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CNP Assurances

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CNP Assurances

SACP* Assessments					SACP*			Support			Ratings
Anchor	a-	+	Modifiers	0	=	a-	+	1	=	Financial Strength Rating	
Business Risk			ERM and Management	0		Liquidity	0	Group Support	1		A/Stable/--
Strong											
Financial Risk			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0		
Strong											

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Strong

- Low insurance industry and country risk assessment, given the predominance of French life insurance sales and reserves in the group's profile.
- Strong competitive position, owing to the group's leading position in the French life market, combined with its product and distribution depth and breadth.
- The loss of the exclusive distribution agreement on savings products with the Caisse d'Epargne network, from Jan. 1, 2016, weakens our view on CNP's distribution power. However, we believe that this will be somewhat mitigated by the new agreement under which CNP will increase its penetration of the sale of creditor term life business through BPCE.

Financial Risk Profile: Strong

- Our assessment of CNP's capital and earnings is moderately strong. We expect capital adequacy to remain slightly below what we expect for the 'A' rating level.
- CNP's risk position is intermediate. The group maintains material holdings in investments we consider high risk relative to its capital base. However, this is offset in our view by CNP's low guaranteed rates allowing a high flexibility in sharing profits and losses with policyholders.
- Strong financial flexibility resulting from a proven track record of debt issuance and capital support from key shareholders.

Other Factors

- Our combined views of CNP's strong business and financial risk profiles lead to an anchor of 'a' or 'a-'. We select an 'a-' anchor due to the sensitivity of the group's balance sheet to changes in investment market conditions. Our assessment of total adjusted capital (TAC) is reliant on soft forms of capital and unrealized gains. As such, we believe the group's strong financial risk position is on the boundary of a weaker assessment.
- We consider CNP to have adequate enterprise risk management (ERM). CNP has taken significant steps forward in implementing a risk-adjusted capital framework for managing decision making. We expect further embedding of this to take place over 2015.
- We assess CNP's management and governance as satisfactory, recognizing the group's demonstrated ability to rebuild capital and derisk its balance sheet and execute its strategy of shifting its product mix away from traditional savings business towards protection.
- We believe CNP has exceptional liquidity owing to the strength of its available liquidity resources.
- We consider CNP to be moderately strategic to its majority shareholder Caisse des Dépôts et Consignations (CDC), balancing our views of strong financial support from CDC, with CNP's strategic independence and private company status in a competitive market, against CDC's public mission status. CNP is a major contributor to CDC's earnings, usually representing around 20% of its net income. In turn, CDC has a track record of supporting CNP. CDC has increased its holding in the insurer by over 4% since 2007 and has, along with CNP's other major shareholders, accepted dividends in shares for two successive years, 2011 and 2012, helping the insurer to rebuild capital. However, CNP enjoys management independence to a large extent, and its strategy is set by a shareholder pact that also includes BPCE and the French post office's banking arm La Banque Postale. Furthermore, as a private enterprise, our view of CNP's role in the French economy is not particularly more pronounced or public-mission driven than other large insurers operating in the market.

Outlook: Stable

The stable outlook reflects our view that the upcoming renegotiated distribution agreements with BPCE and La Banque Postale, as well as the present shareholder's pact, will likely safeguard CNP's strong foothold in the French life market, while enabling the insurer to maintain at least moderately strong capital and earnings over the next two years.

Upside scenario

We may raise the ratings if:

- CNP's sensitivity to asset risks reduces, allowing for more cushion in our financial profile assessment,
- CNP's capital adequacy increases sustainably above our current expectations, combined with an improvement in the quality of its capital, particularly if core shareholders' equity is expected to be consistently more than 50% of TAC, or,
- Although we view such scenario as remote, if we view CNP as strategically more important to, and integrated into, CDC's long-term strategy, which may lead us to strengthen our view of the likelihood of group support.

Downside scenario

Although unlikely over the next two years, in our view, we could lower the ratings if CNP's capital adequacy decreases markedly, combined with increased asset risk in the investment portfolio. This scenario would, for example, follow a significant deterioration in the credit quality of the group's bond portfolio.

Base-Case Scenario

Macroeconomic Assumptions

- The ratings do not take into account further credit deterioration in Europe's peripheral countries, where CNP had sovereign exposures of €17.1 billion as of June 30, 2014.
- We estimate that French 10-year government bonds will remain at their present very low levels over the next three years.

Company-Specific Assumptions

- La Banque Postale and the Caisses D'Epargne are the bedrock of the group's distribution in France. Beyond Jan. 1, 2016, we expect that the distribution agreement with the Caisses D'Epargne will no longer be exclusive in savings products, although CNP will increase its penetration of the sale of creditor term life business through BPCE. The distribution agreement with La Banque Postale will remain largely unchanged.
- The change in the distribution agreement will not cause higher-than-average erosion of CNP's BPCE-originated savings mathematical reserves. CNP will remain the legal owner of these reserves.
- We anticipate that CNP will continue to move its business mix away from traditional savings products, toward less capital intensive, higher margin protection and unit-linked business. We believe that the new distribution agreement with BPCE, as well as the acquisition of the insurance arm of Santander Consumer Finance, will help accelerate this.
- We believe that CNP will post present value of new business premiums (PVNBP) new business margins of 1.3% in 2014 and 2015 due to falling interest rates.
- We also expect that return on operating embedded value will be around 8%.

Capital position

We forecast that capital adequacy will remain below the 'A' level over 2015 and 2016.

We do not expect the reinsurance and other agreements put in place between CNP and Natixis Assurance, as part of the new distribution agreement with BPCE, to materially change CNP's earnings stream or CNP's ability to manage its capital and earnings over the next few years.

Financial flexibility

We expect that CNP's financial leverage will remain below 25% and that fixed charge coverage will be over 8x through 2017.

Key Metrics

	--Year ending Dec. 31--					
(Mil. €)	**2010**	**2011**	**2012**	**2013**	**2014(f)**	**2015(f)**
Gross premium written	32,288	30,026	26,439	27680	>30000	>32000
Net income*	1,050	872	951	1030.2	>1100	>1100
Life new business margin	1.4%	1.4%	1.3%	1.60%	>1.3%	>1.3%
Return on embedded value§	14.5%	15.1%	10.7%	8.6%	>8%	>8%
S&P capital adequacy	N.M.	N.M.	Upper adequate	Moderately strong	Moderately strong	Moderately strong
Financial leverage	21%	22%	20%	<25%	<25%	<25%

*Excluding minority interests. §Based on operating return on EV. N.M.--Not meaningful. f--forecast.

Company Description: France's Leading Life Insurer

CNP Assurances is France's leading life insurer, with a market share of 16% in 2013. The majority of the group's volumes are derived from its home market (76%). Brazil is a growing component of the international sales at 11% of gross written premium, with the remainder principally composed of Italy (9%) and Spain (1%).

In 2013, the group reported total written premiums of €27.7 billion, achieved a net result of €1,030 million, and had total assets of €366.0 billion.

A pact cements CNP's shareholding structure and as of June 30, 2014, includes:

- State-owned CDC, the largest shareholder with 40.87% of CNP's capital;
- Sopassure (36.25%), a 50:50 state-owned joint venture between La Banque Postale and BPCE; and
- The Republic of France, which directly holds 1.11%.

Business Risk Profile: Strong

We consider CNP's business risk profile to be strong. The group possesses a leading market share in the French life market; generating low, but stable, margins. CNP's operations in Brazil provide some modest uplift to the group's earnings and margins.

We believe that CNP's focus on margins instead of volumes will likely result in lower sales of traditional, euro-denominated savings contracts. Instead, the insurer will continue to distribute an increasing proportion of protection and unit-linked business.

Insurance industry and country risk: Low risk owing to principal market of operation being in France

We assess CNP's insurance industry and country risk as low reflecting its exposure mostly to France. Although the group is generating increasing volumes from its Latin American and other European operations, we believe that French insurance industry and country risks will continue to drive CNP's industry and country risk assessment. French technical reserves continue to represent over 90% of the group's total technical reserves.

Competitive position: Strong

We assess CNP's competitive position as strong. This assessment is based primarily on the group's leading market position in the French life insurance market. CNP has a very broad product offer, but sells predominantly savings and mass-market driven life products that achieve relatively low but stable margins. The group has a growing presence in Latin America--in particular Brazil--where margins are materially higher.

Table 1

CNP Assurances--Competitive Position

	IICRA	GWP (mil. €)	(%)
France life	Low	21,097	76.2
Italy life	Moderate	2,548	9.2
Brazil life	Intermediate	3,019	10.9
Spain life	Moderate	264	1.0
Portugal life	Moderate	83	0.3
Ireland life	Moderate	1	0.0
Other		657	2.4
Total	Low	27,668	

Table 1

CNP Assurances--Competitive Position (cont.)
IICRA--Insurance Industry Country Risk Assessment. GWP--Gross written premium.

France

CNP's two largest distributors, Caisses d'Epargne and La Banque Postale, which made up over 59%, or €16.3 billion of 2013 gross written premium, currently give the group access to vast policyholder bases that generally exhibit below-market-average lapse rates. CNP's distribution capability outside of these two main networks in France is also large, with gross written premium of €4.7 billion in 2013. These revenues are sourced from a broad base of agreements with companies and local authorities, French financial institutions, mutual insurers, and CNP Trésor--the group's direct distribution network.

From Jan. 1, 2016, CNP will have new distribution agreements with BPCE and La Banque Postale. The new agreement with La Banque Postale has not been finalized, but our base-case expectation is that it will remain largely unchanged. On the BPCE front, the high-level principles of the agreement have now been agreed for seven years. Overall, we believe that these principles will be neutral to our views on CNP's business profile. Although there will be an immediate and material impact on gross written premiums and therefore on CNP's market share, the new agreement accelerates CNP's strategy of selling more protection-based products. The existing stock of liabilities of well over €100 billion will, however, continue to run off slowly over many years. CNP's new business mix will change significantly, but we anticipate that the value of new business generated will remain over €250 million a year.

CNP will no longer distribute new sales of traditional savings or unit-linked products through the Caisses d'Epargne. However, CNP will continue to manage the existing stock of contracts on its balance sheet. CNP has introduced a series of reinsurance agreements with Natixis Assurances that help to protect the earnings profile of the existing stock in the event that surrender rates are higher than anticipated.

Over 2006-2013, CNP's surrender rate averaged around 4% on its whole portfolio. The majority of the commission paid to BPCE is a percentage of invested funds, which we anticipate will decrease only slightly in line with reserves. As such, we anticipate a muted impact on CNP's capital and earnings.

Though CNP will lose the ability to sell individual protection on an exclusive basis through the Caisses D'Epargne, we believe this will be offset by the increased penetration of group creditor term and group protection business with the BPCE. CNP will now be able to sell its group creditor protection business throughout the whole of BPCE. Historically, we believe this has been a very profitable segment.

International

CNP's main overseas operation is a joint venture--Caixa Seguradora--with the state-owned Brazilian bank, Caixa Economica Federal. CNP sells predominantly creditor protection and pension business in this market. Local currency volume growth has been maintained through the economic slowdown as insurance penetration rates continue to increase. We believe the joint venture is helping to reshape the group' s earnings profile. In particular, in 2013, the market consistent new business value achieved in Brazil was €132 million, against €211 million in France.

CNP's other significant international joint venture is with UniCredit in Italy. The size and volatility of this operation means that we believe it provides only limited diversification to CNP's earnings profile. Historically the Italian joint venture has achieved variable volumes and has been a challenge for the management team, leading to goodwill write-downs of €170 million in 2012 and €75 million in 2011. That said, sales in Italy have recovered significantly since 2012. CNP achieved volumes of €2.3 billion over the first three quarters of 2014, up almost 13% on the prior year.

In July 2014 CNP acquired a controlling stake in Santander Consumer Finance for €290 million. This will allow CNP to access Santander's customers in 10 different countries on an exclusive basis for 20 years. This acquisition is consistent with CNP's strategy of moving toward protection benefits; however, many of these markets are new for the group. In addition, the transaction further increases the correlation of the group's earnings with European lending markets. While Standard & Poor's continues to anticipate weak growth in the Eurozone, the weakness of the growth may limit the group's company to achieve sales of protection relating to new lending.

Financial Risk Profile: Strong

We regard CNP's financial risk profile as strong. Our assessment of the group's capital adequacy is enhanced by CNP's financial flexibility and proven track record to rebuild capital. We believe that asset risks and softer forms of capital, for which we give credit in our assessment of TAC, may be a source of volatility to the financial risk profile.

Capital and earnings

We assess CNP's capital and earnings as moderately strong. Over recent years, CNP has used earnings and strategic actions to rebuild capital, such as derisking the asset portfolio, paying dividends in shares, and capturing favorable market movements by increasing policyholder surplus reserves. We note that, over the period from Dec. 31, 2011, to June 30, 2014, TAC increased by over 50% or €11.3 billion. Our base-case expectation is that capital adequacy will continue to build toward, but remain somewhat below, the 'A' range according to our risk-adjusted capital model.

Our expectations for continued improvements in capital adequacy over the next two years anticipate the following contributions to TAC:

- Net earnings, prior to the payment of a dividend, will be around €1.1 billion per year.
- We believe CNP will continue to pay a full dividend in cash. We do not anticipate significant growth in the absolute amount.
- CNP will maintain the strength of its policyholder bonus reserves (€4.6 billion as at June 30, 2014) as a proportion of its liabilities.
- The fall in interest rates since Dec. 31, 2014, and our expectation that rates will remain low, reduces the credit we give the present value of future profits that will emerge.
- Currently we believe CNP is holding around €1 billion of hybrid capital, which, in our view, does not form a permanent part of the capital structure. Our expectation is that this capital will be used to refinance calls on junior subordinated notes whose first call is in 2016.

We also anticipate that the growth in capital requirements will be broadly in line with growth in TAC. In particular we believe:

- Capital requirements will grow by around 4% annually, in line with growth in life insurance reserves.
- Broadly speaking we expect stability in the risk-profile of the investment portfolio. The shortened duration of

exposures in the eurozone periphery and their maturity will lead to an easing in capital requirements. However, this may be partly offset by increasing allocation to real estate and equities.

- Our expectation is that the new distribution agreement with BPCE may bring a modest fall in capital requirements in 2016 due to the 10% quota share with Natixis Assurances. However, the impact is not expected to be sufficiently material to change our present view of capital and earnings. The rest of the distribution agreement terms are not expected to lead to material or rapid releases of capital. Our base case expectation is the stock of reserves sold through the Caisses D'Epargne will run-off slowly in line with current group surrender rates of between 4 to 5% a year.

In terms of quality of capital, we anticipate that our assessment of CNP's TAC will continue to rely heavily on weaker forms of capital, for which we give credit, such as unrealized gains on property and equity (June 30, 2014: 19%) the present value of future profits (June 30, 2014: 9%), hybrid equity (June 30, 2014: 16%) and policyholder capital (June 30, 2014: 14%).

Table 2

CNP Assurances--Capital					
	--Year ended Dec. 31--				
(Mil. €)	**2009**	**2010**	**2011**	**2012**	**2013**
Total shareholder's equity	10,282	11,036	11,076	13,072	13,852
Change in shareholder's equity (%)	21.58	7.33	0.35	18.03	5.96
Market consistent embedded value	11,716	12,082	11,859	13,855	15,975
Policyholder surplus reserves (% of technical reserves excluding unit-linked portfolios)*	1.10	1.38	1.34	1.55	1.97

*As reported by company.

Table 3

CNP Assurances--Earnings					
	--Year ended Dec. 31--				
(Mil. €)	**2009**	**2010**	**2011**	**2012**	**2013**
Net income	1,004.1	1,050.1	872.0	951.4	1,030.2
Return on shareholder's equity (%)	12.05	12.10	10.32	10.43	9.83
Life new business margin (%)	1.27	1.38	1.42	1.30	1.60
Value of new business	360.0	393.0	362.0	297.0	376.0
Return on operating embedded value (%)	8.97	14.51	15.10	10.69	8.62

Risk position

We regard CNP's risk position as intermediate. We therefore consider the company's capital adequacy as having average volatility risk.

CNP has little in the way of defined-benefit obligations and limits its exchange rate risk in the investment portfolio. Offsetting these strengths is the group's high proportion of risky assets relative to TAC. In particular, on June 30, 2014, the group maintained exposures of €32.1 billion in equities and €10.6 billion in real estate. This risk exposure in the investment portfolio is only partly mitigated, in our view, by the group's ability to share investment losses with policyholders due to the low guaranteed rates in its back book and the profit-sharing characteristics of products sold in France, as well as a limited equity hedging program. CNP also continues to face the potential risk of an increased credit risk capital requirement, in our view, given its significant exposures to lower-rated eurozone sovereigns. In particular, CNP maintains an exposure to Italy of almost €11 billion.

Table 4

CNP Assurances--Risk Position					
	--Year ended Dec. 31--				
(%)	**2009**	**2010**	**2011**	**2012**	**2013**
Net investment yield	3.45	3.52	3.84	3.28	2.99
Net investment yield including unrealized and realized gains and losses	(1.12)	5.07	3.99	1.63	4.50
Net investment income (mil. €)	9,301	9,816	10,415	9,351	9,137
Investment portfolio composition (excluding unit-linked portfolios)					
Bonds and other fixed income	82.33	82.37	83.93	88.40	86.21
Equities and other variable income	11.72	11.65	9.28	6.61	8.84
Property and property funds	2.74	2.83	3.47	3.33	3.45
Derivative instruments	0.28	0.25	0.15	(0.10)	(0.09)
Loans and other recievables	0.99	1.50	1.67	1.72	1.55
Other	1.94	1.40	1.50	0.03	0.04

Financial flexibility

We believe that CNP's financial flexibility is strong. The group has a track record of accessing multiple sources of capital when needed.

CNP has demonstrated the strength of its financial flexibility in recent years through a number of means. CNP has used its financial flexibility to lower crediting rates, passing to policyholders losses on its Greek bond holdings and reduced investment returns. The group has also continued to demonstrate access to the international debt markets, issuing hybrid debt when required. We believe that CNP will maintain leverage ratios below 25% and fixed charge coverage ratios of above 8x through 2017. Fixed charge coverage ratios are currently at lower levels than CNP has historically maintained. In our view, this is because CNP has decided to prefinance its hybrid notes of which the first call date falls due in 2016.

The company has received direct capital support from its shareholders in the form of scrip dividends. We consider that CNP's major shareholders--and in particular, La Poste and La CDC--remain long-term and supportive investors.

Table 5

CNP Assurances--Financial Flexibility					
	--Year ended Dec. 31--				
	2009	**2010**	**2011**	**2012**	**2013**
Financial leverage (%)	17.93	20.64	21.86	19.75	16.27
EBIT (mil. €)*	1,756	1,911	2,243	2,278	2354
Fixed charge coverage (%)	9.5	10.4	9.4	9.0	9.0

*Reported by the company.

Other Assessments

Enterprise risk management

We consider CNP's ERM practices to be adequate. We view risk management practices in most risk areas as neutral, with positive assessments for asset liability management (ALM) and underwriting risk controls. We believe that CNP is beginning to make greater use of strategic risk management as it further develops its risk appetite framework. We view the importance of ERM as high, reflecting the complexity associated with CNP's large scale.

We assess CNP's risk management culture as neutral. CNP has in place an independent ERM function that acts as a second line of defense, and has established various group risk committees for underwriting, financial risks, and ALM to address most of its major risks. CNP has clearly defined an overarching group risk appetite as part of its recently implemented "Own Risk And Solvency Assessment" approach and has developed multiple stress scenarios to test its risk profile. We see upside to our assessment of CNP's ERM practices as it aligns its risk appetite with its new business unit's structure, further embeds capital budgeting, and continues to improve its risk reporting.

We view strategic risk management as neutral because CNP is making further progress in formalizing and embedding a common risk capital metric for product profitability assessment, asset allocations, and strategic decisions group wide.

Management and governance

CNP's management and governance is satisfactory, in our opinion. In recent years the group has executed a consistent strategy of preserving capital, while maintaining leading positions in the French market and continuing to expand in Latin America. More recently, CNP appears to have improved the performance of its Italian joint venture, where it has historically encountered hurdles to performance.

We believe that the outcome of the renegotiated distribution agreement with BPCE is in line with CNP's strategy of increasing its sales of protection products. A key test for the management team over the coming two years will be the renegotiation of the distribution agreement with BPCE and the distribution agreement with La Banque Postale, while maintaining this overarching strategy.

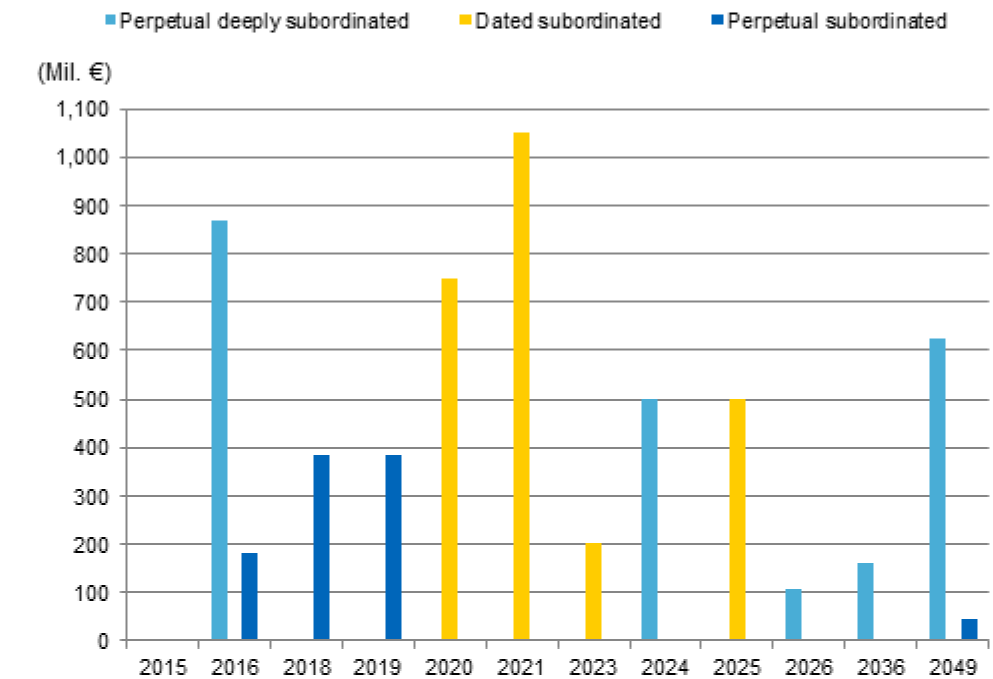
Liquidity

CNP's liquidity is exceptional, in our view, owing to the strength of its available liquidity sources and the historically low levels of experienced lapse rates. CNP has a track record of pre-financing calls on its hybrids with step-ups, reducing its exposure to confidence-sensitive liabilities. In our opinion, the group's liquidity is not exposed to collateral posting risk or confidence-sensitive liabilities.

Accounting Considerations

CNP prepares its consolidated financial statements under International Financial Reporting Standards. CNP provides supplementary disclosures under market consistent embedded value principles, which we have used to analyze the group's operating performance and capital adequacy.

CNP Assurances--Breakdown Of Subordinated Debt By Next Call Date



Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- France's Life Insurance Sector Carries a Low Insurance Industry And Country Risk Assessment, Oct. 13, 2014
- Resilient Earnings Help French Insurers Shore Up Capital Ahead Of Solvency II, Oct. 10, 2014

Ratings Detail (As Of February 2, 2015)	
CNP Assurances	
Financial Strength Rating	
Local Currency	A/Stable/--
Counterparty Credit Rating	
Local Currency	A/Stable/--
Junior Subordinated	BBB+
Related Entities	
CNP Caution	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	A/Stable/--
Holding Company	Caisse des Depots et Consignations
Domicile	France

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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