FitchRatings

Insurance
Composite
France

CNP Assurances SA

Key Rating Drivers

Ownership Neutral: Fitch Ratings views CNP Assurances SA's (CNP) ownership as neutral to the rating, as the group operates autonomously with a strong standalone franchise. La Banque Postale S.A. (LBP; A/Stable) is CNP's majority shareholder, with a 63% stake. LBP is 100%-owned by La Poste (A+/Negative) and ultimately owned by the French state (AA/Negative).

Very Strong Business Profile: We rank CNP's business profile as 'Favourable' compared with other French insurers', mostly due to the group's very strong and well-established franchise in French life insurance. CNP is the second-largest French life insurer by premiums, ranks highly among the largest European insurers by assets, and is the third-largest insurer in Brazil. The group's lower business volumes in 2020, particularly on French traditional life products ('fonds euros') and partly due to the pandemic, do not materially affect our view of its business profile.

Strong Capital Despite Pandemic: CNP's Prism Factor-Based Capital Model (FBM) score was 'Very Strong' at end-2020, a similar score to end-2019 despite some pandemic-related adverse market impact. Its Solvency II (S2) ratio was 208% at end-2020, a decrease from end-2019 (227%) notably due to ultra-low interest rates. The S2 ratio, which then reached 217% at end-1Q21, supports the rating. CNP's capital metrics are sensitive to low interest rates, despite a reasonably well-managed duration gap between assets and liabilities. We expect capital to remain robust in 2021, as CNP adapts its business mix to lower-for longer interest rates.

Asset Risks High for Rating: Asset risks are high for the rating (2020 risky assets ratio: 98%), although in line with those of large French bancassurers. High exposure to equity investments is the main driver, but is mitigated by CNP's ability to share investment losses with policyholders and a sustained equity-hedging strategy. These factors make CNP's capital position and earnings profile fairly resilient to equity-market volatility, although sensitivity to low interest rates persists.

Pressured Earnings, Stable Record: CNP has a stable record of strong net profit, which supports the rating. The pandemic amplified pressures on the group's earnings in 2020, amid prolonged ultra-low interest rates, lower business volumes in France, and volatility of the Brazilian real, amongst other factors. Despite this, CNP's 2020 net results support the rating, in our view.

However, the group's 2020 return on equity of 6.7%, as calculated by Fitch, is in line with the lower end of the 'a' category. We believe the company's continued business mix shift towards unit-linked products, its currency-hedging strategy, and its strong asset and liability management (ALM) practices, will mitigate such pressures in 2021 and 2022.

Low Leverage, Strong Coverage: CNP's financial leverage ratio (FLR), as calculated by Fitch, was 21% in 2020, and stable compared with the 2019 ratio. The FLR is very strong and lower than most large European peers. Fixed-charge coverage (FCC; 2020: 8.3x) is in line with the rating, though vulnerable to operating earnings volatility, which is sensitive to the real's movements. As an established frequent issuer on debt capital markets, CNP has very strong financial flexibility.

Rating Sensitivities

Sustained Prism FBM Score: The rating could be upgraded if the Prism FBM score remains comfortably in the 'Very Strong' category in 2021, with financial performance being maintained around current levels.

Prism FBM Score Deterioration: The rating could be downgraded if the Prism FBM score deteriorates to the lower end of the 'Strong' category, with limited prospects for recovery.

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

Rating

CNP Assurances SA

Insurer Financial Strength Rating	A+

Outlook

Stable

Financial Data

CNP Assurances

(EURbn)	2020	2019
Gross written premiums	27.1	33.7
Total assets	443	440
Net income	1.4	1.4
Return on equity (%)	6.7	7.6
S2 ratio (%)	208	227

Source: Fitch Ratings, CNP

Applicable Criteria

Insurance Rating Criteria (April 2021)

Related Research

French Insurers Peer Review (June 2021)

Insurance Diversification Benefits French Banks' Ratings (April 2021)

Fitch Rates CNP Assurances' Subordinated RT1 Notes (March 2021)

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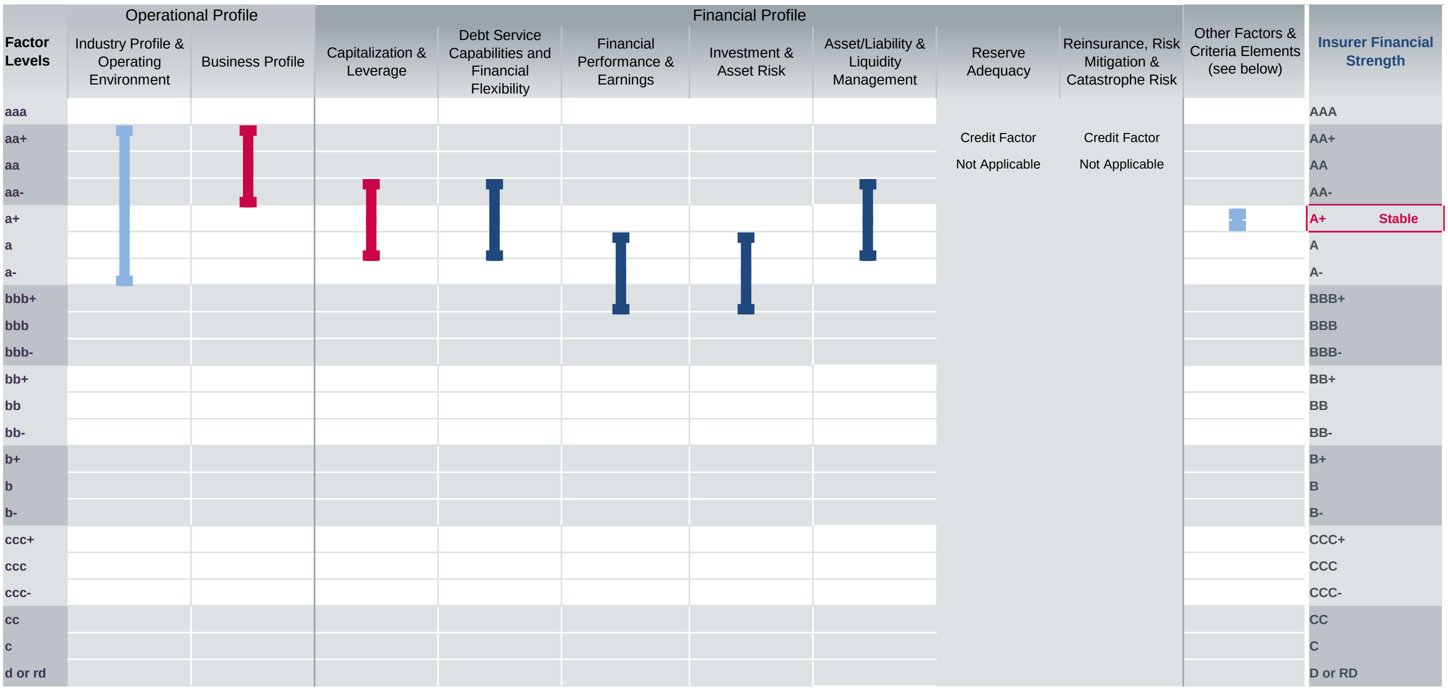
Key Credit Factors – Scoring Summary

CNP Assurances SA

ESG Relevance:

Insurance Ratings Navigator
EMEA Life



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:	**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

Latest Developments

- In March 2021, CNP announced that it had signed an agreement to purchase Aviva plc's Italian life insurance subsidiaries for EUR543 million, using its own resources, with a minor impact on the company's financials.
- Later in March 2021, the company announced the successful issuance of USD700 million Restricted Tier 1 (RT1) perpetual notes, rated 'BBB-' by Fitch, eligible for inclusion in S2 regulatory capital. The proceeds will be used to prepare next call dates and to optimise its capital structure.
- The company's performed as expected during 1Q21, as it continued to shift its business mix towards unit-linked products. The S2 ratio increased to 217% (end-2020: 208%), benefitting from the interest rates increase, while net income increased by 3% and business flows showed signs of recovery from 2020.

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 very 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 is the second-largest French life insurer, and one of the largest European insurers by assets. It is also France's leading creditor insurer. It aims to gradually develop a retail P&C franchise in France after 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. We rank CNP's competitive positioning as 'most favourable' against that of other French insurers.

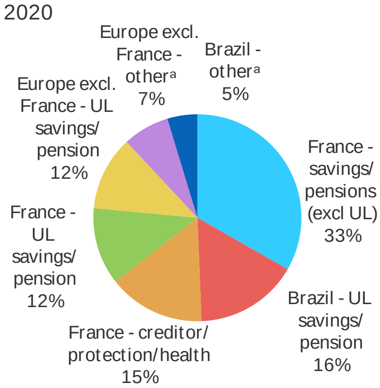
We believe CNP's business risk profile is 'favourable' compared with French peers. CNP's main business lines are in France, which are mature, and in which CNP has been holding a dominant market position for many years. This is despite lower business flows than the market in 2020, partly due to an accelerated strategic business mix shift towards unit-linked products, in addition to the ultra-low interest rates environment. However, CNP is exposed to 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 2020, CNP's business mix was mostly skewed towards savings and pension products (73% 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 60% of CNP's premium income in 2020 (2019: 65%), while Brazil accounted for 21% of premiums, Italy 12% and the rest of Europe 7%. We believe CNP's acquisition of Aviva plc's Italian life subsidiaries, announced in 2021, is positive for diversification.

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+/Negative) in France, Caixa Economica Federal (BB-/Negative) in Brazil and UniCredit S.p.A. (BBB-/Stable) in Italy.

Business Mix Per Product

2020

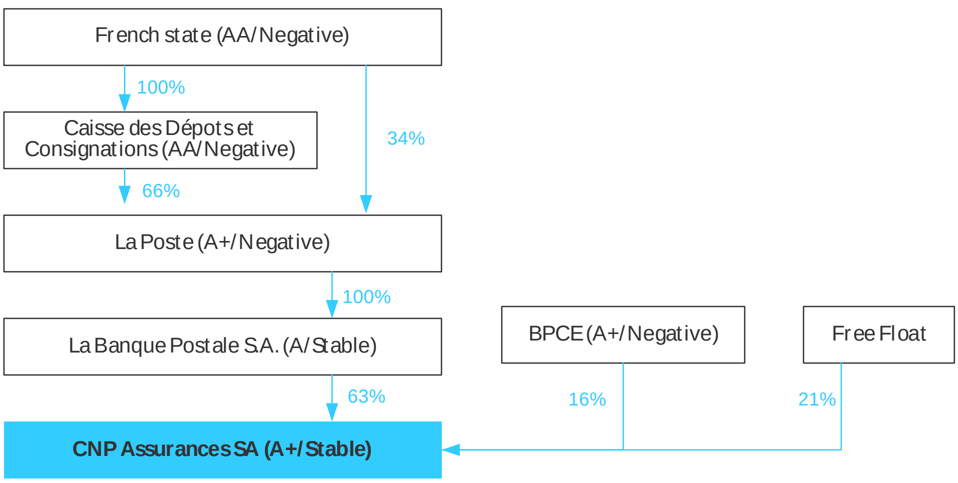


[a] Savings/Pensions (excl. UL), creditor, Protection, Health, P&C
Source: Fitch Ratings, CNP

Ownership

Ownership is neutral to the rating. LBP is CNP's majority shareholder with a 63% stake. LBP is 100%-owned 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.

Structure Diagram



Source: Fitch Ratings, CNP, as at July 2021

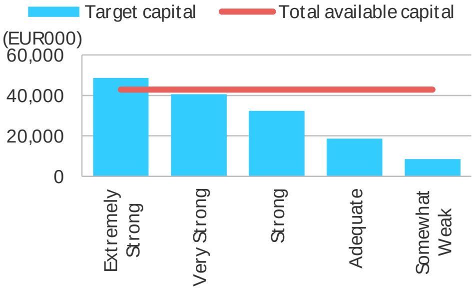
Capitalisation and Leverage

Strong Capital Despite Pandemic

Our assessment of CNP's capitalisation supports the rating. The Prism FBM score was 'Very Strong' at end-2020, a similar score compared to end-2019, despite some adverse market impact from the pandemic. The company's S2 ratio, calculated using the standard formula and without transitional measures, was very strong at 208% at end-2020. This was despite a decrease from 227% in 2019, similarly to other French life insurers, and notably due to the ultra-low interest rates environment. The ratio remained very strong at end-1Q21 at 217%.

Capitalisation Adequacy

Prism FBM



Source: Fitch Ratings

Financial Highlights

	2020	2019
Prism score	Very Strong	Very Strong
Prism total AC (EUR000)	42,897	44,653
Prism AC/TC at Prism score (%)	106	115
Prism AC/TC at higher Prism score (%)	88	96

AC – Available Capital, TC – Target Capital
Source: Fitch Ratings, CNP

CNP's capital metrics are sensitive 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 ('Provision pour Participation aux Benefices'; French profit-sharing reserves), 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 2020. This was similar to 2019 figures, and we view it 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 capitalisation to remain robust in 2021 and supportive of the rating, as the group continues to shift its business mix towards less capital-intensive products, while continuing to generate steady organic capital. The acquisition of Aviva plc's Italian life subsidiaries will have a minor negative impact on capital, and thus the Prism FBM score should remain 'Very Strong' in 2021.
- We expect the FLR to slightly decrease in 2021, amid CNP's new 2021 RT1 issuance, assuming some debt refinancing occurs later in 2021.

Financial Highlights

(%)	2020	2019
Financial leverage ratio	21	21
S2 ratio	208	227
Asset leverage[a] (x)	9	10
Operating leverage[b] (x)	7	8

[a] Total assets to equity capital
[b] Total insurance liabilities to equity capital
Source: Fitch Ratings; CNP

Debt Service Capabilities and Financial Flexibility

Strong 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 operating earnings volatility, particularly on CNP's Brazilian operations, with some sensitivity to fluctuations of the real despite the company's hedging programme.

CNP is a listed entity, with 21% of its shares freely floating, granting permanent access to equity markets. The group is an established frequent bond issuer, as recently shown with a Tier 3 EUR500 million issuance in December 2020, and an RT1 USD700 million issuance in March 2021. 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 S2.

Fitch Expectations

- We expect CNP's FCC to remain in line with the 'a' category, while financial flexibility will remain very strong.

Financial Performance and Earnings

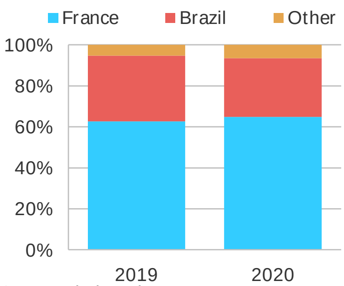
Pressured Earnings, Stable Record

CNP has a record of strong profitability, which supports the rating. However, its ROE decreased to 6.7% in 2020 compared to 7.6% in 2019 and 2018, which is in line with the lower end of the 'a' rating category. The group's earnings were pressured in 2020, similarly to other French life insurers, amid lower business volumes in France, lower interest rates, and lower investment performance. These were some of the drivers for CNP's lower return on equity and EBIT in 2020 compared to 2019 and 2018.

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.

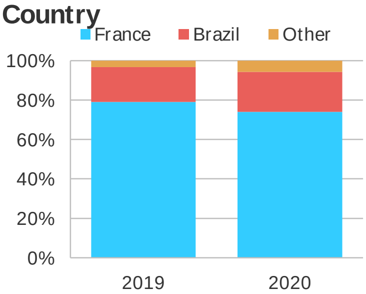
CNP's earnings are also vulnerable to fluctuations in the real, Brazil being the group's fastest-growing market and largest international subsidiary. However, this adverse currency impact, although material for turnover and EBIT figures, is manageable on net earnings. This is allowed by the specificities of the group's currency hedging strategy, allowing for a stable earnings record. The group's potential earnings vulnerabilities are factored in its financial performance and earnings score of 'a-', which is low for the rating.

Reported EBIT by Country



Source: Fitch Ratings

Attributable Net Income by Country



Source: Fitch Ratings

Fitch Expectations

- CNP's operating earnings will continue to face pressures from interest rates and fluctuations in the real.
- We believe the company's increasing diversification, both internationally and into unit-linked and non-life products in France, will ultimately benefit its earnings profile. Thus, we expect net earnings to remain robust, although in the lower end of the 'a' category.

Financial Highlights

(x)	2020	2019
Fixed-charge coverage (including realised and unrealised gains)	8.3	8.7

Source: Fitch Ratings; CNP

Debt Maturities

(As of end-1H21)	(EURm)
2021	700
2021	GBP 300m
2022	1000
2023	200
2024	500
2025	500
2026	108
2027	1500
2028	500
2029	500
2029	USD500m
2030	1500
2031	USD700m
2036	160
Undated[a]	807

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

Financial Highlights

(EURm)	2020	2019
Net income	1,350	1,412
Net income return on equity (%)	6.7	7.6
Pre-tax operating return on assets (%)	0.6	0.7
EBIT (reported)	2,614	3,041

Source: Fitch Ratings; CNP

Investment and Asset Risk

Asset Risks High for Rating

Asset risks are high compared to most similarly rated peers', although in line with those of large French bancassurers, mostly due to a higher exposure to equity-like investments. The group's risky assets ratio (RAR) was 98% in 2020 (end-2019: 137%). This sharp decrease was largely due to Fitch's inclusion of only a 75% portion of risky assets supporting fonds euros (French traditional life products), according to Fitch's new guidelines starting in 2020. These guidelines allow the RAR to take into account the loss-sharing features of the fonds euros. On a comparable basis, the 2019 RAR would have been around 105%.

The bond portfolio is of a high quality, with a large proportion of French government bonds. 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

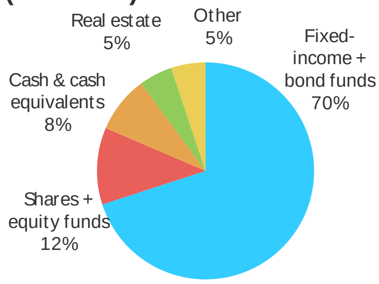
- Asset risks should remain high for the rating, and we don't expect any significant shifts in the company's investment strategy, although its ample capital buffers under S2 allow it to search for better yields on an opportunistic basis.

Financial Highlights

(%)	2020	2019
Risky assets to capital	98[a]	137[b]
Unaffiliated shares to capital	89[a]	112

[a] Ratios include a 75% portion of risky assets supporting fonds euros, as per Fitch guidelines for products with material loss-sharing features
[b]105% on a comparable basis with 2020
Source: Fitch Ratings; CNP

Breakdown of Invested Assets (End-2020)



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

Asset Liability and Liquidity Management

Strong ALM, Very Strong Liquidity

Our assessment of asset and liability management (ALM) and liquidity supports the rating. As a historical 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 guaranties on its in-force portfolio, at 0.18% at end-2020. Its hedging programmes help mitigate currency risks arising from fluctuations of the real, although there is still vulnerability.

The group has a high sensitivity to low interest rates on its capital metrics compared with European peers, though this reflects that of other French bancassurers. This is mitigated by its interest rate hedging programme.

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 the medium term.
- We expect liquidity to remain very strong.

Financial Highlights

(%)	2020	2019
Liquid assets/net technical reserves (excl. unit-linked)	94	97

Source: Fitch Ratings; CNP

Appendix A: 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
Source: Fitch Ratings

Short-Term Ratings

Not Applicable.

Hybrid – Equity/Debt Treatment

Hybrids Treatment

Debt Outstanding at end-1H21	Amount (m)	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
CNP Assurances SA				
Dated subordinated debt (EUR)	6,668	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
Dated subordinated debt (USD, RT1)	700	100	100	0
Undated subordinated debt[a] (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.
[a] 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 B: 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 Principles 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.