S&P Global
Ratings

Research

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.
- Still-high reliance on traditional savings products in the French market, despite increasing profits in life protection and term creditor insurance deriving from joint ventures and renegotiated partnerships with Banque Populaire Caisse d'Epargne (BPCE) and La Banque Postale.

Financial Risk Profile: Strong

- Our expectation that CNP Assurances' (CNP's) adjusted capital will remain close or slightly above the 'A' rating level, but our assessment of capital and earning is limited by the proportion of soft capital items within total adjusted capital (TAC).
- An intermediate risk position. The group maintains material holdings in investments that 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 and to the volatility of currency and economic shifts in Brazil.
- We consider CNP to have adequate enterprise risk management (ERM) and has updated its risk-adjusted capital framework to take into the Solvency II regulatory requirements and to support decision-making in a low interest-rate environment.
- We assess CNP's management and governance as satisfactory, recognizing the group's demonstrated ability to rebuild capital, derisk its balance sheet, and execute its strategy of shifting its product mix away from traditional savings business toward 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 about 30% 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, the French post office's banking arm La Banque Postale, and the French state. Furthermore, as a private enterprise with operations overseas for instance in Brazil, 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

S&P Global Ratings' stable outlook on France-based life insurer CNP indicates that over the next 24 months we expect CNP will maintain its leading market position in France, despite the changes to its distribution agreements, while maintaining capital adequacy close to or slightly above the 'A' level, according to our capital model.

Upside scenario

We may raise the ratings if we observe that the group showed continued progress in shifting its business mix toward higher-margin products that are less interest rate sensitive than guaranteed savings life policies, and if we expected the group would maintain net earnings after minorities above €1.2 billion. We would monitor in particular CNP's business in Latin America for its resilience to challenging economic conditions, and the capital adequacy of the group based on our capital model.

Downside scenario

We could consider lowering the ratings if CNP were to suffer a significant decline in earnings, either due to a drop in volumes or a reduction in profitability. We would also consider lowering the ratings if we believed that financial support from CDC would not be likely in the event of a stress scenario, although we see this as a remote possibility.

Base-Case Scenario

Macroeconomic Assumptions

- The ratings do not take into account further credit deterioration in Europe's peripheral countries, where CNP had gross sovereign exposures of €18.1 billion as of Dec. 31, 2016.
- We estimate that French long-term interest rates will increase slightly in 2017 and 2018, but remain under 2% in 2018.

Company-Specific Assumptions

- La Banque Postale remains the bedrock of the group's distribution in France. The agreement was renewed in 2016 and expanded to wealth management through the dedicated subsidiary of the distributor, BPE (private bank entity of La Banque Postale). Individual and group term creditor insurance contracts for home buyers are also now being distributed by La Banque Postale and BPE.
- Effective Jan. 1, 2016, the distribution agreement with BPCE has not been renewed for new savings products but CNP increased its penetration of the sale of creditor term life business through BPCE and now offers high-end life insurance product via the group's private bank platform.
- We anticipate that CNP will continue to move its business mix away from traditional savings products, toward business that is less capital intensive, such as unit-linked and protection business.
- We believe that CNP's ratio of new business value to annual premium equivalent will be in the range of 13%-15% over 2017-2019, with group net profits of about €1.2 billion per year.
- We forecast that CNP's capital adequacy will remain close to or slightly above the 'A' level over 2017 and 2018, and that the reinsurance and other agreements put in place between CNP and Natixis Assurance, as part of the new distribution agreement with BPCE, will not materially weaken CNP's earnings.
- We assume that CNP's financial leverage will remain below 25% and that fixed-charge coverage will be over 8x through 2019.

Key Metrics

	--Year ending Dec. 31--					
(Mil. €)	**2013**	**2014**	**2015**	**2016**	**2017f**	**2018f**
Gross premium written	27,490	30,643	31,760	31,780	>27,000	>27,000
Net income*	1,030	1,080	1,131	1,200	>1,200	>1,200
New business value to APE (%)	14.1	13.7	14.5	13.9	13-15	13-15
Return on average embedded value§ (%)	8.6	9.6	10.7	7.2	7-10	7-10
S&P Global Ratings capital adequacy	Moderately strong	Moderately strong	Moderately strong	Strong	Strong	Strong
Financial leverage (%)	16.3	18.3	20.5	20.6	<25	<25

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

Company Description

CNP Assurances is France's leading life insurer, with a market share of 16% in 2016. The majority of the group's volumes are derived from its home market (77%). Brazil, where CNP has 6% market share, makes up an increasing component of the group's international sales at 11% of gross written premium, with the remainder principally composed of Italy (11%).

In 2016, the group reported total written premiums of €31.7 billion, achieved a net result of €1.2 billion, and had total assets of €419 billion.

A pact cements CNP's shareholding structure and as of Dec. 31, 2016, includes:

- State-owned CDC, the largest shareholder with 34.6% of CNP's capital;
- Sopassure (30.7%), a 50:50 state-owned joint venture between La Banque Postale and BPCE; and
- The French state, which directly holds 0.9%.

The terms of the shareholder pact prescribe that the French public sector should control at least 61% of CNP. This shareholder pact was instigated in 1998 for an initial period of five years, with tacit renewal every two years. The current pact runs until end-2017.

CDC, Sopassure and the French state also hold CNP shares out of the pact, for respectively: 6.2%, 5.6% and 0.2%.

Business Risk Profile: Strong

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, reflecting leading market position in France

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 an increasing presence in Latin America--in particular Brazil--where margins are materially higher, and provide uplift to the group's earnings.

We believe that CNP's focus on margins will likely result in lower sales of traditional guaranteed life savings contracts to the benefit of life protection and unit-linked contracts.

Table 1

CNP Assurances--Competitive Position

	IICRA	GWP (mil. €)	(%)
France life	Low	24,251	76.9
Brazil life	Intermediate	3,549	11.3

Table 1

CNP Assurances--Competitive Position (cont.)			
	IICRA	**GWP (mil. €)**	**(%)**
Italy life	Moderate	2,771	8.8
Germany life	Intermediate	431	1.4
Spain life	Intermediate	242	0.8
Other	--	293	0.8
Total	Low	31,536	--

IICRA--Insurance Industry Country Risk Assessment. GWP--Gross written premiums.

France

CNP's two largest distributors, BPCE and La Banque Postale, which together made up 60% or €19.0 billion of 2016 premium income, 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 premium income of €7.3 billion in 2016. These revenues are sourced from a broad base of agreements with companies and local authorities, French financial institutions, mutual insurers, and Amétis--the group's direct distribution network.

We expect that the new agreement with La Banque Postale described above will gradually increase CNP's overall new business margin, given the stronger focus on more profitable products, such as protection and unit-linked contracts. The latter being offered through the wealth-management network.

On the BPCE front, since Jan. 1, 2016, CNP no longer books new sales of traditional savings or unit-linked products through BPCE but continues to book new premiums on existing contracts on its balance sheet. There has been a relatively limited impact on 2016 premiums volumes, since the transfer of new life savings production was only finalized in October 2016. We thus expect a much sharper decrease in 2017 of about €4 billion in BPCE's life savings premiums contribution. A series of reinsurance agreements between CNP and Natixis Assurances nevertheless helps protect the earnings profile of the existing stock in the event that surrender rates are higher than anticipated.

Furthermore, CNP's new business mix will change significantly as the new agreement accelerates its strategy of selling more protection-based products. This includes the increased penetration of group creditor term and group protection business with the whole BPCE group, which has historically been a very profitable segment, in our view.

International

CNP's main overseas operation, Caixa Seguradora, is a joint venture 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 2016, the market-consistent new business value achieved in Brazil was €146 million, against €232 million in France.

CNP's other significant international joint venture is with UniCredit in Italy. Given the size and volatility of this operation, we believe it provides only limited diversification to CNP's earnings profile, although we view positively Unicredit's new strategic plan with the appointment of a new CEO for Unicredit in July 2016.

In July 2014, CNP acquired a controlling stake in Santander Consumer Finance's insurance subsidiaries for €290 million. This partnership allows 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. Despite 23% growth in premium income in 2016, the contribution to the group profitability remains currently marginal due to its small size. The business written via this partnership nevertheless has a new business margin that is twice that of the group's French savings business line and is much less interest-sensitive, and we therefore expect it will provide increasing and recurrent support to group earnings.

Table 2

CNP Assurances--Earnings					
	--Year ended Dec. 31--				
(Mil. €)	**2012**	**2013**	**2014**	**2015**	**2016**
Net income	951	1,030	1,080	1,131	1,200
Return on average shareholder's equity (%)*	10.4	9.8	9.5	9.1	9.0
Life new business margin to APE(%)	11.6	14.1	13.7	14.5	13.9
Value of new business	297	376	412	463	436
Return on operating embedded value (%)	10.7	8.6	9.6	10.7	7.2

*Including minority interest.

Financial Risk Profile: Strong

Capital and earnings: Moderately strong, supported by proven track record to build capital

We assess CNP's capital and earnings as moderately strong, balancing the group's proven track record to build capital through retained earnings with the potential volatility stemming from the a high level of reliance on softer forms of capital. CNP's capital adequacy under our capital model strengthened above the 'A' benchmark in 2016. A 10% quota share agreement with Natixis Assurances on the BPCE in-force book, together with a strengthened hedge program against potential drops in equity markets and the continued build-up of French policyholder surplus reserves, supported this improvement.

Our view of capital remains limited by the share of soft capital items that make up the TAC, and our assessment of the overall financial risk profile remains unchanged as we view the reliance on soft capital items, which exceed 50% of TAC, as a source of potential volatility. We anticipate that our measure of CNP's TAC will continue to include soft items, such as unrealized gains on property and equity (June 30, 2016: 9%) the present value of future profits (7%), hybrid equity (17%), and policyholder surplus reserves (24%).

Our base-case expectation is that capital adequacy will remain moderately above the 'A' range, according to our risk-adjusted capital model. Our expectations for relative stability in our assessment of capital adequacy take account of the following factors:

- Net earnings after minorities and prior to the payment of a dividend, will be about €1.2 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.
- We assume CNP will continue to capture favorable market movements by increasing policyholder surplus 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.
- We also anticipate that the growth in capital requirements will be broadly in line with growth in TAC, with capital requirements increasing by about 3% annually, in line with growth in life insurance reserves.

Table 3

CNP Assurances--Capital

	--Year ended Dec. 31--				
(Mil. €)	**2012**	**2013**	**2014**	**2015**	**2016**
Total shareholder's equity (including minorities)	13,072	13,852	15,664	15,936	17,531
Change in shareholder's equity (%)	18.0	6.0	13.1	1.7	10.0
Market consistent embedded value	13,855	15,975	17,530	19,243	19,951
Policyholder surplus reserves (% of technical reserves excluding unit-linked portfolios)*	1.6	1.9	2.4	3.0	3.9

*As reported by company.

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, as of Dec. 31, 2016, the group maintained exposures of €39 billion in equities and €12 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 an increasing 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 Italian sovereign debt of €11 billion.

Table 4

CNP Assurances--Risk Position

	--Year ended Dec. 31--				
(%)	**2012**	**2013**	**2014**	**2015**	**2016**
Net investment yield	3.3	3.0	2.9	2.6	2.4
Net investment yield including unrealized and realized gains and losses	1.6	4.5	4.1	3.6	3.0
Net investment income (mil. €)	9,351	9,137	9,262	8,542	7,940
Investment portfolio composition (excluding unit-linked portfolios)					
Bonds and other fixed income	82.6	83.0	84.7	83.3	82.8
Equities and other variable income	8.7	9.1	10.0	10.9	11.4
Property and property funds	2.5	2.7	2.6	2.8	3.1
Derivative instruments	(0.1)	(0.1)	(0.2)	(0.1)	(0.2)
Loans and other receivables	2.8	2.6	1.5	1.7	1.5
Cash & cash equivalent	3.5	2.6	1.3	1.5	1.4

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. On that note, with a timely issuance in 2016, CNP has been the first European insurer to enter the euro-denominated Tier 3 subordinated debt market at a historically low coupon rate, allowing the group to lower its average financing cost. We believe that CNP will maintain leverage ratios below 25% and fixed-charge coverage ratios of above 8x through 2019. Fixed-charge coverage ratios are currently at lower levels than CNP has historically maintained.

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

Table 5

CNP Assurances--Financial Flexibility

	--Year ended Dec. 31--				
	2012	**2013**	**2014**	**2015**	**2016**
Financial leverage (%)	19.7	16.3	18.3	20.5	20.6
EBIT (mil. €)*	2,278	2,354	2,442	2,427	2,638
Fixed charge coverage (%)	9.2	9.0	8.9	7.8	7.3

*Reported by the company.

Other Assessments

Enterprise risk management

We consider CNP's ERM practices to be adequate in light of the significant market risk that its balance sheet generates. We view the importance of ERM as high, reflecting the complexity associated with CNP's large scale.

While we view CNP's risk controls in most risk areas as neutral, we have with a positive view for asset-liability management (ALM) and underwriting risk. We also observe that CNP has clearly defined an overarching group risk appetite as part of its "Own Risk And Solvency Assessment" approach and uses multiple stress scenarios developed internally to test its risk profile. As such, we see upside to our assessment of CNP's ERM practices, since it aligns its risk appetite with its business unit's structure, further embeds capital budgeting, and continues to improve its risk reporting.

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.

We view strategic risk management as neutral because CNP is still in the process of 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 carry out a controlled development of its Italian joint venture, where it has historically encountered performance hurdles.

We believe the new distribution agreement with BPCE is in line with CNP's strategy of increasing its sales of protection products and the shift to less capital-intensive saving products. The reinsurance-based protection mechanism that is part of the renegotiated agreement smoothed the way for the transition with BPCE to managing the stock on the savings portfolio and we expect the run-off on CNP's book to be very slow.

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.

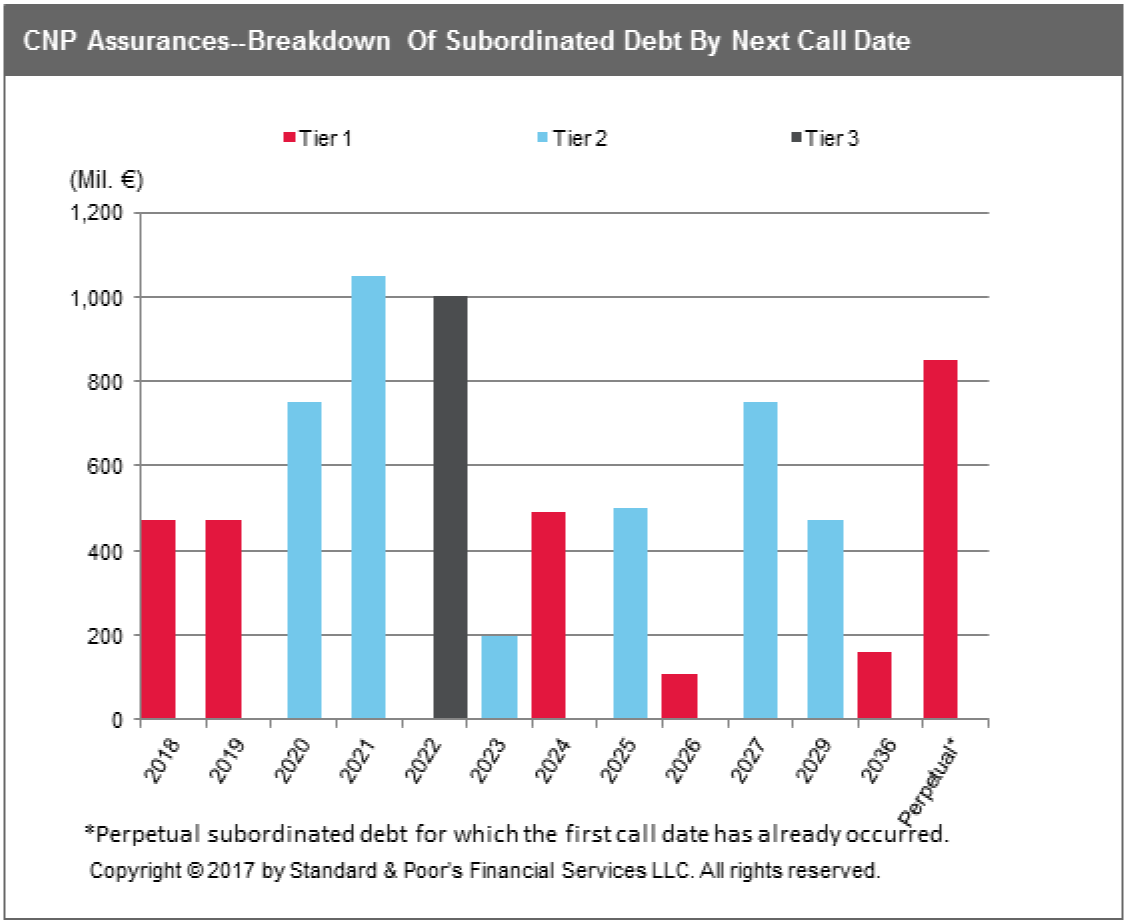
CNP Caution

We view CNP Caution as core to the parent group. CNP Caution is 100%-owned by CNP Assurances and the business it underwrites is integral to the group's strategy in creditor insurance. The company is fully integrated in terms of distribution and support functions with the group. CNP Caution also benefits from a letter of comfort from its parent, CNP Assurances, which indicates commitment of support from the parent.

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.

Chart 1



Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- France's Life Insurance Sector Carries A Low Industry And Country Risk Assessment, Nov. 21, 2016
- France's Property/Casualty Insurance Sector Carries A Low Insurance Industry And Country Risk Assessment, Nov. 21, 2016

- La Banque Postale, Nov. 29, 2016
- Caisse Des Dépots et Consignations, May 12, 2016
- BPCE, Sept. 23, 2016

Ratings Detail (As Of March 13, 2017)	
Operating Company Covered By This Report	
CNP Assurances	
Financial Strength Rating	
Local Currency	A/Stable/--
Counterparty Credit Rating	
Local Currency	A/Stable/--
Junior Subordinated	BBB+
Subordinated	BBB+
Related Entities	
Caisse des Depots et Consignations	
Issuer Credit Rating	AA/Stable/A-1+
Certificate Of Deposit	
Local Currency	A-1+
Commercial Paper	
Local Currency	A-1+
Senior Unsecured	AA
Short-Term Debt	A-1+
CNP Caution	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	A/Stable/--
Domicile	France

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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