MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms CNP Assurances' A1 IFSR, stable outlook

26 March 2021

Paris, March 26, 2021 – Moody's Investors Service (Moody's) has today affirmed the A1 insurance financial strength rating (IFSR) of CNP Assurances (CNP), as well as its debt ratings, with a stable outlook.

A list of all the ratings affected by this rating action is available at the end of this press release.

CNP is a leading French life insurer primarily selling life insurance savings and protection products through the networks of La Banque Postale and BPCE (A1 senior unsecured debt stable, Adjusted Baseline Credit Assessment (BCA) baa1). The group also operates in Brazil where it has a joint venture with Caixa Economica Federal (Caixa) (Ba2 senior unsecured debt stable, Adjusted BCA ba3), one of the largest banks in the country.

RATINGS RATIONALE

The affirmation of CNP's A1 IFSR with a stable outlook reflects the group's strong market position, supported by long-term exclusive distribution agreements with its main banking partners, and a limited liability risk profile, evidenced by a low average guaranteed rate on its French life products.

The A1 IFSR remains also supported by a very stable level of profitability, evidenced by a very high Sharpe ratio of return of capital (the Sharpe ratio measures the volatility of the return of capital; the higher the ratio, the lower the volatility) consistently higher than 1000% for the last five years, and a good financial flexibility, in part reflecting the indirect ownership by Caisse Des Depots et Consignations (CDC, Aa2 senior unsecured debt stable).

More negatively, the decline in interest rates over the past few years, is a clear headwind for CNP Assurances and for the life insurance sector in general, both in terms of profitability and balance sheet risk. In fact the decline in investment returns and reinvestment yield reduces CNP's investment results, directly impacting the profitability of the protection business. Furthermore lower rates amplify the risks in the asset liability management of the guaranteed savings business and increase the sensitivity of CNP's Solvency II ratio. Market changes had a negative impact of 34 percentage points (ppts) on the group's solvency ratio in 2019, and a negative impact of 40ppts in 2020, mostly driven by changes in interest rates.

Nonetheless, thanks to its very low average guaranteed rate on French traditional savings products (0.2%, one of the lowest in Europe), and the participating nature of these policies, CNP is able to pass on most of the decline in investment returns to policyholders. CNP reported a reinvestment yield of 1.1% in 2020, which remains well above the guaranteed rate. Moody's notes however that CNP has slightly increased its asset risk profile, with higher allocations to equities and corporate bonds, in order to mitigate the decline in investment return.

STABLE OUTLOOK

The stable outlook also reflects Moody's expectation that CNP will continue to actively reduce its exposure to low interest rate risk. Hence, CNP is actively engaged in a transformation programme of its balance sheet. In fact CNP is modifying its new business mix by increasing the weight of unit-linked products (which represented 52% of total premiums in 2020) or reducing guarantees on guaranteed products, but is also incentivising policyholders to switch from their existing products to new types of policies, with a higher weight of unit-linked products for example, as permitted by the French legislation.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

CNP's rating could be upgraded in case of (1) material improvement in geographic, business and distribution diversification or (2) a decrease in high risk assets and improvement in capitalisation, as evidenced by a Solvency II ratio sustainably above 200% (adjusted for the deferred profit sharing reserve), with low volatility risk.

Conversely, negative pressure could be exerted on the rating in case of (1) the loss of a significant distribution agreement, which would materially affect CNP's franchise and financial metrics, (2) a prolonged decline in profitability with a return on capital below 5% resulting, for example, from the group's unability to grow profitably protection and unit-linked business to offset the expected gradual decline in earnings generated by the traditional savings business, (3) a material reduction in CNP’s economic capitalisation, for example driven by further decline in interest rates or an increase in asset risk, or (4) an 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.

LIST OF AFFECTED RATINGS

..Issuer: CNP Assurances

..Affirmations :

....Insurance Financial Strength Ratings, affirmed A1

....Subordinate Regular Bond/Debenture, affirmed A3(hyb)

....Preferred Stock non-cumulative, affirmed Baa3(hyb)

..Outlook Action:

....Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Life Insurers Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187348. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody’s key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody’s Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices.

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For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody’s Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody’s general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody’s affiliates outside the UK and is endorsed by Moody’s Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody’s office that issued the credit rating is available on www.moodys.com.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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