MOODY'S
INVESTORS SERVICE

CREDIT OPINION
30 May 2022

Update

Send Your Feedback

RATINGS

CNP Assurances

Domicile	PARIS-FR, 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.

Contacts

Louis Nonchez +33.1.5330.1052
AVP-Analyst
louis.nonchez@moodys.com

Lila Sumino, CFA +33.1.5330.3359
Associate Analyst
lila.sumino@moodys.com

Antonello Aquino +44.20.7772.1582
Associate Managing Director
antonello.aquino@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

CNP Assurances

Semi-annual update

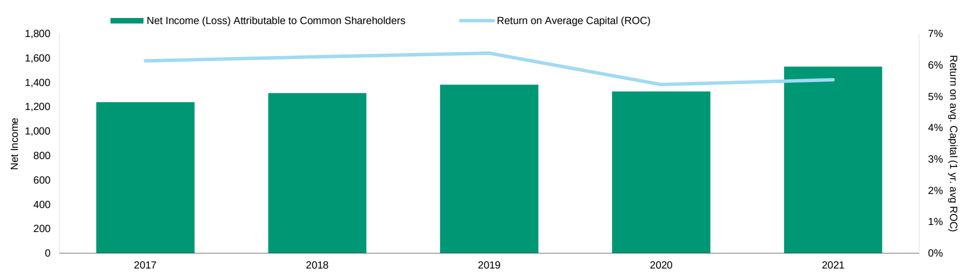
Summary

The A1 Insurance Financial Strength Rating (IFSR) of CNP Assurances (CNP) 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 business, (3) a very stable level of profitability, as well as (4) a good financial flexibility, in part thanks to Caisse des Dépôts et Consignations (CDC, Aa2, senior unsecured debt, stable) which remains the key indirect shareholder within the new corporate structure.

These strengths are partly offset by (1) a distribution strategy concentrated on a small number of large banking networks resulting in a low control of the distribution, (2) a relatively high level of risky assets on CNP's balance sheet through equities and real estate, although the participating nature of French traditional guaranteed products strongly mitigates asset risk, and (3) a balance sheet that is still dominated by traditional savings in a context of increased competition and interest rates still at a low level. However, the strong development of unit-linked outside France and the rise of interest rates should mitigate the risk of profitability decline.

On 2 May 2022, La Banque Postale, the majority shareholder of CNP, announced the beginning of its takeover bid on remaining free float of 14.75%, since LBP acquired 30% of the remaining free float at the launch of the takeover. This transaction is subject to receipt of the relevant approvals and would likely be concluded in mid-2022. The change in ownership has no immediate impact on CNP's rating, but provides clarity on CNP's future role in LBP's bancassurance strategy.

Exhibit 1
Net Income and Return on Capital



Source: Company reports and Moody's Investors Service

Credit strengths

» Very strong market position in the French life insurance market, with a market share of 12% and a relative market share of around 3.0x

» A low liability risk profile thanks to a low average guaranteed rate (0.13% in France as at 31 December 2021 vs. 0.17% at end-2020) on traditional savings business (75% of CNP's net average technical reserves)

» Very stable profitability as profits are mostly made of technical results and of fee-based earnings on long duration liabilities

» Good financial flexibility, in part supported by Caisse des Dépôts et Consignations which remains the key indirect ownership within the new expected shareholding structure

Credit challenges

» Concentration of the distribution strategy 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 and of a sharp decline in interest rates

Rating outlook

The outlook is stable, reflecting our expectation that CNP will continue to reduce its exposure to low interest rates, by increasing the weight of unit-linked products or reducing guarantees on traditional life contracts. The group is also incentivising policyholders to switch from their existing products to new types of policies, with a higher weight of unit-linked for example, as permitted by the French legislation.

Factors that could lead to an upgrade

» Material improvement in geographic, business and distribution diversification

» Decrease in high risk assets coupled to improvements in capitalization, as evidenced by a Solvency II ratio sustainably above 200% (adjusted for deferred profit sharing reserve), 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 in a low interest rate environment

» A material reduction in CNP's economic capitalisation, for example driven by further decline in interest rates or an increase in asset risk

» 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

CNP Assurances [1][2]	2021	2020	2019	2018	2017
As Reported (Euro Millions)					
Total Assets	483,002	442,540	440,366	415,524	423,298
Total Shareholders' Equity	24,763	23,999	21,188	19,521	20,023
Net Income (Loss) Attributable to Common Shareholders	1,552	1,350	1,412	1,367	1,285
Total Revenue	44,149	34,945	48,714	38,636	45,125
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	401.6%	347.8%	356.5%	366.6%	385.6%
Goodwill & Intangibles % Shareholders' Equity	27.5%	26.4%	13.1%	14.2%	14.2%
Shareholders' Equity % Total Assets	2.6%	3.0%	2.8%	2.7%	2.7%
Return on Average Capital (ROC)	5.5%	5.4%	6.4%	6.3%	6.1%
Sharpe Ratio of ROC (5 yr.)	1312.1%	1522.2%	3393.1%	2525.6%	1860.1%
Adjusted Financial Leverage	23.6%	24.8%	26.3%	24.7%	24.7%
Total Leverage	29.0%	29.2%	31.2%	30.6%	30.3%
Earnings Coverage	9.7x	8.6x	9.0x	8.1x	8.3x
Cash Flow Coverage	NA	NA	NA	NA	NA

[1] Information based on IFRS financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.
Sources: Moody's Investors Service and company filings

Profile

CNP is the second largest French life insurer primarily selling life insurance savings and protection products through the networks of La Banque Postale and of Groupe BPCE ("BPCE", A1, A1, baa1[1]. The group operates in France, in several european countries, but also in Brazil where it has a joint venture with Caixa Economica Federal (Ba2, Ba2, ba3), one of the largest banks in the country.

CNP is a public company but has a free float capital of 14.75% as of 02/05/2021. La Banque Postale is the majority shareholder with a stake of 85.25% and is expected to increase to 100% by mid-2022 through the current takeover bid on the remaining listed shares of CNP by La Banque Postale.

Detailed credit considerations

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

Market position: very strong position in the French market with an enhanced role of La Banque Postale's bancassurance strategy within the new ownership structure

CNP is the number two life insurer in France with around 10% market share and the number three life insurer in Brazil, benefitting from exclusive distribution agreements with some of the largest banks in these two countries. Outside of France, CNP is present in a number of other European countries, but Italy remains its most significant source of revenues (6% market share and number five life insurer in the country at year-end 2021).

We estimate CNP's relative market share at a very strong 3x in France, despite limited growth opportunity in life 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. (Aa3, Aa3, baa2) since 2018. Nonetheless, the change in ownership is expected to strengthen CNP's role as central bancassurer of La Banque Postale and although BPCE has left the shareholding structure in 2021, CNP will continue to benefit from a wide access to BPCE network to protection products, as the existing distribution agreement will be maintained at least until 2030. CNP also continues to sell savings products through La Banque Postale and is developing partnerships with other distributors.

Additionally, La Banque Postale aims to transfer its non-life insurance operations (LBP Prévoyance, LBP Assurance Santé, LBP Assurance IARD and LBP Conseil en Assurance) to CNP. While dependent on the exact transaction, we consider this in principle as credit positive, as it would strengthen CNP's market position and the breadth of its product portfolio, even though the non-life entities (€1,077 million of premium income in FY 2021) are of relatively small scale compared to CNP (premium income of €31,668 million).

Distribution: reliant on third parties but long-term agreements with large banking networks are secured

CNP's access to very large banking networks is positive for the group's market position but we also consider the concentrated distribution strategy with a few third-party banking partners as the group's main credit challenge. In 2021, 44% of the group's premiums were sourced from BPCE and La Banque Postale's networks in France, and 20% 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 2036 and the absorption of CNP into La Poste group virtually eliminates the risk of non renewal of the insurer's access to the distribution network of its parent company. Additionally, the existing distribution agreement with BPCE has been renewed until 2030.

With Caixa Economica Federal, CNP has signed a renewed agreement in 2020 to manage the Brazilian business via a joint-venture, which would imply a reduction of CNP's economic rights on the underwritten business. Nonetheless, this also enables CNP to secure a distribution agreement with a major bank in the country until 2046 on a significant part of the previous activities.

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 developing business through direct distribution and its salaried sales force as well. Non-banking distribution represents less than 15% of the group's premiums, we expect this share 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 focus on unit-linked and protection business

CNP's balance sheet is dominated by French insurance savings and pension products (85% of average technical reserve net of reinsurance in France), which we consider as low risk given the low level of guarantees that CNP grants to policyholders. The average guaranteed rate in the French business (which represents most of CNP's guaranteed business) is only 0.13% (as at 31 December 2021), 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 (the participation reserve can be withhold up to 8 years). These features bring stability in the credit profile of CNP and drive our assessment of asset quality, profitability and capital adequacy, as described below.

In order to reduce its exposure to interest rate risk, CNP has been limiting the underwriting of traditional savings products and increasingly focusing new business sales on unit-linked products, on which investment risk relies on policyholders. At the same time, CNP is active in transferring existing policyholders from pure guaranteed products to other products with a minimum portion of unit-linked. These transfers will contribute to gradually improve the group's risk profile. In 2021, net flows remained negative for traditional savings, thus accelerating the shift from guaranteed products to unit-linked.

CNP also increasingly sells protection products, mostly term creditor products, which we also consider as low risk.

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

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 408% of CNP's shareholders' equity as of year-end 2021. This ratio remains high for an insurer within the A rating category.

In addition, CNP has slightly increased its asset risk, with higher allocations to equities and corporate bonds, in order to mitigate the decline in investment return experienced over the last years in a context of persistently low rates.

However, CNP has implemented hedges on part of its equity portfolio (€17.1 billion nominal hedged as at 31 December 2021) 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 average level of guaranteed rate. When considering these mitigants, we view CNP's exposure to high risk assets as in line with CNP's rating level.

During the first quarter of 2022, CNP has almost finalized the realization of the gains recorded on its investment portfolio, with own-account revenues up 65% compared to the first quarter of 2021. We believe this demonstrates an appropriate investment strategy and market timing given the volatility both on equity and bond markets recorded at the end of the first quarter. To our view, this flexible investment strategy, coupled to hedges, can somewhat balance exposure to high-risk assets.

Capital adequacy: high Solvency II ratio although sensitive to interest rates

CNP reported a high 243% Solvency II ratio as of Q1 2022, up from 217% as of year-end 2021 mainly driven by better financial market conditions, accounting for an increase of 19 percentage points (ppts).

The ratio has been volatile in recent years and is very sensitive to market movements and movements in interest rates in particular. As of year-end 2021, CNP reported that a 50 bps decline in interest rates would cause a decline in its solvency ratio by 18 ppts. We believe the sensitivity of CNP's financial market conditions is largely driven by the weight of future profits included in CNP's Tier 1 capital, which is common for life insurance groups and is technically resulting from the large duration gap of the group (see below).

We consider CNP's Solvency II ratio, excluding the deferred profit sharing reserve from own funds, to generally be a broadly adequate measure of CNP's economic capital (CNP does not use transitional measures or equivalence to calculate its ratio). This ratio takes into account 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 4ppts).

Excluding the deferred profit sharing reserve, the level of solvency is below our expectations for CNP's rating level. Nonetheless, we consider the risk of CNP not being able to meet its interest rate guarantees to be very low in the medium term. We also take into account the capital management policy of the company in our analysis of capital. The low duration of the assets and the stock of discretionary deferred policyholders' participation reserves enable the group to facilitate policy transfers from one product to another. The shift in business profile that the group is driving through these actions, as well as through changes in new business mix, is set to contribute to improve CNP's solvency ratio, although the pace of these changes remains uncertain.

Finally, upon regulatory approval, the assets and liabilities related to existing occupational retirement products - on which Solvency II framework currently applies - will be transferred to a new type of pension vehicle, FRPS (Fonds de Retraite Professionelle Supplémentaire) intended to qualify as an IORP (Institution for Occupational Retirement Provision) under the EU Pension Directive. This transfer would add 10ppts to 15ppts to CNP's Solvency II ratio (estimates as of year-end 2021). However, similar to our view at the technical provisions transitional employed by other life insurers, which allows for applying Solvency I calculations for parts of the back-book for a transitory period, we consider this approach less economic and not fully reflective of the risks associated with these products.

In 2022, the purchase and the inclusion in the solvency capital requirement of La Banque Postale's non-life insurance operations will have a one-time moderate negative impact on the solvency ratio, which is not disclosed at this stage. Longer-term, CNP reported that the current Solvency review proposed by the European Commission related to long-term investment would likely decrease the ratio by an estimated -15ppts to -10ppts by 2032, with the amended rules to be gradually phased in.

CNP is expected to maintain a 45% dividend payout ratio to La Banque Postale (aligned on the average payout ratio for all the group's subsidiaries), we expect the capital management policy of CNP to remain unchanged in the medium-term The strengthened Solvency II ratio disclosed at the end of the first quarter of 2022 (243%, mainly benefitting from the increase of interest rates) is also a mitigating factor. Going forward, we expect that CNP's solvency ratio will be maintained above 190%, despite the absence of a target solvency ratio defined at the group level.

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 5.5% in 2021, 5.9% 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 4.8%. However, the current distribution agreement in Brazil will result in reduced profits for CNP compared to the previous agreement, all else being equal, both because of a lower stake in the future Brazilian business, and because the new distribution agreement covers a reduced perimeter.

In Q1 2022, attributable recurring profit was €740 million, up from €542 million in Q1 2021. Earnings improved thanks to increased unit-linked sales in France and growth of international activities - partly resulting from the consolidation of acquired Italian entity.

We expect the profitability of traditional guaranteed products to erode gradually because of the net outflows on these products (negative by €5.3 billion in 2021, trend confirmed in early 2022). In 2021, CNP continued to grow unit-linked premiums and reserves as reflected by the increase in unit-linked sales in France by 43.4% compared to last year.

So far the exposure of CNP to current tensions in eastern Europe has been marginal, but profitability might deteriorate if the crisis leads to severe macroeconomic effects such as a recession. More positively, the current rise in interest rates reduces pressure on investment margin.

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 (3.1x as of year-end 2021).

One of the main financial risks that CNP faces is 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, 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.

In addition, CNP has a high stock of deferred profit sharing reserves available to be used to improve policyholders' credited rates, retain customers and remain competitive if a material and sustained increase of interest rates should happen.

The surrender risk is also partly covered by a low duration of assets (with a weighted average life of bonds of around 5 years for France) compared to the duration of liabilities.

This however exposes CNP Assurances to some reinvestment risk. We consider this reinvestment risk to be limited given the low average guaranteed rate on traditional savings business. The current macroeconomic perspective both in terms of inflation and interest rates tends to reduce the risk associated with very low interest rates on the short-term.

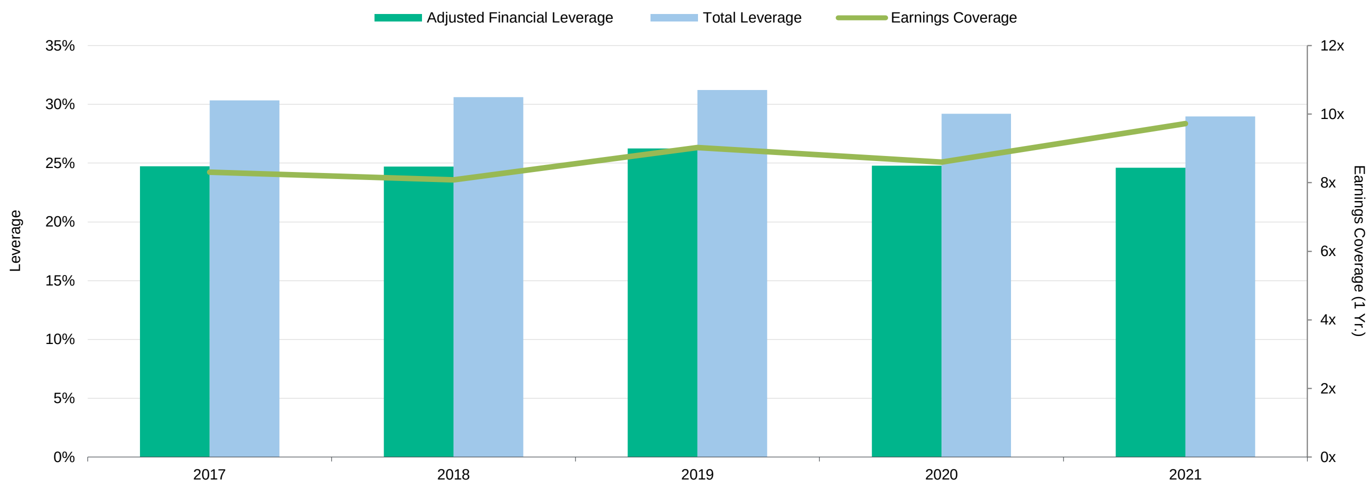
Financial flexibility: strong shareholder contributes to a good access to capital

CNP's leverage metrics (23.3% adjusted financial leverage and 29.0% total leverage as of year-end 2021) are consistent with a strong credit profile. The group's earnings coverage, at 9.7x in 2021 is inflated by the inclusion of 100% of the profits of CNP's Brazilian operations, while only around 52% of these earnings are effectively available for the holding. When adjusted for this, earnings coverage would be at around 7.5x, which is more in line with an A-range credit profile. The earnings coverage could slightly decrease following the new agreement signed with Caixa Economica Federal, but to a limited extent as the business in Brazil continues to grow. Earnings from Brazil are also linked to the good execution of the foreign exchange hedging strategy, given the volatility of the brazilian real.

In January 2022 €500 million Tier 3 subordinated debt was issued, confirming the flexible strategy of CNP in terms of debt issuance within the Solvency II framework, with comfortable headroom to issue further bonds of any classification. Following this issuance, adjusted financial leverage is expected to increase to around 25% on a pro-forma basis.

Finally, we expect that the change in ownership will not materially impact CNP's financial flexibility. The delisting of CNP's shares (expected to happen in mid-2022) would curtail CNP's direct access to external sources of funding. However, CDC will remain a key indirect shareholder which we consider to enhance CNP's financial flexibility.

Exhibit 3
Financial Flexibility



Source: Company reports and Moody's Investors Service

ESG considerations

Environment

Environmental risks are not material rating drivers for CNP. The group integrates environmental consideration into investment processes (exclusion of some sectors and introduction of carbon footprint metrics in portfolio evaluation).

Social

CNP, as a life insurer, faces social risks through the handling of customer information. Changing demographics, and the impact of changing consumer preferences on distribution channels may also have business growth implications, but CNP mitigates these risks through an increasing level of business diversification.

Governance

Like all other corporate credits, the credit quality of CNP is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention.

La Banque Postale, and ultimately CDC will become the sole shareholders of CNP. The delisting of CNP might result in changes in its corporate governance, although LBP would continue to support CNP's current management. Additionally, CNP operates within a strong regulatory environment, and will continue to be overseen by the French regulator, Autorité de Contrôle Prudentiel et de Résolution (ACPR).

Rating methodology and scorecard factors

Exhibit 4
CNP Assurances

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								Aa	A
Market Position and Brand (15%)								Aa	Aa
-Relative Market Share Ratio		X							
Distribution (10%)								A	A
-Distribution Control			X						
-Diversity of Distribution			X						
Product Focus and Diversification (10%)								A	A
-Product Risk			X						
-Life Insurance Product Diversification			X						
Financial Profile								A	A
Asset Quality (10%)								B	A
-High Risk Assets % Shareholders' Equity							401.6%		
-Goodwill & Intangibles % Shareholders' Equity		27.5%							
Capital Adequacy (15%)								Ba	A
-Shareholders' Equity % Total Assets					2.6%				
Profitability (15%)								Aa	A
-Return on Capital (5 yr. avg.)			X						
-Sharpe Ratio of ROC (5 yr.)	X								
Liquidity and Asset/Liability Management (10%)								Aa	A
-Liquid Assets % Liquid Liabilities		X							
Financial Flexibility (15%)								Aa	A
-Adjusted Financial Leverage		23.6%							
-Total Leverage		29.0%							
-Earnings Coverage (5 yr. avg.)		X							
-Cash Flow Coverage (5 yr. avg.)									
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A2	A1

[1] Information based on IFRS financial statements as of fiscal year ended December 31, 2021. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.
Source: 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	STA
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

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment

REPORT NUMBER 1327279

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE