CNP assurances

Insuring a more open world

IFRS 17 Presentation

12 December 2022

Introduction

IFRS 17 and IFRS 9 are effective for annual reporting periods beginning on or after **1 January 2023**. The aim of the new standards is to improve the transparency, traceability and comparability of insurance undertakings' published financial information.

This presentation outlines CNP Assurances' approach to implementing the new standards, including the amendment entitled *Initial Application of IFRS 17 and IFRS 9 – Comparative Information (First Time Application - FTA)*, which defines the opening reference values of the following key indicators at 1 January 2022:

- **Contractual Service Margin (CSM)**
- **Risk adjustment (RA)**
- **Equity**

Note that at this stage, the amounts shown in this presentation are **preliminary, unaudited figures that are subject to change**.

This document also presents the **new income statement structure,** as well as the impact on **future financial reporting indicators**.

16 Feb. 2023

2022 Annual Results
under IFRS 4

April 2023

2022 Interim and Annual Results
under IFRS 17

2 Aug. 2023

2023 Interim Results
under IFRS 17

Contents

IFRS 17 presentation: the main impacts

Balance sheet

IFRS 17 requires insurance contracts to be measured using current estimates of future cash flows that are updated at the end of each reporting period. The "book value balance sheet" is replaced by an "economic balance sheet".

Chapter 2 (slides 8 to 19)

Income statement

IFRS 17 requires the use of a measurement model in which the balance sheet estimates updated at the end of each reporting period generate the components of the income statement.

Chapter 3 (slides 21 to 26)

Financial reporting

Application of IFRS 17 will lead to certain changes in the company's disclosures, without in any way affecting CNP Assurances' underlying quality.

Chapter 4 (slides 28 to 31)

01
Key messages

Key messages

1. **Company's underlying qualities are unchanged**
This accounting change does not affect the underlying quality of the company's business model: its solvency, liquidity, ratings, ability to generate recurring income and strategy are unchanged

2. **Two new items on the liabilities side of the balance sheet**
Contractual Service Margin (CSM): A "pool of contracts' profit" for around €17bn
Risk Adjustment (RA): "provision for uncertainty" for around €1.5bn

3. **Equity is slightly lower for around €1bn (out of €21.1bn)**
but remains robust and is expected to be less volatile

4. **Earnings will be more volatile**
due to the market effects

5. **Financial reporting will be tailored**
due to adjustments to the formulas for calculating key indicators: ROE, cost/income ratio, combined ratio, etc.

02

Main principles & balance sheet impacts

New representation of provisions

IFRS 17 introduces a **forward-looking and economic framework for measuring provisions** that uses market data available on the reporting date and the company's internal experience-based data. The calculation period for these provisions is 50 years.

IFRS 17 provisions	=	Component		Description
		CSM	⇨	Pool of future profits as services are provided over the duration of profitable contracts
		RA	⇨	A buffer reserve reflecting the inherent uncertainty of technical assumptions used to calculate the Best Estimate
		Best Estimate	⇨	- Experience-based projection assumptions without any risk margin *(the margin is incorporated in the RA)* - Current discount rate, including an illiquidity premium - Cost of guarantees and financial options taken into account - Contract boundary includes flexible premium Savings contracts - Only directly-attributable costs

Core CSM calculation principles

During transition and post-transition

During transition

Retrospective CSM calculation method:
FVA / MRA / FRA

Post-transition

CSM calculation method by contract type

IFRS 4
31 Dec. 2021

FTA
1 Jan. 2022

IFRS 17
1 Jan. 2023

At each reporting date and throughout the life of the contracts, the CSM is remeasured using one of three approaches:
BBA / VFA / PAA

CSM, BE and RA calculation methods

The main assumptions used to calculate technical reserves are as follows:

Transition-specific methods

Initial application of FVA, FRA and MRA:

- **Fair value approach (FVA) for the majority of contracts within the scope** inspired by the Mandarine[1] valuation covering more than 70% of the CSM.
- **Full retrospective approach (FRA)** for 2021 term creditor insurance cohorts
- **Modified retrospective approach (MRA) for the BPCE term creditor insurance portfolio** and certain Brazilian portfolios

Other methodological choices

- **VFA method (with carve out[2]) used in the majority of cases (95% of contracts** within the scope in terms of technical reserves net of reinsurance)
- **Bottom up approach** : a Solvency II-inspired **yield curve**: risk-free rate + liquidity premium (e.g., on initial application in France: a volatility adjustment[3] at 64 bps)
- **Different modelling approaches compared to Solvability 2**: measurement of future cash flows from Savings/Pensions contracts; attributable costs…
- **Risk Adjustment**: quantile approach based on **80% confidence level**
- **OCI option** activation to the liabilities balance sheet in VFA and BBA

1- Mandarine transaction: value attributed to CNP Assurances SA for the purposes of the sale of CDC's interest in the company to LBP on 4 March 2020
2-Option avoiding to distinguish the cohorts in VFA
3- a measure to ensure the appropriate treatment of insurance products with long-term guarantees under Solvency II. The volatility adjustment shall apply only to the relevant risk-free interest rates of the term structure

Focus on the fair value approach (FVA)

Transition-date calculation

Method used only once, to calculate opening CSM at the transition date

- **Non-retrospective** approach, consistent with that applied to determine **transaction prices as at 4 March 2020** (related to the **Mandarine transaction)**
- The CSM is the **difference between two economic valuations:**

  => Fair value of liabilities : BE + RM (with Mandarine transaction as a reference)

  => IFRS 17 BE + RA

The transition-date measurement approach applies to a majority of the contracts within the scope:

Transition-date CSM using FVA = **Fair value of liabilities** – **IFRS 17 BE + RA**

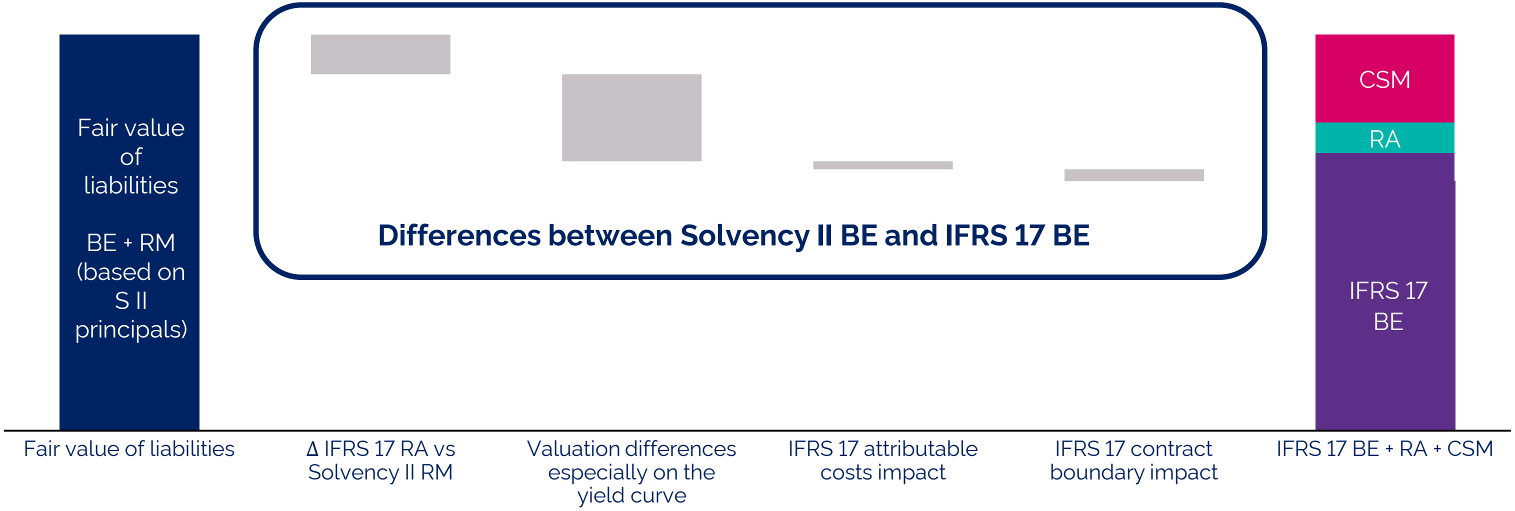
Fair value of liabilities = **IFRS 4 technical reserves** – **Price paid**

–The method for measuring the fair value of liabilities was defined for the purposes of the Mandarine transaction (based mainly on Solvency II BE+RM)

–Portfolios that were attributed a high price for the purposes of Mandarine will have a low CSM and vice versa

Emergence of CSM

Transition-date CSM calculation using the Fair Value Approach (FVA)



The level of transition-date CSM**, calculated using the FVA,** is mainly explained by :

- **The differences between yield curve assumptions and contract boundaries**
- The gap between **the Solvency II Risk Margin and the IFRS 17 Risk Adjustment**

Contractual Service Margin and Risk Adjustment

Contractual Service Margin

≃ €17bn

At transition, the opening CSM would be around €17bn[1].

This indicator, considered as a provision, is designed to **separately identify the insurer's future earnings**. The CSM is a retrospective value at transition; in subsequent periods, it is a prospective value like the VIF.

Risk Adjustment

≃ €1.5bn

At transition, the risk adjustment would be around €1.5bn[1].

Considered as a **buffer reserve for inherent uncertainty**, the RA allows to reduce sharp fluctuations in technical assumptions.

1- Unaudited datas

Focus on BBA, VFA and PAA on liabilities balance sheet

Impact on P&L, OCI[1] and CSM

The impact on earnings differs depending on the approach.

	Building-Block approach BBA	Variable fee approach VFA	Premium allocation approach PAA
	General Liability Measurement Model for indirect participation contracts or non-participating contracts (i.e., direct participation contracts whose cash flows nevertheless vary with the return on assets).	Adapted from the BBA and mandatory for direct participation contracts (the insured is entitled to a share of the return on a portfolio of assets).	Non-participating contracts with short term (< 1 year) whose cash flows to policyholders do not vary with the return on assets. Optional model for short-term business
Scopes	**4.9%** Term creditor and disability / health insurance (individual and group)	**94.9%** Participating savings/pensions and unit-linked savings contracts	**0.2%** disability / health insurance Group and P&C
Changes in technical assumptions	**CSM impact[3]**	**CSM impact**	**P&L impact**
Changes in financial assumptions	**P&L[2]** or **OCI** OCI option applied to substantially all contracts within the BBA scopes	**CSM**	**P&L** or **OCI**

1- Other comprehensive income
2- For market effects
3- To a lesser extent, also impacts RA via release of CSM

Focus on IFRS 9 changes affecting assets

Accounting treatment of investments

Financial instruments	IAS 39 (currently)	IFRS 9 (1 Jan. 2023 with 1 Jan. 2022 proforma)
Equities	FVTOCI[1]	FVTOCI
UCITS	FVTOCI	FVTPL[2]
Bonds	FVTOCI	FVTOCI or Amortised cost
Structured bonds	FVTPL	FVTPL
Derivatives	FVTPL	FVTPL
Investment property (IAS 40)	Amortised cost	Amortised cost or FVTPL

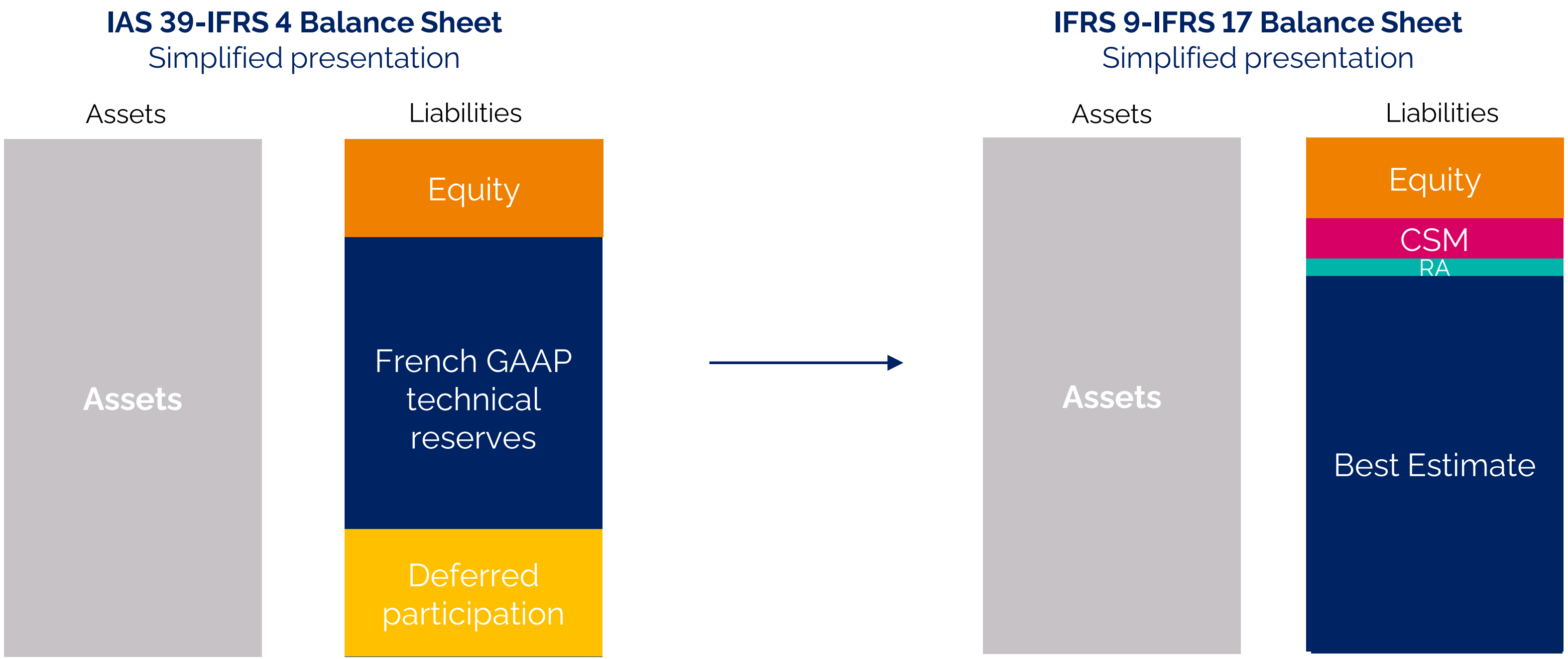
In connection with the application of IFRS 17 to liabilities, **CNP Assurances has elected to apply certain asset measurement options available under IFRS 9 in order to avoid asset/liability mismatches.**

Concerning the equity portfolios, changes in market value and disposal gains and losses are now recognised in OCI – with a direct impact on equity – and no longer by P&L.

At the transition, expected Credit Loss (ECL) for approximatively €500m under IFRS 9. As a reminder, impairment has been eliminated (around €2.5bn under IAS39).

1- FVTOCI : fair value to other comprehensive income
2- FVTPL : fair value to P&L

A new Balance Sheet: from IAS 39/IFRS 4 to IFRS 9/IFRS 17



The **assets side of the insurance balance sheet is virtually unchanged**; however, liabilities now include a new item, the CSM. The purpose of the CSM is to **recognise profits in the income statement as and when the insurance contract services are provided, i.e., throughout the period of coverage of the contract.**

The transition to IFRS 17 will help to **reduce market-driven volatility of equity** by reducing the accounting mismatch between assets and liabilities.

Impact on Equity

At the transition date:

Impact on equity

≃ -€1bn

The transition should lead to a small reduction in CNP Assurances' equity of around €1bn[1] due to the reassessment of provisions under IFRS 17, which will be higher than under IFRS 4.

Post transition:

Reduced volatility

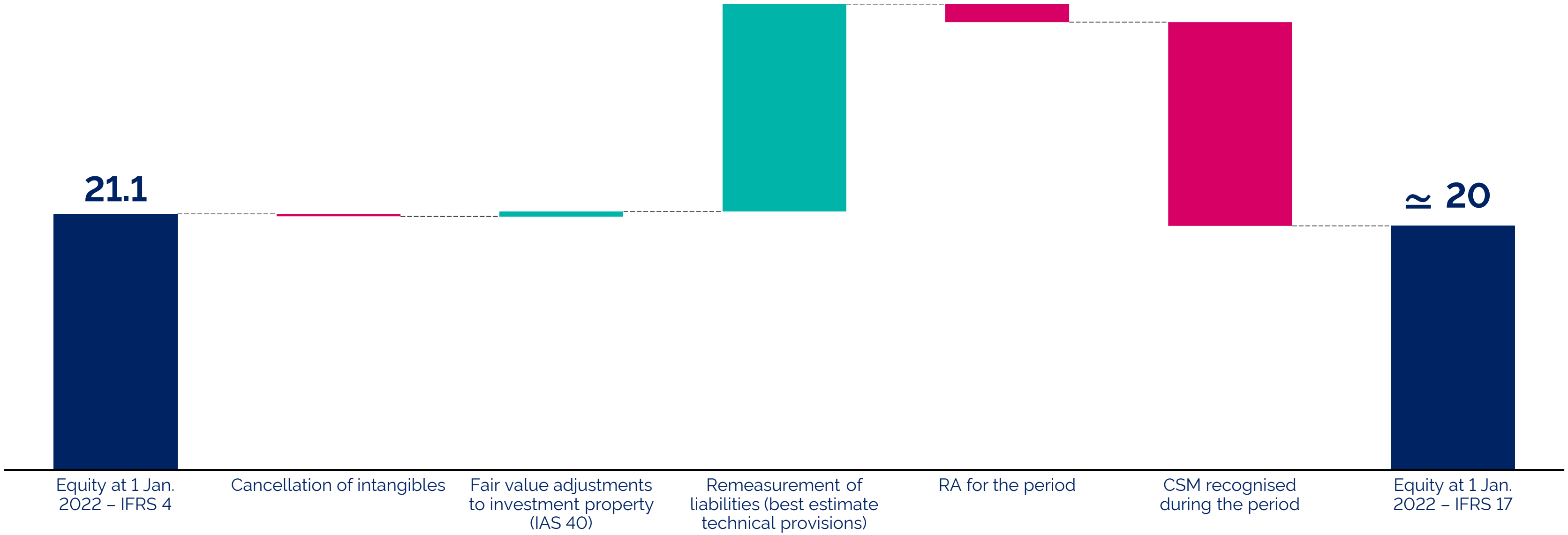
of equity

IFRS 17 mitigates the effects of changes in bond prices through the **CSM's role in cushioning losses and the reduced accounting mismatch between assets and liabilities**.

1. Unaudited datas

Impact on transition-date Equity[1]

Transition from IAS 39 - IFRS 4 to IFRS 9 - IFRS 17



Consolidated equity at the level of CNP Assurances **will decrease by €1bn at 1 January 2022,** mainly due to:

- **IFRS 17 measurement of insurance liabilities**, including Best Estimates (previously technical reserves), the RA and the CSM
- Cancellation of intangible assets (VOBA) which is already included in Fair Value estimates
- Reassessment of investment properties at fair value

1- Equity net of non-controlling interests

Estimated impacts to 30 June 2022

Magnitudes (as a reminder: interest rates +176 bps and shares -17%)

(€bn)	Impacts
Equity	-1.7
CSMN[1]	+1.3
CSMN + Equity	**-0.4**

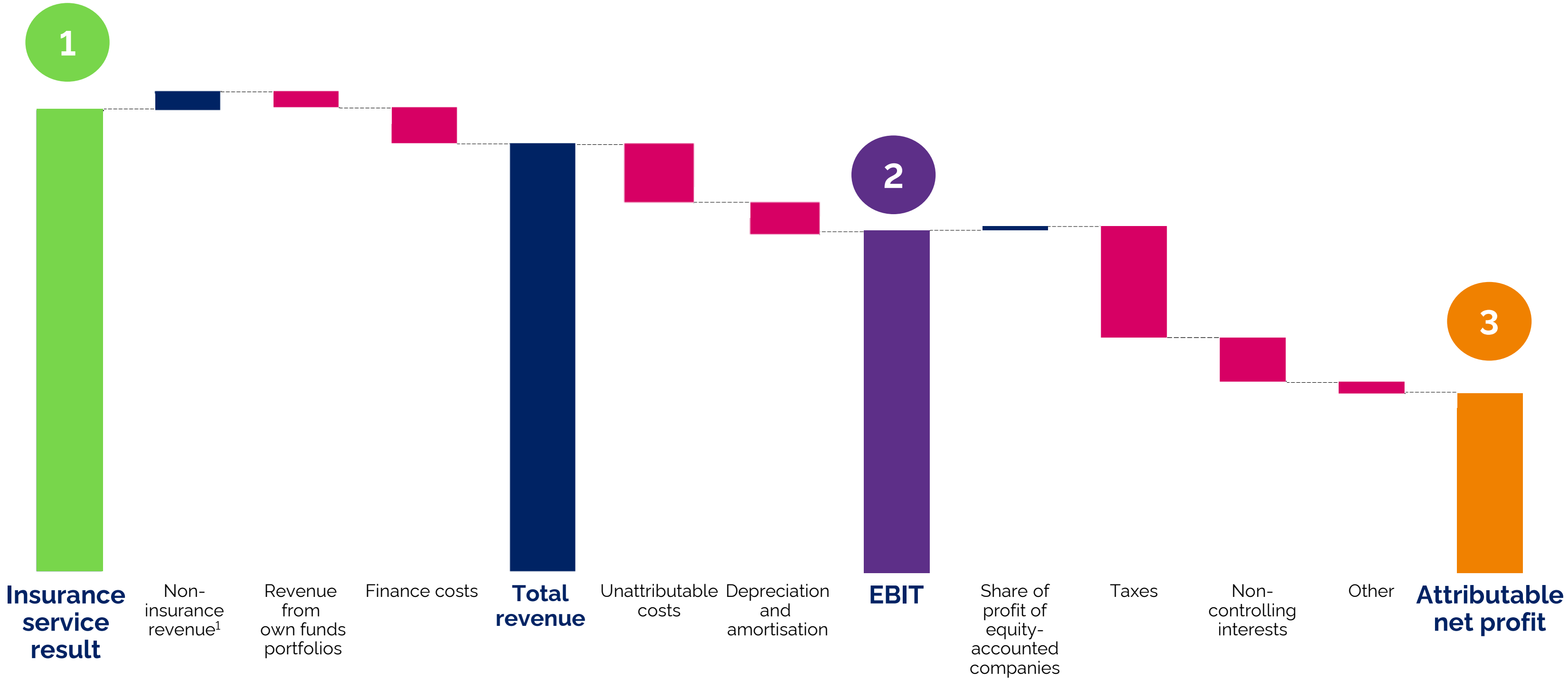
IFRS 17 equity at 30 June 2022 would be less volatile than under IFRS 4 (-€1.7bn vs -€3.6bn)

The CSMN (CSM excluding taxes and non controlling interests) would increase by €1.3bn, mainly due to higher interest rates

1- CSMN =CSM excl taxes and non-controlling interests

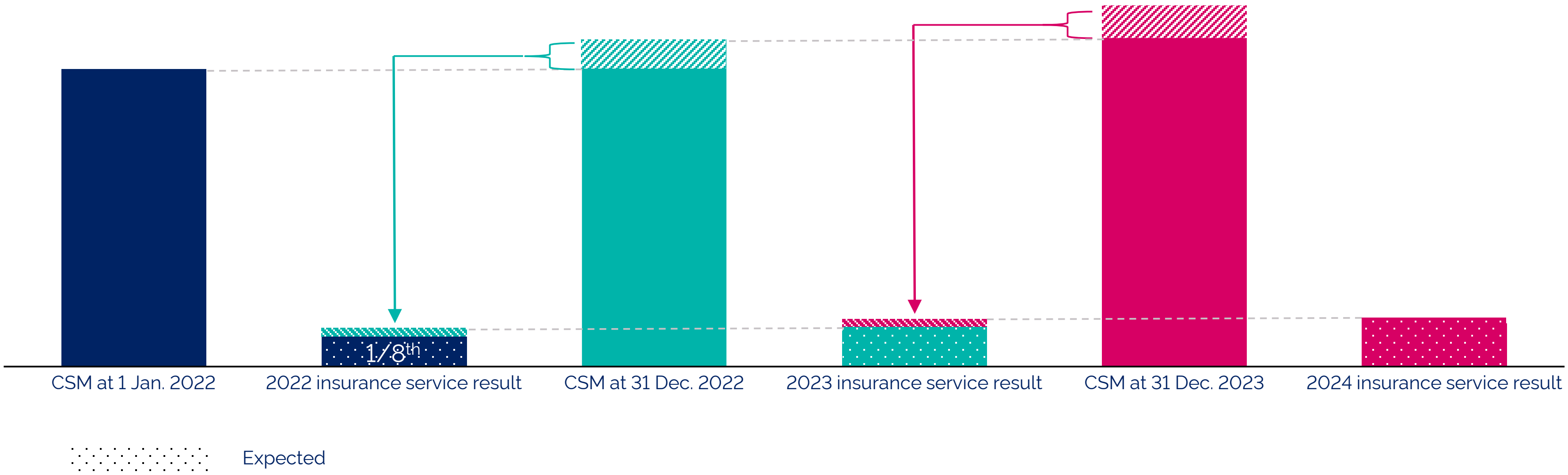
03
Profit emergence

IFRS 17 income statement



1- Non-insurance revenue: unit-linked, Consorcio

CSM, a decisive factor for the determination of insurance service result

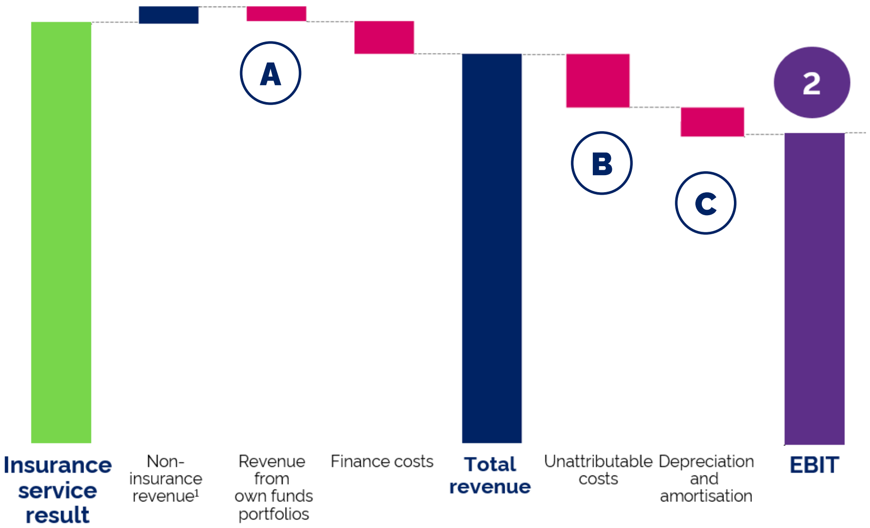


The unearned profits corresponding to the CSM are recognised in profit – as a component of the insurance service result – over the contract duration, i.e., **at the rate of approximately 12%** (12% in France, 23% in Latin America, 14% in Italy)

Expected future profits are reassessed each year in the same way as the CSM.

A result mainly based on the release of CSM reflecting the services provided over the coverage period

2 EBIT under IFRS 17

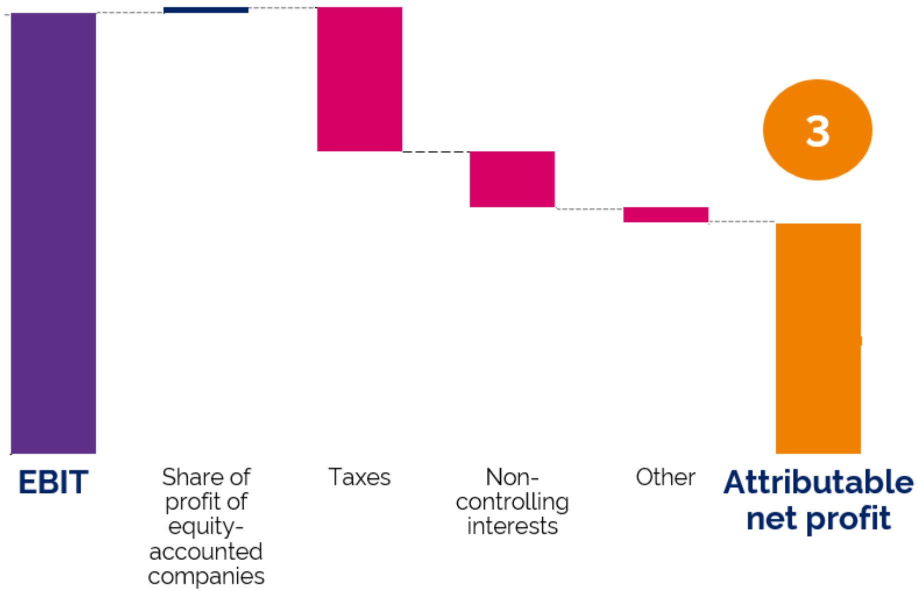


A: Under IFRS 17, revenue from own-funds portfolios is now recognised as follows: gains on disposals of equities are no longer recognised in profit or loss but are recorded in OCI along with changes in fair value of certain assets (mainly UCITS).

B: Non-attributable costs constitute a part of the administrative costs in the IFRS 4 income statement. Most of these expenses are now included in the Insurance Service Result as they represent attributable costs.

C: Finance costs and depreciation and amortisation expense have been reclassified and moved up in the income statement. They are now included in the calculation of EBIT, instead of being recorded as a deduction from the bottom line, as was the case under IFRS 4.

3 Attributable net profit under IFRS 17

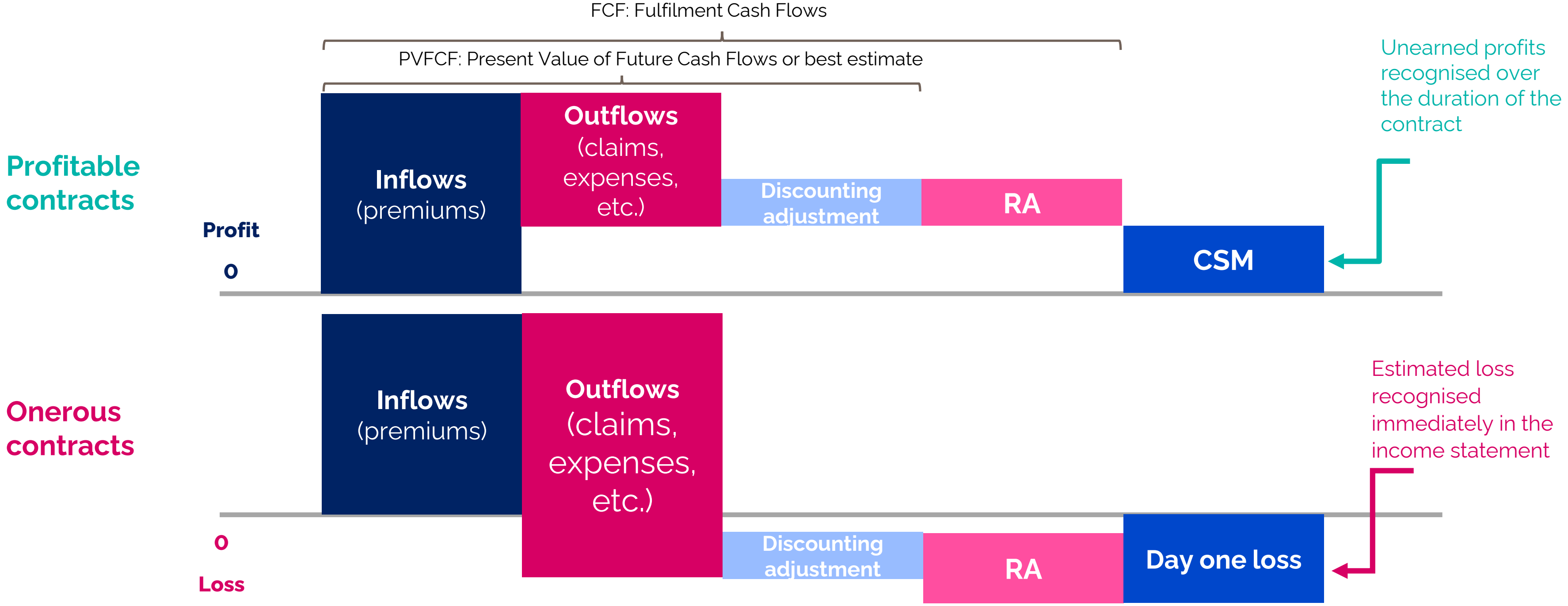


A simplified transition between EBIT and attributable net profit consisting only of "equity affiliates", "taxes" and “non controlling interests”

Financing costs are reclassified higher in the income statement (with no final impact on Attributable net profit)

Focus on Loss component (LC)

Direct P&L impact in the case of loss-making cohorts

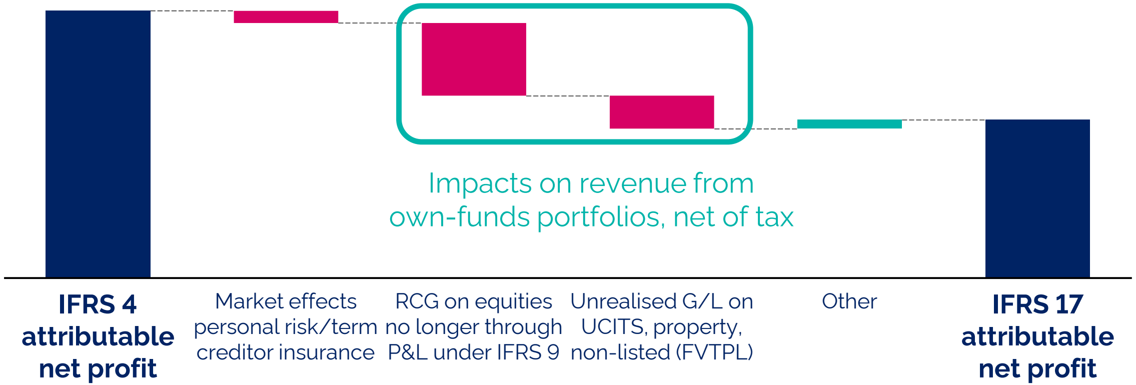


In the case of loss-making cohorts (onerous contracts), the loss component is recognised directly in P&L (as a component of the insurance service result) and not over the duration of the contract like the CSM.

At transition, the loss component represents less than €100m

Main impacts on Attributable Net Profit of the transition to IFRS 17

Transition from IFRS 4 to IFRS 17



The main impacts expected on the result in the event of a market downturn are impacts relating to own fund portfolio's incomes through:

– market effects: realized capital gains are now recognized in OCI

– mutual funds (UCITS) are now valued at fair value.

Furthermore, with the general model, market effects on personal risk/term creditor insurance margins are reflected in the result.

04

IFRS 17 financial reporting

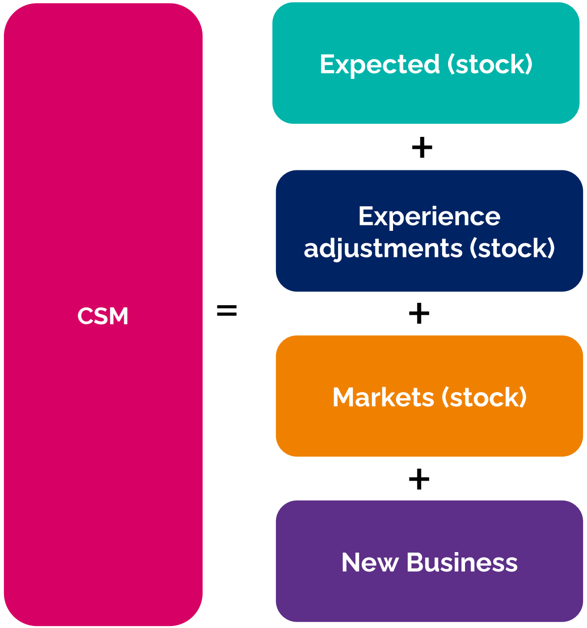
Variance analyses: insurance service result

In future communications, changes in the insurance service result will be presented in the following format:

Insurance service result *Business model*	=	Component	Description
		Expected (stock)	Corresponds to **the expected allocation to the CSM and RA,** based on the **stock of contracts** in force at the beginning of the year (taking as the basis opening CSM **before changes in assumptions and market effects**)
		+	
		Experience adjustments (stock)	Impact of observed differences between **expected and actual experiences** (direct impact on P&L or effect of CSM impact allocated to P&L) and **changes in technical assumptions**
		+	
		Markets (stock)	Impact of **changes in the economic environment** (direct P&L impact for BBA scope or effect of allocation to P&L of the CSM impact for VFA scope) + **financial margin for the BBA scope**
		+	
		New Business	Profit or loss on **New business written during the year** (P&L impact of CSM recognised during the period)
		+	
		Loss Component	**Direct P&L impact of the loss component** in the case of loss-making cohorts

Change analyses: CSM

For the next financial communications, the CSM trend will be presented in the following format:



Presentation of the new performance indicators

A mix of IFRS 17, Solvency II and non-GAAP KPIs

1. Business (non-GAAP)

For example:
- Gross new money, Net new money
- Insurance liabilities (traditional and unit-linked)
- Asset mix, purchase rate,
- Administrative costs
- (…)

2. Profitability (IFRS 17)

For example:
- CSM
- Cost/income ratio
- Loss Component
- Combined ratio
- ECL
- (…)

3. Profit or loss (IFRS 17)

For example:
- Insurance service result
- EBIT
- Attributable net profit
- (…)

4. Value and capital (Solvency II and IFRS 17)

For example :
- IFRS 17 total equity
- IFRS 17 book value,
- Solvency II coverage ratio
- Pay-out ratio/dividends
- (…)

The management of the company will be based on a mix of multi-standard KPIs

The MCEV standard is abandoned in favour of the Solvency 2 and IFRS 17 standards

Financial reporting calendar including IFRS 17 communications

Q4 2022	Q1 2023	Q2 2023	H1 2023
12 December 2022	16 February 2023	April 2023	2 August 2023
IFRS 17 presentation	2022 annual results IFRS 4	2022 results IFRS 17	First-half 2023 results IFRS 17 30 june 2023

05

Glossary

Glossary

BE Best Estimate

Estimate of the probable average discounted future cash flows generated by the insurance contract (premiums, paid claims and benefits, insurance contract services costs).

CSM Contractual Service Margin

The **contractual service margin** is calculated when the contract is written. It is the profit that is expected to be recognised as the insurance contract services are provided. It is amortised over the remaining life of the contract. It is adjusted for changes in future cash flows.

Fulfilment cash flow

Operating cash flow corresponds to net cash provided by the company's core business, i.e., net cash provided by operating activities, excluding net cash provided by or used in investing and financing activities.

Mandarine

Name given to the project to combine La Poste Group with Caisse des Dépôts and La Banque Postale with CNP Assurances, in order to create a public financial group serving the general interest.

Insurance service result

The portion of future profits that is recognised each year in profit or loss.

BBA Building Block Approach

The general model used to measure insurance liabilities by breaking them down into three blocks: Best Estimate (BE) – Risk Adjustment (RA) – Contractual Service Margin (CSM)

Glossary

PAA Premium Allocation Approach
This model is an optional simplification of the general model and concerns insurance contracts providing less than one year's cover.

VFA Variable Fee Approach
This model (used for savings contracts excluding reinsurance) adapts the general model to insurance contracts whose main purpose is asset management.

OCI Other Comprehensive Income
Other comprehensive income refers to changes in fair value of financial instruments and insurance liabilities that are recognisable directly in equity.

Overlay
This option is designed to neutralise the additional P&L volatility for insurance companies arising from the application of IFRS 9 in the period up to the application of IFRS 17 on insurance contracts.

RA Risk Adjustment
Adjustment for explicit risks arising from uncertainty concerning the amount and timing of cash outflows. It is the maximum amount that the insurer could reasonably be expected to pay to be released from the risk.

Thank you