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CREDIT OPINION

14 February 2019

Update

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RATINGS

CNP Assurances

Domicile	Paris, France
Long Term Rating	A1
Type	Insurance Financial Strength - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CNP Assurances

Semi-annual update

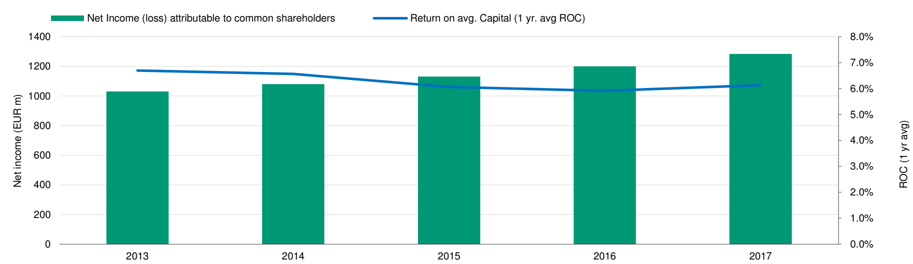
Summary

CNP Assurances (CNP)'s credit profile is supported by (1) the group's very strong market position in the French life insurance market, (2) a low liability risk profile thanks to a low average guaranteed rate on traditional savings products, (3) a very stable level of profitability, as well as (4) a very good financial flexibility owing to a strong shareholder, Caisse des Dépôts et Consignations (CDC, Aa2 positive).

These strengths are partly offset by a reliance on third-party distribution and concentration on a small number of distributors, namely large banking networks. The level of risky assets on CNP's balance sheet is also high, although the participating nature of French traditional guaranteed products strongly mitigates asset risk.

CNP also faces the challenge of reorienting its business mix towards unit-linked products and protection products to offset the expected decline in the traditional savings business. CNP has well initiated this transition, as evidenced by recent growth in unit-linked premiums and reserves and the strong contribution in earnings from protection products which represented 41% of the group's earnings before interest and tax in the first half of 2018.

Exhibit 1
Net Income and Return on Capital



Source: Company reports, Moody's Investors Service

CDC owned 40.9% of CNP's shares as of 30 June 2018 (of which around 6.3% out of the shareholder pact). On 30 August 2018, the French Ministry of Finance announced that La Banque Postale (unrated), the banking subsidiary of La Poste (the French post office), would take ownership of this stake in CNP Assurances. La Banque Postale would also take control of the 1.1% CNP stake held directly by the government of France (Aa2 positive). La Banque Postale would ultimately become CNP's biggest shareholder, while CDC would be left with a controlling stake in La Poste and would therefore remain a key indirect shareholder of CNP. Please refer to "CNP Assurances: Expected new shareholding structure creates strategic uncertainties, but no immediate credit impact" for more details.

Credit strengths

- Very strong market position in the French life insurance market, with a market share of 13% and a relative market share of around 2.5x
- A low liability risk profile thanks to a low average guaranteed rate (0.34% in France as of 31 December 2017) on traditional savings business (81% of CNP's net technical reserves)
- Very stable profitability as profits are mostly made of technical results and of fee-based earnings on long duration liabilities
- Very good financial flexibility supported by a strong shareholder, Caisse des Dépôts et Consignations

Credit challenges

- Distribution strategy concentrated on a small number of large banking networks, which results in a low control of the distribution
- Relatively high proportion of equities and real estate in the investments portfolio
- Balance sheet still dominated by traditional savings business and necessity to reorient the business towards unit-linked and protection business in a context of increased competition in these segments

Rating outlook

The outlook is stable, reflecting the long-term nature of the agreements that CNP signed with its distributors and our expectation that profitability in the next 12-18 months will not be significantly affected by continued low interest rates or by the new agreement signed with Caixa Economica Federal in Brazil.

In addition, we anticipate no deterioration in CNP's financial flexibility once it is absorbed into La Poste group as, under the new proposed shareholder structure for CNP, CDC would maintain a significant indirect stake via La Poste, while the French government's indirect holding would increase.

Factors that could lead to an upgrade

- Material improvement in geographic, business and distribution diversification
- Decrease in high risk assets and improvements in capitalisation, as evidenced by a Solvency II ratio sustainably above 200%, with low volatility risk

Factors that could lead to a downgrade

- Loss of a significant distribution agreement, which would materially affect CNP's franchise and financial metrics
- Prolonged decline in profitability with a return on capital below 5% resulting, for example, from the group's inability to grow profitably protection and unit-linked business to offset the expected gradual decline in earnings generated by the traditional savings business
- Reduced capitalization resulting, for example, in a Solvency II ratio consistently below 160%
- Increased adjusted financial leverage to above 30% and reduced earnings coverage to below 5x, or a material change in CNP's shareholders structure which would result in a reduced financial flexibility

Key indicators

Exhibit 2

CNP Assurances [1][2]	2017	2016	2015	2014	2013
As Reported (Euro Millions)					
Total Assets	423,298	419,130	393,732	395,401	365,430
Total Shareholders' Equity	18,257	17,531	15,936	15,664	13,852
Net income (loss) attributable to common shareholders	1,285	1,200	1,131	1,080	1,030
Total Revenue	45,125	42,496	43,699	44,297	41,509
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	388.7%	357.2%	NA	NA	NA
Goodwill & Intangibles % Shareholders' Equity	14.2%	13.9%	12.9%	10.6%	5.3%
Shareholders' Equity & Total Assets	2.6%	2.7%	NA	NA	NA
Return on avg. Capital (1 yr. avg ROC)	6.1%	5.9%	6.1%	6.6%	6.7%
Sharpe Ratio of ROC (5 yr. avg)	1860.1%	1494.7%	NA	NA	NA
Financial Leverage	24.7%	24.7%	23.8%	22.5%	21.6%
Total Leverage	30.3%	30.6%	30.7%	28.8%	27.5%
Earnings Coverage (1 yr.)	8.3x	7.0x	7.2x	8.3x	7.9x
Cash Flow Coverage (1 yr.)	NA	NA	NA	NA	NA

Source: Company reports and Moody's Investors Service

Profile

CNP is the leading French life insurer primarily selling life insurance savings and protection products through the networks of La Banque Postale and of BPCE (A1 stable, baa1). The group also operates in Brazil where it has a joint venture with Caixa Economica Federal (Ba2 stable, b1), one of the largest banks in the country.

CNP is a public company with a 21.8% free float. Other shareholders include Caisse des Dépôts et Consignations (34.6% fixed stake as well as a 6.3% out of the shareholder pact as of 30 June 2018), Sopasssure (30.7% fixed stake as well as 5.5% out of the shareholder pact), a joint-venture between La Banque Postale and BPCE, and the government of France (0.9% fixed stake as well as 0.2% out of the shareholder pact). These three major shareholders are linked by a shareholders' pact, ending on 31 December 2019 (periodically rolled over since its inception in 1998).

On 30 August 2018, the French Ministry of Finance announced that La Banque Postale would take ownership of CDC's stake in CNP Assurances. La Banque Postale would also take control of the 1.1% CNP stake held directly by the government of France. La Banque Postale would ultimately become CNP's biggest shareholder, while CDC would be left with a controlling stake in La Poste.

Detailed credit considerations

Distribution through large banking networks supports market position but limits distribution control

Market position: despite expected decline in market shares, CNP will still benefit from a very strong position in the French market

CNP is the number one life insurer in France with a 13% market share and the number four life insurer in Brazil, benefitting from exclusive distribution agreements with some of the largest banks in these two countries.

We estimate CNP's relative market share at a very strong 2.5x in France, although declining. We expect CNP's market position to continue to decline over the next three to five years as a result of the termination of sale of insurance savings products through BPCE networks since the end of 2016 and of term creditor insurance through Crédit Agricole S.A. (A1 positive, baa1) since 2018. Nonetheless, the decline in market share will be gradual as CNP continues to receive premiums on existing business and benefits from a wider access to BPCE network to sell protection products. CNP also continues to sell savings products through La Banque Postale and is developing partnerships with other distributors. We expect CNP to maintain a relative market share above 2.0x.

Distribution: lack of control constitutes CNP's main credit challenge

CNP's access to very large banking networks is positive for the group's market position but we also consider the concentrated distribution strategy on a few third-party banking partners as the group's main credit challenge. In 2017, 54% of the group's premiums were sourced from BPCE and La Banque Postale's networks in France, and around 16% from Caixa Economica Federal's networks in Brazil.

Positively, CNP has secured long-term agreements with its banking distributors. The agreement with La Banque Postale will run until 2025 and the absorption of CNP into La Poste group would virtually eliminate the risk of non renewal of this distribution deal. The agreement with BPCE will run until 2022, with possible rollover options. A scenario of non-renewal of this agreement would materially weaken the group's market position and result in a gradual but long-lasting reduction in profits. Nonetheless, if BPCE decides not to renew the distribution agreement, it will also have to purchase the insurance book represented by policies sold in the past. This required payment may act as an impediment for the non-renewal of the agreement.

A binding agreement with Caixa Economica Federal has been signed in 2018 to replace the existing agreement which is due to expire in 2021. Although the new agreement includes the creation of new joint-venture and a reduction of CNP's economic rights in the Brazilian business to be underwritten through the Brazilian bank, it enables CNP to secure a distribution agreement with the Brazilian bank until 2041.

CNP is also diversifying its distribution strategy by developing partnerships with other banks in Europe (e.g., UniCredit in Italy, Santander Consumer Finance in several European countries), but also with mutual and provident associations. CNP is also developing business through direct distribution and its salaried sales force. Non-banking distribution represents around 15% of the group's premiums and we expect this percentage to grow but most likely at a slow pace.

Low risk product is a key credit strength

Product risk: low average guaranteed rate on traditional savings products and a growing unit-linked and protection business

CNP's balance sheet is dominated by French insurance savings and pension products (81% of CNP's net technical reserves), which we consider as low risk given the low level of guarantees that CNP granted to policyholders. The average guaranteed rate in the French business (which represents most of CNP's guaranteed business) is only 0.34%, one of the lowest level within European life insurers.

In addition, French guaranteed products are participating products. CNP shares a high portion (at least 85%) of investments results with policyholders and has some flexibility to smooth the returns credited to policyholders over time. These features bring stability in the credit profile of CNP and drive our assessment of asset quality, profitability and capital adequacy, as described below.

French pension products carry some longevity risk, but these products represent less than 10% of CNP's liabilities. The group is increasingly focusing new business sales on unit-linked products, on which the insurer bears limited investment risk. These products, mostly sold in France and Brazil, represented around 16% of CNP's net technical reserves as 31 December 2017 and 29% of premiums in 2017.

CNP also increasingly sells protection products, mostly term creditor products which Moody's also considers as low risk.

Some financial metrics in the low end of expectations for the rating level, but a very stable financial profile

Asset quality: relatively high level of equities and real estate, mitigated by ability to share asset losses with policyholders

High risk assets (namely equities, real estate and below investment grade or non-rated bonds) represented 389% of CNP's shareholders' equity as of year-end 2017. This ratio is high for a A-rated insurer. Nonetheless, CNP implements hedges on part of its equity portfolio (€10.0 billion nominal hedged as of 30 June 2018) and, because of the participating nature of French guaranteed products, has a high ability to pass on asset losses to policyholders in stress scenarios. Ability to share losses with policyholders mainly stems from the high level of unrealized gains on CNP's equity and real estate portfolio and from the difference between CNP's investment return and the the average level of guaranteed rate. When considering these mitigants, CNP's exposure to high risk assets is more in line with CNP's rating level.

Capital adequacy: good Solvency II ratio, although reliant on future profits

We consider CNP's Solvency II ratio to be a broadly adequate measure of CNP's economic capital (CNP does not use transitional measures or equivalence to calculate its ratio). This ratio reflects the low risk nature of the products sold by CNP and the group's ability to share losses with policyholders. The ultimate forward rate (UFR) also has a limited impact on the group's ratio (a reduction of the UFR by 50 bps reduces CNP's ratio by 4% points).

The group's Solvency II ratio is strong (193% as of 30 September 2018), but has been volatile in recent years, notably with changes in interest rates. We believe this volatility is largely driven by the weight of future profits included in CNP's Tier 1 capital, which is common for life insurance groups. We reflect this high volatility in our assessment of CNP's capital adequacy.

Profitability: consolidated ratios boosted by Brazilian business, but long-duration and low risk liabilities provide with a very low volatility

CNP's consolidated profitability metrics (return on capital of 6.1% in 2017, 6.3% on a five-year average) are good. These metrics include 100% of the profits generated by its operations in Brazil that it controls only at 51.75%. When taking into account only the stake of CNP in its Brazilian business and other businesses, we estimate CNP's return on capital to be closer to 5%. However, the new distribution agreement in Brazil will result in reduced profits for CNP, all else being equal, both because of a lower stake in the future Brazilian business, and because the new distribution agreement would cover a reduced perimeter.

Positively, the volatility of CNP's profitability is very low, as evidenced by an excellent Sharpe ratio of return on capital of 1,860% in 2017. This partly reflects the participating nature of French life savings products together with their long duration. Given the low level of guarantees granted to policyholders, CNP will be able to largely protect its profitability even in a persistently low interest rates by passing most of the decline in investment returns to policyholders. Most of CNP's profits in the savings business are generated by fees taken out from policyholders' reserves.

Nonetheless, we expect the profitability of traditional guaranteed products to erode gradually because of the net outflows on these products (negative €7.7 billion in 2017, equivalent to 2.5% of total reserves, and a further negative €3.4 billion in the first half of 2018). CNP faces the challenge of reorienting its business mix to unit-linked products and protection products. We believe that CNP has well initiated this transition, as evidenced by the growth in unit-linked premiums and reserves (CNP reported a positive €2.3 billion of net flows on unit-linked policies in 2017), as well as the strong contribution to earnings from protection products which represented 41% of the group's profits before interest and tax in the first half of 2018.

Liquidity & ALM: risk of sharp increase in interest rates well managed

CNP's liquidity is good, as shown by the high ratio of liquid assets over liquid liabilities (2.4x as of year-end 2017).

CNP's exposure to low interest rates is also low given the low average guaranteed rate on traditional savings business. Low interest rates pose a long-term profitability risk for CNP, but a very limited solvency risk.

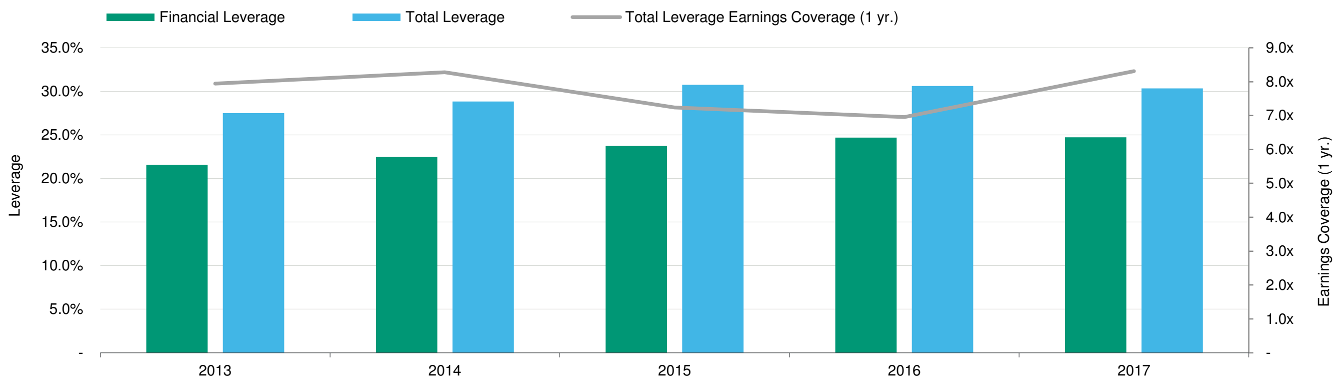
One of the main financial risks that CNP faces is that of a sharp increase in interest rates, which would depress the value of CNP's fixed income assets and would likely also result in an increase in surrender rates on guaranteed savings products. However, CNP has implemented hedges to partly protect its asset portfolio from this risk, which mitigates this risk. A sharp increase in surrenders would nonetheless reduce the volume of fees that CNP can take out from savings policies and affect CNP's recurring earnings.

Financial flexibility supported by strong shareholder

Financial flexibility: strong shareholder contributes to a good access to capital

CNP's leverage metrics (24.7% adjusted financial leverage and 30.3% total leverage as of year-end 2017) are consistent with a strong credit profile. The group's earnings coverage, at 8.3x in 2017 includes 100% of the profits of CNP's Brazilian operations, while only 51.75% of these earnings are effectively available for the holding. When adjusted for this, earnings coverage would be at around 7x, which is more in line with an A credit profile, and could fall further under the term of the new agreement signed with Caixa Economica Federal.

Exhibit 3
Financial Flexibility



Source: Company reports and Moody's Investors Service

Nonetheless, we also consider that CNP's strong shareholders, notably Caisse des Dépôts et Consignations, enhance CNP's access to capital markets in stress scenarios. Under the new proposed shareholder structure, although CDC would no longer be a direct shareholder, it would maintain a significant indirect stake via La Poste, while the French government's indirect holding would increase. We therefore anticipate no deterioration in CNP's financial flexibility once it is absorbed into La Poste group.

Rating methodology and scorecard factors

The principal methodology used in this rating was Life Insurers published in May 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Exhibit 4

Financial Strength Rating Scorecard[1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adjusted Score
Business Profile								A	Aa
Market Position and Brand (15%)								Aa	Aa
- Relative Market Share Ratio		X							
Distribution (10%)								Baa	A
- Distribution Control			X						
- Diversity of Distribution					X				
Product Focus and Diversification (10%)								Baa	A
- Product Risk					X				
- Life Insurance Product Diversification			X						
Financial Profile								Baa	A
Asset Quality (10%)								B	A
- High Risk Assets % Shareholders' Equity							389%		
- Goodwill & Intangibles % Shareholders' Equity	14.2%								
Capital Adequacy (15%)								Ba	A
- Shareholders' Equity % Total Assets			2.6%						
Profitability (15%)								Aa	A
- Return on Capital (5 yr. avg)			6.3%						
- Sharpe Ratio of ROC (5 yr. avg)	1860%								
Liability and Asset/Liability Management (10%)								Aa	Aa
Liquid Assets % Liquid Liabilities		X							
Financial Flexibility (15%)								Aa	A
- Financial Leverage		24.7%							
- Total Leverage			30.3%						
- Earnings Coverage (5 yr. avg)			7.7x						
- Cash Flow Coverage (5 yr. avg)									
Operating Environment								Aaa - A	Aaa - A
Aggregate Profile								A3	A1

[1] Information based on IFRS financial statements as of Fiscal YE December 31.
[2] The scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength along before other considerations (discussed above) are incorporated into the analysis.
Source: Company reports and Moody's Investors Service

Notching considerations

The A3(hyb) ratings on CNP's subordinated debt instruments are rated two notches below CNP's IFSR, in line with our standard notching practice for operating companies.

Ratings

Exhibit 5

Category	Moody's Rating
CNP ASSURANCES	
Rating Outlook	STA
Insurance Financial Strength	A1
Subordinate	A3 (hyb)
CAISSE DES DEPOTS ET CONSIGNATIONS	
Rating Outlook	POS
Senior Unsecured	Aa2
Senior Unsecured MTN	(P)Aa2
Commercial Paper	P-1
LT Issuer Rating	Aa2
LT Bank Deposits	Aa2

Source: Moody's Investors Service

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