

Y 2019 Earnings Call

Company Participants

- Antoine Lissowski, Chief Executive Officer
- Jean-Baptiste Nessi, CTO
- Olivier Guigne, Investments Director
- Stephane Trarieux, Head of Financing and Group Investment Coordination
- Thomas Behar, Chief Financial Officer

Other Participants

- Benoit Valleaux, Analyst
- David Barma, Analyst
- Thomas Fossard, Analyst

Presentation

Antoine Lissowski {BIO 4384399 <GO>}

Good morning, everybody. I'm glad to have again, the opportunity to present to you the Annual Result of CNP. I will do it with Thomas Behar CFO of the company and we've my friend, Xavier Larnaudie, who is my Deputy General Manager of the company and different other members of Executive Committee of the company.

If you want, I start with page 5 of the slide show you have in front of you. There it is, okay. We have six main highlights, message to begin with. The first is that this year we have reaffirmed the international multi-partner business model of the company. It was a year of intense negotiation. First, of course, the negotiation about the integration of CNP in La Banque Postale Group, which will become effective in the following in the coming weeks. Second, we have renewed agreements with BPCE Group in the same terms as before and they are extended until 2030, at least. The third is that we have achieved the discussion with Caixa Seguridade in order to extend our agreements until 2046 on the major part of our common activities. That was the first element about 2019 activity.

The second element is that we have had to adapt our activity to very low interest rates environment in Europe. To begin with, we have adjusted the policyholder yield and Thomas will enter into the level of yields we have proposed to customers this year and to faster the shift in product mix. When you'll see the figures you will observe that the risk business represents now half of EBIT of the company and two-thirds of net value business of the company. Then in terms of business mix, the look of the company is quite different from the aspect if you consider only the balance sheet of the company.

The third thing is that the financial strength of the company is now recognized completely in SCR coverage ratio. We have a ratio above [ph]220%. The policyholders' surplus reserves is now taken into account in SCR coverage ratio and it is effect of the intense activity of provisioning the balance sheet. We have constituted this policyholders' surplus for years and years and we have now obtained with the rest of the French market that these provisions are now considered as Tier 1 capital in terms of SCR coverage ratio. Then, now we are on a level playing field with different European actors, which have obtained also the large scope of capital being integrated in this year, as in Germany, for instance.

The fourth element is that in France, we have had new PACTE Act, under which we have an opportunity to renew completely our activities in savings and pension. We are in process of gradually deploying new PER pension savings product. We have started it with historic partner called Prefon. It is civil servants pension fund -- capitalization pension fund, which is most important pension fund in France in technical terms, and which is now under the PER structure. And we have also launched different new products as mentioned in the slide.

We are in a process and it is the fifth element of constant optimization of business model. First, we of course, growth of activities in Brazil, which are very specific and exceptional. We are in process also of renewing completely our IT organization. We have inheritance of very old IT system, which were progressively adapted, but now we have decided to change most of them in the short-term period, in order to have completely renewed IT organization in the coming years. Implicitly, that means that customer experience is already in course of improvement. And we have noticed specifically that time necessary to pay claims to customers was dramatically reduced this year. We reduced the time by 20% to 35% depending on the contract and it is just a moment of a process, but we intend to reduce constantly the payment time for the lapses and different payments we have to do. And of course, we have in process of improving our efficiency through Opus 21 program, which is our nowadays cost management program for the three years.

The sixth item is about our focus on socially responsible investing with high targets for investment in energy and environment with carbon neutral investment portfolio, which is targeted to be completed by 2050. It is a target, of course, we will try to do it earlier. And we have launched inaugural green subordinated bond issue, which was very good success during the year.

I now come very quickly on figures, which will be developed by Thomas in a minute. Just to focus your attention on -- we're on page 6, on several figures, if you look at change like-for-like, you have premium income, which is up 4%, the total revenue, up 4.1%, attributable recurring profit, up 4.1% and the attributable net profit, also up 4%. It is a year of growth by 4% for the company, which, in a period where life insurance everywhere is deemed to be under very strong pressure, which we consider that being very good performance. Just a few elements additional to that. The first is that ROE of the company is little increasing, but it is at a constant level. The combined ratio is improving with 30.7% and the consolidated SCR coverage ratio now stays at 227%, which is much higher than last year's.

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I now come to description of what means the multi-partner structure of the Group. You have here the breakdown of our premium incomes by partner. You see that for first partner of the company is still La Banque Postale, with which we have an exclusive partnerships, which will be extended until 2036. The second partner being Caixa Economica Federal, and the agreement will be extended. It is already signed until 2046. The third one being BPCE, with a partnership until 2030 and so and so. Then we have a structure of multi-partners. And when you read our press release, will also have a possibility to see how is composition of our EBIT and our value of new business between these different partners. Then with net profit up by 3.3%, the -- we have been able to take two decisions. The Board has decided to propose to general assembly an increase by 5% to 6% -- 5.6% of dividend, which will be at EUR0.94 per share. And we'll also, we give guidance about the attributable net profit for 2020. It is expected to grow between 3% to 7% this year.

Now I give the floor to Thomas to enter in the details of business performance of the company.

Thomas Behar {BIO 18964489 <GO>}

Thanks, Antoine. So we'll look into the details of the numbers, beginning by France and the activities that we have done in France in 2019. For the premium income and for -- you can see that the numbers are quite the same with an increase of 0.3%. You had an increase of the traditional saving pension products that we have sold of 3.5% and the decrease of unit-linked of 10.4%. On that part, in fact -- it has some transformation that we have done, you have to look at net inflow, in fact, we have a positive net inflow for unit-linked contracts with an addition of EUR3.3 billion, on our technical provisions and a decrease of EUR3 billion of negative net outflow from traditional products.

In the same times for the personal risk and protection business, you have quite the same numbers from one year to the other years, with decrease with selectivity of what we have done for the personal risk, but an increase for the credit insurance protection. On the activities of unit-linked savings and traditional savings, behind the numbers and the decrease that we have with BPCE, you have an increase of what we are doing as with the high wealth management. On the value of new business, you have the decrease both of the number of value and the APE margin and this decrease is totally linked with the economic environment with a very low interest rates that we have observed during the year.

For the revenue -- the revenue is stable and you can see that it's a slight increase of 0.2%, an increase of the net insurance revenue of EUR10 million and stability of the revenue from the own-fund portfolio. On saving and pensions, you have an increase on the revenue and a decrease for personal risk and protections, with an increase term for credit insurance and the decrease in personal risk protection revenues and links, with the evolution of the activities that we have in both categories. For the own-funds, in fact, we have sold some equities, so we realized some gains during the year. We're changing what we have as market value for the equities but so we have this gain. And it's -- there is an equilibrium between this gain and the gains that we observed last year on bonds and the decrease of the recurrent revenue coming from the bonds during 2019.

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Administrative costs are managed, meaning that we were at EUR611 million and we are still at EUR611 million at the end of 2019, with the slight increase. Other revenues as a cost to income ratio has slightly decreased and is now at 33.7% in France and the EBIT has increased of 0.2%. So it's very steady EBIT revenue and activities for France. Behind the management of the cost, we have, in fact, an Opus 21 efficiency program, with a target of looking, at gaining EUR45 million of recurring reduction in cost base. At the end of 2019, we have a reduction of EUR14 million, meaning that we are able to reinvest what we -- what we can gain as recurring cost to new activities.

Let's go now from France to Europe, excluding France. You can see that we have a decrease of the premium income. It's come from Italy, where we have a reduction of the unit-linked that we have sold and a decrease of 8.9%. We have begun to have again a slight increase at the end of the year, as the decrease come from the withdrawal of the PIR products, which is a specific product of Italy with some tax advantage that were no more possible to sell in Italy. And so we replaced this product by new unit-linked and with also (inaudible) multi-branches, unit-linked and Euro contracts that is now sold in the UniCredit branches. And the evolution of 4.5% come from CNP, mainly from CNP Santander with the addition of layers year-by-year of credit insurance.

Due to the fact that we are decreasing the savings part and increasing more the credit insurance part, it explains the increase of the VNB and APE margin, from 16.9% to 21.4%. And last time, between the numbers EUR67 million and EUR74 million for the value of new business, you have also the 50% that we have bought from Bank of Cyprus and we are now 100% shareholder of our subsidiary in Cyprus.

Let's go now to revenue and administrative cost and EBIT. Total revenue, so you have a strong increase, 20.3%. It's due to some effects due to the 2018 accounts for main part of this increase but also from the strong dynamics that we have for CNP Santander. We have a slight decrease for the saving and pension parts due to the activities that we have. We can say that we are in a good evolution with Credit with the change in commission agreements and our personnel are happy with what we have done with them and the fact that we are in a good advance in the program of paying fees to them.

Administrative costs are increasing of 3.2%, which is in line with the budget that we have with these subsidiaries and very different from the evolution of the revenue of 20.3%. That's why we have a strong increase of the EBIT of 4.2% and you can see that it comes from the different subsidiaries that we have, CNP Santander, UniCredit -- CNP UniCredit Vita, but also the other subsidiaries that we have in Cyprus or Luxembourg.

We have chosen to have a specific focus on different success stories that we had during this year. First of the three that we present is CNP Patrimoine. It's our high wealth management solutions. We have now 40 different partners in France and Luxembourg. And we are one of the leading providers of wealth management, being able also to be the first that always presents innovation to the market, with new kind of products and which contribute to create value for the policyholders. 42% of the premium income are derived from unit-linked contracts for these markets.

The second one is a focus on what we are doing in Cyprus, now that we are 100% shareholder of the subsidiaries and you can see through the numbers that we are in this small island, number 1 or number 2, in a various number of branches. And what is not always known is that it's mainly non-life activity that we -- where we are number 1 or number 2, but we are also present for life insurance in Cyprus. So and -- this slide represent what we are doing for non-life.

And the third one, which is part of the current package that we are presenting is Brazil. We are very proud of being the number 3 of the market with 11.4% market share. We have an increase of premium income of 26.5%, this year like-for-like, but you can see, if we focus on where it comes from -- it comes mainly from what we will have in (inaudible) with CEF, which is the unit-linked and saving pension product, 98% of unit-linked in Brazil. And this pension activities has an increase of 33.7% in 2019 and we are very proud now of having 17% as market share of the Brazil for pensions with a duration of eight years, people being happy of what we are providing for them. And in this competitive market of pension, even if we are increasing the numbers, you can see with VNB and APE margins that we are able to keep a very high APE margin of 29.7%, and we were 30.1%, last year.

Let's go now to total revenue. So it's an evolution of 9.7%, so a strong growth in net insurance revenue that we have, 7.4% like-for-like, coming from the activities that we have with Caixa Economica Federal. Very lower administrative costs with an increase of 4.3%, which gives an EBIT of with an increase of 10.7%. So it's strong activities that we have in Latin America and we can say that what we were able to secure with the JV 1 with our partners, now represents 7.4% of the VNB that we have, and it was only [ph]60% before. It's due to the increase that have occurred in the three different activities that we will have in JV 1, meaning pensions, credit insurance protection for consumers and the personal risk activities.

We have spoken about activities, let's go now from the EBIT to the attributable net profit. Note nothing to say different from last year for financial costs and also non-controlling and net equity accounted investees and for the income tax expenses, we have realized some gain of -- for equities, including also sort of the building from which we are doing this presentation. So it compares to EUR482 million and we have our traditional non-recurring items of EUR620 million after-tax, which is mainly due to more than EUR900 million of [ph]donation to our PPE business, which is now not only a reserve for by times for policyholders, but is now plainly recognized in our prudential own-funds. We -- in page 21, you have the net operating free cash flow. For the first time it has decreased. It's due to the very low environments and the increase of the cost of capital for the new business but it's still very high and it represent EUR1.97 per share, which is quite the double of the dividend that is proposed to the general assembly of the company, which is EUR0.94 per share.

Let's go now to the solvency capital ratio. So, you see it has increased [ph]4% coming from 187% last year, 227% this year. It was lower during the year, due to the interest rates. But you have two main effects. The PPE, that is now recognized as a prudential own-funds. So it's like what the Germans were able to do at the beginning of Solvency II. And so we have now the same regulations, which recognize and represents in our regulations being able to be part of Tier 1, so it's gone for 60 points. We have used what our French

supervisors has said and in -- an act that was produced during January. And they have -- they told to take 70% as the default method to -- for the PPE and it's what we have done, so 60 points represents roughly, 70% of the PPE that we have.

On the opposite, rates were much lower than last year at the end of 2018, and it's an impact of 34 points for the solvency capital ratio. We have taken into account all the debt that we've issued during the year, it's an increase of 7 points. But also on the opposite, a reduction of 3 basis points, due to the addendum that we have done to the Brazilian agreement. So that's for the solvency.

Let's speak a little bit about -- most about asset liability management and first, the main point for us comes not for the assets, but for the liabilities and we have a huge program for adapting the contracts that we are selling to the new circumstance whereas the Europe part will give less and less yield, year-after-year to the policyholders. And so we have to present new solutions to them mainly based with unit-linked for the beginning and so we have tried to adapt and find the best way to continue to give as much value as possible to the policyholders for the contracts that we are selling to them.

So we have increased the fees. We had some fees that we are paying with higher fees where you have more than 90% of Euro in what they are buying. We have also now due -- we have done a lot of work to select and make life more easy for the sellers in all the unit-linked that they are able to present to the consumers, being able to give more targets, which kind of unit-linked is best for the client, depending on the wealth funds, the agents or the purposes that these consumers want, but it's also for wealth now an obligation when you have more than 40% of the sales, which are done on unit-linked, which was the case in 2019, and we are targeting 45% this year, to keep a minimum of four years, the unit-linked after the underwriting for undertakings and two years for people.

We adjusted the policyholder yields. So we have a decrease of 45 basis points of the averages that were given, which is -- if you look to the remuneration, the yields that people can see, it's a decrease of 51% and the difference between 45% and 51%, since comes from the guarantees that are small guarantees that we still have in our portfolio. So it's a huge decrease that has been done but in the same time we have told our consumers that if they invest enough in unit-linked, they will be able to get more revenue at the end of the year of the Euro compartments, and it can go up to 2 times the revenue on the Europe compartment part. So we revised the strategic asset location, looking for more diversifications and also, we're transferring from old contract to new contract to new to the backlog and Antoine, he has already spoken about that part.

So that's from the liability side. For the investment side, so you can see that we were able to invest not in negative part even if the rates were negative a lot of months during the year but the average investment was 0.7% for the sovereigns and 0.9% for banks and corporate bonds and so, you have presentations of the bonds of 83%, and we continue to invest in equities, property and infrastructure and private equity. You have some example of what we are doing in slide 26 to invest on real economy. So it's a private equity program, we have EUR520 million, during this year and we are also committed with financing the French tech financing plan and we have a commitment of invest of EUR820

million during the next three years. And we are very proud to be part of the 50 biggest investors in private equity in the world.

On property, forestry and assets, we have mainly the EUR1.6 billion were mainly offices that we have bought during the year, in Paris and around Paris and in Berlin. For infrastructure and private debt, which is -- which were, in fact, mainly equities for infrastructure and debts of infrastructure, but not only. So we have an invest of EUR340 million in 2019 and EUR1.730 billion in private debt and it's transports equities of that. Also some programs for energetic transitions that we have financed.

So, it's for the real economy. We have done this year, a specific focus on our corporate and social responsibilities that we have and all the commitments that the undertaking is taken. On slide 28, you have some examples, so we have looked at the main principles, main sustainable developmental goals of United Nations, and we have selected the six of them, which -- where we are -- in committed. And you have some examples that I will not comment one by one of what we are doing in -- to be aligned with the commitments of the United Nations. It's also the same on the next slide so where you have some details. And especially, I will focus on the voting policy, which is something new, and you will be able to see in our web slides shortly, our voting policy principles and what we are doing for that. After the corporate social responsibility, you have our traditional environmental and energy commitments. In fact, as our targets are quite completely achieved in 2019 and our commitments were going up to 2021, we will present new targets for the next years. So we can focus first on slide 30 of what we have done. So we met the target on the coal policy on the new green investments and the equity portfolio carbon footprint, and we were in the -- we will soon meet the targets for the property portfolio carbon footprint.

So it enables us to present to you our new commitments on slide 31, the Net-Zero Asset Owner Alliance. So we are now part of it with aim of a carbon neutral in 2050. So we'll try to help to meet the 1.5 degree global warming objectives set in the Paris Agreement. We will double the size of our green investment with a target of EUR20 billion by end 2023. And we will divest from companies that derive more than 20% of revenue from thermal coal and forbid new investment in companies that develop new coal mines and coal-fired power plants, whatever the size. And also, we will ask all companies where we are directly exposed to publish by 2021, a thermal coal exit plan. So that's for part of the commitments that we have on green matters.

And so I will give back to Antoine Lissowski, on for our own commitments.

Antoine Lissowski {BIO 4384399 <GO>}

Well, the outlook for as usual, it can be expressed in two slides. For 2020 first, we have an earnings commitment now with growth in attributable net profit, which will be between 3% and 7%. It is a new way for us to provide an information to the market we have not done it in the past. But we consider that the situation of the company is strong enough to be able to have a commitment to you on that. We have still an operational commitment of savings costs and the EUR45 million recurring reduction in cost base by 2021 is still our target. That figures represents only the French part of our cost savings. There are different complementary policies, which are implemented in our subsidiaries, which will in fact,

globally, increase this figure by several millions. And as already mentioned, we have non-financial commitments on green investments, on coal policy and so on, which we build. That's for 2020 and the future of financial elements.

On the last page of the slide show different elements about the strategic outlook of the company. The first element being clearly that we will have closer ties with La Banque Postale. In the coming weeks, we will become subsidiary, completely consolidated subsidiary of La Banque Postale, which should have 62% of our capital, BPCE remaining at the capital and at the Board and the rest being represented by the market. Of course, it will be the moment where we will have a new Board, when we will discuss about the strategic issues for CNP but we have already had this discussion in the past -- and in the recent past with La Caisse des Depots, which is the top shareholder of the whole system with Caisse des Depots remaining roughly at the same level in indirect control of CNP as before, La Poste being controlled by La Caisse des Depots and La Banque Postale be fully owned by La Poste. Then with all three shareholders and partners, we have had opportunity to discuss about our strategy. But we will certainly have a seminar on the strategy of the company in the coming months and provide the market with the refreshed view about the strategy of the Group.

That being said, it is clear that for life insurance company, with more than EUR400 billion balance sheet, the strategy will be to diversify our activity in non-life segments. We will, in the future -- in the next years, integrate the non-life activities, which are now operated directly by La Banque Postale, and it will authorize us to propose non-life producers to our partners everywhere in Europe and in the world. We have also in France to adapt savings and pension products, following the adoption of the PACTE act. I already say that, there was a start in this process but there are clearly different new activities, which will be made possible by this flow and we will clearly have to transform the structure of our assets and liability in the future not reducing our activity in terms of managers of savings contract, but to transform the structure of these contracts into more dynamic and less risky for company contracts.

For the Europe -- the rest of Europe, we -- of course, focus our attention on term creditor insurance and personal risk businesses, the same conditions of low interest rates prevailing in Europe, which convinced us to focus our attention on these sectors and we will try to find new growth drivers among European partners, where there seem to be a bit different moves in European insurance sector and we try to take benefit of these moves to develop our scope of partners. In Latin America, to finish with that, we will have the last year of -- at present agreements and we have to prepare the new generation of our agreements, which will start in 2021. We will close the agreements signed with Caixa Economica Federal by the end of December. That means that we have different elements of detailed discussion and reorganization of our current subsidiary to do. And what's more, we have to consider new developments in our business in Brazil.

In few words, in the past, we had an exclusive partner, of which we were the exclusive insurer, which was Caixa Economica Federal. In the future, we will work with them certainly on three business lines, those which we have already signed, possibly with an additional business line if give up another business line to operate. But we will be -- from this point of view, we will be free to develop businesses with other partners, as Caixa Economica

Federal will be not under complete exclusive relation with us but just exclusive on a couple of business lines. That means that the development of the business model in Brazil and in other countries of Latin America will be certainly the center of the development of strategy in Latin America, starting in 2021.

Now we are ready with Thomas and the rest of my colleagues to provide you with the informations you need.

Questions And Answers

Operator

The first question is from David Barma, Exane BNP Paribas. Your line is now open.

Q - David Barma {BIO 19957338 <GO>}

Good morning, everyone. Thank you for taking my questions. I have a few on capital to start with. So on your Group Solvency II ratio first, so now you're nearly at 230%. This indeed aligns you with the way of calculating at some of your European peers, but you're also above the average of capitalization and the sector, do you plan on running the business going forward with such a capital buffer? Or how should we think about the potential uses of the proceeds from the reform earlier this year? Second question is, you're mentioning opportunities to develop new partnerships in Latin America. So my question is on capital and Brazil. Now that we have more visibility on the future scope of the operations and you still have a substantial amount of non-recognized capital locally, should we expect that capital to gradually be released to the Group as the old JV runs off?

And my third question is on your sensitivities, which have increased quite a bit. So firstly, could you remind us, where you stand in terms of duration mismatch and if you've taken any actions there? And second, what's driving that increased sensitivity? Is it just a starting level of rate which is lower or the addition of the PPE? Any color there would be helpful. Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

I'll take the two first questions, and I leave for my colleagues for the third one. Regarding for use of level of capital, we have now, I said that we will have discussion -- strategic discussion with shareholders in the coming months. We're also planning to make an asset allocation committee in order to increase the exposure to equities to project finance and different assets which represent a higher expectation of return in the future. It is clearly an opportunity for us to leverage more the capital of the company. We will do it very gradually and very prudently, but it is clearly, for us, the recognition of the efforts we made during the last years to improve the strength of the balance sheet and the provisions by European standards is also an opportunity for us now to improve and increase the exposure in terms of risk of the company. We will be very careful on doing that. There will be no change -- no brutal change but very gradual increase, but we think that we have to make a new allocation and it will be made during the first half of this year.

Your second question refers, in fact, to the unused capital we have in different activities in Latin America. It is clear that the reshuffle of our activities in Latin America will be an opportunity to use or to reduce the excess capital which lays in the subsidiary, nowadays, it was not a very comfortable situation to have an unused excess capital in Latin America. And on that point we're completely aligned with the willingness of Caixa Economica Federal, who wants to give to put in our common subsidiary the capital necessary to develop them but not to leave too much excess capital which would be useful in other developments.

For the third elements --.

Q - David Barma {BIO 19957338 <GO>}

And I'm sorry, just to come back on the first point in re-risking. Does it also change anything about how you approach commercial momentum in France? I mean, does having this additional buffer change anything on how you want to develop your top line in both savings and protection in France?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, in fact I was -- in fact, mainly plainly referring to the structure of asset allocation of the company. Now we have in market value, about 82% of bonds in the balance sheet in France and roughly 13% of equity -- private equity and so plus around 3% to 4% in real estate. It is on that side that we think that we will increase slightly the exposure in terms of risk.

A - Thomas Behar {BIO 18964489 <GO>}

And on your question about what we are doing in France. In fact, the level of the solvency ratio doesn't change the fundamentals of the level of the interest rates, which are very low and which imply transformation of the contracts that we're selling to find the best way to cope with interest of the policyholders. So it's something that is, we are doing, so it's in the move. And so we're continuing to do that because it doesn't change the reality of the asset liability management that we have with the level of interest rates that we can have on the market. And you have seen the 70% which was -- the EURO.70, which was the level that we were able to invest. On your last question about sensitivities. In fact, it's quite simple. The level of the interest rates have decreased from last -- coming from last year of more than 70 basis points over the 10 years. So where you are going much more closer towards zero, the sensitivities towards interest rates are increasing quite naturally. You have more trajectories in the models which are negative and so, it's something which is not linear, but it's an increase of the sensitivities you can find. Perhaps, Olivier can say -- give you a few words about the investment part and so what has changed on the asset liability management, which were your question according to the durations.

A - Olivier Guigne {BIO 18263857 <GO>}

So on the asset side, we remain a bit shorter than on the liability side. But that's something we are very comfortable with given the fact that we have some embedded options, as you know, in our liabilities and especially when rates are going to rise. So it's much more common to be a bit shorter on the asset side and as we have -- as you have

heard also, the new law as transfer -- as PACTE authorize transfers. So we may prefer to be a bit shorter also on the asset side, given the fact that our clients may transfer or may change part of their contract in the near future.

Q - David Barma {BIO 19957338 <GO>}

Understood, thank you.

Operator

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

Q - Thomas Fossard {BIO 1941215 <GO>}

Hi, good morning, I've got several questions. First one would be on the -- in Brazil, regarding hipotecario. Can you tell us, what's your just strategic thinking currently regarding the back book? So, I think that there are several scenarios attached to this either put it in run off or sell it. So, I mean, any update on that would be useful for us. The second question would be regarding the possibility offered by the PACTE law to transform your back book. Have you got any scenarios, any plan around that? I guess, yes. But when will you come with a new product designed to organize this transfer? What would be the risk attached to that? And how you're going to cope with the risk and the potential miss-selling risk and any ambitions or any targets you may have regarding the transformation targets?

And the third point would be related to your guidance for 2020. So you're communicating on a 3% to 7% growth of the net profit in 2020. Obviously, on the net income level, there is a lot of volatile item that are under your more or less, under your control, also in terms of gains or in terms of PPE reserves. If we were to move a bit higher in the P&L and think about your EBIT, bearing in mind the current environment, what's your view on the long-term growth potential, earnings growth potential of CNP? That still the, I mean, 5% EBIT growth target that you have -- that you had in the past? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

To take the first two questions and leave Thomas with the more difficult third one. And regarding first hipotecario in Brazil, we have, of course, a discussion nowadays underway to protect the hipotecario portfolio, which we have nowadays. And making an agreement on that is a condition to make the closing of global negotiation at the end of the year and our partners know that we have that on the plate of our discussions by the end of this year.

The second question you had and just an additional point. If you consider last year's performance of the sales, in fact, in terms of new business value, we obtained more -- in terms of new business value last year, than what was expected and announced in Brazil. We have the figures, Thomas?

A - Thomas Behar {BIO 18964489 <GO>}

74% is secured what concerns JV 1.

A - Antoine Lissowski {BIO 4384399 <GO>}

Where the initial expectation was about 62%.

A - Thomas Behar {BIO 18964489 <GO>}

60%.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, 60%. We expect to keep 60% under JV 1. In the first year of the split, we have already more than 72.

The second question you had, Thomas, was about PACTE law and the achievement we can do with that. We have with the two main networks with whom we have already important assets, we have a plan of transformation of these contracts and it already started to be implemented. Since, the beginning of the year, we have made more than EUR500 million transformation between historical contracts to new contracts. And for us, it is a good new. In fact, it was the risk of that was not expected, because we didn't expect the networks to be so eager to use this possibility of transformation of contracts. And it is also clearly an indication of what we have to do not only in this year where the plan is more than several billion euro, but also on the possibility we have now to work with the network on optimizing the portfolio of customers over the time.

What I mean is that traditionally, when life insurance was sold to someone the customer was keeping the same product during 10, 20 years without any specific action by the company or by the distributor. Under PACTE regulation, we will be enticed to make new proposals to customers in order to optimize the structure of products which is detailed by customer. And to adapt it to each situation, it is clear that someone which subscribes a product at 45 has not the same needs when the customer is 55, 65 and so on. Then, the evolution of a structure of a product will be a new way to make a discussion with the customers. We leave a period where only the initial sale was the opportunity to meet the customer and now we enter in a period where we will have current constant discussion with the customers throughout the network. Then, it is very promising underway for us to adapt the business model, of course, to the interest of the customers, but also to what the business model of the company, the mix of products of the company requests. For the long term, I leave it to Thomas.

A - Thomas Behar {BIO 18964489 <GO>}

Okay. For the guidance, in fact, as you remember, so we committed some years ago about the EBIT from 2015 to 2018. We were not more able to commit again, because all our partnerships were in discussion. And so as, Antoine explained at the beginning of the call, our -- the renewable or the partnerships are now behind us, and so we have renewed with BPCE, with Caixa Economica Federal, and so we have the new group with La Banque Postale. So that's why we are -- the Board thinks that now is we are able, again, to commit. And so we have chosen to commit on elements of the accounts, which is closer to the dividends, which is the net profit with this increase from 3% to 7% for next year.

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So and now, as always, Thomas, you are asking more. So more than one year, more as a long-term further guidance. So we're we have done these steps this year. And so -- but you have to wait a little bit to have another kind of guidance for future years. So it's the improvement that we have done this year to commit for next year with this guidance on the net -- our net profit, but if you look back to what we have done last year, you can perhaps find some kind of profile in what we are doing with some kind of wisdom about what we have done in the last years. That can give a flavor of what we we are able to do in the future, we have all the guidance about that.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

Operator

The next question is from Benoit Valleaux, ODDO BHF. Your line is now open.

Q - Benoit Valleaux {BIO 2443205 <GO>}

Yes, good morning. A few questions on my side, maybe starting with solvency. You recognized EUR9.1 billion of PPE in your solvency margin, which [ph]exists roughly 66%, which has been recognized, whereas the ACPR recognized 70%. So just would like to understand what is the gap are? And when you communicate some of the increase on your solvency margin, so you said that the PPE contribute to 60 percentage points to the increase, which also suggests that implicitly you recognized nothing coming from the PPE in your former solvency margin. And if I were to remember three, four years ago, you made a conf call on solvency. And you said at that time that roughly 30% of the PPE was implicitly already recognized in your solvency margins or decrease of the SCR. So just to be sure to way to understand what was the starting point and if nothing was recognized at September. And still on solvency, sorry, if I exclude the 60 percentage points at year end '19, your solvency margin would been at 267%. So a small increase compared to at September, despite interest rate increase in Q4. So I just would like to understand what explains this relatively moderate increase.

And maybe just another question. You gave some figure on the share of the of your EBIT which is coming from the various partnerships and when you look, for example, as a business, which is coming from La Banque Postale, it represents 25% of your premium, but only 19% of your EBIT. And for example, we have an opposite figures for BPCE, which generates 30% of your EBIT. So just would like to have maybe some explanation of what explains this smaller share on your profit coming from La Banque Postale. Is it due to product mix,, the lower interest on margin and higher level of fees? Thank you.

A - Thomas Behar {BIO 18964489 <GO>}

Okay. For your first question, in fact, you have to look not at the PPE that is on the liability side, but you have also to look at the PPE, which is on the asset side that's where we have some reinsurance of our portfolio. And as you may know, 10% of our portfolio of BPCE is ventured to Natixis Insurance. And so you have to withdraw this 10% of this specific PPE that we have. That's why you have looked to the 60 you have the numbers that you have done is 66% as you said, but it's 70% of the net of PPE on the liability on the asset side.

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There are other rules in the paper of ACPR, for example, you have to withdraw what has to be given in 2020 for the PPE and other things. But as a growth, it's around 70% of the net PPE that we have. You had other question about evolution of the Solvency II ratio, perhaps Jean-Baptiste or Stephane, if you want to answer that question?

A - Jean-Baptiste Nessi

Yes. Maybe just one precision on the 30% of the PPE that you mentioned in your question. So we said this three, four years ago, effectively, and we strictly apply the ACPR paper and methodology. So this is what Thomas already said and we take into account in our results the new methodology for the PPE. So the 30% is not explicitly taking the form that was before. There is still a slight effect of what was previously in the model. The main part is now in the new method of calculation that is provided by the ACPR after the decree that was published at the end of December. So this was the first point. And the second point was the evolution of the ratio between Q3 and Q4. So as you may see is a relatable stable ratio, excluding the effect of the PPE. And this is mainly due to the fact that there was a relatable stable market during the end of the year. The main effect was taking into account the decrease of the interest rate during the August and you see the effect of the market of minus 24% and compensated by taking into account the PPE.

A - Antoine Lissowski {BIO 4384399 <GO>}

And if you look closely to the interest rate curve coming from EIOPA, in fact, at the end of 2019, we have the same curve at the end of June. So we are exactly in the same situation that we were in June. And for like-for-like, there are other effects, but we are in the same numbers that we published during the half year. On your second question about the differences between La Banque Postale and BPCE perhaps I can invite you to look at Page 10 of our press release, where you will see what are the activities that we are doing with La Banque Postale and the activities that we are doing with BPCE. So we are doing much more savings with La Banque Postale and term creditor insurance represents EUR181 million of payments. And as a difference from BPCE, the term creditor insurance represents EUR1.128 billion. So it's quite between 9 to 10 times, what we are doing for credit term creditor insurance with La Banque Postale. So it explains that you have a difference between the premium and the EBIT, that's the profitability of the different category of activities are not the same coming from the payments, but also from the management of the technical provisions.

Q - Benoit Valleaux {BIO 2443205 <GO>}

Thank you.

Operator

(Operator Instructions) And we have a follow-up question from David Barma, Exane BNP. Your line is now open, again.

Q - David Barma {BIO 19957338 <GO>}

Yeah, thank you. I just had a few follow-ups on -- first on the previous question on the roll forward of solvency in Q4. I'm not sure I got what the moving parts were, excluding the

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PPE addition. Could you -- do you mind just repeating that and what are the building blocks were? Thank you. And then related to that on organic capital generation, it seems that around the end of the year, it was lower than the usual run rate. And do you think for 2020, for instance, or going forward, do you think the four points of organic capital generation net of dividend is still achievable excluding the actions you plan on taking on re-risking the asset side? And lastly, on the French partnerships, do you disclose the new business margin by partnerships especially LBP versus BPCE? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, we're discussing in the press release the amount of new business value by partner, not the margins precisely but the value you have there. For the other questions, so Stephane.

A - Thomas Behar {BIO 18964489 <GO>}

Stephane, will take [ph]22 and afterwards that, we will take that.

A - Stephane Trarieux {BIO 15195415 <GO>}

Just, maybe to be simple on the roll forward, maybe the point that you take as a reference is Q2 publication at 168%. We have relatable stable rate compared to Q2. So this is explaining the main evolution during the second half of the year.

Q - David Barma {BIO 19957338 <GO>}

And so what was the organic contribution in the second half?

A - Stephane Trarieux {BIO 15195415 <GO>}

The PPE organic contribution is mainly was disclosed at 60 points. And regarding the previous question that you said, what is including in the calculation. There is already, as I said, a slight effect that the previous one that was disclosed some years ago, but mainly slightly lower now because the rates have decreased. But this was already embedded in the calculation and now what we take is additionally what is new in 2019 due to the decree.

A - Thomas Behar {BIO 18964489 <GO>}

So according to the second question, so the operating free cash flow, if I understand correctly, so we have this decreased due to the cost of the capital in the new business value that was issued during the year due to the low interest rate. Perhaps I can remind you that we are looking for the capital that is behind the new business value of our Pillar II covenants, meaning the economic capital that we consider for activities. As [ph]Antoine reported we have not changed that due to the fact that the new act from the government regarding to the PPE come very lately during the year. So we changed the Pillar I, we have not changed yet the Pillar II, and we are in the process of reviewing that. And of course, we'll take the consequences of that in the [ph]OCF and the new business value. So it's not yet the case. So we're doing that.

In the same time, of course, as was said, we will look to the asset liability management. And to what we will do with the new economic capital and the process we look at in and so we'll join, what Antoine said, with the business plan that we will that will be considered by the Board lately during the half year. So as far as the question of this OCF, but of course, we are always looking for the future of adding contracts which give more and more new business value. So that's a constant, if you are looking at that and contracts that doesn't cause too much for -- as capital on the new contracts that we are issuing, but we will not commit to anything about that.

I think, we answered your question, unless we missed one.

Q - David Barma {BIO 19957338 <GO>}

Yeah. No, that was it. Thank you very much.

A - Antoine Lissowski {BIO 4384399 <GO>}

Perhaps, I would add an additional consideration to that about this integration of PPE in the Tier 1 solvency ratio. It opens clearly quite different words to us. If you look backward on last years, the PPE was not only constituted on the own funds of the company, but also on the portfolios of the different customers, okay. When you look at the creation of a capital in a traditional vision, you look at the part of revenues, which are not distributed, which creates capital -- Tier 1 capital. Okay. We were not historically relying on the additional PPE constituted on the portfolios of the customers. In the future, it will be the case. That means that not only our situation in terms of solvency coverage improved this year, but it is due to improve as long as we are able to constitute a PPE in the future years, not only on own account, but also on customers' portfolio accounts.

What does it mean? That means that customers will help the company to have the buffer in terms of regulatory capital to have additional risk without requesting the shareholders to put more money or reducing the part of the revenue attributed to the shareholders. It is clearly something quite different. And to be frank, to be complete, we have not so far decided to what extent we will include this additional capital -- Tier 1 capital, in terms of ability to take more economical risk, because it is a sort of very major goodwill, we have. And we don't think that it would be very prudent in four weeks to decide how we will spend this additional capital. We will do it very progressively, very carefully. But what you can have in mind is that the additional risk which we are able to take now will be supported by additional capital bought directly by customers' portfolios and not ask to shareholders of the company.

A - Stephane Trarieux {BIO 15195415 <GO>}

Perhaps just a number that we have not yet given is what we the additional to the PPE this year. If you take from the policyholder PPE and the general PPE, it's an addition of more than EUR1.900 billion of as additional PPE.

Q - David Barma {BIO 19957338 <GO>}

Thank you.

Operator

The last question is from Thomas Fossard, HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Thank you. Just to the risk of coming back to previous issue. But taking the end of June Solvency II level as a reference and I think that that's what you're doing for the interest rate curve. But I think that at the end in Q3 and in Q4, you have embarked into a significant asset de-risking strategy, especially on the equity side. And I think that you are not mentioning that at all today in the roll forward of the Solvency II ratio. So maybe could you quantify this? And just remind us how big was the de-risking on the equity in H2?

A - Antoine Lissowski {BIO 4384399 <GO>}

Thanks, Thomas. Thomas wants to answer your question.

A - Thomas Behar {BIO 18964489 <GO>}

Yes. So it's something which is below the numbers that we're giving, which are much smaller and it's an impact on only 2 points on the solvency capital ratio. So it's inside the 6 points that were exposed, which is very small. Does it answer your question, Thomas?

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Thank you. And so de-risking on the equity side is now achieved, it's over. You are at the level in terms of risk exposure that you were targeting at the end of June?

A - Thomas Behar {BIO 18964489 <GO>}

Yes, of course, with the level of solvency margin that we have, the idea is no more de-risk, but to go to the opposite. And as Antoine said, so we look what kind of equities, what kind of infrastructures we will buy, but we will do that carefully. And of course, with the level of the equity markets, it's a nonsense to invest a lot of things now, without choosing what we are doing. And so, the team of Olivier is working on that with the team of the risk group to consider that in the next month.

A - Antoine Lissowski {BIO 4384399 <GO>}

The question is to find the right moment and the right assets, and we do not shout it too loud, because I don't want Olivier to be completely invaded by different asset managers, who have very good ideas for us to make investments, but we will clearly re-enter in the process of making investments more risky investments in equity, in infrastructure and so on.

Q - Thomas Fossard {BIO 1941215 <GO>}

That make sense, thank you.

Operator

This concludes today's Q&A session. I would like to hand back to Antoine Lissowski for some closing remarks.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Thank you very much for having attended this discussion. We will be in contact with you in the coming days and weeks. We're at your disposal and I will be very happy to have further discussions with you in the future. Thank you very much, and have a good day.

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