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## CNP Assurances

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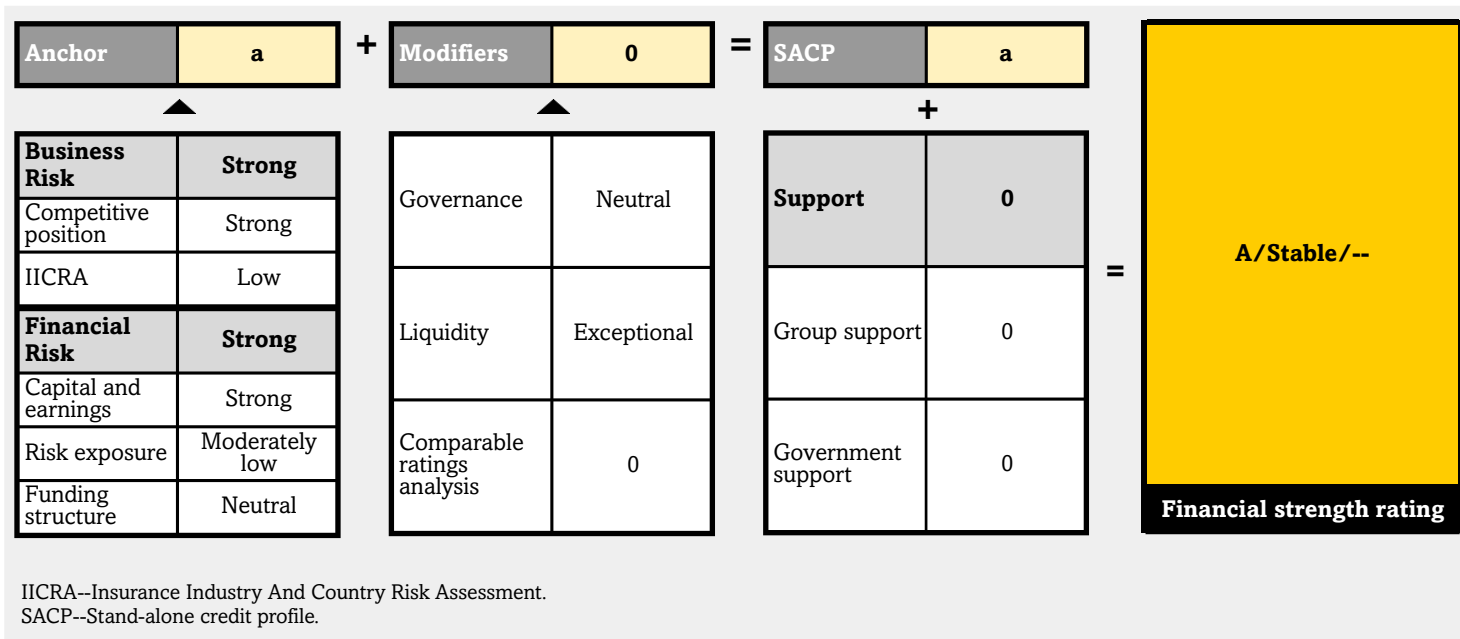
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# CNP Assurances



## Credit Highlights

### Overview

Strengths	Risks
Leading position in the French life insurance market and increased penetration of life-protection business.	Low margins of traditional savings products in the French market.
Strengthened capital adequacy, above the 'AA' confidence level.	Capital buffer could weaken due to financial market volatility, following further investments in Latin America, or due to hybrid instrument refinancing with weaker-quality securities.
Continuity of business in Brazil with the signing of a new long-term partnership.	

**CNP Assurances (CNP) holds a prominent position in the French life insurance market, ranking second after Cr dit Agricole Assurances.** The company benefits from profitable joint ventures (JVs) in Europe and Latin America, which generated 30% of net profit at half-year 2020. CNP's book of business predominantly comprises capital-intensive savings products, which have relatively low margins. Nevertheless, S&P Global Ratings has observed a shift in the business mix over the past few years toward life-protection and unit-linked products. We expect revenue from life-protection contracts will remain robust.

**We expect CNP will maintain its adjusted capital at or above the 'AA' benchmark of our capital model until at least 2022.** In our view, the dividend payout will not deviate from the publicly announced range of 40%-50%. In addition, our capital and earnings assessment factors in the assumption of further expansion in Brazil in the next two years.

**The combination of CNP with La Banque Postale to form a large public-sector-owned financial services hub has been finalized.** As such, CNP is now 63% directly owned by La Banque Postale (A/Stable/A-1). We expect the ongoing support to CNP from Caisse des Depots et Consignations will moderate, but remain in a more indirect way, with La Banque Postale playing a leading role as a primary shareholder. We believe this transaction does not transform CNP's historical model as an independent and multi-partnership bank insurer.

**Outlook: Stable**

The outlook is stable because we believe that, over the next 12-24 months, CNP can retain its strong market position and capital and earnings under the reshuffled shareholding structure, including capital adequacy at the 'AA' level under our model. CNP's ownership structure has evolved recently and we shall continue to closely monitor the progress of its integration with La Banque Postale.

**Downside scenario**

Although we see it as a remote possibility, we could lower the ratings if CNP suffers a significant and sustainable decline in earnings or capital adequacy.

**Upside scenario**

We may raise the ratings in the coming two years if we anticipate a sustainable increase in the group's capital buffer, without a deterioration of its market position in France. In both situations, an upgrade of CNP would also depend on an upgrade of La Banque Postale.

**Key Assumptions**

- France's GDP contracts 9% in 2020 before recovering, with growth of 6.2% in 2021 and 4.4% in 2022.
- Average 10-year French government bond yields decrease to negative 0.17% in 2020 and likely remain negative until 2022.

Source: S&P Global Economics and Oxford Economics as of Nov. 25, 2020.

**CNP Assurances--Key Metrics**

	2021f	2020f	2019	2018	2017
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong
Gross premium written (mil. €)	<30,000	<30,000	33,672	32,534	32,460
Net income* (mil. €)	~1,300	>1 000	1,412	1,367	1,285
Return on shareholders' equity (%)	>8	>5	9.4	9.3	9.1
Financial leverage (%)	~30	~30	30.0	29.1	27.9
EBIT fixed-charge coverage (x)	>8.0	>4.0	9.3	9.7	9.0

\*Excluding minority interest. f--S&P Global Ratings forecast.

**Business Risk Profile: Strong**

CNP's strong business risk profile is underpinned by its leading market position in France. In addition, it derives nearly 90% of its technical reserves from France, shaping our view that CNP enjoys the low insurance industry and country

risk that characterizes the French insurance market.

CNP has a very broad product offering, but historically it has predominantly sold traditional savings and life products for mass markets that have relatively low margins. Over the past few years, it has improved its new business margins by shifting toward life-protection and unit-linked products. In first-half 2020, protection activities generated 28% of the group's written premiums and about 40% of its EBIT. On the saving side, unit-linked represented 49% of savings business inflow, boosted by foreign operations.

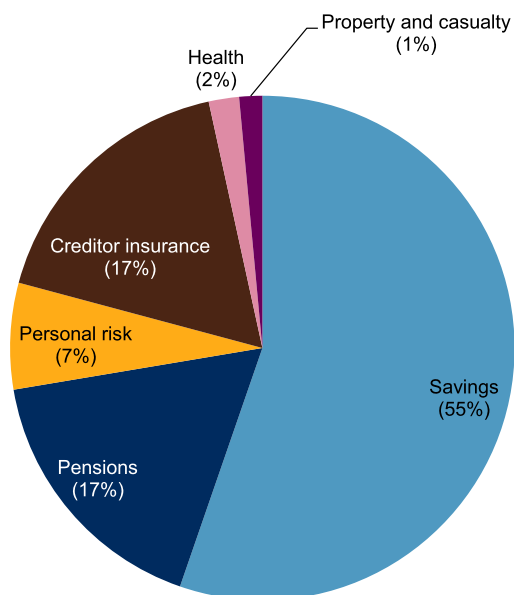
Outside of France, Brazil is CNP's main market where it runs a JV with Caixa Seguridade, the insurance arm of state-owned Brazilian bank Caixa Econômica Federal (CEF). CNP predominantly sells creditor protection and pension business via the CEF bank network, under a distribution agreement that was recently prolonged to 2046. The JV (Caixa Seguradora) has increased its presence over the years to become Brazil's third-largest insurer. These operations enhance CNP's earnings with materially higher margins, and savings/pension premiums that are almost entirely unit-linked. Following the restructuring of the partnership agreement, we believe the product offering's growth potential and profitability will continue to support CNP's credit quality.

We don't expect a long-term impact from COVID-19 on CNP's business risk profile. However, we could see a drop in business volume related to the pandemic and restrictions in distribution channels in 2020. For 2021 and 2022, we assume premiums will increase 1%-2%, and continue to enjoy organic growth opportunities.

**Chart 1**

**CNP's Premium Income By Business Line At First-Half-End 2020**

CNP is predominantly more concentrated in lower-margin traditional saving products



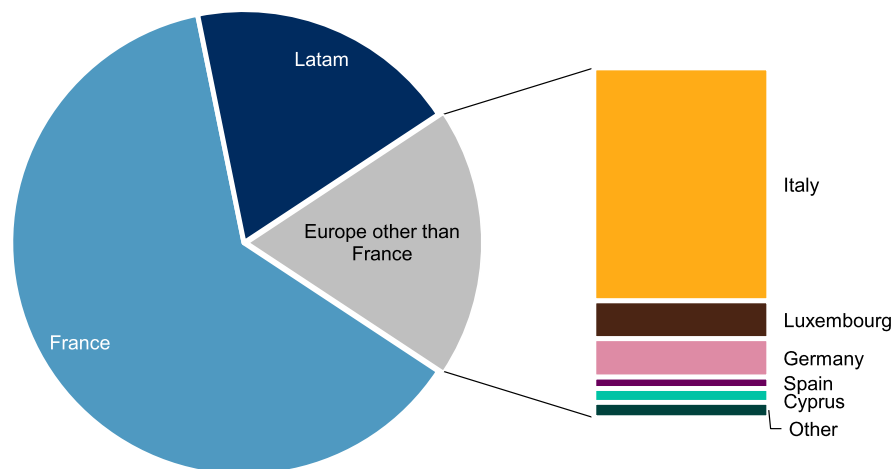
Source: S&P Global Ratings.

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**Chart 2**

**CNP's Premium Income By Geography At First-Half-End 2020**

CNP's premium income is widely diversified in France, Latam, and European countries other than France



Latam--Latin America.

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**Financial Risk Profile: Strong**

CNP's strengthening capital adequacy supports our view of the group's strong overall financial risk profile. CNP has a proven track record of building capital through retained earnings and increasing policyholder surplus reserves (€14.1 billion or 6.3% of technical reserves at June 30, 2020). We project capital adequacy will continue to exceed the capital requirement for the 'AA' confidence level under our capital model.

We continue to factor a 50% dividend payout and net earnings after minority shareholders' interest of about €1.3 billion per year into our capital projections, although we anticipate 2020 performance will be affected by COVID-19-related losses. Furthermore, CNP has paid the price for the renewal of the distribution partnership with Caixa Seguridade, which it has been able to cover without materially weakening its capital adequacy.

We forecast that CNP's capital requirements will increase at a moderate 1.5% pace over the next two years, given the increased share of capital-light product sales and the continuous net outflow from traditional savings products. We expect the group will broadly maintain its investment profile. CNP has significant holdings in assets that we consider high risk, with equity and real estate investments representing about 12% and 4% of the investment portfolio, respectively. We anticipate that the exposure to equity investments will decrease at year-end 2020 as part of

management actions to recover the Solvency II ratio. The latter was still at a solid 203% at Sept. 30, 2020.

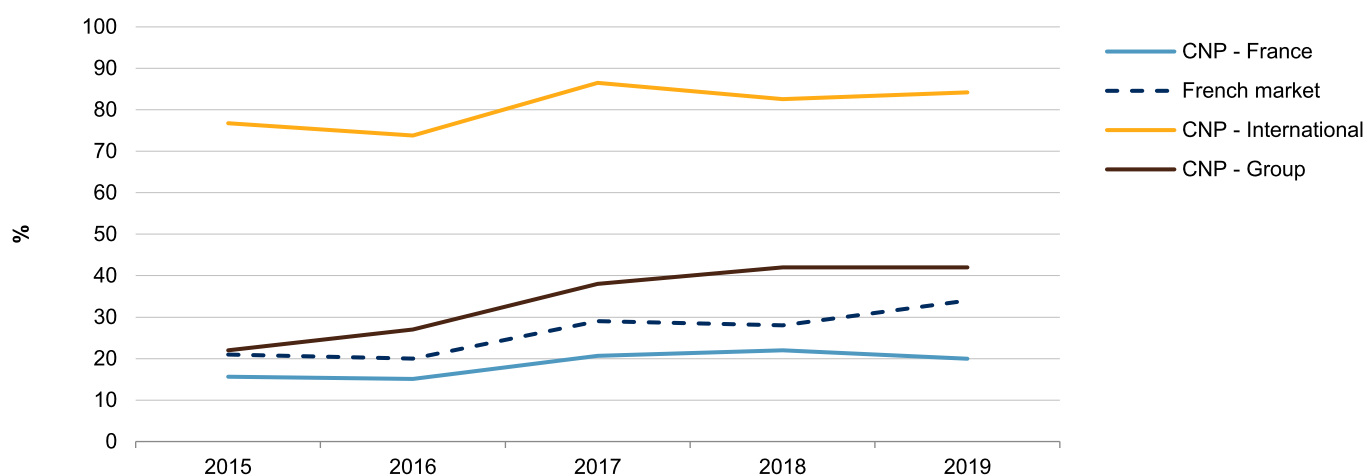
Our strong capital and earnings assessment factors in a degree of uncertainty regarding potential call refinancing of outstanding hybrid instruments by securities of lower quality, which could not be eligible in our measure of adjusted capital. We also believe that additional capital costs could arise from further expansion in Brazil.

The group's ability to share investment losses with policyholders, due to low guaranteed rates in the back book (0.21% as of June 30, 2020), and the profit-sharing characteristics of products sold in France, mitigate the relatively risky investment portfolio, in our view.

### Chart 3

#### CNPs Unit-Linked Sales

CNP's international operations constitute a significant source of profitable capital-light products



Source: S&P Global Ratings.

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CNP has deployed risk metrics to monitor and limit its risk exposure consistently across the group. We view asset and liability management practices as prudent, since CNP monitors multiple risk metrics at individual portfolio levels when defining asset allocation, hedging strategies, and modelling liability.

CNP's development of a single risk metric (ORSA) and its embedding in the reporting and decision-making process have further strengthened overall risk control. We also consider CNP's underwriting risk to be well managed, given that it assumes full ownership over pricing and product design, and delegates limited authority to distribution networks.

We believe the group benefits from demonstrated access to international debt markets, and we are confident of CNP's ability to meet its upcoming debt maturities. We believe that CNP will maintain its financial leverage ratios at about 30% and EBIT interest coverage of 8x-10x through 2021.

## Other Key Credit Considerations

The choice for 'a' anchor is influenced by our view of CNP's leading position in the French and other core markets. The entity's extension of operations on the profitable Brazilian market also supports the anchor choice.

### Liquidity

CNP's exceptional liquidity benefits from the strength of its available liquidity sources and from historically low lapse rates. It has a track record of pre-financing calls on its hybrids with step-ups, reducing its exposure to confidence-sensitive liabilities.

### Government/Other support/Group support

We regard CNP as highly strategic to La Poste group. In two successive years, 2011 and 2012, CNP's major shareholders provided direct support by accepting dividends in shares, helping the insurer rebuild capital. In our view, La Banque Postale and BPCE will remain long-term and supportive investors. We also believe that, in the future, La Poste group will play a leading role as a primary shareholder in case of financial distress at CNP.

We view CNP Caution S.A. as a core subsidiary of CNP Assurances. CNP Caution is 100% owned by the parent group, and the business it underwrites is integral to the group's creditor-insurance-related strategy. The company is fully integrated in terms of distribution and support functions. CNP Caution also benefits from a letter of comfort from CNP Assurances, indicating its commitment of support.

### Environmental, social, and governance

Environmental risk arises through CNP's investment portfolio because changes in policy or public opinion regarding climate change could cause significant volatility in asset prices. That said, this is a common risk across the insurance industry. We consider that CNP monitors its underwriting tightly, including the pricing of its personal risk and protection portfolio. In particular, it uses a centralized information technology system and limits the influence of distribution networks on pricing. This typically helps to mitigate risks associated with rises in chronic diseases. Most of the group's exposure to social risk factors stems from the impact of demographic changes, especially in its French pension portfolio. Increased longevity increases pension liabilities. CNP manages its French pension portfolio following best practices, such as certifying its longevity tables based on its own experience. In our view, CNP's take a similar approach to handling these exposures as some of its direct rated peers, Ageas and SGAM AG2R La Mondiale. Governance factors are consistent with those we see in the French industry.

We have not identified any governance-related risks at CNP. In recent years, the group has executed a consistent strategy of preserving capital and de-risking its balance sheet, while maintaining a leading position in the French market and continuing to expand internationally. We do not expect the ownership evolution to disrupt governance stability and question CNP's business model.

Risk management culture has become increasingly significant over recent years, with group risk appetite now well embedded and cascaded down to business unit risk budgets. CNP has also moved toward a compensation structure that is more risk sensitive and linked to risk-adjusted profitability targets.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Appendix

CNP Assurance--Credit Metrics History			
Ratio/Metric	2019	2018	2017
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Very Strong
Total invested assets (mil. €)	405,751	380,896	387,888
Total shareholder equity (mil. €)	19,307	17,640	18,258
Gross premiums written (mil. €)	33,672	32,534	32,460
Net premiums written (mil. €)	32,597	31,437	30,814
Net premiums earned (mil. €)	32,362	31,218	30,432
Reinsurance utilization (%)	3.2	3.4	5.1
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	3,041	2,924	2,889
Net income (attributable to all shareholders)	1,736	1,670	1,623
Return on assets (%)	0.7	0.7	0.7
Return on shareholders' equity (reported) (%)	9.4	9.3	9.1
Life: Net expense ratio (%)	12.5	12.7	12.5
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	9.3	9.7	9.0
Financial obligations/ EBITDA adjusted	2.7	2.5	2.4
Financial leverage including pension deficit as debt (%)	30.0	29.1	27.9
Net investment yield (%)	1.8	2.3	2.4



## Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	<b>a/a-</b>	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

## Ratings Detail (As Of January 26, 2021)\*

### Operating Company Covered By This Report

#### CNP Assurances

Financial Strength Rating

*Local Currency*

A/Stable/--

Issuer Credit Rating

A/Stable/--

Junior Subordinated

BBB

Junior Subordinated

BBB+

Subordinated

BBB+

#### Domicile

France

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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