Insuring a more open world

Transcript

Paris, 12 May 2022

Quarterly indicators – First three months of 2022

Thomas BÉHAR, Group CFO

I will present our Q1 2022, where we have had very good business growth aboard and we continue to increase unit linked sales in France. We are also very happy with our enhanced financial robustness. Our premium income is EUR 9.8 billion, growing up 25.3% versus last year. Our EBIT is EUR 933 million, up 33.6% and our net profit is EUR 316 million, up 2.7%. Our solvency capital ratio coverage is 243%, up 26 points.

You will see in our press release that all our numbers are growing and are all positive, even without the effect of the acquisition of the two entities we bought from Aviva at the end of last year. Everything is positive for this Q1, and I will go into details on the press release and at the end of my presentation you will be able to ask me and my colleagues your questions.

If we go the highlights in premium income for EUR 9.8 billion, up 25.3% as reported and 5.5% like for like without currency effect and the acquisition of the two businesses bought from Aviva. The Savings/Pensions are quite stable in France with an increased contribution from unit linked sales and we have good growth from the international activities. In France, our premium income is EUR 4.1 billion, which includes 29.7% contribution from unit linked contracted, an increase of 4.3 points on Q1 last year. There was also an increase in unit linked sales of 17.1%. We continue to be the best in France for PACTE transfers with EUR 1.7 billion in transfers from old to new contracts.

In Europe excluding France, our premium income is EUR 2.6 billion an increase of 27.5% like-for-like, partly due to the first time consolidation of CNP Vita Assicurazione and CNP Vita Assicura, the two undertakings we bought from Aviva, CVA, which I will now talk about. In Latin America, the premium income is EUR 1.5 billion an increase of EUR 161 million like-for-like. You can see that we now have a good equilibrium between the premiums from France, EUR 4.1 billion and those from international activities EUR 4.1 billion. The EBIT is EUR 993 million, an increase of 30.6%. We have a net profit of EUR 316 million, only an increase of 2.7%, so we have chosen to put the effect of the realised gains in the first quarter in PPE.

APE margin is 16.1%, an increase of 0.6 points versus last year.

I have already talked about the solvency capital ratio, an increase of 26 points up to 243%, which mainly comes from the economic effects with the rates increase in Europe.

I will move to the activity KPIs and premium income and the APE margin. Our increase of EUR 2 billion on sales is very good, comes EUR 1.4 billion from CVA, the new Italian subsidiaries and EUR 429 million from the existing activities. It is led by international operations, which did nearly all the increase at EUR 442 million while France was quite stable. This increase in international operations comes from different countries, with Brazil increasing by EUR 166 million; CNP Luxembourg increasing EUR 144 million; and CNP UniCredit Vita, our traditional activities in Italy with UniCredit, an increase of EUR 121 million.

There was stability in France with EUR 5.2 billion in sales in the first quarter, EUR 4.1 billion from savings and pensions and EUR 1 billion from personal risk and protection. We can say that we continue to grow in savings pensions in unit linked sales with an increase for La Banque Postale and CNP Patrimoine with very good numbers sold during this quarter. Overall, we continue to have very good momentum in the increase in unit linked, where we are now 30.6% for La Banque Postale and 52% for CNP Patrimoine. We are quite stable in capital risk protection and in savings and pensions. Of course, we have positive net new money for unit linked in savings and pensions, while the opposite is true for the traditional euro compartments of the contracts. There is an increase in the APE margin of 12.6% due to the positive effects of the financial markets. The premium income in Europe excluding France, is EUR 2.9 million, a very good increase of 133%. Savings and pensions increased EUR 1.6 billion, including EUR 1.3 billion from CVA. We have an increase of EUR 273 million from the different subsidiaries in Europe. We had a very successful campaign in Italy, with an increase of EUR 120 million with a new unit linked formula and an increase of multi-support contracts.

With CNP Luxembourg, we have an increase of EUR 144 million with a large number of new contracts, which is very good. It was reduced less last year in the context of the Covid-19 crisis.

There was a reduction in the unit linked contribution and are now only 46.6% for Europe, a decrease of 32 points. This comes from CVA where we only have 22.7% unit linked contribution but, as we know in France, it is a different mix with a very good euro content in the contract with less solvency capital costs and the possibility to move to unit linked during the contract. The premium in premium risk and protection has increased by EUR 50 million. The APE margin for Europe is 20%, down from 22.1% last year. This decrease comes from the new business mix with more savings, due to the acquisition of CVA.

In Latin America we have a premium income at EUR 1.8 billion, an increase of 24.1%, mainly from the savings and pensions business with an increase of EUR 161 million. The growth is led by the pensions business in Brazil.

On personal risk and protection, the premium income came in at EUR 281 million. Of course, there has been a decline in the *hipotecario* business with a run-off of CSH. On the other hand, we have a positive cumulative effect from the new and past generations of Prestamistas that are continued in CVP. APE margin is 26.1% versus 32.1%, due to the increase in the pensions business and the decrease of *hipotecario*.

The value of new business is EUR 123 million, which is a like-for-like increase of 10%.

Moving on to the other indicators, the net insurance revenue is EUR 826 million, a 7.2% like-for-like increase and a total increase of 18.5%.

In France we have an increase of 5.6%, mainly from personal risk protection, with lower loss of income claims in term creditor insurance and increased financial margin for collective insurance in France.

In Europe excluding France we have net insurance revenue of EUR 153 million with an increase from the acquisition of CVA of EUR 54 million. There was also a change in the way we charge loss expenses for the unit linked contracts, which are now taken regularly rather than just once a year on the contract. That gives a one-off increase of EUR 20 million positive impact that will not be repeated in the full year.

In Latin America the net insurance revenue increased by 13.2% to EUR 233 million. Of course, if the positive currency effect is excluded the increase is 0.8%, with improved risk loss ratios and higher pension premium income. There was also the effect of the run-off from *hipotecario.*

Revenue from own-fund portfolios is EUR 373 million, an increase of 65.3%. There was also income from the completion of our gains on the sales of assets in January and February. We were very happy to have the good idea of realising all the gains we were shielding for the full year in the first month of this year, so around 90% of the programme has been completed. As a result, total revenue rose by around 30%.

Costs amounted to EUR 266 million and there was a very specific effect from the French tax on sales, which we are now accounting for at the beginning of the year when we pay the tax office. In the past, it was taken in Q1 as soon as the sales were made, so the tax is only taken once a year at the beginning. It was not done in Q1 2021, but it was done in Q2 2021. With all this effect we have a very reduced increase in the costs in France of 2.4%. Of course, there was an increase in Latin America with the launch of the various subsidiaries we now have and an increase in salaries in Brazil. In Europe excluding France administrative expenses have been reduced by EUR 1 million.

The cost to income ratio improved by 2.3%, which is an increase, but it is quite stable if we exclude the effect of the change in the sales tax method.

EBIT increased 30.6% and like for like it EUR 156 million, which is mainly the revenue from the own-funds portfolio.

Net profit is EUR 316 million, so we have decided to transfer surplus revenue of EUR 172 million to policyholders.

We have a high IFRS book value of EUR 18.1 billion.

The consolidate SCR coverage ratio is 243%, an increase of 26 points, mainly from the 19 point increase due to the positive effect of the financial markets. However, there is also a four-point increase in the part of the PPE, which is mechanical due to the way it is calculated. We had another good idea we had at the beginning of the year was to issue subordinated notes of EUR 500 million in January 2022, with very good timing on the market, and an increase of three points.

That is the presentation of the press release, so we can now answer all your questions.

Benoît VALLEAUX, ODDO BHF

Good morning, I have a few questions. First, on the activity, as you said, you have done a lot of PACTE transfers in Q1 after strong activity last year where you outperformed your initial target. What do you expect for the rest of the year and if you have any targets on that front? Still on the activity, have you seen any change in the policyholders behaviour over the last few weeks in terms of sales? Maybe lower sales on unit linked products, or not, due to the current market volatility, if you have seen anything on that.

In relation to your investment portfolio in the current situation. Do you have any equity hedging in Q1 and do you plan to change your asset allocation or maybe the duration of your bond portfolio? How are you managing the current environment and the fast increase in interest rates?

On your solvency margin, which is quite strong at 243% but I would just like to understand how you see it. Do you believe that you have some kind of excess capital? I know that part of it includes PPE, but if you need to raise some more solvency debt at this level of solvency margin, do you think you may have to use part of the PPE at the end of the year or next to boost the accrediting rate? Therefore, you might have to face a slight decrease in your solvency margin at your end. I just want to understand when you see the 243% margin.

Thomas BÉHAR

There are a lot of questions there. I will start with your second question about policyholders where we have not seen a change in their behaviour. We continue at the same proportion of unit linked in the sales as at the beginning of the year. It is too early to see the effect on policyholders of an evolution in the situation, but we will see in the future if there are rate increases, etc. At this stage, there is no change.

On your last question, in a context where you have an increase in interest rates, of course the revenue from assets cannot move at the same speed as the increase in the interest rates you can find on the market. We have more than 6% of the technical provision in the PPE It is the perfect opportunity to use it to preserve the competitiveness of our products in a market where better rates can be found in the financial markets. Our strategy recognises that and, of course, we will see what it does in the rest of the year, because May is not the full year, and we have to see what the financial markets will do in the second part of the year. You can be sure, we are ready to use part of this PPE if necessary to increase our policyholders' revenues. With this 243% you have to take into account the 76 points coming from the PPE. In this new context, we are using the 243% for calculation and you can also use part of this 76% for policyholders' revenues. It is the way we operate. We cannot say that there is this excess capital coming from this 270% to this 246% because part of it, and we have not yet defined the exact part, will go back to policyholders if the rates we see today continue at the same kind of level. Of course, how we can spend this PPE depends on the speed of interest rate increases because if it is past some years, but we have to be careful about the use of this PPE over different years. Of course, if we have to issue debt later and of course it depends on the financial markets as always, but this 243% is a very good level of solvency capital ratio and we are very comfortable about the robustness of the undertaking in this new environment.

I will now give the floor to Olivier GUIGNÉ who can explain a bit about the hedging, because we not only have equity hedging, we also have very cheap interest rate hedging that we bought last year for almost nothing and that is very useful in this new context. He can also speak a bit about the evolution of the asset allocation.

Olivier GUIGNÉ, Director of Investments

Regarding the savings policy, as Thomas said, we have hedging against both a decrease and decrease in equity and an increase in rates. On the equity side we have a sensitivity on the portfolio of around 70%, which means that a 15% decrease in the equity market will only be a 10% decrease on our portfolio. This sensitivity is decreasing when the market decreases so there is a kind of convexity in it that makes us quite confident with the current level of the market, so we are keeping our equity position like this. As Thomas also said, we realised a lot of capital gains at the beginning of the year, so we also decreased our equity position at the beginning of the year.

On rates, we keep an annual programme for the hedging position in trading rates and I would say this programme is at least paying. We have this position with quite significant unrealised gains on this hedging programme to-date regarding all the CMS capital we have in the portfolio.

It may be a bit early to say that we will change the allocation, but we can say that we are already benefitting from our position, as you know, where have had the big short duration in the portfolio for many years now. It is paying a lot today because we can reinvest this position and this amount in higher rates and not only in the past. I would say the current rate is around 1.5% so far this year, so it is much higher than last year, and it keeps going up because, as you know, as far as the year is going we are investing at higher rates than before. It is a better position than the previous year for the investment type with a new landscape that is far better for investment and rates that are also going up for the investment portfolio. We are still benefitting from this, and we will see later in the year if we want to change the allocation regarding the various aspects of the sovereign or the credit side, etc., but today we are keeping the allocation as it is.

Thomas BÉHAR

On your question about the PACTE transfers, we did EUR 2.1 billion on Q1 last year and we finished at EUR 6.3 billion. We are a bit below this number with EUR 1.7 billion and we are confident that the speed we have to do transfer PACTEs will continue in a similar way to last year while going to something like EUR 5 billion. We will see where we are on PACTE transfers in Q2.

Benoît VALLEAUX

I have a few additional questions. Have you suffered any losses on any Russian or Ukrainian investment just to know if you had any exposure to this or if you had some investments there? Second, do you still have a slide of Covid losses in Q1, maybe in Brazil for example or maybe not at all if it is more or less over now? Just coming back to solvency, as you said with some of your peers and of course there is a sort of convexity effect on your sensitivity to interest rates. Can you please update us on the sensitivity of your solvency margin to any interest rate changes? As you know, if interest rates rise further you may have to use your PPE faster than was the case. On the other hand, you may resolve the benefit to some extent from increased interest rates on your solvency margin. I would just like to understand what the new sensitivity would be.

Thomas BÉHAR

On Russia, as you know, our exposure to Russia is mainly in collective funds that are done on developing countries and Russia is now very small, less than EUR 20 million, which is very little compared to our more than

EUR 400 billion on all assets. Part of it is from exposure on Russia that have been setup to zero. As you know, nothing can be sold so it will remain as it is and is not a final loss, it is a position at zero. It was a bit more before the war, when we had EUR 160 million and part of it has been sold and part valued at zero and we now have EUR 20 book value.

We did not have any Covid losses in Q1, so it is over everywhere, even if there are still people dying but there is no effect in the increase of the mortality rate everywhere.

On the solvency effect, we do not publish sensitivity calculations in Q1 but Stéphane LE MER from the Risk department can explain a bit about how it works and what effect the financial markets could have on sensitivities.

Stéphane LE MER

As you said in your question, there is a convexity on the sensitivity regarding interest rates and you may expect that when the interest rates may continue to progress our sensitivity will diminish on the solvency margin. This is because it is less favourable because we are out of options, especially on French saving products, particularly on the capital guarantee we have in your fund. The next date for the figures will be half-year because we publish the indicators and results twice a year.

Thomas BÉHAR

Thank you very much for listening to the Q1 results. Our next rendez-vous is the end of July for Q2.

About CNP Assurances

A benchmark player in the French personal insurance market, CNP Assurances is active in 19 countries in Europe, notably in Italy, and in Latin America, with a significant presence in Brazil, its second largest market. Acting as an insurer, co-insurer and reinsurer, it has more than 36 million personal risk/protection insureds worldwide and more than 11 million savings/pensions policyholders. In line with its business model, the Group's solutions are distributed by multiple partners. The solutions are aligned with each partner's physical or digital distribution model, while also being tailored to local clients' lifelong protection and support needs in each country.

CNP Assurances has been listed on the Paris Stock Exchange since October 1998 and is a subsidiary of La Banque Postale. The Group reported net profit of €1,552 million in 2021.

Contacts

Media

Florence de MONTMARIN +33 (0)1 42 18 86 51

Tamara BERNARD +33 (0)1 42 18 86 19

Alexis CHAUFREIN +33 (0)1 42 18 85 73

servicepresse@cnp.fr

Investors and analysts

Céline BYL +33 (0)1 42 18 77 95

Pascale FARGNIER +33 (0)1 42 18 93 27

infofi@cnp.fr