

# S1 2020 Earnings Call

## Company Participants

- Antoine Lissowski, Chief Executive Officer
- Olivier Guigne, Chief Investment Officer
- Thomas Behar, Chief Financial Officer
- Unidentified Speaker

## Other Participants

- Benoit Valleaux
- Thomas Fossard

## Presentation

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

Good morning to everybody. We are all glad to speak to you even if it is in a period, very difficult for all our economies. But we'll try to show you the impacts of the current crisis on the company and the prospects we drew from it. If I can come to an executive summary of what we will tell you, I'll start by pointing different aspects for measured impacts of COVID-19 crisis in fact, on CNP Assurance. There was, of course, reduced sales activity in France, mainly as well as in Brazil. In those two countries, the main network has to pay it to people and we have, of course, less activity in sale of insurance contracts. Nevertheless, it happened in France, where our initial willingness was to reduce the production of euro traditional contracts. And on that respect, the period was welcome.

There was also a very limited deterioration of the contractual claims experience, which will -- which is due to the difference of the age of our insurers and of people who were dead of the crisis. And what's more, the financial protections, which we have posted in the balance sheet were very effective during the period and there was relatively limited impact of the decrease of the financial market on half year results.

That being said, we still are optimizing the business model of the company. We are driving work to contain administrative costs. We are implementing quicker business digitalization program. It is clearly one of the main message of this crisis, the businesses of companies as CNP, in general, banking and insurance company, needs to be more digitalized in order to allow people to operate from home rather than going to a network. And of course, we have experimented more agile and decentralized working methods. All the staff of the company was at home during two months and it worked due to the IT systems, which were made available to people during the two last years.

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The financial strength of the company was recognized by the investors. We got A+ rating by Fitch, that was granted post COVID-19 crisis, that means it takes into account the impact of this crisis. And you will see that we have a very high solvency ratio in this environment. Don't forget that at the beginning of the period, in fact, March 4, we -- there was a very important integration in La Banque Postale Group. We now belong to La Banque Postale at 63% and it was beginning of a very strong integration program. We have 100,000 man-day business projects in progress in order to strengthen the relationships between this network and CNP Assurance. That takes place, in a context, we have a low interest rates, which were already expected at the beginning of the year, but now everybody knows that interest rates will remain low for a very long time.

This low interest rates necessitate to transform the saving pensions model in France. We have made a partnership between our subsidiary Arial CNP Assurances, which is a pension company, and Natixis Interepargne in pensions. We have had EUR1.5 billion of PACTE transfers. They are not integrated in the production of the year, but they help to transform our assets and out of this EUR1.5 billion, more than EUR1 billion was made with La Banque Postale, it is a very promising transformation from their part. And we have started to sell new retirement savings plans, PER, at the end of the period. That being said, we, of course, are still working on our socially responsible investing policy. And we have taken new thermal coal objectives, and we revised our policy concerning tobacco producers.

If I come on specific impacts of COVID-19 crisis, there were some effects on operations. We have had lower sales due to point of sales closures already mentioned. And the premium income are, all in all, down 32%. All employees were working remotely until end -- are working remotely, and they can do it until end August. And after, there will be a new regime at CNP under which all employees can work at home at possibly three days a week, definitely. And we have also reduced the burden of rules and simplified term creditor insurance acceptance process in order to allow people to get the insurance or the money if there is a claim more easily. We have taken some solidarity initiatives. The benefits in excess of contractual obligations for some categories of policy orders, vulnerable policy orders and people who have children to welcome that were estimated EUR50 million and we have also paid EUR25 million as a contribution to solidarity fund, which was organized by the insurance industry.

Regarding claims experience, there is no specific increase in mortality rates among insured in any host country where we operate. The one, conversely, a small decline in savings/pensions surrender rates which is a sign that, in this period, people need to keep an important savings activity. And there was a very small increase in sick leave claims, in fact, it accounted only EUR6 million of additional costs for CNP assurance.

The most important, in the end, was the effect on the investment portfolio, the nonpayment of dividend on equities, which were decided by plenty of companies represented for us a loss of EUR283 million out, of which EUR60 million on own-funds portfolio. But the net profit of the company was protected by roughly EUR100 million by hedging against the decrease of value of equities. Then all in all, we relatively reduced the impact, which could have larger of the crisis in terms of equity for the company. And we

have invested in an insurance industry investment program, which was decided by the French insurance industry.

If you look now on our business -- monthly business volumes, you see that in the three regions where we operate, the situation is now becoming slightly normal. If you look at France, the core of the crisis was in May, where production was EUR1 billion below production of January. And now between May and June, we almost multiplied it by two the production. And the recent information show that we will now be at the level of last year's production, if things go on as in beginning of July.

In Brazil, there was very spectacular growth of production. If you look at down the lower production month, it was in April with BRL1 billion production. This production climbed to BRL1.2 billion in May, BRL2.5 billion in June, and we expect that it will be at about BRL4 billion, even more, in July. In this country, clearly, there is a very quick recovery of sales in our network. And if you look at Europe, excluding France figures, the figure come back to the level of January in June, and the progression is constant nowadays.

Now I give the floor to Thomas to present the business performances of the company.

### **Thomas Behar** {BIO 18964489 <GO>}

Thank you, Antoine. So let's give some amounts behind the facts that you presented. If we go to the premium income, so it's EUR11.5 billion for this first half year. It's a decrease of 29.2% like-for-like for the currency real. This decrease in euro is EUR5.4 billion, and in this EUR5.4 billion, EUR3.6 billion of euro comes from the lockdown, reduction of activity of the networks.

For the EBIT, it's EUR1.3 billion, it's a decrease of 9.5% like-for-like. The decrease comes from France, EUR200 million and we have an increase like-for-like of EUR50 million in Latin America. The net profit is EUR629 million and is a decrease of 8.5%. The APE margin is 11.1% and is a decrease of 35%. We have a strong decrease in France, but an increase in Latin America and in Europe, excluding France. Solvency capital ratio is 214%, a decrease of 13 points coming from the level of the interest rates.

Let's go now to the three different areas where we are practicing in France. If we come first with the premium income in France, it's EUR7.2 billion. It's a decrease of 36.5%. In the three different areas, the decrease is strong for activities of savings and pensions and slightly for personal and risk protection. The decrease for the traditional saving pensions products in France is 46.3% and for unit-linked, it's 36.6%. This decrease is stronger for the Europe contracts and you can see in the net new money, where you have a decrease EUR4.3 billion as decollect of reduction of new money. And you have an increase of the unit-linked product with net -- positive net new money of EUR600 million. At these activities of selling new euro and uniting contract, you have to add the PACTE transfer of EUR1.5 billion, where we transform all contracts to new contracts. We will see that later.

Let's go now to the revenue. So you have a decrease of 15.3% of the revenue, which is EUR1.1 billion. You can see that net insurance revenue has decrease of 8.9%. We are going

from EUR919 million to EUR838 million. You can see that the saving pensions are stable, not moving. You have some effect of provisions, an increase on one of them, which is a cost of minimum yield guarantees on unit-linked, but some decrease of other reserves.

You have a reduction of the personal risk protection from EUR343 million to EUR264 million -- EUR264 million. It's the impact of what we have said about extra guarantees that we have given to vulnerable populations and also for childcare costs on -- during the lockdown period, but also a slight reduction of EUR11 million of the sales that we have in daily allowances due to unemployment and a slight increase of the claims.

What is also positive for us during that period is that we have not suffered from mortality claims as people who have suffered from the COVID-19 have not insurance -- bought the credit protection as this credit are usually done between 20 and 65 years. For the revenue from own-fund, it's also a point where we have a decrease of 31%, it's EUR262 million at the end half of the year. It is -- it comes from what was forecasted, which is a decrease of the interest rate revenue, but also, which is new during the half of this year, is a reduction of the dividends due to undertaking stretches, not to give dividends following the public recommendation during the period.

Administrative cost is a reduction of 2.7%. We were flat during the first quarter and we have decided to reduce the cost. You have reductions that comes from natural reductions, less sales or less tax on sales, but also reductions of other activities during the period. As an impact of the revenue -- of the level of the revenue, you have an increase of the cost-to-income ratio at 33.8%. And you have a decrease of the EBIT of 19% at EUR817 million.

Let's go now to Europe, excluding France, where you can see a decrease of 13.9% of the premium income at EUR2,100 million. If you look at where comes the decrease, so it's positive for us. It's a strong decrease of the traditional and saving pension products of 53%. So we have chosen to drive the pension and savings activity to unit-linked with a strong decrease in Luxembourg and in Spain. And in Italy, you have a strong increase of unit-linked weighting. It's now 78% of the new money. So an increase of 10 points during this first part of the year. And you have a slight decrease of activities for personal risk and protection during the period. So net new money shows where the goes to. Unit-linked with EUR600 million as in France -- EUR600 million of net new -- positive net new money.

For the profitability, for the EBIT, it's stable, decreasing of EUR2 million with various phenomena behind that. But as a result, it's quite stable during the period. And the administrative costs are also quite stable. It's an increase of 0.7% in line with the budgets. The EBIT is slightly decreasing of EUR2 million during the period.

Let's go now to Latin America. So the real has a decrease of 41%. As you may know, we have a cover, which is not in the EBIT, but it is below the EBIT in the net profit and so we'll consider only the like-for-like changes. So you can see that, we have a decrease of traditional savings pension product of 15.6%, and a decrease of the unit-linked savings pension products of 20.9%, so we are doing 98% of the saving pension activities in Brazil in unit-linked. And for the personal risk rotation, you have an increase of 3.5% at EUR800 million. This increase comes mainly from the activities of our loan for consumers -- loan

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protection for consumers. As other matters, the net new money is positive of EUR400 million for unit-linked and saving pensions products. I would like to add also to these numbers, the strong increase of the pension stocks of 22% increase of the reserves linked to unit-linked in Brazil between the half year 2019 and the half year 2020.

For the EBIT, so we have an increase of 8.2%. So it's an increase of the net insurance revenue of 6.7% and an increase of the revenue from the own-funds portfolio of 36%. This increase of the net insurance revenue comes from the personal risk protection. This increase is linked with a decrease of the claims that we have on the risk protection activities during the period. Administrative costs is an increase of 2% at constant exchange rate. It's in line with the budget that we have, and the EBIT has growing of 9.4% at EUR522 million.

We have chosen to show in one slide, the value of new business and the APE margin with the comparison between the three different areas. You see that it has been very different according to the three areas. For France, it's the new business. Value is now EUR12 million and its -- and APE margin of 1.8%, so decrease due to the level of interest rates during the period, the 11 first maturities are now negative and we have a very negative interest rate for state bonds in France.

It's different for Latin America and Europe excluding France, where the mix is oriented to unit-linked and to protection business. We have an increase of the APE margin at 31% in Latin America, and 22% in Europe, excluding France. The decrease in these two paces of the value of new business come mainly from the evolution of the volumes during the period.

Let's go now to some activities that we had during the half of this year, during this period. So you have -- we have to remind you about the unit-linked weighting 24.7%, it's an increase of more than two points in France and 77.8% in Europe and 98.5% in Brazil. We have net new money positive for unit-linked everywhere and negative for traditional savings. We have success in transforming old contracts into new contracts for EUR1.5 billion, and this activity will continue during the second part of 2020. What is interesting in this transfer is that it's an opportunity for the network to consider with the customer, what is important for aim in, as for its personal situation and to look how new unit-linked can better fit with the need of the customer. And as a result, we see that weighting of contract transformed were 12% before transformation and 25% after transformation. Antoine will tell later some other transformation that we did towards more unit-linked activities during the period, especially in France.

For the investments, so the average reinvestment rate is 1.24% during this period and we have mainly invested in corporate and credit bank instruments. And as already said, the equity covers for the reduction of their value during this first half of the year.

For the financial performance and solvency, so here we explain how we go from the EBIT to the net profit. I will not comment each numbers as they are quite stable or same explanations and you can see that equity accounted and noncontrolling interests net have reduced because the EBIT has reduced due to the exchange rate for Brazil. You have also

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a quite similar fair value of adjustment and net gains coming from EUR124 million to EUR112 million. Nonrecurring items have reduced because we have chosen to reduce the general PPE that we have at the end of the net profit accounts so it gives this attributable net profit at EUR629 million.

The net operating free cash flow is EUR618 million. It's a decrease of more than EUR200 million. This decrease come mainly from the required capital for new business due to the level of the value of new business. There are more required capital for new business due to the level of the interest rates explaining why the net operating free cash flow is below what was expected. And of course, you have also the reduction of the operating profit, which is the second part of the explanation.

The solvency capital ratio is 214%, coming from 227% at the end of last year. The evolution comes mainly for the market changes, 30 points you have. It's linked with the level of the interest rate during the period. We have also an evolution of the way we are taking into account the PPE in line with the recognition of the ACPR that we said at the end of last year of 10 points. The issuance of new subordinated notes in June for 5 points are the main points, expanding the evolution of the Solvency Capital ratio.

So that's for the numbers, and I will give back the floor to Antoine for the corporate and social responsibility.

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

Yes just a couple of words to end this presentation and start with your questions. Regarding our role against climate change, we have decided to reinforce our commitment. We joined the Net-Zero Asset Owner alliance in November 2019 and we pledged to achieve carbon neutrality in our investment portfolio by 2050. Now we have decided additionally to withdraw completely from coal industry. This withdrawal will be in two steps where we withdraw from this thermal coal in European Union and OECD countries by 2030 and the rest of the world by 2040.

What's more, during the period, during the first half of 2020, we applied very strictly our shareholder voting policy in order to oppose the reelection of directors and say-on-pay resolutions in companies that failed to implement sufficiently ambitious responses to this challenge. We consider our responsibility is not only to buy our sales equity, but also to have through very strong dialogue with managements of the company and influence on the way the companies, we are shareholders of, are managed on that respect.

We have taken several posts, what we call post-COVID initiatives. At the end of a crisis, in May, we gathered different working groups within the company in order to see what could be our immediate changes in our policy, derived from the conclusions we draw from the crisis. On personal risk and protection insurance, it is clear that we have an application period, which are extended for measures to make it easier to obtain term creditor insurance cover. And in general, the possibility to ease the process to have these contracts or to have claims will be structural within the company. We project also to revive unemployment insurance cover, and we are on the edge of launching a new product with

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BPCE. We have also signed an agreement within the Ile-de-France region in order to allow people, which are suffering aggravated health risk to get these contracts.

On savings and pensions products, we have decided to continue the shift in savings from traditional funds to unit-linked funds. It will go for an increase of discretionary asset management options, which will be developed in the different networks where we operate and we use bulk policy order bonuses in order to give an advantage to customers who accept to reduce their traditional contract exposure and to enter in unit-linked investments. Of course, to do it, we will also need to propose these investors more secure unit-linked funds and we are working nowadays on property funds, which will be much more secured by -- than in the past.

And it seems to us one of the major consequences of the crisis, we have to improve customer experience, first, on simplifying the processes for online operations. These operations represented a very important part of our relationships with our customers during the crisis and it appeared as being very appreciated by customers who can operate from home. We will extend, of course, the use of electronic signature and, in fact, we consider that the electronic signature should become the rule within the company by one year. And that all will result in the development of omnichannel distribution, under which the customer can be indifferent between going to a network, speaking with the company or using any digital tool in order to make the different operations it has to do. Then it will leave ground to a very quick development of new technologies and new consumer experience solutions, which we have already created and started to implement, but now it will be the time for a general extension of these initiatives.

Then I finished the first part of this presentation and Thomas and me, as well as some of our colleagues, who are there, are ready to answer your questions.

## Questions And Answers

### Operator

(Question And Answer)

(Operator Instructions) And the first question received is from Benoit Valleaux from ODDO BHF. Your line is now open sir. Please go ahead.

### Q - Benoit Valleaux {BIO 2443205 <GO>}

Yes. Good morning. Benoit Valleaux, ODDO BHF. A few questions on my side. First of all, regarding your hedging on FX, on Brazilian real, can you just tell us at which level you are covered by year-end? And what has been the benefit of this hedging program in H1?

I have also another question, which is related to the EUR17 million less strengthening you've made in France related to guarantees. Do you believe that you may have to further reinforce this reserve going forward? For example, if you may have to face some default on your corporate bond portfolio?

Third question that would -- what has been your assumption regarding crediting rates in H1? Did you assume 1/2 of what has been paid last year? And if this is the case, can you just give us some color on what we could expect maybe for the full year? And what has been your current investment yield on your existing fixed income portfolio, not just on your new investment? Thank you.

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

Okay. Thomas, for the first question, perhaps.

**A - Thomas Behar** {BIO 18964489 <GO>}

Yes, you have the information on Page 57, we are -- you have all the hedging strategy, which is given in for Caixa Seguradora. We protect the profit and the dividends that we received from them with the put, and you have the amount which are given on one side. On the other side, you know that we will have to pay BRL7 billion at the end of the year and we have also a protection for the amount, which is not yet in real on the opposite side. So yes, I think a good part of the information, which is, the impact on the account is neutrality. It's EUR34 million of an impact of the real and we received EUR35 million as a plus towards in comparison to the minus EUR34 million, which explains the impact of only 3.5% of the evolution of the global net profit of the undertaking, whereas, we have 41% of the decrease of the currency exchange rates with the real. So second question is about -- can you remind me as a deferred corporate?

**Q - Benoit Valleaux** {BIO 2443205 <GO>}

Yes, I mean, I think that you said that you have had to strengthen what you said some reserve for guarantees in France? So shall the guarantee per se for EUR17 million. And I just wondered, I mean, if there is some potential risk that you may have to further strengthen this level of reserves going forward for, I don't know, any market changes, any potential default on your corporate bond portfolio or anything like that?

**A - Thomas Behar** {BIO 18964489 <GO>}

The EUR17 million that I have said are linked with unit-linked. It's a minimal guaranteed benefit, so it's more an evaluation of an estimation of reserve on the liability side of the balance sheet in difference with the evolution of the assets, which is covered with derivative on the asset side or reinsurance. So it's more an evolution of an estimation of a reserve according to this death guarantees. So nothing linked with interest rates guarantees on capital, so it's more linked with death guarantees on unit-linked. And when the market decrease this -- you have an evolution of the reserve on liability side, but also a positive evolution on the asset side. And the difference due to difference of the formulas is EUR17 million. Does it answer your question?

**Q - Benoit Valleaux** {BIO 2443205 <GO>}

Yes. Yes. Thank you.

**A - Thomas Behar** {BIO 18964489 <GO>}



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I will go to the two other questions, policyholders, so we have done some other years. As we did in the past, we have, but as assumptions, but it's only conventions, same level of the discretionary participation. So it doesn't imply what we will do at the end of the year. It's just a conversion for these accounts to reproduce what we did at the end of the year. As you know, we have a strong decrease of the financial income due to the reduction of the dividends, it's EUR283 million as a total. And you have the continuity of the evolution of the reduction of the interest rate income. So it may imply that the discretion participation will not increase at the end of the year, so clearly, how much we will decrease. So we'll see.

In fact, what will be the second part of the year, we don't know yet where we are about the economic crisis? Will we have a second wave about the disease? What will be the economic impact of the undertaking on the second part of the year? So it's a good part of discussions that we will have at the second part of the year where we will see what level of discretionary participations that are sustainable that we can give to the policyholders at the end of the year. So discussions have not yet begun. So we'll see the second part of the year.

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

Perhaps regarding your last question about what is the return on the income portfolio, Olivier Guigne might add a word.

**A - Olivier Guigne** {BIO 18263857 <GO>}

Yes. So you have the answer in Slide 46 of the presentation. So for the average return on the fixed rate investment, it is around 2.25% to date, given the fact that the yield on the investment on the -- for the flow for the first half was at 1.25% in so well above the rate we had last year.

**Q - Benoit Valleaux** {BIO 2443205 <GO>}

Thank you.

**Operator**

(Operator Instructions) The next question is received from Thomas Fossard of HSBC. Your line is now open sir. Please go ahead.

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

Yes. Good morning, gentlemen. A couple of questions on my side. The first question will be related to Brazil and in relation to COVID-19. Clearly, the situation there is far from being under control. Does it create any concern for your book? It seems to be that you're very, okay still on the mortality experience, as you indicated in your introductory remark. But just checking if it was -- you could provide some sensitivity or if you believe that you've got such asymmetry in your book compared to people dying from COVID in Brazil that it does make -- it's still a very remote scenario at this stage?

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Second question will be related to the low new business margin in France, 1% -- or around 1%. It seems to be that it's unlikely to change much as long as we are in this kind of negative territory. So I was wondering, if just this shift in business mix was enough? Or if you could take, I would say, some, I would say, even more drastic measures?

And the third question will be related to the PPE. I think that probably one of the surprise is that, contrary to what we could have expected due to low and negative interest rate environment. The addition to PPE, at least, at the bottom line of your P&L has not been particularly high in H1, especially compared to the previous year, so just was wondering if this was signaling that you were starting to reach a kind of level beyond which we should not expect the set magnitude of PPE reinforcements than we had in the past? Thank you.

#### **A - Thomas Behar {BIO 18964489 <GO>}**

Thomas Behar. For Brazil, in fact, you're right. We have not seen many impacts on the mortality. We are not in every state of Brazil behind in -- behind the first wave, so they are still before or in the middle of the peak of the disease in Brazil, depending on the states of the -- inside the Brazil. But at this stage, it's -- as in Europe, it's people over 65 years who are dying of the COVID-19. Our guarantees in Brazil are mostly death covers or invalidity cover, so we don't have daily allowances of things like that. And so the assumptions on -- the evolution of the impact on mortalities on youngsters is very remote at this stage. So we'll see what gives the evolution of the disease in France or in Europe or in Brazil. But at this stage, we are very far from having an impact on mortality about Brazil or Europe according to the COVID 19.

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

And just to add one consideration for this question, which is that, I would say, perhaps, unfortunately, but the customers of insurance are not the people who are more victims of COVID in Brazil. The people who are victims are people who have no access to insurance in fact, then it explains the discrepancy between the impact of a crisis in the country as a whole, and its consequences on our portfolio specifically.

#### **A - Thomas Behar {BIO 18964489 <GO>}**

And linked with COVID-19 in Brazil, you have seen in the monthly sales numbers that we have shown in the slide show that the activity is increasing a lot. There is no more lockdown or things like that about banking branches. And so we don't expect a lockdown in the activity. The second point is, linked with new business margin, the 1% APE. And you're right, what is important is the mix and the level of the uniting, so we will continue all our policy to encourage networks to sell unit-linked. We have a bonus for discretionary participation, which depends on the unit-linked, so we will continue and increase it. We are far from the level of the markets where we have a 35% of unit-links that are sold in the weighting of the saving and pensions activities. So with our 24.7%, it gives us places to increase this percentage.

Also apparent is the evolution of the guarantees. We are not yet for La Banque Postale with growth guarantees -- growth of fees guarantees. We are still in net of fees guarantees, so this impact -- this evolution will be only in next year and it will also improve

our new business margin. But we are moving, pushing or what we can do to improve in our policy and make insured by the unit-linked activities where it answers their needs. And I would like to say that we have also created a new business unit, which is answer Olivier Guigne is the head of this activities, and we are also pushing for new kinds of unit-linked. And perhaps, Olivier, you can say a few words about that.

**A - Olivier Guigne** {BIO 18263857 <GO>}

Yes. So we have built a new business unit, which is called ICB for -- clientele patrimoniale which is the following of -- patrimoniale that you already know and the purpose of this new business unit is to build a new solution for the clientele patrimoniale, but also for the other business units, so that we could have kind of a laboratory of new products in terms of unit-linked product. So that we could offer our clients more and more solutions, especially in terms of protected solutions concerning unit-linked.

**A - Thomas Behar** {BIO 18964489 <GO>}

And for your last question about the net profits. Our feel today is that during the second part of the year, we have some kind of economic crisis, which makes our own-fund portfolio revenue continues in same kind of direction as we are today. We are not expecting any more evolution of the net insurance revenue, so it's -- to do a very good second part of the year. But our fear is about this impact of an economic crisis on that part, so it explains the level of the PPE that you have seen here. And question is, what we will do in the second part of the year, it will depend, of course, of the economic conditions. But as always, you can see a good signal in what we are given to the market as first part of the year with this evolution of 8.5%.

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

Just on -- Thomas, just to clarify on the PPE, so I'm taking from your comments that's one of the reason why the PPE has not been massively or significantly increase in H1 is because you're expecting a pretty cautious investment income from your portfolio in the second part of the year, is that right?

**A - Thomas Behar** {BIO 18964489 <GO>}

I would not express it -- the first point as a consequence of the second point, but much more the level of the PPA is clear linked with the directions where we see the net profit for the end of the year with this 8.5%.

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

Okay. Thank you. (inaudible). Thank you

**Operator**

(Operator Instructions) And we received a follow-up of Benoit Valleaux of ODDO BHF. Your line is now open again. Please go ahead.

**Q - Benoit Valleaux** {BIO 2443205 <GO>}

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Hi. Good morning again. A few follow-up questions on my side. First of all, the change of your shareholder structure occurred roughly six months ago. Can you just maybe give us some view on where you are in your progress with La Banque Postale? What do you expect -- do you expect in terms of maybe potential additional cost synergies or in terms of additional potential revenues?

Maybe another question, in the current environment, I mean, do you believe that you missed some potential external growth opportunities or not? And I have a question regarding your investment portfolio. So you gave us some sensitivity analysis of your Solvency II margin to a potential increase in your rating downgrade. So what have you seen year-to-date in terms of rating downgrades? And what do you expect in terms of potential default on your corporate bond portfolio by year-end or maybe for next year? Thank you.

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

I'll take the first part of your question regarding the integration within Banque Postale Group. As mentioned, it started in March and the time was occupied in, in fact, in two fields. The first field was to integrate accounting structures, the risk structures and so on in order to be fully integrated in terms of making the result balance sheet construction and steering other risks in the group in the Banque Postale. And of course, that being a part of a Caisse des Depots group, then the work there is relatively complicated, but it was being steered so far without any specific problem, and we are correctly integrated so far on those two terms. There is, of course, the work to do mainly on risk management in order to have the same rules as all the level of the group, but it will be done.

The second part was the improvement of synergies in terms of products. The synergies rely on developing IT systems in order to simplify and increase agility in terms of proposing products. And for instance, we have changed with different aspects of existing products. We are introducing bonuses and so on. But the reaction time to make it available is between six months and one year before it comes into effect completely. Then the different works are launched. Some already happened, and the rest will certainly have its outcome by the end of the year or at the beginning of 2021.

And the third aspect of this integration will be the integration of non-life businesses of La Banque Postale in CNP Assurance. We have decided to work on it just at the second half of the year in order to be able to make this integration complete at the end of 2021, rather.

**Q - Benoit Valleaux** {BIO 2443205 <GO>}

Okay. Thank you.

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

I think the external growth -- we have, in fact, two consideration nowadays. There was one consideration. You perhaps heard already, which is to see if it is possible to do something in other areas than the areas where we are, and namely in Africa. And we discussed with the Board, of a possibility to make an investment in insurance company in Africa, in an

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already existing insurance company, which could contemplate developments in different countries of Africa. We have found a possible partner, and we have started to discuss with this possible partner before the COVID crisis, and we will reopen the discussions tomorrow. In fact, in order to be able, by the end of the year, to see if it is or not possible to make an agreement with this partner in order to make an investment within the capital of this partner and in order to make supplementary growth in different countries of Africa, the partner being in -- already having an already existing activity in one African country.

The second field will be to increase, to reopen the question of our development in Brazil and the rest of Latin America, when we will have closed agreements, which are already signed with Caixa Economica Federal. We will be in a situation where for insurance companies, we have nowadays, meaning Caixa Seguradora will become a sort of runoff. We will have new companies in partnership with Caixa Economica Federal, which we call GVs, several GVs. And we will be free beside it to develop new businesses outside of Caixa Economica Federal. And we have started to build a program called Urban Sea [ph] in order to see on which fields we will be entitled to develop businesses with other partners than Caixa Economica Federal in Brazil and in other countries of Latin America. And by the end of the year, we should have adopted a business plan in order to have these new developments starting at the beginning of 2021, at the same moment where the new partnership with Caixa Economica Federal will take place.

#### **A - Thomas Behar** {BIO 18964489 <GO>}

The other evolution is for France. We have still the project that was decided at the beginning of the operation with La Banque Postale to buy the activities of La Banque Postale that we already know, but also open France for the non-life activities with purchase of La Banque Postale, which will give us more capacity to propose non effectivities to our partners. So it will be the third part of the external growth that we are looking at currently. Your third question was about credit risk and perhaps, Olivier Guigne, can say a few words about that?

#### **A - Olivier Guigne** {BIO 18263857 <GO>}

Yes. A few words on the credit and on the investment on the portfolio. First, just to say it's a bit too early to have a clear view on what will be the rating migration in the second half of the year. But what we can say at the time being is that first of all, we have also limited impact so far -- very limited impact so far on our portfolio. We have also limited -- very limited exposure to the sectors which are currently impacted the most by the consequences of the COVID-19, I mean, leisure tourism, transport and automotive. So which makes us very confident on the second half of the year so far. And we -- on the investment side. So as you noticed, we have overweight a little the credit in our investment in the first half of the year, given the fact that the spreads have widened very significantly during the crisis. But we are still investing in very secure -- in the secure part of the investment side. I mean, in A and BBB+. Very limited investment in BBB and BBB-. So we expect that we are a bit remote from significant credit migration in the second half of the year.

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

That's all your questions, Benoit?

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**Q - Benoit Valleaux** {BIO 2443205 <GO>}

Yes, yes. And if I may, maybe just to come back on costs, maybe not just on synergies, but you mentioned that you are deploying home working and so on. So do you see some additional cost efficiency potential, I don't know what your interpret has been already achieved, I mean, do you expect some additional decrease in expenses in France?

**A - Thomas Behar** {BIO 18964489 <GO>}

Of course. So if people are at home, we need less places for less matters for the activities, for the real estate, for the offices. And so for our new offices in Issy-les-Moulineaux that we are currently building, so we need not all the places that we were expecting before. So there is a reduction of the cost of our real estate, for our offices innings with the choice as a consequences, as the choice of the people already inside undertaking will do. As you have seen, we have a new agreement, which enables people to choose up to three days at home beginning in September this year. So we'll have this impact. And already, we have chosen to keep only two of the three buildings that we have in Issy-les-Moulineaux.

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

We don't evaluate it in terms of money, but it is clear that until the beginning of 2020, we expected to buy three buildings in Issy-les-Moulineaux. Now we know that we will need only two. And it will represent, among others, a source of cost cutting and we think that digitalization and simplification of the process will also open different possibilities to reduce the cost of treatment of operations.

**Q - Benoit Valleaux** {BIO 2443205 <GO>}

Okay. Thank you.

**Operator**

And we received a follow-up of Thomas Fossard of HSBC. Your line is now open again. Please go ahead.

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

Yes. A couple of follow-up questions. The first one would be on the EUR67 million of negative impact on your risk and protection insurance revenues in France. I was just wondering if you could provide an update on if -- clearly, it seems to be that a big part of it, the EUR50 million is a nonrecurring item. So I just wanted to understand if we should expect a kind of rebound of you were already foreseeing additional events, which may keep the risk and protection insurance revenue a bit under pressure in the coming quarters?

Second question would be related to the free cash flows. So it's down 27%, I think, that you explained clearly. What were the drivers behind? Now thinking about your dividend policy, does that put at risk the dividend level of the EPS that is currently expected by the consensus for 2020? And maybe the last question will be related to the Solvency II walk

from Q1 to 18% to Q2 to 14%. I would have expected a bit of a rebound, but maybe there were, I would say, countervailing effect, so if you could clarify? Thank you.

### **A - Thomas Behar** {BIO 18964489 <GO>}

On the first question about EUR67 million, it's only in line -- it concerns only daily allowances. So it's EUR50 million for things that are over. It was up to -- until the 30 of April and stop, as the system in France that change is normal, the public health insurance cover that's dealing with this childcare cost and this vulnerable population allowances. It's now the more of the unemployment system, which is taking care of that, so we are not coming in addition to this system.

So it's over for the EUR50 million. It's only an estimation. So we will see when we will get the numbers during the second part of the year or surely next year when we will have all the numbers according to this collective activities that we'll see what it has done with this EUR50 million. EUR11 million was a reduction of activity due to partial unemployment. It was clearly linked with lockdown. And with this partial inactivity, the undertakings were able to decrease the premiums that's happening because the revenues were covered by the unemployment system.

And for the third part of the impact in the EUR67 million is an increase of EUR6 million of the claims. So this one can continue. It will depend on the level the claims that we have in the second part of the year about the daily allowances and how many people are suffering from COVID. We don't know what it will give returning back from holidays in September, will we have the second wave or not. So this part is more linked with -- clearly, directly with the level of the disease for people who have to stay at home during the period because they are ill, so we will see. But this is part can come back. But on the other side, we don't have the numbers yet, but we may expect also some kind of reduction of other source of disease due to all the protections that people are taking according to the health.

The second question about what lessons can we take from the OFCF about the dividend policy, I think we have still places between the level of the OFCF and the level of the dividend we are paying. So you can see the numbers, Thomas, and the high differences between the two. We don't know yet if a dividend will be paid in the second part of the year, it will be up to the Board to decide. You have seen ACPR and BPCE take -- saying -- telling, again, that we don't -- we should not pay a dividend between the end of the year. But the Board will have to consider that during the autumn, if we go for payments or not, if there is a new general assembly about that. So there is no discussion at this stage. So we -- the things will take place during one of the Board of CNP during the fall. And all elements will be taken into consideration to take the decision, at this stage, for the 2020 dividends to be paid in April next year, which shows that we have a lot of place between the level of OFCF that you can see here, EURO.19 per share. And the level of the dividend that we are paying. And your third question about the level of -- can you remind me about your third question?

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

Yes. Third question was just on the walk S II -- of the S II from Q2 to -- from Q1 to Q2?

**A - Thomas Behar** {BIO 18964489 <GO>}

Okay. (inaudible) you can say a word about that?

**A - Unidentified Speaker**

Hello. It's quite simple because during the second quarter, we have a drop of the solvency ratio of 4 points. And this is explained by 10 points of market effects because we have a drop in interest rates in the second quarter and issuance of subordinated debt in June would give 5 points of supplementary ratio, and the last point one being explained by the other FX.

**Operator**

Are your questions answered?

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

Yes. Thank you.

**Operator**

As we received no further questions, I hand back to Mr.Lissowski for closing remarks.

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

Well, it is just to thank you for attendance to this meeting and to expect to speak to you by the end of the year and in February in order to put a final point on this very specific year and give you information on the way the company as well as the rest of the industry will have a rebound. Thank you very much, and have a good holidays.

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