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Ratings

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CNP Assurances

Primary Credit Analyst:
Charlotte Chausserie-Lapree, Paris (33) 1-4420-7205; charlotte.chausserie@spglobal.com

Secondary Contact:
Taos D Fudji, Milan (39) 02-72111-276; taos.fudji@spglobal.com

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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.

Major Rating Factors

Strengths:	Weaknesses:
• Leading position in the French life insurance market and increased penetration of life-protection business. • Strengthened capital adequacy thanks to increased policyholder surplus reserves. • Improved enterprise risk management.	• Uncertainties regarding the renewal of the Caixa Seguridade partnership in Brazil. • Low margins of traditional savings products in the French market. • Relatively high proportion of soft capital items within our measure of adjusted capital.

Rationale

S&P Global Ratings' issuer credit ratings on France-based life insurer CNP Assurances (CNP) reflect its view of the company's prominent business positions in France, where it generates 71% of its business volumes, as well as the depth and breadth of its product and distribution. The ratings also incorporate our view of the group's strengthened capital adequacy and proven track record in accessing the debt capital market.

Historically, CNP has focused on traditional savings products in the French market, but is now gradually increasing profits in life protection and unit-linked products, thanks to international joint ventures and domestic partnerships with Banque Populaire Caisse d'Epargne (BPCE) and La Banque Postale. The new business margin in France jumped to 21.5% in 2017 from 10% in 2016 as a result of an increased share of life protection and unit-linked products in CNP's product mix strategy.

In our rating, we also factor in the uncertainty surrounding the outcome of negotiations regarding the ownership and scope of the joint venture with Caixa Seguridade, the largest and most profitable foreign operation of CNP. We expect the outcome will define CNP's positioning in Brazil for the years ahead.

We expect CNP's adjusted capital will slightly exceed the 'A' benchmark of our capital model, but will include a relatively high share of soft capital items, such as hybrids and unrealized capital gains. The group maintains significant investment holdings, mainly in equities and real estate, which we consider high risk. However, in our view, this is offset by CNP's low guaranteed rates, which allows the company a high degree of flexibility in sharing profits and losses with policyholders.

We continue to regard CNP as moderately strategic to its majority shareholder Caisse des Dépôts et Consignations (CDC), because we balance a track record of financial support from CDC, with limitations deriving from CNP's private company status in a competitive market, against CDC's public mission. CNP is a major contributor to CDC's earnings, usually representing about 30% of its net income. The group enjoys a large amount of management independence, with company strategy set by a shareholder pact including BPCE, the French post office's banking arm La Banque Postale, and the French government. In our base case, we assume CDC's support to CNP will not reduce over the next two years, although we note that CDC has recently announced a review of its financial holdings. CDC currently holds 41% of CNP's shares including participation outside the shareholder pact.

Outlook: Stable

The stable outlook reflects our view that CNP's long-standing expertise in its main French markets acts as a stabilizing factor against the challenges from low interest rates and from strategic uncertainties in its other main markets. The stable outlook also denotes our expectation that CNP's buffer-building policy will support at least a stable capital adequacy close to our 'A' range risk-based capital benchmark.

Upside scenario	**Downside scenario**
We may raise the ratings in the coming two years if: • Strategic uncertainties in Brazil conclude with a positive or neutral impact for CNP's capital adequacy and strategic positioning; • CNP continues to shift its business mix toward less-interest-rate sensitive life policies; and • We believe the group will maintain net earnings after minorities of about €1.2 billion.	Although we see it as a remote possibility, we could lower the ratings if: • CNP were to suffer a significant decline in earnings; or • Support from CDC were to weaken.

Macroeconomic Assumptions

Economic Forecast Summary: France, Brazil, and Italy						
(%)	**2014**	**2015**	**2016**	**2017**	**2018f**	**2019f**
France						
Real GDP change	1.0	1.0	1.1	2.0	2.2	1.8
Long Rate (10-Year, Avg)	1.67	0.84	0.47	0.81	1.15	1.65
Unemployment	10.3	10.4	10.0	9.4	8.8	8.4
Brazil						
Real GDP change	0.5	(3.5)	(3.5)	1.0	2.4	2.6
Long Rate (10-Year, Avg)	12.19	13.52	12.81	10.20	9.45	8.93
Unemployment	6.8	8.5	11.5	12.7	12.0	10.9
Italy						
Real GDP change	0.2	0.8	1.0	1.5	1.5	1.3
Long Rate (10-Year, Avg)	2.88	1.71	1.46	2.09	2.34	3.15
Unemployment	12.7	11.9	11.7	11.3	10.8	10.3

f--Forecast. YOY--Year over year. Avg--Average. Source: S&P Global Economics, S&P Global Ratings, Oxford Economics.

Key Metrics

CNP Assurances Consolidated data						
(Mil. €)	**2014**	**2015**	**2016**	**2017**	**2018f**	**2019f**
Gross premium written	30,643	31,760	31,780	32,460	>30,000	>27,000
Net income*	1,080	1,131	1,200	1,285	>1,200	>1,200
New business value to APE (%)	13.7	14.5	13.9	23.6	>15.0	>15.0
Return on average embedded value§ (%)	9.3	10.7	7.2	9.7	7.0-10.0	7.0-10.0
S&P Global Ratings' capital adequacy	Moderately strong	Moderately strong	Strong	Strong	Strong	Strong
Financial leverage (%)	18.3	20.5	20.6	<25.0	<25.0	<25.0
Fixed charge coverage (%)	8.9	7.8	7.3	9.0	>8.0	>8.0

*Excluding minority interests. §Based on operating return on EV. f--forecast. APE--Annual premium equivalent.

Business Risk Profile: Strong

CNP's strong business risk profile is underpinned by its leading market position in France, where the company holds a 13.2% market share. In addition, it derives 90% of its technical reserves from this market, therefore shaping our view that CNP supports the low insurance industry and country risk in France.

CNP has a very broad product offer, but predominantly sells traditional savings life products for mass markets that have relatively low margins. Improving margins from changes in product focus and distribution agreements demonstrate the company's success in reshuffling its business mix (see chart 1). In France, this has resulted in lower sales of traditional guaranteed life savings contracts (€7.7 billion net outflow) to the benefit of life protection and unit-linked contracts.

CNP's two largest distributors, BPCE and La Banque Postale, together made up 53% (€17 billion) of 2017 premium income. CNP's distribution capability outside of these two main networks in France is also strong, with premium income of €5.6 billion in 2017. These revenues come from a broad base of agreements with companies and local authorities, French financial institutions, mutual insurers, and Amétis, the group's direct distribution network.

The agreement with La Banque Postale was renewed with amended terms in 2016 and has gradually increased CNP's overall new business margin, given the stronger focus on more profitable products, such as life protection and unit-linked contracts. La Banque Postale's network was the first source of premium income for CNP, with volumes up by 5.1% in 2017.

Regarding distribution via the BPCE network, since October 2016 CNP no longer generates new life savings premium, instead continuing to book premiums on the existing contracts on its balance sheet. This change was the main factor behind the 5.9% decrease in premium for CNP in France in 2017. A series of reinsurance agreements between CNP and Natixis Assurances help protect the earnings profile of the existing stock in the event that surrender rates are higher than anticipated. In line with CNP's product strategy, this distribution partnership includes increased penetration of the sale of creditor term life business, and now offers high-end life insurance products via BPCE's private bank platform.

As a result of a new law introduced in February 2018 allowing French credit insurance policyholders to change provider each year, CNP could face a hike in policy surrenders. However, we believe the management team has taken reasonable actions ahead of the change to mitigate any disruption to its creditor insurance operations.

CNP's main overseas operation is a joint venture (Caixa Seguradora) with Caixa Seguridade, which is the insurance arm of the state-owned Brazilian bank Caixa Ecônomica Federal. CNP predominantly sells creditor protection and pension business in this market, which in our view has very favorable growth prospects. Caixa Seguradora has increased its presence in Brazil, where margins are materially higher and saving and pension premiums almost entirely in unit-linked. These operations provide uplift to the group's earnings (34% of the group EBIT). CNP's partner Caixa Seguridade has notified CNP that it will not automatically renew the distribution agreement after expiration in 2021. A potential amended partnership is under negotiation, although we note that the conclusion of the discussions have been postponed several times. Therefore, timing and continuity for these operations remains uncertain, making these discussions a strategic question for CNP in our view.

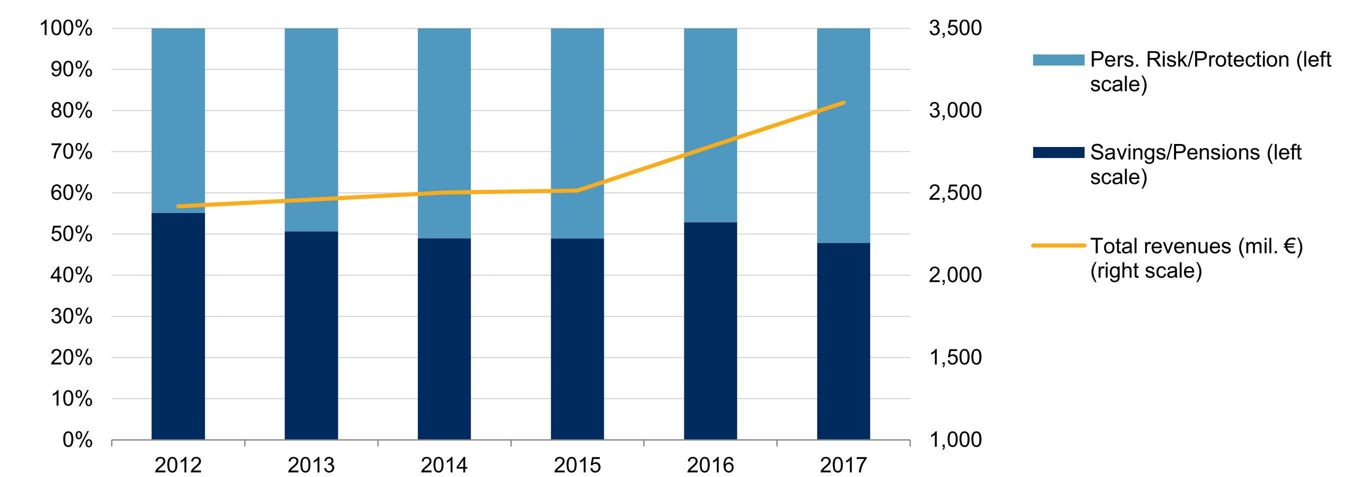
CNP has recently renewed its partnership with UniCredit for another seven years through the joint-venture CNP UniCredit Vita. CNP UniCredit Vita contributed less than 3% to CNP's 2017 net earnings, making it their second most significant international joint venture. This amended partnership will better frame the distribution of capital-light products (term creditor insurance and unit-linked saving products) in line with CNP's strategy for reorienting the product mix.

The joint ventures with Santander Consumer Finance generates the other main European operations. This 20-year partnership consists of exclusive distribution of protection products to Santander's customers in 10 different countries. Growth has been robust, particularly in Poland, Spain and the Nordic countries. Germany, where CNP Santander recorded 9% growth in 2017, remains the joint venture's main operating market. The contribution of this joint venture to group profitability is currently marginal because of its small size. Given the nature of the product sold, the business written via this partnership enjoys high margins and we expect it will provide increasing and recurrent support to group earnings.

CNP is investing in digitalization and is implementing InsurTech solutions as part of its strategy. One such solution is Youse, a digital insurance platform that is performing well in Brazil. CNP is also investing in disruptive start-ups through its dedicated program, Open CNP. In the long-run we view this as positive because it demonstrates that CNP is making moves to strengthen its efficiency and keep up with clients' needs.

Chart 1

CNP Assurances--Revenues breakdown and evolution



Sources: Company financials.

Financial Risk Profile: Strong

CNP's strengthened capital adequacy supports our view of the group's strong overall financial risk profile. CNP has a proven track record of building capital through retained earnings and increasing policyholder surplus reserves (4.7% of technical reserves at 10.9 billion). This allows CNP's prospective capital adequacy to meet the capital requirement as per the 'A' benchmark under our capital model. In addition, CNP further reinforced its hedging program in 2017 to counter potential drops in equity markets, which supports our assessment. In our view, the relatively high share of soft capital, such as hybrids, unrealized capital gains, and present value of future profits, weaken our assessment of CNP's capital and earnings.

We hold a forward-looking view of capital and factor a broadly maintained supportive earning retention policy and net earnings after minorities of about €1.2 billion per year into our assessment. We also assume that CNP will continue to capture favorable market movements by increasing its policyholder surplus reserves. Furthermore, CNP is still in negotiations with Caixa Seguridade regarding the distribution partnership renewal. In that regard, we believe CNP will be able to cover any distribution renewal financial contributions without materially weakening its capital adequacy.

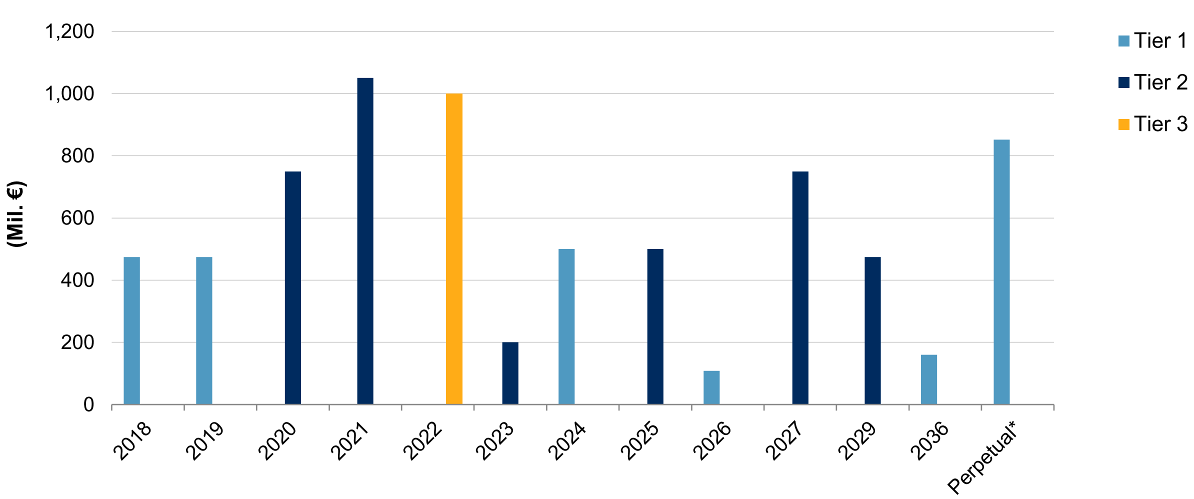
We forecast that capital requirement will increase at a moderate pace, by 2%-3%, given the increased share of capital-light product sales and the expected net outflow from traditional savings products. We expect the group will maintain its investment profile. The group has significant holdings in assets that we consider high risk, with equity and real estate investments representing 13% and 4% of the investment portfolio respectively. CNP is a large private equity investor and leverages on the opportunities to co-invest with their historical institutional partners.

Other sources of volatility that could affect our view of the financial risk profile are limited. CNP has little in the way of defined-benefit obligations and limits its exchange rate risk in the investment portfolio. The group's ability to share investment losses with policyholders, due to low guaranteed rates in the back book (0.34% as of December 2017), and the profit-sharing characteristics of products sold in France, mitigate the relatively risky investment portfolio. CNP has taken advantage of this feature in the past by passing its losses on Greek bond holdings and reduced investment returns to policyholders.

We believe the group benefits from demonstrated access to the international debt markets. We have no concerns regarding the ability of CNP to face its upcoming debt maturities. Indebtedness indicators are also a strength-- we believe that CNP will maintain leverage ratios below 25% and fixed-charge coverage ratios of about 8x through 2019. We note that in two successive years, 2011 and 2012, CNP's major shareholders provided direct support by accepting dividends in share, helping the insurer to rebuild capital. We believe La Banque Postale and CDC will remain long-term and supportive investors.

Chart 2

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



*Perpetual subordinated debt for which the first call date has already occured.

Other Assessments

We consider CNP's enterprise risk management (ERM) practices to be adequate, with strong risk controls. CNP has deployed risk metrics to monitor and limit its risk exposure consistently group wide.

We view asset and liability management practices positively since CNP monitors multiple risk metrics at individual portfolio levels when defining asset allocation, hedging strategies, and modelling liability.

CNP's development of a single risk metric (ORSA) and its embedding in the reporting and decision-making process, have further strengthened overall risks control. We also have a positive view on underwriting risk that is managed with full ownership over pricing and product design, with limited authority delegated to distribution networks.

ERM is of high importance to the rating, reflecting the complexity associated with CNP's large scale.

In our opinion, CNP's management and governance is satisfactory. In recent years, the group has executed a consistent strategy of preserving capital, de-risking its balance sheet while maintaining a leading position in the French market, and continuing to expand internationally. We also observe that the renewed partnerships that have occurred in the past couple of years clearly reflect CNP's stated strategy to shift the product mix to include more protection products and unit-linked types of saving.

We have no concern about CNP's liquidity due to the strength of its available liquidity sources and the historically low levels of lapse rates experienced. CNP has a track record of pre-financing calls on its hybrids with step-ups, reducing its exposure to confidence-sensitive liabilities.

Rating Score Snapshot

CNP Assurances Rating Score Snapshot	
Financial Strength Rating	A/Stable/--
Issuer Credit Rating	A/Stable/--
SACP	a-
Anchor	a-
Business Risk Profile	Strong
IICRA	Low risk
Competitive Position	Strong
Financial Risk Profile	Strong
Capital and Earnings	Moderately strong
Risk Position	Intermediate risk
Financial Flexibility	Strong
Modifiers	
ERM and Management	0
Enterprise Risk Management	Adequate with strong risk controls
Management and Governance	Satisfactory
Holistic Analysis	0

CNP Assurances Rating Score Snapshot (cont.)	
Liquidity	Exceptional
Support	+1
Group Support	+1
Government Support	0

IICRA--Insurance Industry and Country Risk.

Factors Specific To Group Companies

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

Related Criteria

- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- Insurance Industry and country Risk Assessment: France Life, Dec. 28, 2017
- France-Based Insurer CNP Assurances 'A' Ratings Affirmed; Outlook Stable, Dec. 5, 2017

Ratings Detail (As Of April 10, 2018)	
Operating Companies 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+
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.

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com