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BNP Paribas Assurance

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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 Company Covered By This Report

Financial Strength Rating

Local Currency

AA+/Watch Neg/--

Rationale

The ratings on Cardif Assurance Vie and Cardif-Assurances Risques Divers, subsidiaries of BNP Paribas Assurance, are based on the insurance group's core positioning within French bank BNP Paribas (AA+/Watch Neg/A-1+). BNP Paribas Assurance is the bank's insurance arm and key component of its Asset Management and Services division. BNP Paribas Assurance accounted for 4.9% and 6.8% of the bank's revenues and gross operating income on Sept. 30, 2008. The insurer is fully integrated into BNP Paribas' bancassurance strategy in France and 56% of its premium income derives from the bank's distribution network. BNP Paribas Assurance 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.

BNP Paribas Assurance is the fourth-largest player in the French life insurance market, with consolidated premium income of €12.6 billion on Sept. 30, 2008, and a 7.8% market share. Premium income decreased 10% in the first nine months of 2008--less than the average of 14% for French bancassurance--owing to reduced inflows from unit-linked business and traditional profit-sharing policies. The insurer's key competitive advantages remain its ability to leverage BNP Paribas' large distribution network while building strong relationships under the Cardif brand with nonproprietary networks, including banks, independent financial advisers, and brokers. With its dual-brand strategy, the BNP Paribas Assurance group has access to a very large and diversified client base and is present in no fewer than 41 countries throughout the world. Its leading positions in the profitable creditor term segment and in low-capital-intensive French unit-linked business, though under pressure due to adverse capital market conditions, are additional positive factors.

BNP Paribas Assurance has strong earnings and strong earnings quality. European embedded value, pro forma, grew 10% in 2007. The contribution of new business value continues to be very strong at €406 million, thanks to a large client base and well-balanced business mix, including a highly profitable protection business and a low-capital-intensive unit-linked business. International operations, where the highly profitable protection business is predominant, continue to contribute to a significant share of earnings, representing 39% of total premium income but 57% of group new business value in 2007. The insurer's new business margins (based on present value of new business premiums) remained strong at 2.6% in 2007, but down from 3% in 2006 due to changes in modeling assumptions. Overall, the insurer's aftertax profit grew a sharp 43% to €440.5 million, partly due to active equity portfolio management in 2007.

Capitalization is only good for the current ratings, with high market risks, according to Standard & Poor's risk-based capital model. 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. However, BNP Paribas' strong financial flexibility and support mitigates our concerns--last year the bank injected €925 million of capital into BNP Paribas Assurance. We expect the bank to provide additional capital, if needed, to BNP Paribas Assurance and related insurance subsidiaries.

CreditWatch

The maintenance of the ratings on CreditWatch with negative implications reflects that of BNP Paribas. On a stand-alone basis, despite challenging market conditions, we expect BNP Paribas Assurance to maintain double-digit growth of revenues ("produit net bancaire" or PNB) under French Generally Accepted Accounting Principles both in 2008 and 2009, thanks the success of its business model and strength of its dual-brand strategy. The insurer's new business margins should decline in 2008 owing to both lower business volumes and a business mix shift toward capital-intensive, traditional saving policies. However, currently low minimum guaranteed rates, combined with flexible terms and conditions on traditional savings books, are positive factors that will help maintain a strong operating performance. In addition, BNP Paribas Assurance should be less exposed than peers to the downturn in the French life market because of the sizable earnings contribution of international operations. We therefore expect new business margins to be at least 2.2% in 2008 and in 2009. We also expect BNP Paribas to support any need for capital, as the insurer's capital adequacy should remain a weakness for the ratings. We expect BNP Paribas Assurance 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 6, 2009)*

Operating Company Covered By This Report

Cardif Assurance Vie

Financial Strength Rating

Local Currency

AA+/Watch Neg/--

Counterparty Credit Rating

Local Currency

AA+/Watch Neg/--

Domicile

France

*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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