

BNP Paribas Assurance

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BNP Paribas Assurance

Major Rating Factors

Strengths:

- Core positioning within BNP Paribas group.
- Strong competitive position in France.
- Strong operating performance.

Weaknesses:

- Only good capitalization for the current ratings, with high market risk.

Operating Companies Covered By This Report

Financial Strength Rating

Local Currency
AA/Negative/--

Rationale

The ratings on the operating companies of France-based BNP Paribas Assurance group, Cardif Assurance Vie and Cardif-Assurances Risques Divers, are based on the insurance group's core positioning within French bank BNP Paribas (AA/Negative/A-1+). The ratings on the group's holding company, BNP Paribas Assurance (AA-/Negative/--) are one notch below that on the operating entities.

BNP Paribas Assurance group (BNPPA) is the bank's insurance arm and key component of its Investment Solutions division. The group accounted for 3.1% of the bank's revenues and gross operating income on Sept. 30, 2009. The insurer is fully integrated into BNP Paribas' bancassurance strategy in France and Italy, with 61% of its premium income deriving from the bank's distribution network. BNPPA operates like a division within the banking group, which determines strategy and capital management. Because the bank funds all capital needs, Standard & Poor's Ratings Services views parent and shareholder support as a key rating factor.

BNPPA is the fourth-largest player in the French life insurance market, with consolidated premium income of €15.4 billion on Sept. 30, 2009, and an 8.4% market share. Premiums levels recovered in 2009, and were up 22% on Sept. 30, 2009, after a 10% decrease in 2008--less than the average of a negative 13% for French bankinsurers. The protection business grew a steady 10% on average. Traditional profit-sharing policies took a hit from the difficult financial environment in 2008 but recovered in 2009, at BNPPA and French peers alike.

The insurer's key competitive advantages are its ability to leverage BNP Paribas' large distribution network while building strong relationships under the Cardif brand with nonproprietary networks--including banks, brokers, and independent financial advisers. With its dual-brand strategy, BNPPA has access to a very large and diversified client base and is highly geographically spread with strong presences in Europe, Asia, and Latin America. Its leading positions in the profitable creditor term segment and strong position in low-capital-intensive French unit-linked business, though under pressure due to less favorable capital market conditions, are additional positive factors.

BNPPA has strong earnings of strong quality. European embedded value, pro forma, was down 4% only in 2008--which compares favorably with that for the French market--because of capital injections from the parent. Though decreasing by 17%, the contribution of new business value continues to be very strong at €337 million, thanks to a large client base and well-balanced business mix, including a highly profitable protection business. International operations, where the highly profitable protection business is predominant, continue to contribute to a

significant share of earnings, representing 37% of total premium income but 53% of group new business value in 2008. The insurer's new business margins (based on present value of new business premiums) remained strong at a stable 2.6% in 2008. BNPPA's high margins mainly come from the protection business internationally and in France. Thus, its margins are less exposed than peers to difficult financial markets that hardly hit the savings business. Overall, the insurer's aftertax profit was stable at €436.8 million.

Capitalization is a relative weakness for the rating, with high market risks, according to Standard & Poor's risk-based capital model at year-end 2009. Because the parent upstreams all earnings in the form of dividends, in our view the insurer has significant reliance on soft forms of capital--mainly unrealized gains--but also value in-force. This leaves the insurer highly exposed to capital market volatility, which in 2008 brought down capital adequacy to marginal levels. Since then, capital adequacy returned to good levels, reflecting the recovery of capital markets. However, BNPPA's strong financial flexibility and parent support mitigate our concerns. The bank injected capital of €925 million in December 2008 and a further €167 million in December 2009 into the insurer. We expect the bank to provide additional capital, if needed, to BNPPA and related insurance subsidiaries.

Outlook

The negative outlook reflects that on the banking parent, BNP Paribas. On a stand-alone basis, we expect BNPPA to maintain double-digit turnover growth in 2009 and 2010, thanks the success of its business model and external growth, such as the recent acquisition of Dexia Epargne Pension in December 2009 with €1 billion in premium income.

The insurer's new business margins should remain strong, above 2% for 2009 and 2010 thanks to a continuing growing and profitable protection business in France and internationally. We also expect BNP Paribas to support any need for capital because the insurer's capital adequacy is set to remain a weakness for the ratings. We expect BNP Paribas to maintain the regulatory solvency margins of its two main operating entities, Cardif Assurance Vie and Cardif-Assurances Risques Divers, at its target of above 120% excluding unrealized gains.

Ratings Detail (As Of January 25, 2010)*	
Operating Companies Covered By This Report	
Cardif Assurance Vie	
Financial Strength Rating	
<i>Local Currency</i>	AA/Negative/--
Counterparty Credit Rating	
<i>Local Currency</i>	AA/Negative/--
Cardif-Assurances Risques Divers	
Financial Strength Rating	
<i>Local Currency</i>	AA/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Negative/--
Related Entities	
BNP Paribas	
Issuer Credit Rating	AA/Negative/A-1+

Ratings Detail (As Of January 25, 2010)*(cont.)**BNP Paribas Assurance**

Issuer Credit Rating	AA-/Negative/--
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Domicile	France
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*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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