your disposal.

Q&A

Operator

We will now take our first question from Michael Huttner from JPMorgan. Please go ahead.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Fantastic. Thank you so much. I wanted to ask on the Solvency ratio, the 192%. And can you explain – or can you – not explain – it's a wrong word, but kind of – it jumped from

170% at the half year to 192%, can you maybe talk through this sharp jump? And maybe say what the level or roughly where we would be now or something, just to have a feel for it. Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

It's another way to ask a question we had already had. In fact, the improvement of this ratio is attributable to different factors. We have issued a different subordinated debt. We have result, additional result in the company. We have PPE, which was increased. We have also scrapped some guarantees on the portfolio, which were interrupted at mid-year, which represents, of course, a reduction of the risk as a whole.

Now, I would not add any additional view, because to be clear, when you consider the 192% and its sensitivity, when you look at the sensitivity, which we post, that means that we consider that we are in an area which is comfortable, but the point in this area where we stay today is not of such importance for us. What is important is to remain, by and large, at the level, which is very comfortable. You noted perhaps that we didn't publish the different levels at which we would have such reaction as some of our competitors published it in investors days. It is clearly because we consider that aside the fact that we have shareholders' pact, which represents the three quarters of the capital and which is very strong.

Aside to that, consider that the internal elements of flexibility on the SCR side or on the eligible capital side of the company are sufficient to consider that the average around the level where we stay is sufficient.

Q - Michael I. Huttner {BIO 1556863 <GO>}

That's brilliant. And can you maybe just say something about the sensitivity, which I think some of your competitors give on the – to the ultimate forward rate, if we assume it might be lower?

A - Antoine Lissowski {BIO 4384399 <GO>}

To UFR you mean?

Q - Michael I. Huttner {BIO 1556863 <GO>}

Yes, please.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, if there was a decrease of 100 basis points, meaning that UFR staying 3.2% rather than 4.2%, it would result in an 8 point decrease in our coverage ratio.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Fair enough. Thank you very much.

A - Antoine Lissowski {BIO 4384399 <GO>}

Michael, you know perfectly well the balance sheet of the company. You know that, in fact, the duration of our liabilities is not so long, when we are clearly – we are not – clearly not the same situation of some companies which were looking (44:24) very harshly on this UFR issue.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Of course. Yes. Brilliant. Thank you. That's really helpful. Thank you very much.

Operator

The next question comes from Rötger Franz from Société Générale. Please go ahead.

Q - Rötger Franz

Yes. Hello. A couple of questions also regarding your Solvency II disclosure. First of all, you disclosed a 10% equity stress. Most of your competitors disclose a 30% stress. Is there any strong complexity, if you extrapolate this stress on your solvency?

And then, looking at page 22 of your presentation, page 79 (45:04), could you please reconcile the €3.5 billion Tier 1 and €3.5 billion Tier 2 to the disclosures in Note 4 and Note 11 of your Financial Statements showing €2.6 billion on undated subordinated debt and €4 billion of dated subordinated debt. It seems that you disclosed at least some of the perpetual. For example, the €500 million , 6.875% perpetual is dated debt. And is right to assume that all outstanding sub-debt, except for the latest 4.5%, 30 non-call 10, as the new product placements are not Solvency II compliant in their own right, but fall under the grandfathering regime?

A - Antoine Lissowski {BIO 4384399 <GO>}

Oh, we are compliant with the regime, clearly. Those which we had at the end of the year were grandfathered. I don't see at once how to make a reconciliation. You mentioned I am looking around myself, but clearly, we take the question of these reconciliation, and we will post on the website something, an explanation to everybody to see how these different figures are to be reconciled, if they are to.

Regarding your question about the complexity, yes, there is clearly a complexity. But it is also clear that if we were in an area where the cost of keeping very high exposure of our assets and equity were a problem, well, we would have allocation – asset allocation difference here (46:46). But at the current level and at levels, well, I would say, foreseeable levels, we feel comfortable.

Q - Rötger Franz

Okay.

Operator

The next question comes from Ralph Hebgen from KBW. Please go ahead.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Hi, guys. Ralph Hebgen from KBW. Just a few things and I'm going back to the Solvency II ratio, I'm afraid. Would you be able to disclose what the magnitude of a positive uplift was which you got from hedging? Then staying with the hedging, at what point in the year did the hedging kick in? Was it the second half, or was it sort of gradual during the year?

Third point on hedging, what was the cost of the hedging? And finally a point of detail, I'm afraid, I noticed that the experience variances in the MCEV were positive and very high indeed at about €610 million. It would be interesting to know what drove that decline. Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

The variances in MCEV. Thomas Béhar is there. I don't know if he caught your remark. Well, first, we start with your remark about the equity and equity hedging. Well, in fact, there is a certain impact of this hedging, but we do not disclose the impact (48:21) not only because we don't want to disclose it, but also because there is a mix between hedging instruments, investments in convertibles, in covered funds and so on. It is a mix of different things, and it is not piece-by-piece.

It was put in place along the year last year as a whole, and the process of doing it is not so expensive. We bought very out-of-the-money coverage instruments where they were available at relatively low cost. Plus, keep in mind that the cost of that is largely absorbed by the customers' portfolios.

Regarding the question of MCEV. Could you, Ralph, reformulate and shout because Thomas Béhar doesn't listen you very well?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Of course. I noticed that in the MCEV disclosure this year, there were positive experience variances of a total of €600 million. Now – normally, I wouldn't actually focus on this sort of stuff, but it is – first point is it's positive. And second, it's about 3 times the run rate of the variances we have seen historically. So, it didn't materialize this year, and I was just wondering what drove that.

A - Thomas Béhar

One year before, we hadn't forecast to add so much PPE in the balance account and that's a result of it.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Sorry. What you're saying is the fact that the PPE went...

A - Thomas Béhar

One part is in PPE and the other part all reimbursement of the balance sheet. For example, (50:23) that we added to the balance sheet during the year.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Thank you very much.

A - Antoine Lissowski {BIO 4384399 <GO>}

Ralph, and everybody, for instance, the one figure which we disclosed this morning with the French analysts which you have to bear in mind, when you consider the years 2014 and 2015, we had to provision the effect of low interest rates in our balance sheet. It's independent of the PPE. We have to provision by more than €300 million each year. And it is, of course, explaining – it is a way to protect our balance sheet to reduce the risk and also to improve the MCEV. Then all these different effects come from different part of the balance sheet and at different levels of income ratio – of income returns (51:26).

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. That's very helpful. Thank you very much.

Operator

The next question comes from Avinash Singh from Nomura. Please go ahead.

Q - Avinash Singh {BIO 20134511 <GO>}

Yeah. Hi. Two questions please. First one, can you please provide some color on the dynamics of French saving markets, and how are you placed versus the mutual fund players in 2016? And secondly, can you provide that, if at all, some impact of this Brazilian sovereign downgrade on your Solvency II ratio? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, very slight effect of downgrade in Brazil. When you consider the solvency ratio, you have two effects. One effect on the eligible capital and another effect on the SCR. And as a whole, the net effect of that is very, very secondary, very slight. Could you repeat your first question?

Q - Avinash Singh {BIO 20134511 <GO>}

Yes. First question was on this current dynamics of French savings market. I mean, for certain products, the mutual fund players are also competing with you. So how do you see, I mean, yourself positioned in the French savings market in 2016 versus the mutual fund players?

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. It's completely well. Where we operate in insurance, usually, there is relatively different tax regime in terms of life products to mutual funds, then you are not really competition. And on addition, people who detain life insurance contract can have mutual funds in unit-linked. Well, if people wants to have mutual fund in unit-linked, they can have this. If they prefer to have traditional purchases, it means that it is their choice to prefer the very low risk level of traditional within a contract. All that with umbrella of a tax regime of life insurance which is much more efficient program than mutual funds direct tax regime.

Q - Avinash Singh {BIO 20134511 <GO>}

Okay.

Operator

The next question comes from Michael Huttner from JPMorgan. Please go ahead.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Hello. I'm sorry, and thanks for this opportunity. You mentioned, I think, slide 30 or 32, that as the portfolio BPCE will shrink over time, this will reduce required capital in terms of solvency. And I just wondered, if you could give a figure to that. It's not slide 32, it's slide 25 maybe – it's the strategic slides.

And then, the other question is, so the new target growth in EBIT of 5% per annum. Can you give a feel for is this a stretched target and also where would you expect the growth to come from mainly? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

On the first aspect, well, we have integrated in the calculation of our different ratios and so on, the impact of the agreement with BPCE. But in fact, that will be very slow because – very progressive because if you consider not only the premiums but the outstanding balance sheet and the liabilities as a whole, there will be first an increase. And after, a very slow decrease of liabilities over time in the future.

And for instance, in 2016, we will not have a decrease because we are still putting in place the reform. And the reform will be completed only at the end of 2016. And after, we will still have the part of the business in – not the new business but added money (55:54) in the existing contracts and so and so. Then, the effect on that will be really very, very slow.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay.

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes. Regarding the 5%, well, everything is supposed to be relative and we expect the different areas to bring results. There is no specific beneficiary of (56:27).

Q - Michael I. Huttner {BIO 1556863 <GO>}

And is it – should we see it as a stress target or a kind of average, which is easy to achieve?

A - Antoine Lissowski {BIO 4384399 <GO>}

No progress is never easy to achieve. But we say we are very (56:44) to be able, in the current environment, to achieve it. Of course, even with (56:52) something in the economic and financial environment new shocks comparable to 2008 shock, of course, these expectations will be out. But I would say, in a normal situation with a solid growth of the economies, with interest rates being at normal level, at slightly higher value today, but at a level which we could expect when we made this forecast at the end of the year, it will be just a result of our strategy to post this result.

Q - Michael I. Huttner {BIO 1556863 <GO>}

And on that, if I may, could you – we – here in London, everybody – or we – I don't know if everybody, but we worry about the higher corporate bond spreads. So the market seems to imply there may be a risk of default. How do you see that? And how could it affect you?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, if you see the different appendix of the slideshow, you can see that somewhere at the end, you have not only the structure of our credit risk, but also the main exposure in terms of oil, raw materials and so on. And the view we have is that our portfolio is very large and very diversified that even if there was such or such (58:23) events in terms of credit, we do not think that it would have a significant impact on the balance sheet and income ratio as a whole.

If you see, for instance, in raw material businesses, the debt assets, the bond assets we have, the largest seems to be (58:45) where we have €18 million or something like it, which is not so great. But even if there was a default, which would be clearly an event in the market of (58:59), it would be of a very low effect on CNP Assurances.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Thank you.

Operator

The next question comes from Ralph Hebgen from KBW. Please go ahead.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Hi. Thank you for taking my question again. It's going back to the EBIT growth targets. Just looking at EBIT growth over the last few years since 2011, I mean, it always depends on where you start the clock, of course, but over the last few years there, it was basically flat. So, I would also be interested to hear what drives your confidence now to come out with the first-time target, I think, you've ever disclosed on EBIT growth. So, what is driving that specifically?

And second, just a bullet point, yeah, the bullet point above that on slide 28. Can you explain again what the €60 million in the reduction of the cost base is? What are the dynamics behind this? Is this per annum, because you said over a full year by 2018? I'd just like to understand precisely what these dynamics describe.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Regarding the 5% growth, having – you must have in mind that the two last years were hampered by very important provisions due to the decrease of interest rates. There were – I already mentioned this figure – more than €300 million in France. Then, at the current level of interest rates, we clearly do not expect decrease of interest rates having the same effect in the future years. Then, you must consider that the last year's natural growth of EBIT would have been much higher, if they had not been those costs due to provisioning of low interest rates.

Second element, we are in process of re-clarification of many our group contracts, and this re-clarification results in two sort of elements. First, certain customers have accepted to pay more premiums and more margins to stay with us. It will have an effect in the future years. Some have decided not to accept our proposal, and those customers which represented the loss for CNP over the last years will disappear from our income statement in the future years.

And if I take just the customers, which will – which I already know will interrupt their cooperation (1:02:00) with us and we are losing money. I'm only thinking of them, it is clearly a contribution to the growth of EBIT over the next years.

Regarding the €60 million of cost savings, the plan here is to go – throw all (1:02:25) the expenses in France at the beginning and on all the expenses to see how we can do the same without having a permanent cost at the same level, sometimes replacing the certain cost with an investment which, in the end, will allow us to save permanently a certain amount.

Of course, this will involve some investments, first. And second, the economy's cost – the reduction of cost after 2018 will be partly offset in our income statement by new developments of the company, which will take place at that moment and it will not result as a decrease. We do not say that the cost of the company will be at €540 million in 2018, where they are at around €600 million in 2016. It is simply the fact that we reduce on the basis of current level of cost. For doing the same things, we will pay €60 million less. But of course, we will also invest to do that (01:03:56). And we do not precise the net cost we will have in three years.

Q - Ralph Hebgen {BIO 6297020 <GO>}

That's clear. I think you mentioned that this will require some investment upfront or restructuring cost, whichever word you want to put on that, would you be able to disclose what your estimate is on that?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, most of these investments are already in our budget, and they are included in the budget. And if there are supplementary investments, they will be disclosed when the accounts of the company (1:04:40) these investments will come to the market.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Great. Thank you.

Operator

There is one question from Michael Huttner from JPMorgan. Please go ahead.

Q - Michael I. Huttner {BIO 1556863 <GO>}

I promise it's the last one, but it's – you've been so helpful. I appreciate it. It's just on the net inflow figures. So, €2.2 billion which is great in unit-linked, €200 million in traditional, except for the (1:05:18) traditional was negative at nine months. I think €700 million is now positive at the full year. Should I – I'm being proactive here, should I extrapolate the Q4 trend which is, I guess, plus €500 million, or should I extrapolate the €200 million, or should I say, no, CNP is continuing to reduce – and you had €1.4 billion, whatever, last year – €200 million now and maybe a negative €1 billion for 2016? I know you don't provide guidance, but just to see how you're shaping your products or marketing.

A - Antoine Lissowski {BIO 4384399 <GO>}

Michael, please, it is already difficult to explain the existing activities and the business of 2015. Don't ask me to extrapolate on 2016. It is the strategy of the group to encourage unit-linked and discourage the traditional business. And we operate the strategy, notably grow the policy of the tax – policy of the dividend we pay to our customers.

Then, as you see in the slides, we decreased relatively strongly the policyholder dividend this year by 30 basis points. It will clearly produce a certain effect on the customers. We have also different actions to the networks in terms of commissions paid to them. Then all-in-all, we are pushing to the extension of this structure of production of (1:07:01) and more unit-linked. But, of course, it depends on the efforts made on both sides, and now the ball is in the playground of our networks.

Q - Michael I. Huttner {BIO 1556863 <GO>}

That's helpful. Thank you. Thank you very much.

Operator

And the next question comes from Avinash Singh from Nomura. Please go ahead.

Q - Avinash Singh {BIO 20134511 <GO>}

Hi. This is on your Italian joint venture with UniCredit. If I remember correctly, your distribution agreement is coming up for renewal next year, I mean, 2017. So what's your view? You also, I guess, have a put option, so, you may, I mean, exit out of the joint venture. So how do you assess at the moment – I mean, are you looking to renew a distribution contract or you would prefer to just, I mean, walk out of it?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, you raised the fact that it is difficult for me to say what we will do in 2016, what more in 2017. And in terms of relation with a partner, we have clearly no disclosure. I'm sorry.

Q - Avinash Singh {BIO 20134511 <GO>}

Okay.

Operator

There are no further questions in the queue.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Thank you very much, everybody, and see some of you tomorrow. Bye-bye.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.