

Q4 2018 Earnings Call

Company Participants

- Antoine Lissowski, Chief Executive Officer
- Thomas Béhar, Chief Financial Officer
- Xavier Larnaudie-Eiffel, Deputy Chief Executive Officer

Other Participants

- Michael Huttner, Analyst
- Thomas Fossard, Analyst

MANAGEMENT DISCUSSION SECTION

Antoine Lissowski {BIO 4384399 <GO>}

Okay. Hello, everybody. Antoine Lissowski speaking for this conference about annual results of CNP. I am with the new CFO of the company, Thomas Béhar, which everybody knows probably, and with Xavier Larnaudie, which is my Deputy CEO, who is the second official manager of the company. Well, we will enter now in the view of the different slides, which are presented here. And after, we will have a discussion with you.

Starting with the executive summary, I would like to draw your attention on different main topics, which are very significant of what is our attitude and strategy now. First, we insist on the fact that we are implementing multi-partner model of which sustainability has been confirmed in 2018. We have successfully passed the first year of a new UniCredit partnership, which was signed at the end of 2017. We have signed an agreement with CEF in Brazil for the activity on the largest part of the current business until 2041. We have developed with CNP Santander activities in two new countries. And we have new in premium Savings segments 30 partnerships in France and in Luxembourg.

The product mix of the company was successfully refocused. You will see that on unit-linked Savings, we have increased our part of the business. And the Personal Risk and Protection insurance represents now more than half of the EBIT of the company. The policyholder appeal was enhanced. We have an improved customer retention, which materializes in policyholder dividend slightly above last year and new products and services, which are provided to our customers, which is in linked with the next point for digital transformation, which is firmly bedded in company.

We have a simplified policyholder and partner experience for everybody and many innovative solutions among which we underlined the fact that we have launched with La Banque Postale and its subsidiary Easybourse, a new company EasyVie, which is completely online life insurance company.

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Doing that we nevertheless insist on our social responsibility investing in a core commitment. And we have increased our focus on green investments and we are still reducing the carbon footprint of a company. That all results in an increase of creation of value for investors and a higher dividend. And we inaugurate a new dividend policy, which will be expressed there.

The core of this strategy is that we consider that our role is to create and provide value to our insured and to all our investors. It is what is our main topic. If you look on page 6 on the key figures of the company, I will not enter into detail of the slides, which encompasses informations, which will be developed by Thomas in a second, but the premium income is if you look at like-for-like figures was up 4.1% last year, the EBIT was at 7.2% last year, you observe that the decrease of the value of real makes this growth more limited in reported figures.

The combined ratio of the company was improved, and that all resulted in attributable net profits, up by 8.6% in like-for-like change at €1.367 billion. The cash flow and dividend are up and we are proposing - the board is proposing to the general assembly dividend of €0.89 by share, up by 6% to last year's. And the SCR coverage ratio stands now at 187% after having taken into account the cost of the renewal of our Brazilian agreements.

You should come now to breakdown of our business with our different partners on page 7. You see that the model of CNP of multi-partnership is confirmed. The first partner in term of activity is La Banque Postale with 26.4% of the business. We have then BPCE with 22%, Caixa Seguradora with roughly 17%, UniCredit with 10%, and so and so. And what is important there is to notice that all these partnerships are negotiated with the tariff, which are expressed in the slide. That means that we are a company in a permanent renegotiation of its business model and partnership span and that it is certainly one of the roots of our sustainability, which is that we navigate through different partners over the time. For instance, if you have had this slide 10 years or 15 years ago, probably Crédit Agricole would have had a large part of our business, which is now very insignificant.

I wanted to insist on page 8 on a very important transformation, which is the digital transformation. All the insurance sector is focused on that, and we consider that in fact we are already a digital company, though it is simply a way to simplify the customer and policyholder experience and the partners' experience when they interact with us. (00:07:25) series of apps, which were developed by CNP to discuss with each partners, for instance, with Kiwi UC for CNP Patrimoine partners, to discuss with some of insured Filae is, for instance an app, which helps people to enter beneficiaries' contacts, which will be necessary at a time when they (00:07:52) for paying their policy to the beneficiaries (00:07:58). And we have several other apps, which were instant (00:08:03) settled over the time. And it is just part of the apps, which we are introducing in order to embed the transformation in the company.

Our view is that digitalization will not mean that the insurance sector is replaced by different startups also. So, it is simply that we have internal startups as well as external startups in order to renew the experience of the customers and of the partner, and this is a process already existing.

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On page 9, you see how we have created value for investors over the last years. On the first half of the slides, you have a growth of earnings per share. For 2018, it is a 6% growth at €1.92. And regarding the net operating free cash flow per share, we have registered an increase by 31.4% this year. Excluding base effect of last year, the growth would have been 3.4% last year. We have anticipated eventual risk with the transformation of organization of term insurance policy in France, long-term insurance policy in France, by reducing this net operating cash flow. In fact, the results of that was not so awful for us. There was in fact not very much modification in the policy of the company and in its business. But nevertheless, it marked the base effect last year.

Now, we'll enter in operational business performance and I give the floor to Thomas.

Thomas Béhar

Thank you, Antoine. Good morning, everyone. So, I will comment the business performance beginning with France. And as you may see on slide 11, we have - we continue to rebalance between euro and unit-linked products with net revenue from unit-linked of € 2.4 billion and the negative €5.1 billion (00:10:33) for euro. So, the expense reduction of 5.9% of our premium income for euro traditional saving products and an addition of 4.2% for unit-linked.

For the other activities that we have in France about Personal Risk and Protection insurance, you still have something, which comes from the new agreement with Crédit Agricole where we have one-off (00:11:01). And we changed our agreement going from reinsurance to co-insurance and Antoine Lissowski (00:11:09) explains part of the reductions of the activities of this line, Personal Risk/Protection. The other part is that we continue to select the risks as we take on personal risk insurance.

About the value of new business, you see that we have a reduction of our VNB of €86 million going from for €498 million to €414 million. This reduction of €86 million is largely due for €110 million about our activity of credits. 20% came from Crédit Agricole one-off and 80% from the end of renegotiation of credits that we observe in 2018 in France, and we are strictly aligned with the market for the end of renegotiations of the credits.

Going now, next slide, slide 12. You may see that we have increased our unit-linked business and this now represents 22% of our premium income. This 22% is still below the market of 28% but we have reduced the difference between the market, and that is now 6%.

You can see that what you have seen in the premium income you don't see it in the revenue because our revenue are increasing of 5.3%. There are different effects coming for that. First of all, is continuation of the improving of our mix product between traditional and unit-linked products. And even in the traditional going to product with higher margin.

On the second point, we have continued to improve our net insurance revenue for Personal Risk and Protection. We have released some (00:13:22) due to better claims for

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the past. And the third part is higher revenue from our own-funds portfolio where we have net gains from the bonds this year.

All this activity has been done with a very, very high look about the administrative costs and as you can see the effect of our policy at the administrative costs, you have a slight decrease of 0.1%. So, it's quite the same, €612 million and €611 million. And this is also a result of cost base reduction of our administrative cost and where the full effect of our Operational Excellence Programme of €78 million on a full year basis. It means that our cost income ratio is continue to decreasing and it give an EBIT increasing of 7.1% to €1 billion and €903 million offshore. So, that's for France.

I will now go to Latin America, where you can see that we have an extraordinary increase of activity. It's 23.8%. It's -- as a decrease of the Brazilian real of 19.5%. We are at constant exchange rate for that. And among these numbers, you can see that for unit-linked that we are selling our Savings in Latin America. We have a very big increase of 35.3%.

We are now on that line of activity, a market share of 14%. We are the fourth market player in Brazil for savings. (00:15:19) Caixa Seguradora market (00:15:20) shares, stands at 9.9%. And you can see that for the other line (00:15:27) Personal Risk/Protection insurance, we have an increase of 1% which comes from our partner policy about credit which is still present.

On VNB, you can see the increase at exchange rates of - going to €215 million and APE margin, which is still very good of 30.1%, slightly decreased because of the rebalance between savings, which are traditionally lower APE margins and for protection insurance. And we have taken in advance it will be the same also for 72% (00:16:18). We have taken in advance the effects of the new agreement with Caixa Econômica Federal for three lines of business. So, we will reduce our rights to the economy of the business from 51.75% to 40% and we'll pay €1 billion.

Now, we're going to the revenue. So you can see the effect of the activity on the revenue with an increase at constant exchange rate of 11.3% which is due to the activities that we have on pension and improvement in Personal Risk and Protection insurance on one side. On the other side, you see effects of the reduction of financial revenue coming from investments. The SELIC rate decreased from one year to the other at an average 40%. The administrative costs are increasing of 8.7% and this increase is below the increase of the activity of 11.3%. It means that we get to an EBIT of 11.8% at BRL 1.097 billion of which is a very good result for Brazil.

Let's go now for Europe and excluding France. And you can see that the activity is also very, very good there with an increase of 32.7% of the activity. It comes from the both lines of activity, Savings/Pensions and Personal Risk/Protection insurance. The main progression comes from UniCredit Vita - CNP UniCredit Vita and CNP Luxembourg. We have an increase of €700 million for UniCredit Vita, which comes as a perfect fruit of our new agreement with UniCredit and we have developed euro and unit-linked products during the year. Same for CNP Luxembourg, our subsidiary now is fully in place and we have a premium income of €616 million there, which is an increase of €500 million in one year.

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For Personal Risk and Protection insurance, so you see in slide 17 that we have an increase of 6.8% of the activity and we are in the line of the business trend that we have developed with CNP Santander and continue to give all these effects. As a result, APE - VNB continued to progress with €67 million (00:19:22) and the APE margin slightly reduced due to the rebalance between savings and pensions on one side and protection insurance on the other side.

Going now to revenue. So you can see the progress about pension savings in the revenue that you have seen on payment income, because for the first year of the new agreement with UniCredit, we have agreed with them to pay higher commissions and that is the agreement. And so it works well, and explains that we are still this full revenue for that activities of €96 million.

You can see also for Personal Risk/Protection that we have €145 million. It comes from the other activities that we have in Italy for protection insurance, where with two banks we have paid for the first year higher commissions. It's two local banks from Italy. We have that in new activity.

The administrative costs have increased of 6.9%. It comes mainly from CNP Santander where you have an increase of activity, and you can see the effect of this increase in the EBIT. For CNP Santander, it goes from €52 million to €68 million. So, a decrease of CNP UniCredit Vita comes from the higher commissions that we have faced €67 million to €48 million. And the other part, minus €9 million comes from the additional commission we - that we have paid to the two local Italian banks for protection activities.

That's for the activities line-by-line we have (00:21:26) And let's go now to the financial performance and solvency. You can see that how we go from the EBIT to the attributable net profits on slide 20. So, the - first of all, the EBIT is €2,924 million. It's an increase of 7.2%, which is higher than the 5% guidance that we have for last year and on the guidance from the last three years, we have at an average of increase of 9.1% which is above the 5% guidance.

On how we go from EBIT to the net profit, you can see that there are not so many difference. We have paid less tax in France due to a reduction of the tax expense in France. We don't have the exceptional surtax that we had last year. And as last year, we don't have the tax dividend anymore.

We have less fair value adjustment and net gains of 89% - €89 million towards - and it was €200 million last year. And for the nonrecurring items, we continue to increase our PPE and we'll explain that later. And so it gave an attributable (00:22:53) net profit of €1,367 million.

Let's go now to page 21 for the net operating free cash flow. It has increased into - it's the €1,462 million. This increase comes mainly from a reduction of the release of required capital. So, you can see that it's - last year it was only €199 million release and now its €470 million of release. It comes that last year we reviewed what's the different law for lapses and especially for savings and for protection insurance. And it means that required

capital was higher last year than this year and that explains this increase. But the main point comes from the MCEV operating profit, which has increased in line with the increase of the EBIT. It means that we have a net operating free cash flow of €2.13 per share.

You can see on slide 22 the increase in free surplus over a period of 2012 to 2018, which is a €4.2 billion. And on slide 23, you have an explanation how we go to 187% for our solvency capital ratio. It's only a decrease of 3%, and it's mainly due to the fact that we have taken in advance the fact that we will pay BRL 4.65 billion to our partner when we will go to the closing of our agreement. So, it costs 7 points for the solvency capital ratio. If we have not that, we would have a capital ratio of 194% with an increase of 4 points. This 4 points comes from 5 point from the operational performance for the year. We are creating value year after year, and it reinforce our capital ratio.

And at the opposite, you can see that the financial market condition have only got 1 point, which is very low and means a very robust balance sheet that we have today as an impact of the less favorable financial markets as we have known at the end of the year.

Let's go and have some words about the asset liability management. So, first of all, you can see for our policyholder yield that we decided to increase of 9 basis points last year which means that we have a 1.58% of policyholder yield this year.

It's one of the best of the three last years. We have done that and we have narrowed the gap between the higher and the lower yields. And so we are doing that. We continue to reinforce our PPE reserve, and it's now 5.3% of the technical reserves. We have not changed our policy about guaranteed yield, which means eliminating them and you can see that we are not selling any (00:26:46) with 0.02% of the average guaranteed yield. And you can see the effect on the stock, it decreased from 0.44% to 0.28%.

You can see on slide 27 how we have invested this year mainly in bonds, equities and you have the bond investment flows during this year. We have a reinvestment rate of 1.2%. Hedging strategy, also we have continued to reinforce our hedging strategy and - which was important with the evolution of the (00:27:27) we have known at the end of the year. And we continue to protect our portfolio against risk of increase of interest rates.

Now page 29, so it's just an example that we continue to invest in real business, in real economy. And you have, for example of investments that we have decided in 2018. And part of that commitment is our ambition to continue to change our portfolio to be better and better green. So, it's - we are in advance of our objective. So, we have increased our investments and we have met our objective of €3 billion portfolio of green investments.

If we enlarge that to energy environmental transitions, so we have the - I mentioned to invest €5 billion more on investment on that side and the objective is met at 61% for that. On the carbon points, so we are quite at the target with 0.27% as the target is for 2021 for 0.25%. And last, we have a mission to withdraw from the coal industry. So, we have no more share and we are eliminating them. And we have companies that drive over 10% of their revenue from thermal coal, and we have stopped to invest in any companies that are involved in building new coal-fired power stations.

So, that's some words from the past on 2018. And now, Antoine will – pass, again one, I have still one before that final (00:29:26) You can see that due to our new issue of a Tier 2 in February 2018, so we'll be able to finance redemption -- possible redemption of our next Tier 1 of \$5 million and we continue to decrease the average cost of debt. So now, I can pass the floor to Antoine who will talk about perspective.

Antoine Lissowski {BIO 4384399 <GO>}

Thank you, Thomas. The strategic priorities of our company are focused on three categories of partners. We have to deliver best response to customer needs. We have to accelerate growth to partners of our different partnerships. And we have to offer investors long-term visibility and to deliver results to these investors.

Regarding the customers, we have two categories of customers at large. In Europe, people which are already covered -- most of their insurance needs, and are looking for better protection in terms of security, protection of their lives and what can happen in the aging population and protection of their assets and what is happening in volatile financial market. The situation is slightly different in Latin America, where customers are young and have growing needs of protection, protection about pension, protection as at large, and protection – development of protection in regions and in part of the population which are not protected at all so far.

To do that, we have a base of customers of 37 million in Personal Risk and Protection businesses, and 14 million customers in savings and pension businesses. That means, that we have a very large base of customers on which we can operate the transformation of a business model and which helps us to create new offers for new parts of customers or new products without damaging our business model. That is mainly concerning the long-term care and pension offers, mainly in Europe, but also in Brazil, where we will have to face a pension reform in the forthcoming weeks.

And we have also to conversely to pursue our digital transformation. It is technical control and business model transformation under, which we will have to face competition offer newcomers in this industry, but to face this competition we are well equipped in terms of technology, in terms of people and in terms of knowledge of professional knowledge.

Regarding the 00:32:44 our partnerships we have, of course, different views in France among banks mainly in the high net worth individuals, which we equipped through private banks with employees benefits institution and mutual interest, which in our environment are seeking different partners, this part of the profession in France was hurt by the impact of low-interest rates over last years and it is in quick restructuration of the industry and we have a role to play to help these restructuration. Of course, we have to deepen our partnership with La Banque Postale, and we have already decided to increase market share of La Banque Postale in life insurance in France. We have precise targets for the next three or five years in order to recover an important part of the market which Banque Postale used to have 10 or 15 years ago, but through different diversifications, it displayed more activities in other businesses than life insurance we have now to refocus the forces on life insurance.

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And we, of course, want to grow our Europe and Latin American businesses. We have not finished our discussions with our Brazilian partners regarding the renewal of partnerships after 2021. The part of the business, which was renewed last year represents more than 70% of business and of value of the business that there are still other sectors of activity operated by Caixa Econômica Federal, which remained to be discussed with us of – or with our partners.

We have registered a very good performance with UniCredit this year, and we think that it might be possible to develop other businesses with them in the forthcoming years. The same with Santander Consumer Finance, where the experience with them was very successful and it was observed on the two sides, the CNP board observed that with a very requesting partner, we have managed to make a very good performance. And on inside, Santander knows now that CNP offers an insurance set of possibilities, which can help their own developments. And it is not the last, we have, of course, to give our investors long-term visibility, and to do so to adapt to an attractive dividend policy. If you look on the last years and last year, you see that between 2012 and 2018, we have created value. An investor which bought share in 2012 for €11.61 (00:36:10) has doubled the value of its assets meantime by the change in prices of the company and the dividends of a company in itself.

If you look last year, itself, simply, we have been better. We have had better performance than the CAC 40 (00:36:34) and the Stoxx Europe 600 Insurance index. And it is a case over several years, 2012 to 2018. And it was also the case last year where importantly the stock exchange was not so favorable. But an investor of CNP Assurances nevertheless had a positive performance last year. It is one of the reasons for, which the board yesterday accepted to propose to the general assembly to – first to renew the dividend policy.

The priority will be still given to maintaining or increasing the dividend per share from year to year. It was already written in little terms in the past.

But now, the board decided toward a payout ratio guidance of between 40% and 50% for this year and for the next years probably. That means what? That means that the commitment of the company to distribute the value which it creates two large set of shareholders is confirmed and strengthened by the board of the company. This possibility was adopted unanimously by the board and will be proposed at the general assembly at mid of April. That means that we will keep more than half of our profits to invest in organic or external growth for the next two years.

That being said, the company will recommend to its general assembly a dividend of €0.89 by share, up 6%, which represents at the close of last year a dividend yield of 4.8%.

There we have the most important informations, which we wanted to provide to you. We are now open to answer to your questions. I think that we have first eventually a series of a written question which arrived. And after, we will open the floor to everyone.

Q&A

A - Antoine Lissowski {BIO 4384399 <GO>}

The first question comes from David Bernhard. I think the 00:39:13. Is there any update you can give us on the profitability of your fringe projection book (00:39:20), excluding Crédit Agricole and the impact of Bourquin law. Why in an aggregate market (00:39:25) laws don't seem to have changed much, pricing of traditional players appear to have adjusted quite significantly? But what is the impact of the Bourquin amendment last year, Thomas?

A - Thomas Béhar

Yeah. So, we don't disclose the profitability of each lines of business in terms of APE margin. What we can say that last year, in advance, we increased the lapse rate of our protection insurance activity. And so, we have taken in advance by prudence an increase of 50% of the lapse rate that we have. We have not yet seen that increase in terms of lapse rate, in terms of reduction of the margin that we have on that activity. We have a slight increase of the lapse rate that we are, but it's very modest. And in the same time, we have developed insurance - individual protection insurance which works well, but the main part which comes from collective contracts continue to give the full effect for this year.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. That means that the Bourquin reform came in a market which, in fact, (00:40:48) surprise and competition didn't reduce significantly, the condition of the competition.

Okay. The next question, please. If there is next written question, okay, David again. Could you please give us some color on the dynamics of the French Savings/Pension market? What are the drivers of earnings improvement in that segment. Thomas again.

A - Thomas Béhar

Yes. You can see that we have for the activity - reduction of the Savings activity that we have with La Banque Postale and BPCE. BPCE, so we are in run-off (00:41:44), as you know, so - and we are still around €6 billion, €5.9 billion of premium income for Savings with BPCE. And we have €7.9 billion of Saving with La Banque Postale. You can see that on page 10 of our press release.

So, we have decreased gains for the (00:42:07) in 2018. We didn't find again the transformation of contracts that we have in 2017 where we have transformation with - known as Fourgous or Croissance (00:42:21) transformation of products for both bonds (00:42:26). At the opposite, we have a very good increase of CNP Patrimoine, which is now present (00:42:34) in France €2.158 billion (00:42:39). You will see that on page 8 of the press release. So, it's an increase of more than €1.200 billion (00:42:51) activity of CNP Patrimoine. So, we have a very good increase for Savings with wealth revenue activity (00:43:04).

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. I'll look if there is another written question. How should we think today of CNP's capacity to finance external growth either through further agreements in Brazil or other

partnerships?

Well, as you see we create value. The coverage ratio of a company is very comfortable, that means that we have absolutely no doubts on the capacity to finance further growth. I again underline the fact that the cost of partial renewal of the agreement in Brazil was already taken into account in our SCR coverage ratio. Next question if there is one. Okay.

You mentioned deepening your partnership with LBP. What areas would you like to develop? Do the ambition with LBP in life insurance means you have to compromise on your group products? And the mix ambitions, are the two elements compatible?

We will not compromise anything when this agreement with LBP will enter in force. The strength of the business model of CNP is precisely that we are bringing shareholder a mix of different partnerships. And as you see in the figures, which were published in our press release this morning, La Banque Postale is only one among the numerous partners of CNP, among which some large partners.

And it is clear that when Banque Postale if and when it becomes a major shareholder of CNP, which is the fact which was announced by the Ministry of Finance, which is expected and there are certain conditions to happen in 2020. When this will occur, that will simply place Banque Postale in a situation where they will clearly push CNP to increase its activity not only with Banque Postale, but with all the partners of CNP in order to create value to the main shareholder, which will become Banque Postale then it is clearly no conflicts possible between the needs of Banque Postale as a partner and the request of Banque Postale as a shareholder in the future. And it will not jeopardize at all any of our development.

Is there any other written question? (00:46:20). What is the minimum solvency margin targets? (00:46:25) returns where they are, well, we are still (00:46:27). Did it change since I took the CEO office, no?

A - Thomas Béhar

No.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. No. PPE (00:46:38) reserve, okay. You have a question about PPE (00:46:40) reserve. I think (00:46:43). What do you expect in the next years? Do you believe an increase - is the PPE (00:46:52) should be more moderate in 2019 and in the future? Thomas.

A - Thomas Béhar

I'm not sure that we expressed same for the future as we are commenting the 2018 comps. What we have seen that we have continued to protect. And when you have (00:47:10) which are for surveying in France around 0.50%, you need to protect your policyholder book in order that you have very high risk of an increase of that. So, two

possibilities for the future, we can use the PPE reserve to help in the future, the policyholder dividends, continue to keep it for the future as a protection. So, we will see in the future it will be decided year-by-year, but at this stage we continue to increase it in 2018.

A - Antoine Lissowski {BIO 4384399 <GO>}

And concerning 2018 you can see certain inflection in our policy where PPE is clearly there to protect the balance sheet of the company in cases of adverse interest rate moves, but the allocation of a PPE is also a way to modulate elsewhere of (00:48:14) the company to the inflation in France. In fact, we increased the policyholder dividend also in order to protect our customers to an increased inflation in 2018. And it is clearly the role of the company to moderate the growth of its policyholder dividend, but to give a good protection in order to keep the customers protected against the inflation. And the PPE has two roles now.

A - Thomas Béhar

You can also - we are also doing some benchmark of the different protection that life, French life insurance companies are doing in their balance sheet and we may say that we are in the market towards our competitors and the same kind (00:49:07) following the main players, the same kind of protection.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. We see there is another question is - a written question. Now, we can now open the floor to oral question if there are.

Operator

Would you like to start with the questions from the telephone lines?

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes.

Operator

All right. Ladies and gentlemen, we will now begin the question-and-answer session for the telephone lines.

A - Antoine Lissowski {BIO 4384399 <GO>}

No question?

Operator

We have our first question from Michael Huttner, JPMorgan. Your line is now open. Please go ahead.

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Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you so much, and congratulations Lissowski on (00:50:25) I had four questions if I may. The first one is on the new agreement in Brazil and the various moving parts in the new business, the back book, et cetera. And I just wondered is there any way that you can give us...

A - Antoine Lissowski {BIO 4384399 <GO>}

(00:50:38) operator, so can you please announce?

Q - Michael Huttner {BIO 1556863 <GO>}

Hello? Can you hear me? Hello?

Operator

We've already announced the first question from Michael Huttner of JPMorgan.

Q - Michael Huttner {BIO 1556863 <GO>}

Can you hear me? Can you hear me?

Operator

We will have to check the line, I think.

Q - Michael Huttner {BIO 1556863 <GO>}

Can you hear me?

Operator

I can hear you Mr. Huttner.

Q - Michael Huttner {BIO 1556863 <GO>}

Yeah. Can they hear me?

Operator

We will check the line, just a moment please.

A - Thomas Béhar

Can you please repeat your question, Michael?

Q - Michael Huttner {BIO 1556863 <GO>}

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What the earnings will look like after all this has happened? It's really complicated to try and work out if the earnings are up or down and whether EBIT can still grow 5%. So, that would be the first question.

The second, a similar question on the free cash flow, the €1.46 billion figure which is wonderful. I just wondered if you can give a feel for how this could develop. In the previous years, it's gone up massively, and this year with the growth was only 3%. I mean, I know there's a one-off. So, adjusting it would've been - unadjusted would be much higher?

And on the digital. In the past, you discussed a little bit what the investment was. And I just wondered if you can give a figure for the total investment and maybe the dilution in earnings in the short term. I know these investments produce money, but initially I assumed they cost a little bit.

And then the final is on slide 22. Is the €1 billion for Brazil in there? And also - I'm sorry. I wasn't listening properly, where's the €500 million decline in the client capital from the back book? Where is it coming from? This is relative to 2017. Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. The question - the first question is we will not have guidance on EBIT now. It is replaced by the policy of dividend. The view is taken simply by the fact that there were such large differences in change between Europe and Latin America, which is an important area for us, that in EBIT guidance it becomes meaningless for investors which are in Europe. We prefer to replace that by commitment in terms of dividend. I take at once the third question and leave the others to Thomas.

The investment in digital and the current dilution to earnings, the investment in digital is in fact included in the budget of costs of the company and there is no specific dilution in terms of digital. As the €25 million of investments in digital at the level of the company are part of a global cost of the company and are considered in terms of cost-to-income ratio which decreases. Now, I leave the two other questions to Thomas.

A - Thomas Béhar

Yes. For the FCF, effectively it's going like the percentage of the EBIT which is the result of MCEV the line with the evolution of the EBIT and (00:54:17) will answer the other question about the OFCF.

A - Antoine Lissowski {BIO 4384399 <GO>}

Yes. For the three component of the OFCF is the work on the EBIT. And the other one is the variation of the required capital. So, what is the need of required capital for the new business. And the fact that there are outflows due to lapses and death and is creating a liberation of capital. So, this variation of the required capital is something that is quite up to forecast because it is due to the earning of the year and the new business that will be collected. But we can say that every year there are lapses, and so some of the capital will be free.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you. And on slide 22? I had two questions on slide 22. The one is the investment in Brazil, is it in there? And the second, if I look at the change this year versus last year, there was a reduction in required capital of €0.5 billion, €500 million, and I wondered is there a particular item in there?

A - Antoine Lissowski {BIO 4384399 <GO>}

So, yes, the free surplus include the payment of the Brazil. And for the second part of the question, the release of the capital, as I mentioned later, is due to the - to lapses and the evolution of stock.

Q - Michael Huttner {BIO 1556863 <GO>}

Philippe (00:56:14) thank you very much.

A - Antoine Lissowski {BIO 4384399 <GO>}

Any other questions? Yes?

Operator

Yes. The next question is from Thomas Fossard of HSBC. Your line is now open. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon, everyone. I've got several questions. I'm sorry. I did not find the - the which you ask my question in a written format on the website. So, sorry to come into the telephone now. The first question will be related to the new dividend guidance. Actually, can you comment on why now? As actually, we've been asking for a dividend policy for quite some years and it is now going, which is a good thing. But I mean, should we see this coming in relation to the emergence of Banque Postale being or becoming one of your main shareholders? That was the first question.

Second question regarding the payout ratio 40%, 50%. We could say that on an absolute and relative basis, it still looks relatively low. And especially if we compare this payout ratio to your dividend cover which is currently at 2.4 times. So, again could you maybe elaborate a bit on the 40%, 50% payout ratio? The third question will be related to the PO (00:57:52) the restructuring cost program in France. You're now at €78 million achieved versus initially 60% - €60 million targeted. Are we coming to an end or are you - have you got some plan to reload?

And the last question would be regarding the flows, the inflows you're currently seeing in unit-linked in France. It's been strong in 2018, but are you starting to notice that due to the market volatility seen in Q4, actually unit-linked inflows are on a slow start since the start of the year? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

I'll just take the first and the fourth question and leave the two over to Thomas. Regarding the dividend policy, why to change it this year, it is clearly because we come from a period which is still existing under which CNP (00:59:02) and so and so. And we are entering in a period where there will be one major shareholder in the future if the process goes on. That means that the market must be informed of the intention of the board about the policy - the dividend policy this year and in the future. That means that the different shareholders among which La Poste and La Banque Postale agree on the ID. But there will be a dividend policy, and that the dividend policy will be on average the same as the average of the market today.

And that means that clearly there will be finalization (00:59:48) of a situation of CNP in terms of shareholder - shareholdings. But there will also be finalization (00:59:56) of a concept of having a guidance on the dividend policy and a commitment by shareholders, all the shareholders which are at the board and at the general assembly to maintain the policy of dividend, which is I would say at the same level as the rest of the market. It is an indication of maintaining the strategy of CNP as an interesting listed company and not a company which is to be incorporated within (01:00:37) group of La Poste (01:00:41) La Banque Postale. It is clearly a message that the finalization (01:00:45) of the situation also is a signal to the market that the policy in dividend will be adjusted on the market by pieces.

If I take now the fourth question about unit-linked at the end of the year, it is clear that the situation of financial market to reduce on the French market in general and at CNP the sale of unit-linked it is the case at the end of 2018, it is also the case in January where the situation was also perturbed, disturbed in France by different tax innovations in France in January. Then we cannot draw very strong consequences from what we see at the beginning of the year but it is clear that our policy which is to push the sale of the unit-linked but push it prudently in order to avoid a setback by the customers when there is a problem on the market, this policy is confirmed.

A - Thomas Béhar

Coming to the (01:02:04) point, for your question about the payout ratio which is in our policy between 40% and 50% and can give three different explanations. First of all it's consistent with what we did in the past and where we are today; we are at 46%, so the 40%, 50% range is where we are today; 46% it was 47% last year. The second point is that we have seen what our competitors are doing and of course some of them are higher or there's a bit or some of them are only giving a flow and not the full range where they can move. So, we have seen that and we have chosen to choose where we were today at 40% to 50% and is aligned with part of our competitors. And the third reason is when you say 40%, 50%, you can also say 60% to 50% that are kept for growth - organic growth and external growth. So, it's also a signal for us also that there is a part remains for the growth that we are looking for.

On the PEO, so the €78 million, so effectively came to an end and we are changing our plan and we are now introducing a new plan, its name is (01:03:39) So, process optimization with two targets, target of reducing cost, of course, but also increasing the

quality that we - that our - the insured people are deserving. And so, we are looking for both sides. Full digitalization, so you can win the two components in one time. So, it's where we are going. We will not disclose for the moment a target for this policy, because we are nowadays building the new program of reduction of cost and increasing quality.

(01:04:23) third question.

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Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you. One last, very quickly. You mentioned an upcoming pension reform in Brazil. I guess that you would expect this to be a positive for your business in Brazil just in a nutshell?

A - Antoine Lissowski {BIO 4384399 <GO>}

I give floor to Xavier Larnaudie, which is Chair of our Brazilian subsidiary. Xavier?

A - Xavier Larnaudie-Eiffel {BIO 6035391 <GO>}

Well, thank you Antoine. Yes, I think you are right (01:05:01) this is quite correct as you're saying. We expect the pension system reform when it passes to increase the attractiveness of our previdência products where you have seen that we have a good performance today with our partner. So, we see there's a positive factor.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

Operator

The next question is from (01:05:28) of Société Générale. Your line is now open. Please go ahead.

Q - Antoine Lissowski {BIO 4384399 <GO>}

Hi, there. Thank you very much. Just a couple of follow-up questions. First, coming back on La Banque Postale. I wondered if you could give us a bit more detail, a bit more color about the plans to extend the partnership. You mentioned ECB. That's also interesting. The more initiatives like that in the pipeline. And then, secondly coming back on unit-linked sales, I wondered although obviously they're under pressure this year, do you think you can avoid the cyclicity of unit-linked sales that has been a real problem for the product in the past? Thank you.

I'll take the first question. Regarding La Banque Postale, I will be very blunt. La Banque Postale was at 10% of market share in life insurance 10 years ago. It has now 6% of market share. The simple target of coming back to the level of 10% would be well. Could you repeat your question about unit-linked?

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Yes. On the unit-linked, I wondered looking at the longer-term, you know that unit-linked in the past has really suffered from cyclicalities because it's been so associated with market performance. And I just wondered, do you think that there is a structural change that has taken place now that guarantees – interest rate guarantees that is no longer being offered that favors the product so that you can continue to expect a reasonably good level of unit-linked sales even if markets are not that strong?

What is important is how do we sell unit-linked to our customers. So, you have a regulation which is in place about (01:07:41) regulation and it was already present in the past. All our partners are taking care about the unit-linked that they are selling to their clients. It's never only unit-linked that are sold. It's always part of a portfolio. They are looking about the age and/or the needs of these customers to avoid selling that to very old people or to avoid to sell that for poor people or for people who have only that line of products.

So, it's all the facts that we are looking above that. So, it's on one hand. On the other hand, when you see the very low level of interest – public interest rate with 0.50% today, so it's hard to say that you don't need to diversify your own book with between unit-linked and euro products. So, it's – with 0.50% in the long term, you can't expect a lot of financial interest in your own life products and you need to diversify it with unit-linked to try to get to better income for the future. So, the two points that are considered where we sell unit-linked products.

Okay. Very clear. Thank you.

Of course for – in case of death and other events that can occur you have always a protection that is proposed to the customers.

Yes. Clear. Thank you very much.

Operator

And we have a follow up question from Michael Huttner, JPMorgan. Your line is now open. Please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you. I had two questions, one is on Brazil and the negotiations maybe you can share with us some of the parameters of these negotiations? In particular, remind us of your financial flexibility which is left if you could, I think there's some amount in Brazil which haven't been touched. And the second, Banque Postale becoming the single main shareholder, can you explain what this shareholding structure might look like at the end of all these processes? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Regarding (01:10:04) in Brazil, there is no negotiation. In fact, we have finished the negotiation with them by signing the agreement in August 2018 on more than 70% of the

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business, which we have today. And there are further businesses which are to be auctioned if I hear my partner, Brazilian partners and we are expecting just this auction in order to make a proposal. That's all. And we are the first contact with the new team of our Brazilian partners two weeks ago and it seems that they are very, I would say, eager to develop a business with us where we are at least.

The second question was about?

Q - Michael Huttner {BIO 1556863 <GO>}

Banque Postale, what's the shareholding?

A - Antoine Lissowski {BIO 4384399 <GO>}

The shareholding of LBP, when I read what is written, the idea is that LBP will in the end of the process retain 60% of CNP, the market having more than 21% as today and BPCE the rest. That means - what that means, in fact, you have just to add to current LPB participation share of the Caisse des Dépôts and the share of state with a minor difference between LBP and BPCE due to the existence of (01:11:36), which is a holding subsidiary, which we have between themselves - between them and which it is not (01:11:43) exactly at 50/50 by the two. But I don't know, in fact exactly the process. And all what was disclosed was simply that in the end, LBP should have more than 60% - around 60% of CNP.

Q - Michael Huttner {BIO 1556863 <GO>}

Brilliant (01:12:03). Thank you.

Operator

There are currently no further questions. We haven't received any further questions. I hand back to the speakers.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Well, thank you very much and see you next week for people, which I will visit in London on Wednesday. Bye-bye.

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