

France-Based Insurer CNP Assurances 'A' Ratings Affirmed; Outlook Stable

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

- According to the French government, La Poste's (A/Positive/A-1) banking subsidiary La Banque Postale (A/Positive/A-1) may become the majority shareholder of insurer CNP Assurances (CNP) by 2020. Prospectively, we view CNP as highly strategic to La Poste.
- Our view of CNP's stand-alone creditworthiness has improved thanks to its sustainably stronger capital position and the signing of a new long-term partnership in Brazil.
- We are consequently affirming our 'A' long-term ratings on CNP and its core subsidiary CNP Caution.
- The stable outlook reflects our view that CNP would retain its current strong market position and capital and earnings under the new potential shareholding structure.

PARIS (S&P Global Ratings) Oct. 30, 2018--S&P Global Ratings said today that it affirmed its 'A' long-term financial strength and issuer credit ratings on CNP Assurances (CNP) and CNP Caution. The outlook is stable.

At the same time, we affirmed the 'BBB+' and 'BBB-' issue ratings on CNP's subordinated and junior subordinated notes.

The affirmation reflects our view that CNP's stand-alone creditworthiness has significantly improved on the back of the strengthening of its capital position and reinforcement of partnerships. There has been significant 13% growth in policyholders' surplus reserves to €12.3 billion at June 2018 and we expect CNP to generate retained earnings of at least €0.6 billion per year.

Moreover, the signing of the renewal until 2041 of its profitable and fast-growing long-term partnership with Caixa Seguridade in Brazil removes uncertainties that were weighing on CNP's prospective profitability. We also consider that CNP is successfully shifting its business mix toward unit-linked savings and protection, which has had a noticeable impact on new business margins in France.

The affirmation also captures the potential future integration of CNP into La Poste (A/Positive/A-1) through its core subsidiary La Banque Postale (LBP; A/Positive/A-1). The ownership transfer would see the state-owned fund Caisse des Dépôts et Consignations (CDC) exchanging its current 41% stake in CNP for a majority stake in La Poste, with the latter in turn transferring this stake to its banking subsidiary LBP. These potential changes reflect the French government's objective to form a large public-owned financial services hub.

We now have clarity about the continuity of CNP's business in Brazil as it has signed a binding agreement with Caixa Seguridade regarding the distribution within Caixa network, implying the creation of a new joint venture. Although the business lines covered by this agreement and CNP's economic rights are lower than in the current agreement, we believe the insurer will offset any drop in contribution from these activities in the next couple of years given the favorable growth prospects of the pension insurance market in Brazil. We also consider the one-off costs for the renewal of the partnership to be reasonable and have fully included them in our assessment of CNP's prospective capital adequacy.

We now expect CNP's capital adequacy under our model to settle at the low end of our 'AA' risk-based capital benchmark in the next two years, equivalent to a very strong assessment. Capital adequacy has improved on the back of CNP's capacity to build up its French policyholder surplus reserves, and we expect further strengthening from earnings retention of at least €0.6 billion per year. In 2018, CNP again reinforced its hedge program against a fall in the equity market, moderating the progression of capital charges. As with many European life insurance peers, we continue to consider that CNP's reliance on soft forms of capital such as unrealized gains, hybrids, and value of in-force (VIF) business dampens our view of CNP's capital and earnings position.

We acknowledge the French government's recently announced ambition to combine CNP with LBP (please see "French Postal Operator La Poste Outlook Revised To Positive; 'A/A-1' Ratings Affirmed," published on Oct. 30, 2018). If the transaction materializes, our base-case expectation is that the ongoing support to CNP from CDC will moderate but remain in a more indirect way, with La Poste playing a leading role as a primary shareholder in case of financial distress at CNP. Going forward, we view CNP as highly strategic to La Poste. In case of financial stress, we believe exceptional support could flow indirectly to CNP from CDC through La Poste.

Our assessment of CNP's competitive position takes into account its long-term partnership with BPCE. Our base-case scenario is that the agreement will not

be put into question before its expiry date at the end of 2022.

We rate hybrids by notching down from the issuer's stand-alone credit profile (SACP), which for CNP is currently equal to the issuer credit rating. This is consistent with the approach we take for LBP.

The stable outlook reflects our view that CNP would retain its current strong market position and capital and earnings under the new potential shareholding structure, including capital adequacy close to the 'AA' level under our model. The stable outlook also reflects the fact that CNP's ownership is evolving, and it remains to be seen how the transaction will finalize and what the level of integration with La Poste will be.

We may raise the ratings in the coming two years if:

- We believe CNP is becoming a core subsidiary within La Poste group following the transaction, with a high degree of integration. An upgrade would depend on us having raised our ratings on La Poste, which is currently on a positive outlook.
- Although less likely in the near term, we could upgrade CNP if we anticipated a significant increase in the group's capital buffer, without a deterioration of its market position in France. This would also depend on us having raised our ratings on La Poste.

Although we see it as a remote possibility, we could lower the ratings on CNP if it were to suffer a significant decline in earnings or capital adequacy, or if we were to downgrade La Poste.

RELATED CRITERIA

- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Insurance - General: Insurer Hybrid Capital Instruments With Nonviability Contingent Capital (NVCC) Features, July 24, 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

Additional Contact:

Insurance Ratings Europe; insurance_interactive_europe@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2018 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.