Fitch Ratings

Insurance
Composite
France

CNP Assurances SA

Key Rating Drivers

New Ownership Is Credit Neutral: We rate CNP Assurances SA (CNP) based on its Standalone Credit Profile and view ownership as neutral to the rating, with the group able to operate autonomously with a strong standalone franchise. In March 2020, La Banque Postale S.A. (LBP; A-/Stable) became CNP's majority shareholder with a 62% stake. LPB is owned at 100% by La Poste (A+/Negative) and ultimately owned by the French state.

Very Strong Business Profile: We rank CNP's business profile as 'Favourable' compared with other French insurers', mostly due to the group's extremely strong and well-established franchise in the French life insurance sector. CNP is the second-largest French life insurer by premiums, and ranks highly among the top 10 largest European insurers by assets. Caixa Seguradora, the group's Brazilian subsidiary, is the third-largest insurer in Brazil.

We do not expect coronavirus pressures on CNP's franchise to materially impair the group's business profile, despite lower business volumes in France compared with the market in 1H20.

Strong Capital amid Market Pressures: CNP's Prism Factor-Based Model (Prism FBM) score was 'Very Strong' at end-2019. The new regulation on PPB (Provision pour Participation aux Benefices; French profit-sharing reserves), effective since December 2019, and which allows French life insurers to account for a large amount of PPB in the Solvency 2 own funds, largely explains the increase of CNP's Solvency 2 ratio to 227% in 2019 from 187% in 2018. We expect some manageable pressures on capital due to the pandemic.

Asset Risks High: Asset risks are high for the rating level, with a risky assets ratio of 137% in 2019 due to a higher exposure to equity investments than peers. This is mitigated by CNP's ability to share investment losses with policyholders and sustained equity hedging strategy.

Low Leverage, Strong Coverage: The financial leverage ratio (FLR) was 21% in 2019 and 22.6% on a pro-forma basis, including the June 2020 Tier 2 EUR750 million issuance, which we view as very strong. Fixed-charge coverage (FCC) was in line with the rating at 8.7x in 2019, though vulnerable to pandemic-related earnings weakness. CNP's financial flexibility is very strong.

Pressured Earnings: CNP has a stable record of profitability, which supports the rating. The pandemic has induced pressure on the group's earnings in 2020 and 2021, amid prolonged ultra-low interest rates and, as shown in 1H20, lower business volumes in France, partly resulting from a continued business mix shift from traditional to unit-linked savings products. CNP is also exposed to heightened volatility and economic turbulence in Brazil, which is its rapidly growing market for growth and earnings.

Strong ALM and Liquidity: CNP's capital metrics are vulnerable to low interest rates, despite a reasonably well-managed duration gap between assets and liabilities. Liquidity is very strong.

Rating Sensitivities

Change in Pandemic Assumptions: A material positive change in Fitch Ratings' assumptions with respect to the impact of the coronavirus pandemic could lead to a positive rating action. Conversely, a material adverse change in Fitch's assumptions could lead to a negative rating action.

Sustained Prism FBM Score: The rating could be upgraded if the Prism FBM score remains in the 'Very Strong' category for a sustained period.

Higher Earnings: The rating could be upgraded if the return on equity (ROE) increases to above 9%, and if we believe this level is sustainable over time.

Prism FBM and FLR Deterioration: The rating could be downgraded if the Prism FBM score deteriorates to 'Strong', with limited prospects for recovery, or if the FLR deteriorates to above 32% on a sustained basis.

Earnings Deterioration: The rating could be downgraded if the ROE decreases to below 5% for a sustained period.

Ratings

CNP Assurances SA

Insurer Financial Strength Rating A+

Outlooks

Stable

Financial Data

CNP Assurances SA

(EURbn)	2019	2018
Gross written premiums	33.7	32.5
Total assets	440	415
Net income	1.4	1.4
Return on equity (%)	7.6	7.6
Solvency 2 ratio (%)	227	187

Source: Fitch Ratings, CNP

Applicable Criteria

Insurance Rating Criteria (August 2020)

Related Research

French Law on Profit-Sharing Reserves is Credit-Positive for Insurers (January 2020)

French Insurance Sector Coronavirus Rating Actions Recapped (June 2020)

Fitch Rates CNP Assurances IFS 'A+'/Stable (July 2020)

French Insurance Dashboard: 1H20 (September 2020)

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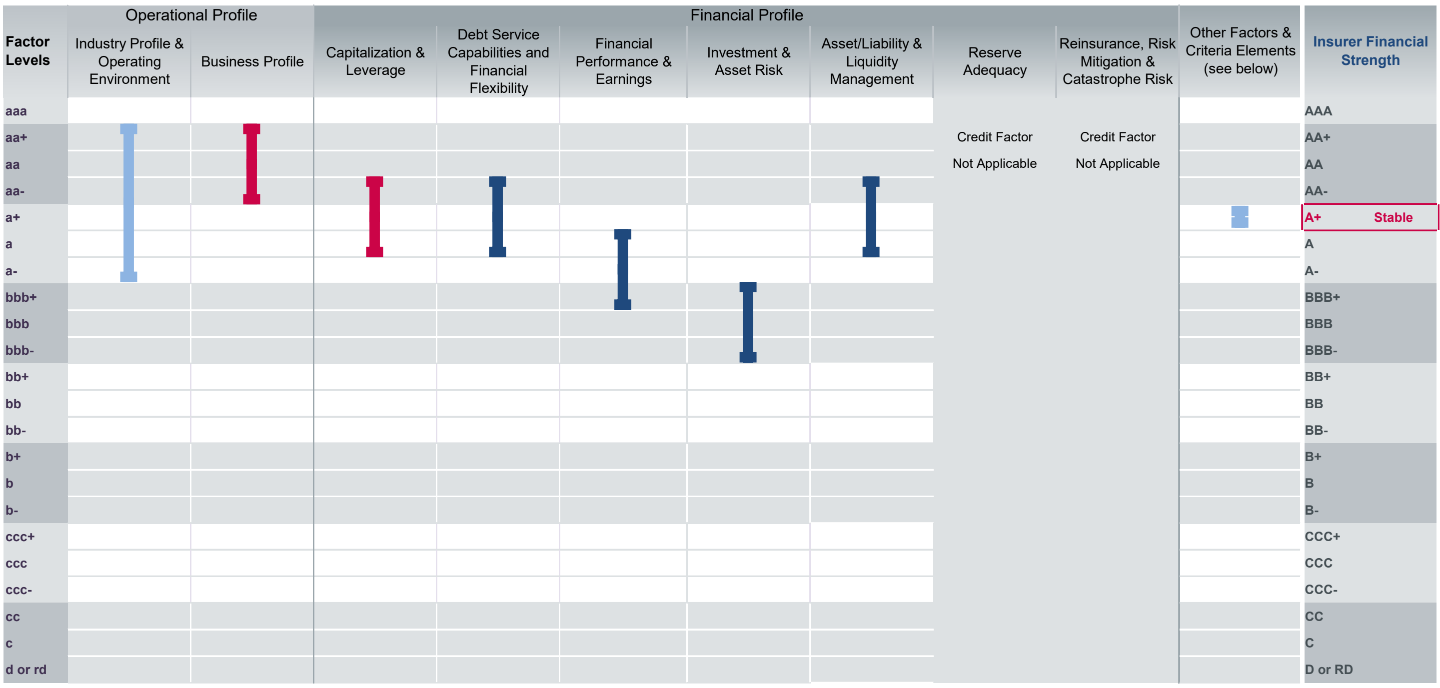
Key Credit Factors – Scoring Summary



Other Factors & Criteria Elements				
Provisional Insurer Financial Strength				**A+**
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Corporate Governance & Management	**Effective**	Some Weakness	Ineffective	+0
Ownership / Group Support	Positive	**Neutral**	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	**No**	0	+0
Insurer Financial Strength (IFS)			Final:	**A+**
IFS Recovery Assumption	**Good**			-1
Issuer Default Rating (IDR)			Final:	**n.a.**

Bar Chart Legend

Vertical Bars = Range of Rating Factor
Bar Colors = Relative Importance
- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ◻ Stable

Industry Profile and Operating Environment (IPOE)

Click here for a link to a report that summarises the main factors driving the above IPOE score.

Business Profile

Major European Life Insurer

Fitch ranks CNP's business profile as 'Favourable' compared with that of all other French insurance companies, mostly due to its extremely strong and well-established franchise in the French life insurance sector. Given this ranking, Fitch scores CNP's Business Profile at 'aa' under its credit factor scoring guidelines.

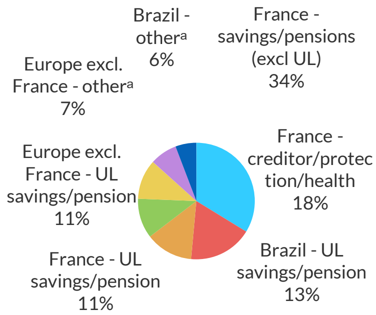
CNP was the third-largest French insurer by premiums and ranked highly among the top 10 largest European insurers by assets in 2019. It is the second-largest French life insurer, and leading creditor insurer. It aims to gradually develop a retail P&C franchise in France after the integration of LBP's activities, which we expect will take several years given the strong competition in the French P&C market. In addition, Caixa Seguradora, the group's Brazilian subsidiary, is the third-largest insurer in Brazil, with a market share of 11% at end-2019. We rank CNP's competitive positioning as 'Most Favourable' against that of other French insurers.

We believe CNP's business risk profile is 'Favourable' compared with French peers, and we do not expect COVID-19 pressures to materially impair business risk profile. CNP's main business lines are in France, which are mature, and in which CNP has been holding a dominant market position for many years. This is despite lower business flows than the market expected in 2020, partly due to an accelerated strategic business mix shift towards unit-linked products. However, CNP is exposed to heightened volatility and economic turbulence in Brazil, its rapidly-growing market for premiums and earnings.

CNP's diversification ranks as 'Moderate' compared with French peers, which are traditionally well-diversified between life, health and P&C products. In 1H20, CNP's business mix was mostly skewed towards savings and pension products (72% of group premiums), with the remainder being creditor insurance/protection. CNP's international growth has mostly been driven by Caixa Seguradora in Brazil in the past several years. The French market accounted for 63% of CNP's premium income in 1H20 (FY19: 65% and FY18: 68%), while Brazil accounted for 19% of premiums, Italy 12% and the rest of Europe 6%.

CNP's distribution networks are robust and diversified. The group has long-term distribution agreements for its life, protection and creditor insurance products with its banking partners including LBP and Groupe BPCE (A+/Rating Watch Negative (RWN)) in France, Caixa Economica Federal (BB-/Negative) in Brazil and UniCredit S.p.A. (BBB-/Stable) in Italy.

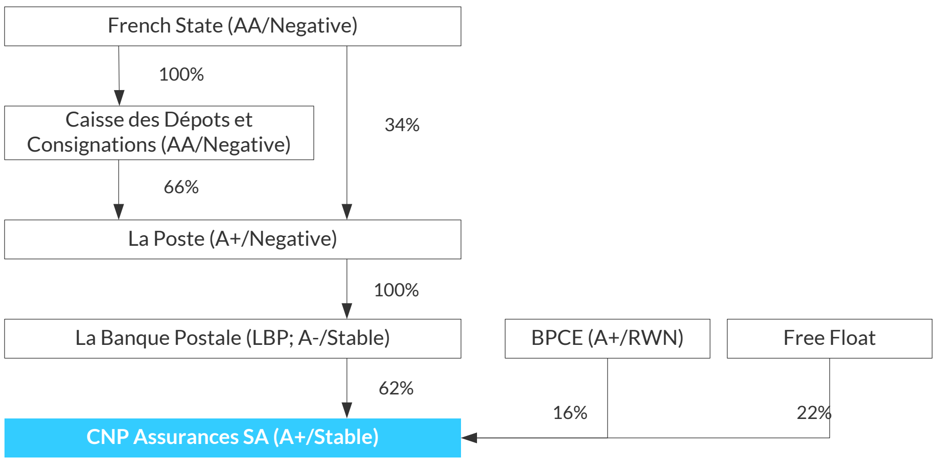
Business Mix Per Product - 1H20



[a] Savings/Pensions (excl. UL), creditor, Protection, Health, P&C
Source: Fitch Ratings, CNP

Ownership

Ownership is neutral to the rating. In March 2020, LBP became CNP's majority shareholder with a 62% stake. LPB is owned at 100% by La Poste and ultimately owned by the French State. BPCE has a 16% stake in CNP, while the remainder is listed on the French stock exchange. We rate CNP on its Standalone Credit Profile, as the group is able to operate autonomously with a strong standalone franchise, with no formal support agreements from its shareholders.



Source: Fitch Ratings

Capitalisation and Leverage

Strong Capital amid Market Pressures

Our assessment of CNP's capitalisation supports the rating. The Prism FBM score was 'Very Strong' at end-2019. Prism FBM's available capital fully credits the PPB, following Fitch's actions on French life insurers' credit metrics after the new regulation on PPB, effective since December 2019 (see French Law on Profit-Sharing Reserves is Credit-Positive for Insurers).

The new regulation on PPB largely explains the significant increase of CNP's Solvency 2 coverage ratio to 227% in 2019 from 187% in 2018, which more than compensated for the pressures from the low interest-rate environment, similarly to other French bancassurers at end-2019. The ratio remained very strong at end-1H20 at 214%, and is calculated using the standard formula, without transitional measures.

CNP's capital metrics are vulnerable to low interest rates, despite a reasonably well-managed duration gap between assets and liabilities. Furthermore, over 50% of CNP's total available capital as measured by Prism FBM comprised PPB, subordinated debt and value of in-force business, which are of lower quality than paid-up capital. These factors constrain our view of CNP's capitalisation to some extent.

The FLR, as calculated by Fitch, was 21% in 2019 and at 22.6% on a pro-forma basis, including the June 2020 Tier 2 EUR750 million issuance, which we view as very strong, and lower than most large European peers. This ratio benefits from the full inclusion of the PPB, similarly to asset leverage and operating leverage, which also support the rating.

Fitch Expectations

- We expect some manageable deterioration to group capitalisation in 2020 under our COVID-19 rating assumptions. We expect the Prism FBM score to be at least 'Strong', in line with the rating, indicating some resilience amid pandemic pressures. The group's Solvency 2 ratio should also decrease, while still supporting the rating.
- We expect the FLR to increase in 2020, amid CNP's new 2020 Tier 2 issuance and pandemic pressures on capital, albeit remaining supportive of the rating.

Debt Service Capabilities and Financial Flexibility

COVID-19 to Affect Coverage, Very Strong Financial Flexibility

CNP's debt service ability is strong, with a stable record of FCC ratios in line with the 'a' category, including realised and unrealised gains. FCC is vulnerable to pandemic-related earnings weakness in 2020 and 2021.

CNP is a listed entity, with 21% of its shares freely floating, granting permanent access to equity markets. The group is an established frequent issuer, as recently shown with a Tier 2 EUR750 million issuance in June 2020, and as such its financial flexibility is very strong. The maturities of CNP's outstanding subordinated notes are well spread over the next 15 years, thus refinancing risks remain limited. The group has ample issuance capacity under Solvency 2, at about EUR3.7 billion at end-1H20.

Fitch Expectations

- CNP's FCC should weaken in 2020, amid pandemic-related pressures.

Financial Highlights

(%)	2019	2018
Financial leverage ratio	21	24.5
Solvency 2 ratio	227	187
Asset leverage[a] (x)	10	13
Operating leverage[b] (x)	8	11

[a] Total Assets to Equity Capital
[b] Total Insurance Liabilities to Equity Capital
Source: Fitch Ratings; CNP

Financial Highlights

(x)	2019	2018
Fixed-charge coverage (including realised and unrealised gains)	8.7	8.6

Source: Fitch Ratings; CNP

Debt Maturities

(As of end-1H20)	(EURm)
2020	750
2021	700
2021	GBP 300m
2022	1000
2023	200
2024	500
2025	500
2026	108
2027	1000
2028	500
2029	500
2029	USD 500m
2030	750
2031	750
2036	160
Undated[a]	807

[a] Undated subordinated notes for which the first call date has already passed
Source: Fitch Ratings; CNP

Financial Performance and Earnings

COVID-19 Induces Pressure on Earnings

CNP has a stable record of profitability, which supports the rating, although its ROE remained at a level that was more in line with the lower-end of the 'a' rating category at 7.6% in 2019. The ultra-low interest-rate environment led the group to strategically focus on unit-linked products, as well as personal risk and protection products in recent years, which are less exposed to low interest rates than traditional savings and pension products. This is positive for CNP's earnings profile, along with its improving cost discipline.

The coronavirus pandemic has induced pressure around the group's earnings in 2020 and 2021, similarly to other French life insurers, amid lower business volumes in France, uncertainty on investment performance and the impact of solidarity measures. These were some of the drivers for CNP's lower net income (-9% in 1H20, -4% at constant exchange rate) and EBIT (-16% in 1H20, -10% at constant exchange rate). Also, CNP is exposed to heightened economic turbulence in Brazil, which is the group's fastest-growing market and which represented almost one third of its EBIT in 1H20.

The group's earnings vulnerability is factored in its financial performance and earnings score of 'a-', which is low for the rating.

We believe CNP's heightened exposure to Brazil could induce further earnings volatility amid the pandemic, even though we generally view geographic diversification as positive for an insurer's earnings profile. The group's currency hedging strategy partly reduces its exposure to Brazilian Real fluctuations, although the adverse currency impact on its 1H20 earnings was material.

Fitch Expectations

- CNP's ROE could likely decrease below the group's five-year average of 7% in 2020 and 2021, amid pandemic-induced pressures on French life insurance and the Brazilian economy.

Investment and Asset Risk

Asset Risks High

Investment risks are the main rating weakness for CNP. The group's risky assets ratio is higher than most European peers, at 137% at end-2019, due to a higher exposure to equity-like investments. However, these practices reflect those of other large French bancassurers. The risky assets ratio benefits from the full inclusion of the PPB.

The bond portfolio is of a strong quality, with a large proportion of French government bonds, and the non-investment-grade bonds to capital ratio is consistent with the rating level. Exposures to Brazilian and Italian sovereign bonds are manageable and do not create significant concentration risks to the group's bond portfolio, in our view.

Asset risks are mitigated by the group's ability to share investment losses with policyholders on its traditional life products, and also its equity hedging strategy, with hedging programmes gradually strengthening since 2016. These mitigating factors make CNP's capital position and earnings profile fairly resilient to equity-market volatility, although sensitivity to low interest rates persists.

Fitch Expectations

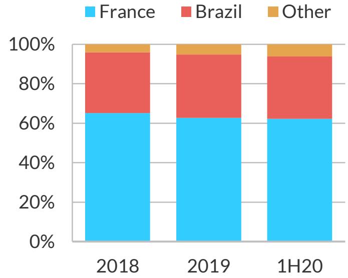
- Asset risks will remain high, and a main rating weakness, because of pandemic-related pressures.
- We expect the new shareholders to initiate some shifts in the group's asset allocation strategy starting in 2021, amid the inclusion of a large amount of the PPB in its Solvency 2 ratio, and generally because life insurers are reassessing their investment strategies in light of the pandemic.

Financial Highlights

(EURm)	2019	2018
Net income	1,412	1,367
Net income return on equity (%)	7.6	7.6
Pre-tax operating return on assets (%)	0.7	0.7
EBIT (reported)	3,041	2,924

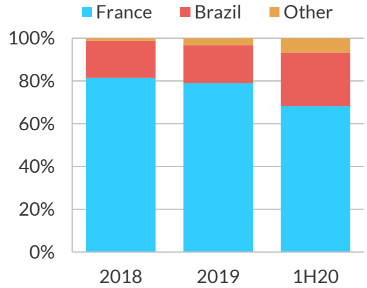
Source: Fitch Ratings; CNP

EBIT (Reported) Split by Country



Source: Fitch Ratings

Attributable Net Income split by Country



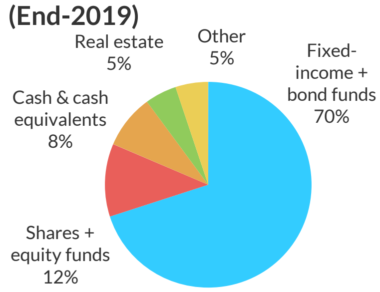
Source: Fitch Ratings

Financial Highlights

(%)	2019	2018
Risky assets to capital	137	168
Unaffiliated shares to capital	112	141
Non-investment-grade bonds/ capital	23	25

Source: Fitch Ratings; CNP

Breakdown of Invested Assets (End-2019)



After investment fund look-through
Source: Fitch Ratings, CNP

Asset Liability and Liquidity Management

Strong ALM, Very Strong Liquidity

Our assessment of asset & liability management (ALM) and liquidity supports the rating. As a historic leading French life insurer, CNP's ALM practices are sophisticated and well-established, with a reasonably well-managed duration gap between assets and liabilities, and low guarantees on its in-force portfolio, at 0.21% at end-1H20. Also, its hedging programmes help mitigate currency risks arising from fluctuations of the real, although vulnerability to the aforementioned currency remains.

The group has a high vulnerability to low interest rates on its capital metrics compared with European peers, though this reflects that of other French bancassurers. Such vulnerability will continue in 2020 and 2021 amid the economic consequences of COVID-19.

Liquidity is very strong, supported by large amounts of high-quality sovereign and corporate bonds, and substantial cash and money market funds on the balance sheet (amounting to over 8% of total assets). The group's liquidity ratio supports the rating.

Fitch Expectations

- We believe the group will continue a strategic shift towards products without guaranteed yields, which would be positive to our assessment of ALM, even though sensitivity to low interest rates will persist in light of the pandemic.
- The pandemic should have a manageable impact on liquidity, which will remain supportive of the rating.

Financial Highlights

(%)	2019	2018
Liquid assets/net technical reserves (excl. unit-linked)	97	97

Source: Fitch Ratings; CNP

Appendix A: Peer Analysis

Relative Performance in Line with Peers

CNP's peer group consists of large Europe-based international insurance groups rated in the 'A'/'AA' categories. These insurers have strong life insurance franchises, benefiting from leading market positions in their developed home markets. They have a strong franchise in France, and operate in several geographies, holding strong market positions in the US, Asia or emerging markets.

CNP's capital and leverage metrics compare favourably with peers', while its business diversification is somewhat weaker and asset risks are higher than most peers'.

Peer Comparison

(EURbn, As of end-2019)	IFS Rating/Outlook	Total IFRS assets	Shareholders' equity	Gross written premiums	Return on equity (%)	Net income	Regulatory solvency 2 ratio (%)[a]	Financial leverage (%)	Risky assets ratio (%)
CNP	**A+/Stable**	440	19	34	8	1.4	227	21	137
AXA	AA-/Stable	781	70	104	6	3.9	198	25	76
Aviva	AA-/Stable	544	21	37	14	3.1	183	24	125
Groupama	A/Stable	103	10	14	4	0.3	178	26	99
Generali	A-/Stable	515	28	70	10	2.7	224	27	171

Note: End-2019 exchange rate EUR/GBP = 0.8464; 2019 average = 0.8768
[a] Without transitional measures
Source: Fitch Ratings, company financials

Appendix B: Other Ratings Considerations

Below is a summary of additional ratings considerations that are part of Fitch's ratings criteria.

Notching

For notching purposes, the regulatory environment of France is assessed by Fitch as being Effective, and classified as following a Group Solvency approach.

Notching Summary

IFS Ratings
A baseline recovery assumption of Good applies to the IFS rating, and standard notching was used from the IFS "anchor" rating to the implied operating company IDR.
Operating Company Debt
Not Applicable.
Holding Company IDR
Not Applicable.
Holding Company Debt
Not Applicable.
Hybrids
Not Applicable.

IFS – Insurer Financial Strength. IDR – Issuer Default Rating.

Short-Term Ratings

Not Applicable.

Hybrid – Equity/Debt Treatment

Hybrids Treatment

Debt Outstanding at end-1H20	Amount (m)	CAR Fitch (%)	CAR Reg. override (%)	FLR debt (%)
CNP Assurances SA				
Dated subordinated debt (EUR)	6,918	0	100	100
Dated subordinated debt (USD)	500	0	100	100
Dated subordinated debt (GBP)	300	0	100	100
Dated subordinated debt (EUR, RT1)	500	100	100	0
Undated subordinated debt* (EUR)	807	0	100	100

CAR – Capitalisation ratio: FLR – Financial leverage ratio. N.A. – Not Applicable.
For CAR, % shows portion of hybrid value included as available capital, both before (Fitch %) and the regulatory override.
For FLR, % shows portion of hybrid value included as debt in numerator of leverage ratio.
* Undated subordinated notes for which the first call date has already passed
Source: Fitch Ratings

Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

Appendix C: Environmental, Social and Governance Considerations

FitchRatings **CNP Assurances SA** **Insurance Ratings Navigator** EMEA Life

Credit-Relevant ESG Derivation

CNP Assurances SA has 7 ESG potential rating drivers

- CNP Assurances SA has exposure to impact of extreme weather events/natural catastrophes on operations or asset quality; credit concentrations but this has very low impact on the rating.
- CNP Assurances SA has exposure to compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to own cyber risk but this has very low impact on the rating.
- CNP Assurances SA has exposure to social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	7	issues	3
not a rating driver	2	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	2	n.a.	n.a.	2
Exposure to Environmental Impacts	3	Impact of extreme weather events/natural catastrophes on operations or asset quality; credit concentrations	Financial Performance & Earnings; Investment & Asset Risk	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to own cyber risk	Industry Profile & Operating Environment; Business Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Corporate Governance & Management	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations	Business Profile; Investment & Asset Risk; Financial Performance & Earnings; Reinsurance, Risk Mitigation & Catastrophe Risk	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Corporate Governance & Management; Business Profile	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Corporate Governance & Management	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Corporate Governance & Management; Ownership	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Corporate Governance & Management	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Priniciples for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.