Solvency and Financial Condition Report (SFCR)

CNP Assurances SA, solo

2017

31 December 2017

assurances

Introduction

This Solvency and Financial Condition Report (SFCR) has been prepared in accordance with the public disclosure requirements of Articles 51 to 56 and 256 of Directive 2009/138/EC of the European Parliament and of the Council dated 25 November 2009 and the implementing rules contained in the Delegated Regulation dated 17 January 2015.

This report discloses the information referred to in Articles 292 to 298 and 359 to 371 of the Delegated Regulation and follows the structure set out in the Delegated Regulation's Annex 20.

It is a solo SFCR that addresses the operations of CNP Assurances SA only, without consolidating the operations of its main subsidiaries in France and abroad. In this report, these subsidiaries are treated as strategic investments without analysing their insurance commitments and their investment portfolios. Hereinafter, unless otherwise stated, "CNP Assurances" refers to the legal entity CNP Assurances SA.

This document covers the reference period from 1 January 2017 to 31 December 2017.

The report includes an executive summary, five sections (business and performance, system of governance, risk profile, valuation for solvency purposes and capital management) and a set of quantitative reports in the appendix.

This 2017 report was approved by CNP Assurances' Board of Directors at its meeting on 27 April 2018.
It has also been submitted to France's banking and insurance supervisor (*Autorité de Contrôle Prudentiel et de Résolution* – ACPR).

A glossary of key terms is provided at the end of this document.

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Executive Summary

As an insurer, co-insurer and reinsurer, CNP Assurances provides its customers and partners with unique expertise in protection insurance and savings solutions. Thanks to a multi-partner, multi-channel business model, the Company's solutions are distributed in France by its many banking and social economy partners.

CNP Assurances is France's leading personal insurer[1].

Key figures

	2017	2016	Change
Net new money (French GAAP)	**€22,948m**	€24,045m	-5%
Net insurance revenue[2]	**€1,669m**	€1,512m	+10%
Value of new business[3]	**€500m**	€230m	+117%
Investment income and expenses[4]	**€8,371m**	€8,085m	+4%
Technical reserves (gross of reinsurance)[5]	**€329.1bn**	€331.6bn	-1%
Eligible own funds covering the SCR	**€27.1bn**	€24.9bn	+9%
SCR	**€13.5bn**	€13.2bn	+2%
SCR coverage ratio	**201%**	188%	+13 pts
Eligible own funds covering the MCR	**€23.4bn**	€21.0bn	+11%
MCR	**€6.1bn**	€6.0bn	+2%
MCR coverage ratio	**387%**	354%	+33 pts

Business and performance

CNP Assurances is stepping up its strategic diversification, in terms of both partnerships and products. The Company is continuing to refocus determinedly on the personal risk/protection insurance market and on the unit-linked segment of the savings market.

Premium income under French GAAP amounted to €22.9 billion in 2017, a decrease of €1.1 billion compared to 2016 that was due to a change in the partnership environment. New money invested in traditional savings products fell by 16.4%, while the flow of new money into unit-linked funds grew by 24.7%, reflecting the strategic focus on building this business.

In 2017, unit-linked products accounted for 21.8% of total savings premium income, representing a 6.1-point increase compared to the previous year.

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[1] Source: FFA 2016 data, June 2017.
[2] Based on the IFRS consolidated financial statements.
[3] Based on MCEV© measurement principles.
[4] Based on QRT S.09 – Information on gains/income and losses in the period.
[5] Based on Solvency II measurement principles.

Significant events of the year included the merger of two wholly-owned subsidiaries, Préviposte and Investissement Trésor Vie (ITV), into CNP Assurances.

System of governance

CNP Assurances' governance is organised around the Board of Directors, which determines the Company's overall strategy and oversees its implementation, the Chief Executive Officer and the Executive Committee, whose members include the three Deputy Chief Executive Officers and ten other senior executives.

At its meeting on 13 April 2017, the Board of Directors re-appointed Jean-Paul Faugère as Chairman of the Board and Frédéric Lavenir as Chief Executive Officer.

The holders of the four key functions (risk management, compliance, actuarial and internal audit) report to the Chief Executive Officer.

These initiatives were part of the process of continuous improvement of our risk management and internal control systems conducted in cooperation with our partner networks. We consider that these systems are appropriate for our business model.

Risk profile

The risk profile shows that the Company's primary exposure is to market risk, which accounts for 60% of the solvency capital requirement (SCR) per risk. However, the Company's broad and diverse range of products has a significant diversification effect.

Interest rates recovered slightly in 2017 but nevertheless were still very low. We responded to the resulting increase in the Company's exposure to persistently low rates by scaling back our investments in the bond market which we viewed as over-priced. This led to a small decrease in the proportion of insurance investments represented by fixed income securities and an increase in the amount held in cash.

In the term creditor insurance segment, 2017 was devoted to preparing for the application, as from 2018, of legislation giving insureds an annual right to switch to a different insurer. This new legislation may trigger a significant shift in the term creditor insurance market towards individual insurance products. Our response has been to adjust our offer and implement an appropriate system to track the cancellation risk on in-force term creditor insurance contracts.

Valuation of assets and liabilities

Assets and liabilities in CNP Assurances' Solvency II economic balance sheet are measured in accordance with valuation and reserving policies approved by the Board of Directors. The main methods and assumptions used for the valuations are presented in section D.

Where appropriate, assets are measured at their value in the IFRS balance sheet audited each year by the Company's Statutory Auditors.

Solvency II technical reserves gross of reinsurance amounted to €329.1 billion at 31 December 2017.

Solvency capital requirement (SCR) and minimum capital requirement (MCR) coverage ratios

Efficient capital management is essential to ensure that the Company's capital requirements are met. It is therefore part of the annual ORSA planning process and gives rise to the preparation each year of a five-year medium-term capital management plan that is submitted to the Board of Directors.

CNP Assurances' Solvency II own funds eligible for SCR calculations, based on the economic balance sheet, amounted to €27.1 billion at 31 December 2017. The total included €19.6 billion in basic own funds, classified as unrestricted Tier 1 capital (i.e., the highest-quality component of capital), and €7.5 billion in subordinated liabilities (of which a portion is covered by the grandfathering clause).

Its solvency capital requirement, calculated using the Solvency II Standard Formula without applying transitional measures, was €13.5 billion at 31 December 2017.

CNP Assurances' Solvency II SCR coverage ratio at that date was 201%, a 13-point improvement versus end-2016 that was largely due to resilient financial markets and the shift in product mix towards unit-linked contracts. SCR coverage ratio calculations take into account the volatility adjustment provided for in Solvency II (Article 77 *quinquies*) which had a 3-point positive impact on the ratio at 31 December 2017.

CNP Assurances' Solvency II own funds eligible for inclusion in the MCR coverage ratio, based on the economic balance sheet, amounted to €23.4 billion at 31 December 2017. The total included €19.6 billion in basic own funds, classified as unrestricted Tier 1 capital (i.e., the highest-quality component of capital), and €3.8 billion in subordinated liabilities.

CNP Assurances' minimum capital requirement was €6.1 billion at 31 December 2017.

CNP Assurances' MCR coverage ratio at that date was therefore 387%.

A. Business and Performance

A1. Business review

1. General information

Name, headquarters, Trade and Companies Registry number and APE business identifier code

CNP Assurances
4 place Raoul Dautry
75716 Paris Cedex 15, France
Registration no. 341 737 062 RCS Paris – APE code: 6511 Z

Legal form

CNP Assurances is a French *société anonyme* (joint-stock company) created in its current legal form by French Act No. 92-665 of 16 July 1992 adapting insurance and credit legislation to the single European market.

Governing law

CNP Assurances' activities are supervised by France's insurance supervisory authority, *Autorité de Contrôle Prudentiel et de Résolution* (ACPR, 61 rue Taitbout, 75009 Paris, France). As a company whose shares are listed on Euronext Paris, CNP Assurances is also supervised by France's securities regulator, *Autorité des Marchés Financiers* (AMF).

2. Statutory Auditors

Statutory Auditors of CNP Assurances	First appointed	Appointment ends
PricewaterhouseCoopers Audit 63 rue de Villiers 92200 Neuilly-sur-Seine, France represented by Bénédicte Vignon*	2010	AGM to be held to approve the 2021 financial statements
*Deputy: Xavier Crépon**	2016	AGM to be held to approve the 2021 financial statements
Mazars 61 rue Henri Regnault – Tour Exaltis 92400 Courbevoie, France represented by Olivier Leclerc*	1998	AGM to be held to approve the 2021 financial statements
*Deputy: Franck Boyer**	2010	AGM to be held to approve the 2021 financial statements

** Member of the Compagnie régionale des Commissaires aux Comptes de Versailles.*

3. Ownership structure

Number of shares: 686,618,477
Number of voting rights: 1,224,983,856

Shareholders	Number of shares	% of capital	% of voting rights[6]
Caisse des Dépôts et Consignations (France)	280,615,540	40.87%	45.82%
Sopassure (La Banque Postale and BPCE holding company, France)	248,926,986	36.25%	40.64%
French State (France)	7,645,754	1.11%	1.25%
TOTAL SHARES HELD IN CONCERT[7]	**537,188,280**	**78.24%**	**87.71%**
Public, Company employees and other	149,430,197	21.76%	12.29%
of which:	of which:	of which:	of which:
CNP Assurances (treasury shares)	143,695	0.02%	-
TOTAL CNP ASSURANCES SHARES	**686,618,477**	**100.00%**	**100.00%**

[6] The difference between the percentage of share capital and percentage of voting rights corresponds to treasury shares that are stripped of voting rights and to double voting rights.

[7] The shares held in concert are covered by the shareholders' agreement. A total of 82,231,488 CNP Assurances shares included in the total shares held in concert in the above table correspond to scrip dividends paid on 24 July 2012 and 28 May 2013. These shares are excluded from the definition of "pact shares" in the shareholders' agreement signed on 2 September 1998 by the shareholders acting in concert.

4. Subsidiaries, related undertakings and branches

CNP Assurances is the parent company of the CNP Assurances Group. The insurance undertakings included in the CNP Assurance Group for Solvency II reporting purposes at 31 December 2017 are as follows:

Name	Country	% of capital	% of voting rights
CNP Assurances	France	100%	
CNP Caution	France	100%	100%
MFPrévoyance	France	65%	51%
Assuristance	France	66%	66%
Filassistance International	France	66%	66%
Arial CNP Assurances	France	40%	40%
CNP Assurances Compañia de Seguros	Argentina	76.47%	76.47%
CNP Holding Brasil	Brazil	100%	100%
Caixa Seguros Holding SA	Brazil	51.75%	51.75%
Caixa Seguradora (formerly Caixa Seguros)	Brazil	51.75%	51.75%
Caixa Vida e Previdência	Brazil	51.75%	51.75%
Caixa Assessoria e Consultoria	Brazil	51.75%	51.75%
Odonto Empresas Convenios Dentarios Ltda	Brazil	51.75%	51.75%
Holding Caixa Seguros Participações em Saude Ltda	Brazil	51.75%	51.75%
Caixa Saúde SA	Brazil	51.75%	51.75%
Caixa Consórcios	Brazil	51.75%	51.75%
Caixa Seguros Participações Securitárias Ltda	Brazil	51.75%	51.75%
Previsul	Brazil	51.75%	51.75%
Caixa Capitalização	Brazil	26.39%	26.39%
Wiz Soluçoes e Corretagem de Seguros S.A.	Brazil	12.94%	12.94%
CNP Europe Life Ltd	Ireland	100%	100%
CNP Santander Insurance Europe Dac	Ireland	51%	51%
CNP Santander Insurance Life Dac	Ireland	51%	51%
CNP Partners	Spain	100%	100%
CNP UniCredit Vita	Italy	57.50%	57.50%
CNP Luxembourg	Luxembourg	100%	100%
CNP Cyprus Insurance Holdings	Cyprus	50.1%	50.1%
CNP Cyprialife	Cyprus	50.1%	50.1%
CNP Asfalistiki	Cyprus	50.1%	50.1%

Note: in the rest of this report, “Caixa Seguradora” refers to all the Brazilian insurance undertakings, “CNP Santander” refers to the two insurance undertakings CNP Santander Ireland and CNP Santander Life, and “CNP CIH” or “CNP Cyprus Insurance Holdings” refers to all the insurance undertakings owned by CNP Cyprus Insurance Holdings.

This report concerns CNP Assurances SA and its branches, which includes:

Branch	Country
CNP Danmark branch	Denmark
CNP Italia branch	Italy
CNP España branch	Spain

5. Significant events of the year

5.1. Economic and financial environment

The fastest growth since 2010, thanks to a synchronous and virtuous recovery

When it comes to taking stock, it is clear that 2017 was the best year so far of the current decade. The world's economies got back in sync, driving a 3.7% increase in global GDP, with developed economies enjoying faster growth (led by the eurozone and Japan) and emerging economies staging a rebound (with Brazil climbing out of recession despite a still troubled and uncertain political environment). The improvement was attributable to the recovery in world trade (which grew 5%) and in manufacturing (reflecting increased consumer spending and corporate capital expenditure).

This created a virtuous circle illustrated by lower jobless rates, with some countries (the United States, the United Kingdom, Japan and Germany) at near full employment. The tight labour market nonetheless fuelled limited wage pressures, while only part of the impact of higher oil and metals prices was transferred to customers through price increases. This explains why inflation rates remained below central bank targets in developed countries and fell sharply in emerging countries (with Brazil experiencing 2.9% inflation versus 6% in 2016) as their currencies strengthened against the dollar.

Interest rates remained low in the absence of inflationary pressures

In last year's low-inflation environment, the European Central Bank (ECB) and the Bank of Japan held firm to their accommodative monetary policies, while the US Federal Reserve began a slow process of monetary policy normalisation, increasing the Fed Funds rate by 75 basis points during the year and reducing its bond purchases without raising hopes of significant further moves in this direction. In the eurozone, predictions that inflation would remain below the 2% target for some time to come (particularly in light of the euro's appreciation against other currencies) led the ECB to set the pace of its bond purchases at €30 billion a month for a further nine months (until September 2018). In addition, the bank will reinvest €120 billion in redemptions in 2018. This means that the ECB's asset purchase programme will continue to exceed sovereign bond issuances in 2018. The excess of demand over supply flattened, and in some cases reduced, credit risk premiums on peripheral sovereign debt despite the climate of political uncertainty in some countries. Conversely, the central banks in emerging economies adopted accommodative monetary policies, following the example set by Brazil which cut its base rate from 13.75% to 7% in 2017.

The economic environment was very buoyant, with growth rates increasing in the eurozone (to close to 2.4%) and Japan (1.7%), and remaining vigorous in the United States (at close to 3% per quarter as from the second quarter) and China. More importantly still, the leading indicators (PMI, ISM, Ifo) remained close to their all-time highs, promising an equally robust environment in early 2018.

The best performances since 2010, with bond and equity prices rising in tandem

The favourable environment helped to keep share prices high, along with the prices of other assets. The MSCI World index gained 21 points, led by US equities (with the three benchmarks – S&P500, Dow Jones and Nasdaq – setting new records) and emerging market equities (which gained 32 points). European equities experienced mixed fortunes (the Euro Stoxx 50 Index gained 10% and the CAC 40 Index 13%), reflecting the impact of last year's electoral periods and the euro's appreciation against the dollar (with the exchange rate rising from 1.05 to 1.20). Equity prices as a whole were boosted by sharp rises in corporate earnings which exceeded the January consensus forecasts for the first time since 2010.

At the same time, the bond markets delivered a resilient performance despite fears concerning the United States' fiscal policy. The markets' positive performances were attributable to the narrower spreads resulting from institutional investors' attempts to earn higher yields and to interest rate stability (European rates remained stubbornly low, with the ten-year European swap rate at around 0.85%, France's 10-year OAT rate at close to 0.75%, and the US 10-year Fed Funds rate at around 2.45%). High yield debt funds generated yields of 5% to 7% while the average yield on emerging market debt was 10%. More generally, volatility in the bond and equity markets was extremely low, with the VIX Dow Jones implied volatility index at 10% and the V2X Euro Stoxx 50 implied volatility index at 12%, despite last year's electoral periods and geopolitical tensions.

A fall in the dollar which had a significant impact on geographic performance

The main surprise of 2017 came at the end of the year when the US dollar lost 14% against the euro and 6% against the Chinese yuan, confounding consensus forecasts made in January. The fall in value of the US currency was due to the setbacks experienced in implementing the reforms announced by the Trump administration. The markets were not affected, but the weak dollar led to differences in performance between regions, to the detriment of Europe amongst others. Of particular note was the Brazilian currency's 14% fall against the euro.

5.2. Significant events for CNP Assurances

Merger of Préviposte and ITV into CNP Assurances

As of 1 January 2017, Préviposte, which was licensed to write class 20 lines (life insurance and death benefits) and class 24 lines (endowment insurance), and Investissement Trésor Vie (ITV), which was licensed to write class 24 lines, were both wholly-owned subsidiaries of CNP Assurances. They were originally created to manage the *bons de capitalisation* endowment insurance contracts sold by La Banque Postale and the Trésor Public network, on behalf of CNP Assurances which was not licensed to write class 24 lines until 1994. The purpose of merging them into CNP Assurances was to reduce the number of separate companies from three to one.

The proposed merger was authorised by France's insurance supervisor, ACPR in its decision No. 2017-C-36 dated 11 September 2017 approving the transfer of the two subsidiaries' insurance books, which was published in the French legal gazette *Journal Officiel* on 4 October 2017. As allowed by Article L.236-11 of the French Commercial Code, the simplified merger was backdated to 1 January 2017 for accounting and tax purposes.

€5 billion worth of new investments announced in energy and environmental transition projects by the year 2021

To help limit global warming to 2°C at the end of the century, CNP Assurances has announced €5 billion in new investments in support of the Energy and Environmental Transition (EET) between now and the end of 2021. The Company is adapting its equity investment strategy by aligning the management of its portfolios on indices favouring the Energy and Environmental Transition and is boosting its commitment to reducing their carbon footprint.

As a signatory of the Montreal Carbon Pledge in May 2015 and in keeping with COP 21, CNP Assurances undertook, among other things, to reduce the carbon footprint of its listed equity portfolios by 20% and reduce the energy consumption of its property assets, also by 20%, by the year 2020. In view of the results already achieved and the urgency of the climate challenge, CNP Assurances has decided to strengthen its initiatives by setting new targets.

The objective of reducing the carbon footprint of the companies held in its equity portfolio has been raised to 30% by 2021 compared to the 2014 baseline[8].

Signature of a distribution and reinsurance agreement with Malakoff Médéric covering the self-employed professional and individual market segments

The Company's Amétis network will offer Malakoff Médéric's non-salaried and executive clients a comprehensive approach to personal and wealth protection strategies. The Amétis network comprises 220 advisers, including 86 with wealth management and personal protection certification, located throughout France and specialised in loyalty building through one-on-one advice and their ability to provide global protection solutions. This commercial partnership reinforces the multi-partnership strategy of CNP Assurances and its development efforts in the personal protection and wealth building market segments for professionals and individuals.

Via its distance selling platform, the partnership will enable Malakoff Médéric to increase its growth in the individual health and funeral insurance segments by providing access to the individual clients of CNP Assurances.

Caisse des Dépôts and CNP Assurances complete their acquisition of 49.9% of RTE

Caisse des Dépôts and CNP Assurances have completed the acquisition of a 49.9% indirect stake in RTE, after obtaining anti-trust approval of the deal.

One of the core aims of this investment is to support France's energy and environmental transition, in line with the Company's strategy as a responsible and long-term investor.

CNP Assurances with Open CNP at the 5th annual France Digitale Day

For the second consecutive year, CNP Assurances partnered France Digitale Day.

During France Digitale Day 2016, CNP Assurances announced a budget of €100 million for its Open CNP programme, to be spent over five years. This Open Innovation programme, an integral part of the insurer's digital strategy, aims to support the growth of innovative start-ups financially while developing win-win situations through partnerships.

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[8] On 22 February 2018, in the press release reporting its 2017 results, CNP Assurances announced that it was stepping up its commitment to reducing the carbon footprint of the equity portfolio, setting an objective of 0.25 teqCO_2/€k invested by end-2021 (versus 0.33 teqCO_2/€k invested). This represents a target reduction of 47% from the 2014 baseline, compared with the 30% target set in 2017 that is referred to in the press release reproduced here.

In 2016, Open CNP completed three transactions, acquiring equity stakes in:

- Lendix, the leading French crowd-lending platform for SMEs.
- H4D, a leading provider of telemedicine solutions.
- Alan, which offers start-ups and SMEs supplementary health insurance with 100% on-line direct underwriting.

In 2017, the Open CNP programme continued its support for start-ups by taking a stake in Stratumn, a leader in network solutions providing secure processing links between companies and their stakeholders via blockchain technology. Then most recently, it invested in MyNotary, the leading French collaborative platform designed to facilitate the co-construction of real property contracts on line.

Open CNP should eventually be in a position to provide support for between 15 and 20 start-ups.

Transfer of a portfolio of contracts to Arial CNP Assurances

On 15 December 2015, AG2R La Mondiale and CNP Assurances signed a framework partnership contract in the field of retirement savings. The strategic partnership, covering both retirement savings plans and employee benefit plans, is being led by a joint subsidiary named Arial CNP Assurances. Arial CNP Assurances combines the teams, resources and business portfolios of the two partners, and is aiming to become the leading company retirement savings plan provider. CNP Assurances and AG2R La Mondiale have demonstrated their support for the new venture, of which they own 40% and 60% respectively, by agreeing to reinsure the contracts sold by Arial CNP Assurances.

The partnership contract covered the following main aspects:

- Contribution of each of the partners' group pensions contracts (traditional and unit-linked funds). The contributions were subject to the condition precedent of the signature of a reinsurance treaty between the partnership vehicle, Arial CNP Assurances, and each partner, with each transferred contract being reinsured on a 100% basis.
- A commitment to reinsure the new business written by Arial CNP Assurances, pro rata to each partner's ownership interest.

The transfer by CNP Assurances to Arial CNP Assurances of a portfolio of group pensions contracts (traditional and unit-linked funds) was authorised by France's insurance supervisor, ACPR, on 11 September 2017 (decision 2017-C-35 published in the French legal gazette *Journal Officiel*, edition 0252 dated 27 October 2017), allowing the project to be implemented.

The transfer was backdated to 1 January 2017 and all transactions carried out by CNP Assurances in respect of the transferred portfolio were considered as having been carried out by Arial CNP Assurances as from that date for accounting and tax purposes.

The transfer concerned (i) a portfolio of company retirement savings plans invested in both traditional and unit-linked funds representing liabilities of €4,013 million and (ii) unit-linked asset portfolios and mutual fund units with an equivalent value, transferred at net book value. The net assets (assets less liabilities) transferred by CNP Assurances amounted to €23.99. As consideration for the transferred net assets, CNP Assurances received one new Arial CNP Assurances share, credited as fully paid.

Elimination of the *contribution additionnelle* surtax on distributed earnings and introduction of a 30% exceptional surtax on French corporate income tax in 2017

The 2018 Finance Act has eliminated the 3% *contribution additionnelle* surtax on distributed earnings introduced in 2012 and payable by French companies subject to corporate income tax that pay dividends (with some exceptions), after France's Constitutional Council held the surtax to be unconstitutional in a ruling dated 6 October 2017.

Elimination of this surtax will generate an annual saving of some €15 million for the Company based on the amounts paid in prior years. In addition, the Company has obtained a refund of the surtax paid in the years 2013 to 2017 for a total of €69.4 million including interest.

To help offset the negative effect on public finances of these refunds, the French State has introduced a new "exceptional" surtax payable by large corporates (Amended 2017 Finance Act dated 1 December 2017). Based on the size of its business (in terms of premium income), the surtax payable by CNP Assurances will represent 30% of its French income tax liability and amounts to around €94.6 million. This represents an additional tax cost of €31.5 million compared to the €63.1 million refund of the 3% tax on distributed earnings (excluding interest).

6. Parent company business review

As an insurer, co-insurer and reinsurer, CNP Assurances provides its customers and partners with unique expertise in protection insurance and savings solutions. Thanks to a multi-partner, multi-channel business model, the Company's solutions are distributed in France by its many banking and social economy partners.

Total premium income under French GAAP breaks down as follows by business segment:

(In € millions)		**2017**
Life	With-profits life insurance	12,522
	Index-linked and unit-linked insurance	3,812
	Other life insurance	1,977
	Health insurance	1,341
	Life reinsurance	2,271
	Health reinsurance	5
Non-life	Workers' compensation insurance	129
	Medical expense insurance	511
	Income protection insurance	382
TOTAL		**22,948**

In the individual insurance market, CNP Assurances focuses on the bancassurance model, marketing insurance products through the banking networks of our two long-standing partners, La Banque Postale and the savings bank network (BPCE group). As well as being distribution partners, La Banque Postale and the BPCE group are also shareholders, with a joint 36.25% stake in CNP Assurances. The two networks, which have a deep presence in France, accounted for 53.5% of our Company's 2017 premium income (based on IFRS). Last year saw the ramp-up of term creditor insurance business and growth in unit-linked pensions business in the networks covered by the partnership with BPCE, in line with the strategy of our BPCE business unit. In the networks covered by the partnership with La Banque Postale, highlights of 2017 included the successful launch of new *eurocroissance* funds and further diversification towards unit-linked funds, which accounted for a significantly higher proportion of both new money and technical reserves compared with 2016.

During the year, we continued to focus our development strategy on the wealth management segment, establishing new partnerships and continuing to offer innovative products to our various distribution partners, including private banking institutions, high street banks, family offices, asset management firms, brokers and independent financial advisors.

Since 2004, products have also been distributed via our own in-house network, Amétis, which has evolved into a social protection and wealth management expert serving the SME, micro-enterprise, self-employed and personal markets. It is growing the business by targeting its own portfolio of 280,000 individual customers and the customers of its partners, leveraging distribution agreements such as those signed with two employee benefits institutions, Klésia in 2016 and Malakoff Médéric at the end of 2017.

Leveraging our comprehensive range of supplementary pension and employee benefits products, we craft tailor-made solutions for the many companies, local authorities, non-profit organisations, mutual insurance companies and employee benefits institutions we count among our partners. CNP Assurances is currently leader in the long-term care sector where it offers compulsory and optional products that protect policyholders against the financial impact of a loss of independence. In an increasingly digital society where ties between generations are being stretched and transformed, we are developing guarantees, services and a distribution model that break the mould.

Lastly, CNP Assurances is one of the leading providers of term creditor insurance in France, partnering numerous banks, social economy lenders and mutual insurers.

A2. Underwriting performance

Business performance is tracked using various indicators, including the following:

- Premium income, which is an indicator of underwriting volume.
- Net insurance revenue (NIR), which measures the margin generated by insurance contracts before deducting administrative costs.
- Value of new business (VNB), which measures estimated future profits from insurance policies written during the period.

In 2017, Préviposte and ITV were merged into CNP Assurances. The following discussion of the Company's business performance in 2017 compared to 2016 takes into account the expansion of the Savings business base resulting from this merger.

1. Premium income

Premium income (French GAAP) generated by the CNP Assurances reporting entity amounted to €22.9 billion in 2016, down €1.1 billion on 2016. The change compared with 2016 by CNP Assurances business segment is presented below.

- Savings new money in 2017 totalled €16.8 billion, representing €1.9 billion less than in 2016. The new partnership environment led to a €2.3 million decline in savings new money generated by one of the two main distribution partners. New money invested in traditional savings products fell by 16.4%, while the flow of new money into unit-linked funds grew by 24.7%, reflecting the strategic focus on building this business.

- In 2017, unit-linked products accounted for 21.8% of total savings premium income, representing a 6.1-point increase compared to the previous year.
- Pensions premium income was 21.3% higher at €1.6 billion, with the €0.3 billion in additional premiums corresponding mainly to a new group pensions contract.
- Personal risk and health insurance premiums amounted to €1.7 billion, an increase of €0.3 billion compared to 2016 that primarily reflected new business written in 2017.
- Term creditor insurance premium income totalled €2.8 billion, an increase of €0.1 billion or 5.7% compared with 2016 that was attributable to the extension of the BPCE partnership to include the Banques Populaires network and Crédit Foncier.

In the savings/pensions business, the Company reported a €5.4 billion net outflow of funds in 2017, with the net inflow into unit-linked funds only partly offsetting the net outflow from traditional contracts.

Net new money *(In € billions)*	2017
Traditional contracts	(7.7)
Unit-linked contracts	2.3
Total	**(5.4)**

2. Net insurance revenue

Net insurance revenue totalled €1,669 million in 2017, representing an increase of €144 million or 9.4% that was led by growth in personal risk/protection insurance business.

Net insurance revenue from the savings and pensions business segment was stable compared to 2016 at €1,150 million.

By contrast, net insurance revenue from personal risk/protection insurance business was €156 million higher at €519 million, reflecting growth in premium income and stable regulatory discount rates.

Net insurance revenue by business segment *(In € millions)*	**2017**	2016	Change
Savings/Pensions	**1,150**	1,163	-12
Personal Risk/Protection insurance	**519**	363	+156
Total	**1,669**	**1,525**	**+144**

3. Value of new business

The value of new business written in 2017 was €500 million versus €230 million in 2016, representing an increase of 117.7%. Growth drivers included favourable economic conditions, higher term creditor insurance volumes following expansion of the distribution base, increased unit-linked sales and the positive impact of measures to improve loss ratios on employee benefits business.

Value of new business (*In € millions*)	**2017**	2016	Change
Total	**500**	230	+117.7%

A3. Investment performance

1. Description of the asset portfolio

The market value of the asset portfolio increased by nearly €9 billion or 3% in 2017. Part of the increase was attributable to growth in unit-linked portfolios, in line with our strategy (for €2.8 billion), and the merger of Préviposte and ITV into CNP Assurances (for €7.9 billion).

Excluding unit-linked portfolios, changes in the various asset classes were as follows:

Fixed-income portfolios

In 2017, the investment focus was on sovereign debt (mainly French and Spanish), which offered higher yields than in 2016 and a more attractive risk/return ratio than the credit market. We maintained our prudent approach to investing in the credit market, adding to our portfolio of AA-rated bonds, maintaining the AAA-rated portfolio and scaling back investment in bonds rated BBB or lower.

European issues accounted for 90% of bond purchases and American issuers for 7%.

We regularly use forward financial instruments to hedge policyholder and own-funds portfolios against the main market risks. At 31 December 2017, we held caps on a notional amount of €53 billion as a hedge against rising interest rates. The notional amount of hedges against equity risks totalled €7.8 billion at 31 December 2017, representing three times the end-2016 amount.

Diversified investments

The proportion of the total portfolio represented by diversified investments rose by 1.22% in 2017 (based on market values), mainly due to increased investment in real estate and listed equities.

Equities continued to offer an attractive yield of around 3%. The hedge fund portfolio has been wound down in recent years and no longer represents a significant asset class in the Company's portfolio.

The Investments department regularly uses forward financial instruments to hedge policyholder and own-funds portfolios against the main market risks. The notional amount of hedges against equity risks totalled €7.8 billion at 31 December 2017, representing three times the end-2016 amount.

Concerning unlisted asset classes (property, infrastructure and private equity):

- Property investments increased from 4.45% to 4.59% of total insurance assets. The low interest rates were an incentive to continue investing in this asset class, focusing mainly on commercial property.
- Infrastructure investments were also increased in 2017 (by 0.27%) in response to the low interest rate environment.
- In private equity, the best managers launched major fund raising exercises in 2017. Nearly €0.6 billion was invested in private equity during the year, increasing the Company's net exposure to this asset class to €4.5 billion at 31 December 2017.

2. Investment income and expenses

Investment income and expenses for 2017 can be analysed as follows for Solvency II purposes (based on QRT S.09.01):

(in € millions)	Type	**2017**	2016	Change
FIXED INCOME PORTFOLIOS	Dividends	245.8	308.8	-63.0
	Interest	5,556.9	5,853.2	-296.2
	Realised gains and losses	16.7	139.4	-122.6
	Total	**5,819.5**	**6,301.3**	**-481.8**
o/w Money market	*Dividends*	*1.5*	*3.0*	*-1.6*
	Interest	*(1.0)*	*11.5*	*-12.5*
	Realised gains and losses	*(11.5)*	*(48.5)*	*+37.0*
	Total	***(11.0)***	***(34.0)***	***+22.9***
o/w Asset-backed securities	*Interest*	*11.4*	*39.0*	*-27.6*
	Realised gains and losses	*0.0*	*4.0*	*-4.0*
	Total	***11.4***	***43.0***	***-31.6***
DIVERSIFIED PORTFOLIOS	Dividends	1,528.4	1,372.7	+155.7
	Rent	40.0	42.4	-2.4
	Interest	205.0	102.4	+102.7
	Realised gains and losses	778.5	266.1	+512.4
	Total	**2,551.9**	**1,783.6**	**+768.3**
o/w Equities	*Dividends*	*736.4*	*737.7*	*-1.4*
	Rent	*0.0*	*0.0*	*0.0*
	Interest	*59.3*	*69.8*	*-10.5*
	Realised gains and losses	*197.5*	*(159.8)*	*+357.2*
	Total	***993.2***	***647.8***	***+345.4***
o/w Private equity	*Dividends*	*790.8*	*630.4*	*+160.3*
	Rent	*40.0*	*42.4*	*-2.4*
	Interest	*145.1*	*32.6*	*+112.5*
	Realised gains and losses	*583.3*	*378.7*	*+204.6*
	Total	***1,559.2***	***1,084.1***	***+475.1***
	Dividends	1,774.2	1,681.5	+92.7
	Rent	40.0	42.4	-2.4
	Interest	5,762.0	5,955.5	-193.6
	Realised gains and losses	795.2	405.5	+389.7
Total		**8,371.4**	**8,084.9**	**+286.5**

Note: income from fixed-income funds and property companies is qualified as dividend income and realised gains and losses include impairment movements.

The €8.4 billion in investment income recorded in 2017 was up on the 2016 total, reflecting:

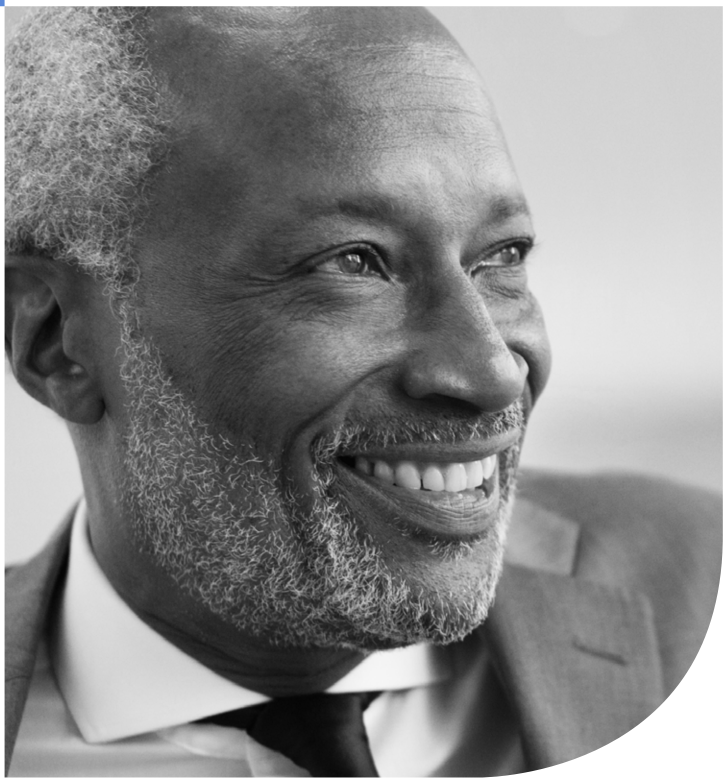
- On the plus side, favourable stock markets, which drove up dividend income and realised capital gains.
- On the minus side, very low interest rates, which led to a 12% decline in interest income from the bond portfolios.

3. Gains and losses recognised directly in equity in 2017

No gains or losses are recognised directly in equity under French GAAP.

A4. Performance of other activities

The contribution of other activities was not material in 2017.



B. System of governance

This section presents CNP Assurances' system of governance.

It begins with a general description of the system of governance and the fit and proper policy applicable to the persons responsible for the system.

This is followed by a description of each of the key functions defined in Solvency II, with particular emphasis on internal risk and solvency assessments, which are a critical aspect of the risk management function, and internal assessments of the internal control system and the outsourcing management process.

CNP Assurances' priority is to constantly improve the quality of service provided to policyholders as well as the overall quality of internal control and risk management in liaison with its partners. Wherever possible, risk assessment and management processes are adapted in response to changes in its business environment and new identified risks.

As with any risk management and internal control system, CNP Assurances' system cannot provide absolute assurance that possible weaknesses will be eliminated. Nevertheless, CNP Assurances considers that its system is appropriate for its business model and provides reasonable assurance that its objectives are met in a satisfactory manner.

Note: CNP Assurances is the parent company of the CNP Assurances Group and some aspects of its system of governance are inseparable from that of the Group. In particular, the persons responsible for key functions at Group level are also responsible for those functions at solo level.

B1. Information on the system of governance

1. Organisation of powers

The current governance structure separates the powers of the Board of Directors, which is responsible for deciding the Company's strategy and overseeing its implementation, from those of Executive Management.

An overview of the organisation of powers is provided below. For a detailed description, refer to the CNP Assurances Registration Document (section 3 – Corporate Governance).

1.1. Board of Directors

1.1.1 Main roles and responsibilities of the Board of Directors

The Board of Directors determines the business strategy and oversees its implementation. It examines all issues concerning the efficient running of the business and decides all matters that concern CNP Assurances.

The Board approves the financial statements of the Company and the Group, and obtains assurance concerning the quality and reliability of financial and other information given to shareholders and other stakeholders. It also obtains assurance concerning the effectiveness of the internal control and risk management systems. These three roles are fulfilled jointly with the members of Executive Management, who are responsible for preparing matters and proposals for submission to the Board for review and approval. The Board of Directors prepares the management report and the corporate governance report, and validates the ORSA report, the regular reports submitted to the Insurance Supervisor and this Solvency and Financial Condition Report.

The Board fulfils other specific roles, such as authorising related party agreements governed by Article L.225-38 of the French Commercial Code, appointing executive directors, assessing their performance and determining their remuneration, allocating among Board members the directors' fees awarded by the General Meeting and calling General Meetings.

1.1.2 Committees of the Board of Directors

Three Committees of the Board (the Audit and Risks Committee, the Strategy Committee and the Remuneration and Nominations Committee) help to prepare decisions of the Board within their clearly defined terms of reference. These Committees facilitate Board decisions by performing the background analysis of technical issues.

1.2. Chairman of the Board of Directors

The Company has chosen to separate the position of Chairman of the Board of Directors from that of Chief Executive Officer to ensure a clear distinction between the Board's strategic planning, decision-making and oversight roles and Executive Management's role as the body responsible for running the business.

The Chairman ensures that the Board members respect the roles and prerogatives of Executive Management.

He makes sure the Board of Directors is kept permanently informed of all of the Company's activities and performances.

The Chairman organises and leads the work of the Board of Directors, calling meetings at least four times per year, or more frequently if warranted by circumstances. In 2017, the Board met nine times.

The Chairman oversees the transparency of decision-making processes, with a particular focus on the clarity, accuracy and completeness of information provided to the Board in respect of matters submitted for its decision.

He is closely involved in the Company's strategic management. He meets with the Chief Executive Officer every week (or more frequently if necessary) to receive information about material events and situations that concern the Company's strategy, organisation, major investment or divestment projects or other matters.

1.3. Chief Executive Officer

The Chief Executive Officer has the broadest powers to act in the Company’s name in all circumstances, subject to the restrictions on his powers and the financial authorisations decided by the Board of Directors, as set out in its internal rules which may be consulted on the CNP Assurances website[9]. The restrictions on his powers concern in particular acquisitions exceeding certain financial limits or that are not fully aligned with the strategy decided by the Board.

The Chief Executive Officer actively participates in Board Meetings and keeps the Board abreast of the day-to-day management of the Company and all significant events affecting the Company. He helps devise and update the strategy decided by the Board.

The Chief Executive Officer is responsible for managing day-to-day operations. A key concern of Executive Management is to ensure that internal operations comply with the policies and strategies decided by the Board and that the link between strategy and shareholder value is maintained.

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[9] *http://www.cnp.fr/en/The-Group/Governance/Corporate-governance*

The Chief Executive Officer is assisted in his managerial and operational duties by the Deputy Chief Executive Officers and the members of the Executive Committee.

The Chief Executive Officer and the Deputy Chief Executive Officer and Finance Director are the two persons who effectively run CNP Assurances.

1.4. Executive Committee

The Chief Executive Officer has set up an Executive Committee to lead the Company's operations and implement the strategy decided by the Board of Directors. The Committee comprises the Chief Executive Officer, the three Deputy Chief Executive Officers and ten other senior executives.

The Executive Committee meets once a week. As well as acting in a strategic planning role, it coordinates and rolls out initiatives and monitors cross-functional projects. It combines a very broad range of technical, marketing, managerial and operational skills within an internal structure.

The Executive Committee discusses cross-functional and strategic management issues for final decision by the Chief Executive Officer. Periodic management indicators are used to track the Company's business.

The Committee reviews budgets, financial statements, quarterly risk reports and profit forecasts by business segment, and also examines proposed acquisitions.

It oversees the consistency of action plans implemented by the business units and subsidiaries. It monitors the Company's results and financial ratios and reviews the action plans to be implemented by the Company. It particularly focuses on ensuring the efficiency of internal control, internal audit and risk management systems, which are key drivers of good corporate governance.

At least one Executive Committee member sits on the Board of Directors of each of the main subsidiaries, providing further assurance of consistent strategic management across the Group. In addition, the International Partnerships department coordinates the operational management of the international subsidiaries.

2. Key functions

The holders of the four key functions (risk management, compliance, actuarial and internal audit) report to the Chief Executive Officer.

They are regularly invited to attend Board Meetings to provide the Board with insight into the risks, responsibilities and challenges associated with these functions.

The Risk Management function is presented in section B3 below. It is run by the Group Risk department, which is responsible for coordinating the risk management system. The department (i) applies the risk appetite defined in the Group's risk management strategy through risk policies and economic capital estimates; (ii) ensures that all risks are covered by the system and that the related surveillance measures are effective; (iii) rolls down the risk-acceptance framework to the different businesses through such measures as underwriting policies, delegations of authority and investment guidelines and (iv) delivers a preliminary opinion on decisions with a significant impact on the Company's risk profile based on the four-eyes principle.

The Compliance function is presented in section B5 below. It is run by the Compliance department. The department identifies, assesses and prevents the occurrence of compliance risks, and provides advice and guidance in the following main areas: (i) business ethics (professional secrecy and confidentiality, prevention of insider trading, anti-bribery and corruption measures); (ii) policyholder protection (know-your-client procedures, duty of advice, policyholder information, complaint processing procedures); (iii) marketing practices (advertising, sales and marketing documents, policy marketing rules); (iv) product and contract compliance; (v) procedures to combat money laundering and the financing of terrorism; and (vi) procedures to combat internal and external fraud.

The Actuarial function, which is presented in section B7 below, is run by the Group Actuarial department. Its activities include coordinating technical reserve calculations; assessing the quantity and quality of data used for the calculations; obtaining assurance that the methods and underlying models and assumptions are appropriate; expressing an opinion on underwriting policies and reinsurance programmes, and contributing to the risk management process.

The Internal Audit function is presented in section B6 below. It is run by the Internal Audit department, which assesses the relevance and robustness of the Company's overall system of controls. It also assesses the design and effectiveness of the risk management and internal control processes deployed in the audited activities or critical business processes, and recommends quality and compliance improvements.

3. Delegations of authority

The starting point for the internal system of delegations of authority is the delegation by the Chief Executive Officer of certain powers and responsibilities to the directors reporting to him, who include the Deputy Chief Executive Officers, the other members of the Executive Committee and the heads of the Internal Audit and Compliance functions. These executives may then delegate some of their own powers and responsibilities.

The formal delegations of authority describe the powers concerned, detailing the action that may be taken and the commitments that may be given to third parties on behalf of CNP Assurances. They respond to:

- Organisational imperatives, by reflecting the Company's organisation structure.
- Operational needs, by describing the powers and responsibilities concerned.
- Security requirements, by setting out in an appendix the limits applicable to the delegated authority in terms of budget decisions and business decisions.
- Third parties, by being validly invokable against any claims made by such parties.

This explicit and consistent internal system of delegations of authority contributes to the effective operation and control of the system of governance.

4. Company organisation

CNP Assurances is organised around business units and corporate functions, as shown below:

Note: the subsidiaries not shown in the above chart are included in the business units.

5. Material changes in the system of governance during the reporting period

There were no material changes in the Company's system of governance in 2017.

6. Remuneration policies and practices

6.1. Remuneration policy applicable to employees of CNP Assurances

CNP Assurances' remuneration policy is designed to attract, retain and motivate employees and reward their contribution to business growth. It is consistent with the Company's strategic priorities and objectives, as well as its business and financial performance goals.

To avoid encouraging risk-taking that exceeds CNP Assurances' risk tolerance limits, material risk-taker bonuses are flexible, deferred and adjustable.

The policy reflects CNP Assurances' culture of fair pay and gender equality, and is consistent with insurance and financial services industry practices. It is governed by French labour laws, collective bargaining agreements and the various internal agreements with employee representatives.

Total remuneration packages are determined by responsibility level. They reflect the requirements of the position concerned, external market data, internal management ratios and the overarching principle of fairness.

The main components of employees' remuneration packages are the salary, personal bonus and across-the-board bonus (discretionary and non-discretionary profit-sharing).

6.1.1 Salary

Salary is a fixed amount of money paid to an employee in return for work performed that is determined based on their responsibilities and skills. Salary increases may result from:

- Across-the-board increases decided during the annual pay round.
- Personal pay rises awarded following the annual career review and performance appraisal, which may lead to an automatic increase or an increase decided on the recommendation of management.
- Pay rises awarded in recognition of an increase in the employee's responsibilities or workload, decided following a review of their personal situation.

6.1.2 Bonus

The bonus rewards individual or group performance in relation to objectives. The bonus system is used to roll down strategic priorities and incentivise and reward the employees who make the biggest contribution. In this way, it promotes a culture of managerial transformation based on annual performance objectives.

Participation in the bonus system depends on the employee's profession and responsibilities. A specific bonus system has been in place since 2016 for "material risk-takers" within the meaning of Solvency II.

CNP Assurances does not currently have any performance stock option or performance share plans.

6.1.3 Across-the-board bonuses: discretionary and non-discretionary profit-sharing

The discretionary and non-discretionary profit-sharing systems in place at CNP Assurances give employees a stake in CNP Assurances' profits and growth. They also promote a sense of belonging and encourage employees to work together.

6.2. Remuneration policy and practices regarding the administrative, management or supervisory body

The remuneration of corporate officers is decided by the Board of Directors based on the recommendations of the Nominations and Remuneration Committee.

As a listed company, CNP Assurances refers to the guidelines concerning corporate officers' remuneration in the AFEP-MEDEF Corporate Governance Code dated June 2013.

The Company also applies the remuneration cap specified in decree no. 2012-915 dated 26 July 2012 concerning State control over the remuneration of corporate officers of public sector companies.

The corporate officers' fixed remuneration and maximum bonus are set each year by the Board of Directors, which also decides on the quantitative and qualitative objectives to be used to determine the bonus payable the following year, based on the recommendations of the Nominations and Remuneration Committee.

6.3. Specific material risk-taker bonus system set up in compliance with Solvency II rules

A significant proportion of the total bonus payable to the material risk-takers is flexible, deferred and adjustable to ensure that it is in line with the Company's strategic priorities and promotes sound and effective risk management.

Material risk-takers at CNP Assurances, within the meaning of the Solvency II directive, are the persons who effectively run the undertaking and the four key functions, as well as the persons whose activities have a material impact on the Company's risk profile.

Description of the remuneration system

Performance assessment

The process for determining bonuses, setting objectives and assessing performance for material risk-takers is the same as for all employees. Bonus criteria include personal objectives, objectives for the individual's business unit and/or operating area and earnings objectives for the Company or the Group. Under no circumstances are the bonuses of holders of key functions determined by reference to the performance of the business units or operating areas that they control or for which they act as co-decision-maker.

Characteristics of material risk-taker bonuses

Material risk-taker bonuses are flexible, deferred and adjustable.

- Flexibility: the bonus clause in eligible employees' employment contracts specifically states that the Company operates a fully flexible variable remuneration policy, including the possibility of paying no bonus.
- Deferral: a significant proportion of the bonus awarded to material risk-takers is deferred over three years.
- Adjustment: the bonus may be adjusted downwards for exposure to current and future risks, taking into account the Company's risk profile and cost of capital.

Bonus payments are subject to the following conditions:

- Compliance with internal or external rules concerning procedures, ethics, business conduct, etc.
- Earnings performance (the Company must have reported a net profit).

If a material risk-taker leaves the Company, for whatever reason, the same conditions apply to the payment of their deferred bonus.

Characteristics of senior management and key executive supplementary pension plans

An "Article 39" supplementary pension plan was set up on 1 January 2006. The plan was closed to new participants with effect from 31 December 2013, and the salaries and years of service used to calculate future benefits were frozen.

This plan was restricted to the members of Executive Management covered by the collective bargaining agreement for executive personnel dated 3 March 1993.

7. Agreements and commitments authorised during the year

Information about material transactions with shareholders in 2017, persons who exercise a significant influence over the Company, and members of the administrative, management or supervisory body is presented below.

The transactions (or agreements and commitments) described below were authorised in advance by the General Meeting of Shareholders in accordance with Article L.225-40 of the French Commercial Code (*Code de commerce*) and Article R.332-7 of the French Insurance Code (*Code des assurances*).

The following transactions and agreements were approved at the Annual General Meeting on 27 April 2018:

- Transfer of a portfolio of company retirement savings contracts by CNP Assurances to Arial CNP Assurances (ACA).
- Delegated asset management mandate, investment advice agreement and service level agreement with La Banque Postale Asset Management. These agreements replace the delegated asset management mandate signed in 2006.
- Acquisition by GRT Gaz of the entire capital of Elengy (CNP Assurances is a shareholder of GRT Gaz).
- Renewal of the asset management mandate with AEW Ciloger for a further five years.

Detailed information about these transactions and agreements is provided in the CNP Assurances Registration Document (section 3 – Corporate Governance).

B2. Fit and proper requirements

Fit and proper requirements apply to the persons responsible for the system of governance (directors and persons who effectively run the Company or have other key functions). These persons must fulfil the following requirements:

- Their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit).
- They are of good repute and integrity (proper).

1. Specific requirements in terms of qualifications, experience and knowledge

1.1. Directors and persons who effectively run the Company

The Remuneration and Nominations Committee obtains assurance that the members of the Board of Directors collectively possess the appropriate qualifications, experience and knowledge about (i) insurance and financial markets; (ii) CNP Assurances' business strategy and model; (iii) its system of governance; (iv) financial and actuarial analysis, and (v) the regulatory framework and requirements that are appropriate to the exercise of the responsibilities assigned to the Board of Directors.

The Committee also reviews the files of candidates for nomination by the Board of Directors as persons who effectively run the Company and expresses an opinion based on a fit and proper file attesting that the candidate has the qualifications, experience and knowledge needed to effectively run the Company.

1.2. Key functions

The assessment of whether a candidate has the qualifications, experience and knowledge needed to hold a key function is based on the following criteria:

- Professional qualifications.
- Specific Solvency II training.
- Professional experience in the insurance industry or other finance sectors or other companies or organisations. Preference is given to candidates with experience in the insurance industry. They are expected to have around ten years' professional experience. In all cases, candidates' tasks and responsibilities in their previous positions are examined in detail.
- Cross-functional expertise (for example, holistic vision, analytical and deductive skills, strong interpersonal, outreach and communication skills).
- Behavioural skills (for example, natural authority, management skills and sense of responsibility).
- Reputation and integrity.

2. Fit and proper assessment process

2.1. Directors and persons who effectively run the Company

Prior to the nomination or renewal of directors and persons who effectively run the Company, the Remuneration and Nominations Committee performs a fit and proper review based on the Nomination or Renewal file prepared by the Committee secretary and presented by its Chairman. The file includes full biographical details, a document attesting that the person has no criminal convictions, a certificate of propriety and the notification form to be sent to the insurance supervisor (ACPR) where required.

The Committee also performs a prior fitness review of the Board as a whole, based on a file prepared for this purpose by the Committee secretary.

2.2. Key function holders

The fit and proper assessment process for holders of key functions is organised around a Group Fit and Proper Review Committee made up of the Group Human Resources Director, who chairs the Committee and also serves as its secretary, and the head of the Compliance key function.

Prior to any nomination or renewal, the Group Human Resources department prepares a Nomination/Renewal file and reviews the candidate(s) fitness and propriety.

2.2.1 Role of the Fit and Proper Review Committee in the nomination/renewal process

For each nomination or renewal, the members of the Fit and Proper Review Committee check that the Nomination/Renewal file prepared by the Group Human Resources department contains all necessary documents and has been properly prepared. The Committee assesses the candidate's disclosed qualifications, experience and knowledge, as well as his or her compliance with internal rules concerning professional qualifications, minimum grades to hold the function and relevant experience, based on skills matrices.

Its assessment is submitted to the Chief Executive Officer and the second person who effectively runs the Company.

2.2.2 Responsibility for the process of continuous fit and proper assessments

The Fit and Proper Review Committee reviews the training programmes available to the persons concerned to update their knowledge about Solvency II and, where necessary, "about (i) insurance and financial markets; (ii) CNP Assurances' business strategy and model; (iii) its system of governance; (iv) financial and actuarial analysis, and (v) the regulatory framework and requirements."

2.2.3 Other responsibilities

The Fit and Proper Review Committee meets at least once a year to review application of fit and proper policies and propose adjustments in response to changes in regulations, industry practices and the policies' scope of application.

2.3. Fit and proper policy

The formal fit and proper policy approved by the Board of Directors was distributed throughout CNP Assurances and the Group in early 2016.

B3. Risk management system

1. Risk management principles

The objectives of the risk management system are to create secure decision-making and other processes and promote a culture of risk management and oversight among employees in order to maintain the Company's value.

The following risk management principles have been defined:

- The Board of Directors approves the risk tolerance limits proposed by Executive Management.
- The risk management policy:
  - Provides for sound and prudent management of the business.
  - Limits and manages risk-taking.
  - Embeds risk management in decision-making processes.
  - Establishes procedures for escalating concerns and whistleblowing.
  - Provides for the formalisation and centralisation of risk management documentation.

2. Risk management framework

The risk management system forms part of the wider internal control system (see section B5 for details). The overall system is organised around:

- The Board of Directors, which is responsible for defining strategic priorities in the area of risk management based on input from the Audit and Risk Committee. The Board also approves the CNP Assurances' risk tolerance limit and its breakdown on an annual basis.
- The Chief Executive Officer, who leads the risk management system.

- The Group Risk Committee chaired by the Chief Executive Officer, which oversees risk governance with the support of smaller committees that deal with specific risks.

The process is headed up by the Group Risk department which has been assigned the Risk Management function under Solvency II. The Chief Risk Officer reports to the Chief Executive Officer.

3. Overall risk management system

3.1. Risk management activities and processes

CNP Assurances' risk management system is based on the risk tolerance limit set by the Board of Directors and three core components:

- Risk identification and mapping.
- Internal assessments of risks and solvency capital requirements (see section B4).
- Risk management processes.

The risk management process is defined by:

- Governance rules (covering the work of committees).
- Delegations of authority.
- Standards and policies.
- Oversight and whistleblowing procedures.

It is supported by a:

- Supervisory reporting process.
- Process to track regulatory developments and Solvency II compliance issues.

3.2. Governance

3.2.1 The Group Risk Committee

The Group Risk Committee oversees risk governance and examines risk from a consolidated perspective. It is tasked with validating the risk-acceptance and overall risk monitoring framework or, more specifically, with overseeing the management of consolidated risks and setting high-level risk tolerance limits. It regularly tracks the Company's risk exposure, solvency capital, allocation and use of economic capital and risk consolidation by type of risk both on a static basis and by performing stress tests. It reviews the annual solvency assessment process and related financing requirements. It also approves delegated exposure limits. The Committee validates risk assessment guidelines and methodologies, i.e., high level investment guidelines and limits, currency risk exposure guidelines and limits, reinsurance policy and the underwriting policy framework. It also validates the policies, procedures and guidelines for monitoring and managing risks and solvency capital, drawing upon reviews of specific risks (market, underwriting, operational risk, etc.) already performed by the other committees.

3.2.2 The Underwriting Risk Committee and the Commitments Committee

These committees oversee liability risk management.

The Commitments Committee meets to discuss any deviation from underwriting policy and/or the most significant commitments and/or any breach of a specific tolerance limit and/or at the request of the head of a business unit. The Committee is tasked with validating risk acceptance in line with the Group's risk appetite and the strategic guidelines issued by Executive Management. It authorises the writing of new business and may be consulted when a new product is being launched and also as part of the in-force business management process. It also deals with any urgent business concerning insurance risk that arises between two Group Risk Committee meetings.

The Underwriting Risk Committee is responsible for identifying and monitoring underwriting risks, and for ensuring that appropriate processes are in place to detect emerging risks. This continuous monitoring of risk exposures ensures that we are able to act quickly to correct any deviation from the Company's risk profile. The Underwriting Risk Committee performs ongoing checks on the consistency of the Company's risk profile with its profitability and value creation objectives and reviews the strategy adopted by the Group Risk Committee within the underwriting and financial risk tolerance framework. The Committee issues opinions and recommendations and alerts the Group Risk Committee to any significant risks. Its opinions are based on specific work carried out by its subcommittees. As part of the underwriting risk management process, the Committee makes proposals concerning the reinsurance policy and reviews the overall consistency of the reinsurance programme.

3.2.3 The Investment Committee, Asset Risk Monitoring Committee, Strategic Allocation Committee and ALM Committee

These committees oversee the asset risk management framework.

The Investment Committee oversees the asset risk acceptance process and approves investment files. It authorises, modifies or suspends exposure limits (amount and duration) for individual counterparties above a certain level and may even decide to liquidate a position. It makes decisions concerning (i) investments in equities and debt securities, either directly or through a fund (excluding mutual funds, for which investment decisions are made directly at Group level) in excess of a certain amount; (ii) the addition of mutual funds to the list of authorised investments; (iii) reverse transactions (limits by issuer); (iv) the granting of significant waivers, the signature of addenda to the issue documentation, acceptance of restructuring operations and initiation of debt recovery procedures; and (v) lower level appeals against decisions of the Investment department, the Group Risk department, and changes to investment guidelines for which a decision is needed between two Group Risk Committee Meetings. The Investment Committee uses the committee files received from the businesses and the second-tier analysis performed by the Group Risk department teams.

The Asset Risk Monitoring Committee oversees all of the Company's asset risks. It tracks standards, investment policies, limits, delegations of authority and asset risk mitigation measures. To this end, it is notified when limits are breached so that it can determine whether to authorise the overrun or require the sale of the portion of the investment that breaches the limit. It may refer significant breaches or propose adjustments to guidelines or limits to the Group Risk Committee (or to the Investment Committee in urgent cases that arise between two Group Risk Committee meetings). The Committee examines current risk monitoring issues such as awareness of emerging risks (on economic or market-related matters, on a type of product, name, sector, etc.), decisions to monitor or suspend counterparties following a deterioration in the related risk or a lack of visibility or decisions to put a certain matter on the agenda of a Reserving committee meeting and regularly reviews different categories of assets, including unlisted equities.

The Strategic Allocation Committee ensures that rules and exposure limits by category of asset fit with the guidelines issued by the Group Risk Committee. The Strategic Asset Allocation Committee draws up strategic investment allocation guidelines based on asset/liability management (ALM) modelling of the different portfolios, yield targets and capital consumption data.

The ALM Committee monitors the asset-liability management risk identification and measurement process. Asset/liability management seeks to contain risks affecting liquidity, earnings and the Company's net worth in the event of unfavourable trends in the markets (mainly lower interest rates) and/or policyholder behaviour.

3.2.4 Operational risk monitoring

A number of committees and applications have been deployed to closely monitor operational risk. Operational risk management focuses on safeguarding the Company's asset portfolio and preventing/containing losses resulting from inadequate or failed processes, people and systems. It enhances customer service quality and the Company's ability to fulfil its commitments to customers.

An Operational Risk and Internal Control Committee has been set up for each business unit and corporate function to track the main operational risks and decide on appropriate action plans to contain these risks as effectively as possible. The Committee tracks key risk exposure indicators, studies the causes and impacts of the most significant reported incidents affecting the business unit or its subsidiaries (or the group function), assesses the level of compliance with risk guidelines and policies and whether an incident or project has highlighted the need to revise the guidelines. It may submit the principle of such a revision to the Group Risk Committee if appropriate. It devises and monitors action plans and performs a review of any alerts issued during the period in response to major incidents.

3.3. Standards and policies

Risk management is governed by a set of policies and standards that frame routine risk management and monitoring processes.

These include:

- The risk management policies described in section C (section D2 for the reserving policy):
  - underwriting policy;
  - reserving policy;
  - investment policy and asset standards (including concentration standards, liquidity standards, currency risk standards);
  - ALM risk management policy;
  - operational risk management policy;
  - reinsurance policy.
- General policies, including own risk and solvency assessment policy (see section B4), capital management policy (see section E1) and data quality policy.

3.4. Reporting

The Group Risk department prepares quarterly risk reports for Executive Management. The reporting process involves identifying key risk indicators and setting up data collection procedures. The quarterly risk reports are also submitted to the members of the Audit and Risk Committee.

The department also produces the ORSA report each year (see section B4).

B4. Own risk and solvency assessment (ORSA)

The own risk and solvency assessment (ORSA) is a core component of the risk management system presented in section B3.

1. Overview of the ORSA process

ORSA is a continuous risk management process that coordinates and consolidates all CNP Assurances processes and Group processes for identifying, measuring, managing, overseeing and reporting risks. The purpose of ORSA is to:

- Deploy a strategic risk management process throughout the organisation based on upstream impact analyses conducted prior to any strategic risk acceptance decisions likely to significantly affect the risk profile, including:
  - Routine strategic decisions for which the ORSA is taken into account:
    - Macro-decisions concerning the definitions of business planning, medium-term capital management planning, strategic asset allocation and hedging frameworks that are drawn up during the prospective ORSA process and are based *inter alia* on an analysis of ORSA impacts.
    - Micro-decisions concerning product launches, product developments and responses to calls for tender that are made in part on the basis of an analysis of the related return on ORSA capital. Investment decisions also take into account the impact of investment income on ORSA capital.
  - One-off strategic decisions or events that significantly impact CNP Assurances' risk profile, such as acquisitions/divestments of insurance businesses and the launch of new businesses or major new products.
- Ensure compliance with the CNP Assurances' risk tolerance limit by permitting regular monitoring of the business using risk indicators and business reviews prepared in conjunction with the business units.

The results of the ORSA process are summarised in the annual ORSA report.

2. Prospective own risk and solvency assessment framework

The Board of Directors has issued a written statement setting out the risk tolerance limit applicable to the entire prospective own risk and solvency assessment. The risk tolerance limit is set in response to the need to ensure that the CNP Assurances' consolidated risks do not lead to the SCR coverage ratio falling below a certain threshold in the event of unfavourable developments affecting the main risk factors.

The unfavourable developments taken into account serve to measure the cumulative impact of stresses on the main financial, technical and operational risk factors to which CNP Assurances is exposed. These stresses are calibrated based for the most part on an analysis of historical data. Calibration of stresses on financial risk factors serves to define absolute stress levels in order to provide the stability needed to manage the Company's solvency over the medium-term.

The risk factors taken into account in the assessment include own risk factors over and above those identified for regulatory purposes, which are presented in the ORSA report.

The assessment of CNP Assurances' overall solvency needs takes into account macro-economic forecasts and long-term business growth projections. In this way, CNP Assurances' own risks are taken into account prospectively through the inclusion of projections and the risk tolerance limit.

Annual solvency capital requirement calculations lead to an ORSA-based allocation of capital. This allocation is a core component of the Company's risk management system:

- It reflects the risk exposure of each business unit/segment.
- It provides an economic vision of risk diversification between the various business segments/entities.
- It provides a means of ensuring compliance with the Company's risk tolerance limit.

A system was set up in 2017 to track uses of capital during the year in order to ensure that they do not exceed the capital allocated to the business unit or business segment concerned and also that the Company's risk tolerance is not exceeded.

To this end, the new system is used to:

- Determine the ORSA solvency coverage ratio and capital use at quarterly intervals, taking into account:
  - the volume of insurance obligations recorded in liabilities by the business units;
  - the investments and hedging instruments purchased by the Investments department;
  - strategic decisions that have a material impact on the risk profile.
- Identify the source of any over/under-use of ORSA capital, in order to adjust exposure levels/volumes as necessary.

3. Prospective ORSA process

The prospective own risk and solvency assessment is performed annually as part of the business planning process for which the main priorities are set by Executive Management and then communicated to the various business units throughout CNP Assurances, covering both business development and investment strategy.

The assessments are consolidated by incorporating capital management considerations, to determine CNP Assurances' overall solvency needs. The results are presented for approval to Executive Management and to the units in charge of CNP Assurances' various businesses. The summarised data is included in the ORSA report submitted to the Board of Directors for approval and sent to the insurance supervisor (ACPR).

The assessment is based primarily on regulatory capital measurement tools and calculations, which are subject to data quality controls.

In the rare cases where the risk profile or strategic priorities change, the decision may be made to perform a new prospective ORSA.

B5. Internal control system and Compliance function

1. Internal control system

1.1. Description of the internal control system

The main protagonists in risk management and internal control are, at the highest level in the Company, the Board of Directors, its Audit and Risk Committee, and Executive Management.

The system is built around a reference framework comprising internal delegations of authority and the fundamental principles set out in documents such as the internal control policy and the code of conduct.

Controls are performed at several levels:

- First-tier controls are set up by each operating or corporate department to manage the risks associated with their activities.
- Second-tier controls (risk oversight) cover the key functions identified in Solvency II (Risk Management, Compliance and Actuarial functions) and the system of permanent controls.
- Third-tier controls (periodic controls) are performed by the internal auditors.

Regular coordination meetings are organised between the control functions (Risk Management, Compliance and Internal Audit).

1.2. System of permanent controls

The system of permanent controls consists of continuously assessing controls and residual risks within each business process.

The cornerstones of the system are:

- The **process manual,** which includes a description of the sequence of activities in each process.
- The **operational risk directory,** which highlights the risks representing internal control priorities.

The deliverable from the system consists of an annual assessment of how well individual process-related risks are managed. The assessment is based on regular reviews of controls over the risks inherent in the activities making up each process.

Two categories of risks are covered:

- The risks and controls identified by the businesses through a bottom-up approach that are taken into account for operational management purposes.
- The key risks and controls identified by Executive Management through a top-down approach, that are taken into account by the business units' Management Committees and CNP Assurances' core functions.

The operating departments (or businesses) input data into the system which is managed by the internal control teams.

Based on these identified risks and controls, the system of permanent controls is organised around an assessment cycle comprising four successive stages:

The four stages of the permanent control assessment cycle

To encourage the businesses to take ownership of the system, the risk management assessment is organised around self-assessments performed by the businesses on first tier controls and tests performed by the internal control teams:

- **Control self-assessments** are based on a standard questionnaire in which respondents assess the level of risk coverage from six angles, including the documentation and evidencing of controls and the action taken to remedy any weaknesses revealed by the controls.
- **Certification tests (only for risks identified by Executive Management):** the consistency of replies to the self-assessment questionnaire is checked and tests are also performed on at least 30% of the self-assessed controls over risks identified by Executive Management. The tests consist of checking that each control has been assessed based on the way it works in practice by certifying the information used for the self-assessment.
- **Risk rating**: risks are rated based on their potential impact and probability of occurrence. The five ratings are: Key (rating applied automatically to Category 2 controls, i.e., controls identified by Executive Management), Critical, High, Moderate and Low. The inherent risk corresponds to the "spontaneous" risk in the absence of any controls. The residual risk takes into account the effectiveness of existing control and risk management processes.
- **Action to improve control effectiveness**: action plans targeting control weaknesses are drawn up by the business concerned. They may be implemented jointly with the internal control teams if necessary (to determine the methodological framework, objectives and level of priority). The plans' status is reviewed at regular intervals. The businesses are encouraged to implement simplified stop-gap procedures addressing control weaknesses pending completion of the related action plans to improve control effectiveness.

2. Compliance function

2.1. Organisation of the Compliance function

The Compliance department is a key function under Solvency II and the Chief Compliance Officer therefore reports directly to the Chief Executive Officer. The department acts as an advisor to Executive Management and the Board of Directors. It also coordinates and oversees second-tier controls over compliance risks, thereby contributing to their management.

The Group Compliance department does not play any operational role to avoid the occurrence of any conflict of interests.

Based on the CNP Assurances code of conduct, the department drafts policies, codes of business ethics and compliance standards and procedures. It supports operations staff in structuring their own compliance rules and expresses an opinion on matters submitted to it for review.

As part of his whistleblowing role, the Chief Compliance Officer may approach the Chief Executive Officer and the Chairman of the Board of Directors at any time.

The Chief Compliance Officer is registered with the banking and insurance supervisor (ACPR) as "the person in charge of the Compliance function". He is responsible for the system to combat money laundering and the financing of terrorism and, as such, is CNP Assurances' correspondent with Tracfin (France's financial intelligence unit). He is also CNP Assurances' Ethics Officer.

The compliance policy describing the roles and responsibilities of all concerned parties was approved by the Board of Directors in December 2015. A revised version was approved by the Board of Directors on 22 February 2017.

The Compliance organisation

Each business unit and each corporate department appoints a compliance correspondent responsible for ensuring that the Company's rules are widely communicated and understood. The Group Compliance department maintains close ties with the Legal department, the Group Risk department and the Internal Audit department.

2.2. The Compliance function's role and responsibilities

The Compliance function covers compliance with local laws, regulations and standards, and with CNP Assurances' internal rules.

It detects, identifies and assesses compliance risks, issues warnings about actual or potential breaches, and provides advice in the following main areas:

- Business ethics: professional secrecy and confidentiality, prevention of insider trading, anti-bribery and corruption measures.
- Client protection: know-your-client procedure, duty to provide impartial advice, client information obligations, complaint processing.
- Marketing practices: advertising and sales materials, contract marketing rules.
- Product and contract compliance: standards and operational feasibility.
- Prevention of money laundering and financing of terrorism.
- Internal and external fraud prevention.

Issues relating to financial communications, corporate life and labour laws are monitored by dedicated functions whose managers ensure that they have the necessary resources, expertise and independence. The Compliance function may nevertheless be asked to provide opinions on these issues. The Compliance function's work consists of:

- Rolling down legal monitoring activities to operations units.
- Identifying and assessing compliance risks.
- Issuing compliance policies and guidelines.
- Performing controls and checks on compliance matters.
- Training employees and raising their awareness of compliance issues.
- Advising and alerting Executive Management and the Board.

These interlocking activities guarantee the compliance system's robustness. Through its positioning as the second line of defence, the Compliance function helps to strengthen the risk management process.

As Chairman of the Product Approval Committee, the Chief Compliance Officer assesses the compliance and operational feasibility of new products, significant modifications to existing products and new business activities.

He ensures that commitments relating to new products comply with the applicable regulations, ACPR recommendations, ethical commitments and client protection obligations, and with internal rules (particularly underwriting policies and compliance procedures). He also obtains assurance concerning the project's operational feasibility, taking into account timing issues, the human and financial resources required for the project and quality considerations.

B6. Internal audit function

1. Organisational framework

Our internal audit processes are certified by the French chapter of the Institute of Internal Control (IFACI) and comply with the Institute of Internal Auditors' (IIA) international standards. Compliance with these standards is assessed annually and certified every three years by IFACI Certification.

The scope of the internal audit function's activities extends across all business processes, including those that are delegated or outsourced.

2. The internal audit function's independence and objectivity

The head of Internal Audit:

- Reports to CNP Assurances' Chief Executive Officer, providing him with details of the department's needs and a full account of the internal auditors' activities;
- Is the person who holds the Internal Audit key function under Solvency II and does not hold any other Solvency II key function;
- Reports periodically to the Audit and Risk Committee of the Board of Directors, submits the internal audit policy, programme and resources to the Board of Directors for approval and presents to the Board his annual report on internal audit activities for the year;
- Provides the Audit and Risk Committee with detailed reports prepared after each internal audit.

Internal auditors are assigned to audits in such a way as to avoid any potential or actual conflict of interest or bias. At least one year must have elapsed before an internal auditor can be assigned to the audit of his or her previous area of responsibility.

The internal auditors do not contribute to implementing their recommendations. The related action plans are prepared and implemented by the audited units under their managers' sole responsibility.

3. Process for preparing the annual internal audit plan

The main inputs used to plan internal audits for the coming year are as follows:

- The Company's strategy and competitive environment.
- The risk map prepared by the Group Risk department, as updated to reflect the main regulatory changes and emerging risks.
- Financial and internal control indicators.
- The dates the entities and main business processes were last audited, to ensure that they are all audited at least once every few years.
- Requests from internal stakeholders such as the persons who hold the Solvency II key functions and other directors, and external stakeholders, such as the Statutory Auditors and the insurance supervisor (ACPR).

A draft list is presented to the Chief Executive Officer and the Chairman of the Board of Directors, who decide on the audits on the list to be included in the plan and propose any other audits they wish to add.

The internal audit plan is then presented to the Executive Committee and the Audit and Risks Committee, whose observations are taken into account in preparing the final version of the plan to be presented to and approved by the Board of Directors.

4. Execution of internal audits

The different phases in the internal audit process are as follows:

- **Engagement letter**: signed by the Chief Executive Officer, the letter describes the scope, nature, objectives and expected duration of the audit.
- **Preparation, execution and conclusion**: these three phases are devoted to identifying, analysing, assessing and documenting the internal auditors' observations, and drafting recommendations. Deliverables from the process include (i) a draft report containing the internal auditors' observations and recommendations, classified according to the estimated residual risk for the audited unit, business process or information system; (ii) a final report that also includes the responses to the auditors' recommendations of the person responsible for the audited unit, business process or information system (description of the action plan, person responsible for its implementation and target completion date) and the internal auditors' comments on the proposed action plans (documentary evidence of implementation required). Recommendations, action plans and follow-ups are systematic for all sensitive risks identified by the internal auditors.
- **Recommendation follow-up**: implementation of the internal auditors' recommendations is followed up based on the documents submitted by the units concerned attesting to the action plan's status. A "recommendation progress report" is prepared every quarter for the Executive Committee and once a year for the Audit and Risk Committee (for presentation at the same time as the annual report on internal audit activities for the year).

B7. Actuarial function

The positioning and roles of the Actuarial function have been identified with the aim of fulfilling as far as possible the competence and independence objectives defined in Solvency II. The Actuarial function is required to be independent from the other functions and operating units.

CNP Assurances' Actuarial function is run by the Group Actuarial department. The head of the department has direct access to the Company's decision-making bodies, allowing him to fulfil his whistle-blowing role. On 1 December 2017, his responsibilities were extended to include accounting and budget control activities. A new Chief Actuary was subsequently appointed and became the person who holds the Actuarial function with effect from 1 March 2018.

The Chief Actuary shares his opinion on the process for determining technical reserves with Executive Management during meetings of the Group Risks Committee and the Actuarial Strategy, Assumptions, Laws and Models Committee. He shares his opinion on the underwriting process before the risks are accepted, during Commitments Committee meetings, and following period-end reviews of actual results, during meetings of the Liability Management Committee. His opinion on the reinsurance process is shared during meetings of the Underwriting Risks Committee and the Audit and Risk Committee.

The Actuarial function's opinions are also set out in the Actuarial Report submitted to the Executive Committee and the Board of Directors. The most recent Actuarial Report was approved by the Board of Directors on 21 February 2018.

1. Coordinate the calculation of technical reserves

Technical reserve calculations are subject to the following controls:

- First-tier controls performed by the underwriting teams who determine the amount to be set aside in technical reserves for the business under their responsibility managed in France or at branch level.
- Second-tier controls performed by the Actuarial function.

The Actuarial function assesses the control system's effectiveness and calibrates its own controls based on the results of the assessment.

The Actuarial function deals directly with the insurance supervisor during the supervisor's audits of technical reserves.

2. Assess data quality

The Actuarial function is responsible for assessing the accuracy, completeness and relevance of the data used to calculate technical reserves. To fulfil this responsibility, it uses a data measurement and quality control plan aligned with the Company's reserving policy and policy for managing data quality. This plan is monitored and implemented as part of a Group process coordinated by the Group Risk Management function.

- The process is based on:
- a permanent file comprising a data register, a description of control procedures and a map of data flows;
- a certificate summarising the data quality assessment, that establishes a link with the operational controls;

- a continuous improvement plan to address weaknesses identified during previous analyses performed by the function and by external or internal auditors.

Material observed weaknesses or opportunities for improvement are described in the Actuarial Report, which also describes the main steps taken to guarantee data completeness and quality.

3. Appropriateness of methods, underlying models and assumptions

The Actuarial function ensures that technical reserves are calculated in an informed, reliable and objective manner. It obtains assurance that:

- The chosen calculation methods are appropriate and reasonable in relation to the nature, materiality and complexity of the underlying risks.
- The models used for the calculations are appropriate and correctly applied.
- The assumptions are determined on a rational basis using high-quality data.

In addition, the Actuarial function sets up processes and procedures to backtest Solvency II technical reserves and the underlying assumptions based on actual experience. Backtesting is performed at least once a year.

The Actuarial function's report highlights the main inherent weaknesses and sources of uncertainty affecting the determination of technical reserves, and describes the analyses performed by the function during the year. The weaknesses and related corrective action are monitored by the Internal Audit department.

The new actuarial methods and assumptions used at each period-end are presented to the dedicated committees.

The validation report introduced in 2016 helps to provide assurance that Executive Management is informed of the assumptions used and the sources of uncertainty. Prepared for each annual closing, the report ensures that the two persons who effectively run CNP Assurances have approved all the material assumptions and future management decisions taken into account for the determination of technical reserves. The report includes a reasoned presentation of each assumption and future decision.

All of these measures also help to ensure that Executive Management is aware of the models' main limits.

4. Express an opinion on the overall underwriting policy

The Actuarial function intervenes in the underwriting process to obtain assurance that the quality of new business is aligned with the Company's risk tolerance limit and will not lead to any future erosion of its own funds. Its opinion on underwriting policy is based on regular reviews of the underwriting process performed during the year and evidenced by formal recommendations, as well as on the function's own research. In cases defined in the underwriting policy, the final underwriting decision is made by Executive Management during meetings of the Commitments Committee.

5. Express an opinion on the adequacy of reinsurance arrangements

The Actuarial function intervenes in CNP Assurances' outward reinsurance process to obtain assurance that purchased reinsurance cover is proportionate, justified and effective, taking into account the Company's risk tolerance limit. Its opinion on reinsurance programmes is based on regular reviews of the reinsurance process performed during the year, evidenced by formal recommendations and analyses and by the implementation of Executive Management decisions.

6. Participate in the risk management system

The Actuarial function participates actively in the risk management system by:

- Coordinating technical reserve calculations and informing the Risk department of its conclusions.
- Reviewing the classification of health insurance technical reserves, which affects the method of determining the corresponding capital charge.
- Taking part in technical research to determine the technical shocks used in the ORSA.
- Making recommendations during meetings of the various committees that deal with risk-related issues.

B8. Outsourcing

1. Outsourcing policy

1.1. Objectives and scope

CNP Assurances' outsourcing policy describes the principles governing the management, governance and reporting processes for outsourced activities. The policy is approved by the Board of Directors and reviewed annually by the Outsourcing Commitments Committee.

Outsourcing is defined as the execution by a third party of a service or activity that is part of CNP Assurances' business model and would otherwise be performed in-house. This definition includes:

- Delegated management, corresponding to policy administration activities performed by a third party that has close ties with CNP Assurances. Examples include distribution partners, brokers and companies that have capital ties with CNP Assurances.
- Activities and functions entrusted to a subsidiary or other Group entity.

However, it excludes the presentation of insurance transactions, except for the risk selection process referred to above and the collection of group insurance and term creditor insurance premiums.

Solvency II requires special care to be taken when outsourcing critical or important operational functions and activities. For CNP Assurances, this relates to:

- Delegated management of any of the key functions defined in Solvency II.
- Outsourcing of operational functions and activities that (i) are essential for the continued operation of the business, or (ii) could, if they were altered or quality standards were not met, have a serious adverse effect on the continued delivery of a satisfactory quality of service to insureds, policyholders and beneficiaries and to reinsured companies.

Critical or important operational functions and activities can therefore be defined as operational functions and activities that make a continuous, substantial contribution, through the deployment of specific expertise, to the execution of one of the four key functions or to:

- The development and pricing of insurance products.
- Asset or portfolio management processes.
- Underwriting risk selection processes.
- Claim and benefit management processes.
- Risk selection for contracts that include coverage of an insurance risk, leading to an insurance policy being written in the name and on behalf of CNP Assurances.
- The Company's accounts.
- The management of information systems.

1.2. Outsourcing management structures

1.2.1 Outsourcing Commitments Committee

The Outsourcing Commitments Committee meets to examine outsourcing projects presented by the business units or corporate functions.

It is chaired by the Company Secretary and its members include representatives of the Group Risk, Planning & Performance, Group Legal Affairs, Purchasing, and Contingency Plan Monitoring departments, the Data Protection Officer and the Information Systems Security Officer, as well as representatives of the business units or corporate functions proposing the outsourcing projects.

If the Committee decides that the outsourcing project concerns a critical or important operational function or activity, it reviews the project, checks whether it complies with the Company's outsourcing rules and policy, and issues a recommendation. Any decision to override the Committee's recommendation may only be made by the Chief Executive Officer during a meeting of the Executive Committee and must be fully explained. Each year, the Outsourcing Commitments Committee reviews the outsourcing policy and submits any proposed changes to the definition of critical or important operational functions or activities to the Executive Committee for approval by the Chief Executive Officer.

1.2.2 Operational Risk Committee for each business unit or corporate function

Each committee is chaired by the director of the business unit or corporate function and comprises a representative of the Group Risk department and the business unit or corporate function's operational risk correspondent. The committees meet once or twice a year to review the main operational risks and decide on action plans to improve their management. Their review includes outsourcing risks and changes in the scope of outsourced activities.

The operational risks associated with outsourcing and delegated management that are monitored by CNP Assurances are as follows (the risks are rolled down and defined in more detail by the department that proposed the outsourcing or delegated management contract):

- Risk of external regulations, internal standards or contractual commitments being breached by CNP Assurances due to outsourcing.
- Risk of external regulations being breached by CNP Assurances due to the contractor's failure to comply with the regulations applicable to the outsourced activity, with its legal obligations as an employee or with the Company's internal standards.
- Risk of the contractor failing to provide the agreed service or not meeting its service level obligations.
- Risk of the Company becoming overly dependent on a contractor.

Outsourcing risks are tracked using key indicators defined and calculated by the operating units, which provide an overview of the extent to which these risks are controlled.

2. Map of outsourced critical and important functions and activities

CNP Assurances outsources certain critical or important functions and activities, as defined in Solvency II, in the areas of policy administration, customer relationship management, asset management and information systems management. All contractors used by the Company have their registered office in France, except for one contractor based in Germany, which manages term creditor insurance business in Germany under a delegated management contract.

C. Risk profile

Risk overview

CNP Assurances' risks, as identified for the application of the Solvency II standard formula, are as follows:

Risks identified for the application of the standard formula		Net Solvency Capital Requirement (SCR) calculated on the basis of the standard formula at 31 December 2017 In € millions	In %[10]
Market risk	*Interest rate risk* *Equity risk* *Property risk* *Currency risk* *Spread risk* *Concentration risk*	**11,935**	60%
Life underwriting risk	*Mortality risk* *Longevity risk* *Disability-morbidity risk* *Lapse (surrender) risk* *Life expense risk* *Life catastrophe risk* *Revision risk*	**3,362**	17%
Health underwriting risk	*SLT Health*[11] *underwriting risk* *NSLT Health*[12] *underwriting risk* *Health catastrophe risk*	**2,020**	10%
Non-life underwriting risk		**0**	0%
Counterparty default risk		**1,154**	6%
Intangible asset risk		**0**	0%
Operational risk		**1,365**	7%

As this risk profile shows, the Company's primary exposure is to market risk, which accounts for 60% of the solvency capital requirement (SCR), and its exposure to underwriting risk arises mainly from the life business.

Risks are mitigated by the diversification effect, which is estimated at 23% based on the following formula: (sum of net SCRs excluding operational risk SCR - net basic SCR)/sum of net SCRs excluding operational risk SCR.

[10] *Percentage of the sum of the SCRs by risk.*
[11] *SLT Health = health obligations assigned to the lines of business for life insurance.*
[12] *NSLT Health = health obligations assigned to the lines of business for non-life insurance.*

C1. Underwriting risk

Underwriting risk, as identified for the application of the Solvency II standard formula, is as follows:

<table>
<tr><th colspan="3"></th><th colspan="2">Net SCR at 31 December 2017</th></tr>
<tr><th colspan="3">Risks identified for the application of the standard formula</th><th>In € millions</th><th>In %</th></tr>
<tr><td>Life underwriting risk</td><td colspan="2">Mortality risk
Longevity risk
Disability-morbidity risk
Lapse (surrender) risk
Life expense risk
Life catastrophe risk
Revision risk</td><td>3,362</td><td>17%</td></tr>
<tr><td rowspan="3">Health underwriting risk</td><td>SLT Health underwriting risk</td><td>SLT Health lapse (surrender) risk
Health expense risk
Health mortality risk
Health longevity risk
Health disability-morbidity risk
Health revision risk</td><td rowspan="3">2,020</td><td rowspan="3">10%</td></tr>
<tr><td>NSLT Health underwriting risk</td><td>NSLT Health lapse (surrender) risk
NSLT Health premium and reserve risk</td></tr>
<tr><td colspan="2">Health catastrophe risk</td></tr>
<tr><td>Non-life underwriting risk</td><td colspan="2">Non-life catastrophe risk
Non–life premium and reserve risk
Non–life lapse (surrender) risk</td><td>0</td><td>0%</td></tr>
</table>

1. Description of the main risks

1.1. Lapse (surrender) risk

Traditional savings contracts include an early surrender option for a contractually fixed amount. The policy surrender rate depends on financial market performance, the performance of competitors' policies and other investment products, policyholder behaviour and confidence, tax considerations and related factors. A wave of surrenders could materially impact earnings or even solvency in extreme conditions.

High surrender rates on unit-linked contracts are also unwelcome, to the extent that they lead to a loss of future profits.

For group pensions contracts, surrender risk corresponds to the risk of the policy being transferred by the client to another insurer. By default, new policies are non-transferable.

In the term creditor insurance segment, surrender risk covers:

- The risk of policyholders repaying their loan early, automatically resulting in the insurance being cancelled.

- A decision by the policyholder to switch to a new insurer. This risk has increased since the “Bourquin amendment” came into effect on 1 January 2018, allowing policyholders to change insurer at any time during the life of their loan.

1.2. Morbidity risk (temporary and permanent disability)

Morbidity risk is the risk of an increase in the incidence or duration of sick leave or long-term care needs.

Less favourable economic conditions increase the Company's exposure to the risk of a deterioration of loss ratios on incapacity for employment cover included in term creditor insurance policies and group death/disability policies.

1.3. Mortality risk

The term creditor insurance, employee benefits and personal risk insurance businesses are exposed to the risk of a lasting increase in mortality rates.

In addition, unit-linked contracts provide an enhanced capital guarantee in the event of the policyholder's death (minimum payout). A bear market combined with higher-than-expected losses could have an adverse effect on unit-linked earnings.

Lastly, in the traditional and unit-linked savings segments, an increase in mortality rates would lead to a loss of future profits.

1.4. Longevity risk

The Company is exposed to longevity risk, in particular on its portfolio of annuities in payment. Pension contracts are logically and more specifically exposed to the risk of a lasting increase in policyholder longevity.

1.5. Expense risk

Expense risk corresponds to the risk of an increase in costs beyond the originally approved budget.

The main expense items are employee benefits expense, IT costs, office rent and sales commissions.

1.6. Catastrophe risk

Catastrophe scenarios (particularly pandemic risks) can have an adverse effect on death cover provided under all policies and disability cover provided under term creditor insurance, employee benefits and personal risk policies. Healthcare costs could also rise sharply, for example in the case of a pandemic.

1.7. Financial risk generated by underwriting activities

The insurance policies sold by the Company generate financial risks.

This is the case, in particular, for traditional savings contracts that include a capital guarantee and, even more so, for contracts with a guaranteed DPF. In the event of a decline in investment yields, the Company would be exposed to a risk of being unable to fund these guarantees or possibly even cover the policy administrative costs.

Pension contracts also present a risk of asset yields falling to below the valuation rate of interest used in the pricing model.

In addition, death/disability policies with potentially long benefit payment periods, such as long-term care insurance, give rise to financial risks because part of the related profit is derived from the investment income generated during the benefit payment period and may be adversely affected by unfavourable financial market trends (such as declining interest rates).

2. Changes during the period

Term creditor insurance in France

In the term creditor insurance segment in France, 2017 was devoted to preparing for the application, as from 2018, of legislation giving insureds an annual right to switch to a different insurer. The new legislation may trigger a significant shift in the term creditor insurance market towards individual insurance products, which currently account for only around 15% of the market for home buyer insurance in France.

Our response has been to adjust our offer and implement an appropriate system to track the cancellation risk on in-force term creditor insurance contracts.

Traditional savings/unit-linked product mix

In the savings segment, the strategic refocusing on unit-linked contracts launched several years ago picked up speed in 2017.

In France, this led to a strong inflow of new money into unit-linked funds and a net outflow from traditional savings funds that resulted in a reduction in the related technical reserves. The accelerating flow of new money into unit-linked funds was also a feature of the French savings market as a whole. For CNP Assurances, it was the result of a strategy implemented jointly with our distribution partners, to promote (a) transfers from traditional savings accounts with a unit-linked formula to *eurocroissance* contracts and (b) so-called "Fourgous" transfers from a traditional savings account to a traditional savings account with a unit-linked formula. In both cases, the transfers do not trigger any taxation of capital gains and policyholders do not forfeit the tax benefits that are subject to a minimum investment period. In exchange for these tax benefits, at least 10% of the savings transferred to a *eurocroissance* contract must be invested in a diversified growth fund, and at least 20% of the savings transferred under the "Fourgous" system must be invested in unit-linked funds.

"L.441" points-based supplementary pension plans

The rules governing "L.441" points-based supplementary pension plans (also known as "4 June plans") have been changed following adoption of the Sapin II portmanteau legislation in late 2016 and publication of the related enabling legislation. Under the new rules, mathematical reserves are increased or reduced by the amount of unrealised capital gains or losses for liability adequacy testing purposes, the deduction from investment income is capped at 15% and the cash value of each pension "point" may be reduced in certain extreme circumstances (subject to acceptance by the plans' sponsors in the case of plans in progress when the new rules came into effect).

We have been working with the plans' sponsors since the fourth quarter of 2017 to assess the impact of the new rules and adjust the contracts as required (in all cases, the ban on reducing the pension point's cash value has been maintained).

3. Underwriting policies and oversight system

3.1. Underwriting process

The underwriting process gives the various business units a clearly-defined, shared risk-taking framework. It facilitates individual decisions and the seamless use of delegations of underwriting authority.

Underwriting policies specify the risks that we have decided to insure or not to insure, and describe any specific conditions applicable in each case. The policies may set maximum underwriting volumes for certain risks or types of cover.

They stipulate the limits on underwriting volumes that may be entered into by the business units under the delegations of underwriting authority from the Underwriting Committee and the corporate functions, as well as the limits applicable to the units' own internal delegations of underwriting authority. Contracts can be underwritten at each level up to the limit of the related delegation of underwriting authority. Any departure from the rules specified in the underwriting policies must be submitted to the corporate functions so that it may be discussed at the next Underwriting Committee meeting.

The CNP Assurances underwriting policies include:

- Underwriting standards.
- Pricing standards.
- A description of the internal controls applied by the operating units to guarantee compliance with underwriting procedures.
- A description of the periodic reports to be submitted to the Risk department to enable it to obtain assurance concerning compliance with underwriting policies.

3.2. The Underwriting Risk Committee

The Underwriting Risk Committee is tasked with identifying and tracking underwriting risk. Its activities are described in detail in section B3.

3.3. Underwriting risk indicators

3.3.1 Principles

The Group Risk reporting system includes quarterly underwriting risk indicators. The risks covered by the indicators correspond to the Group's most significant insurance risk exposures, including surrender, morbidity (by type of cover: temporary and permanent disability, health and long-term care), mortality, longevity and unemployment risks plus the financial risk associated with the yield guarantees offered on savings and pensions contracts. Focus reports are also prepared on emerging risks, newly introduced products and strategic growth priorities.

The underwriting risk indicators are used to detect any deviations from the risk profile to be submitted to the Underwriting Risk Committee and also to commission detailed analyses from the business units and corporate functions, which may be asked to step up their monitoring of certain risks and/or to make recommendations.

3.3.2 Tracking indicators

The underwriting risk indicators comprise:

- Risk measurement indicators, with analyses concerning the change over time and the variance compared with the best estimate and/or the risk quantile used in the ORSA process.
- Risk profile tracking indicators, which break down premium income or mathematical reserves based on discriminating risk deviation factors.

4. Risk mitigation

4.1. Monitoring and corrective action

The underwriting process and oversight system described above represent the main risk mitigation factor, because they enable us to closely monitor risks, implement corrective action or adjust the levels of cover in order to keep loss ratios under control in such areas as employee benefits plans, long-term care and group pensions segments.

4.2. Reinsurance mechanisms

Our reinsurance policy describes the governance of ceded risks. It sets out the roles and responsibilities of the departments involved in reinsurance activities and of the Reinsurance Risk Committee.

The reinsurance policy also establishes the framework for defining the reinsurance programme. The fundamental aim of the reinsurance programme is to ensure that EBIT does not fall below a certain level even following the occurrence of adverse scenarios. The policy is reviewed and, if necessary, adjusted every year.

Our insurance liabilities are covered by non-proportional reinsurance treaties, such as excess of loss per risk treaties for large insured amounts, and excess of loss per occurrence cover of the type offered by the Bureau Commun d'Assurances Collectives (BCAC) catastrophe insurance pool.

The annual reinsurance plan is approved each year by the Underwriting Risk Committee.

5. Risk sensitivity

Changes in the risk profile are tracked using the quarterly SCR coverage ratio measurements.

In addition to the SCR calculations, each year we also calculate the sensitivity of MCEV© metrics – new business value (VNB) and value of in-force business (VIF) – for France to surrender, expense and claims shocks.

As the vast majority of the Group's underwriting risks in France directly concern the Company, this is a relevant indicator for the solo report.

The main results are as follows:

31 Dec. 2017 ***(In € millions)***	**Central value**	Surrenders -10%	Costs -10%	Loss ratio -5% (longevity risk)	Loss ratio -5% (mortality & disability risk)
MCEV© VIF France	**8,077**	195	280	(56)	135
VNB France	**498**	24	37	(1)	52

C2. Market risk

This section covers the following market risks: interest rate, equity, property and currency. Spread and concentration risks, which are also taken into account in market risk SCR calculations, are dealt with in section C3 Credit Risk.

Exposure to market risk is assessed based on the asset classifications used in the balance sheet, as follows:

Assets at cost, excluding unit-linked portfolios *(In € billions)*	**31 Dec. 2017**	31 Dec. 2016
Corporate and government bonds	181	181
Investment funds (UCITS)	64	54
Money-market funds	*23*	*20*
Bond funds	*16*	*17*
Equity funds	*12*	*11*
Other funds	*14*	*7*
Equities	25	27
Shares in property companies	*8*	*10*
Other equities	*17*	*18*
Structured products	12	13
Collateralised securities	1	1
Property and equipment	0	0
Total	**283**	**277**

1. Description

1.1. Interest rate risk

Interest rate risk corresponds mainly to the risk of an increase or decrease in interest rates. CNP Assurances is also exposed to the risks of interest rate volatility and steeper yield curves, although these are not covered by the Solvency II standard formula.

1.1.1 Risk of falling interest rates

During a period of falling interest rates, yields on reinvested premiums decline, leading to a gradual erosion of portfolio yields.

In the longer term, persistently low interest rates could make contractual loading more difficult to apply and expose the insurer to a risk of narrower margins, especially on traditional life insurance products. To address this risk, we limit the duration and level of yield guarantees, thereby allowing asset managers to reduce the weighting of long-dated bonds in the managed portfolios.

In more extreme scenarios, despite the relatively low proportion of contracts with a guaranteed yield, there could be a risk that asset yields will be insufficient to cover contractually guaranteed yields, forcing the Company to use its own funds portfolio to pay the guaranteed amount.

Pension products – especially group pension plans – as well as certain personal risk and employee benefits contracts are particularly exposed to the risk of a fall in interest rates.

1.1.2 Risk of rising interest rates

In the event of a rapid increase in interest rates, yields on our investment portfolios may lag behind the market, generating a mismatch between the yields paid on our products and those available on other financial products.

We may then have to contend with an increase in life insurance policy surrenders as policyholders seek higher yields elsewhere.

A spike in the surrender rate could force the Company to sell off bonds at a loss. This could then trigger a negative spiral whereby such losses accentuate the mismatch between the yield being paid to our policyholders and those available on the market, thus pushing the surrender rate even higher.

The current low interest rate environment exacerbates the risk of a rapid increase in rates, because the longer this environment lasts, the longer it will take us to adapt to the higher rates.

1.2. Equity risk

Equity risk measures the sensitivity of the equity portfolio to changes in stock market prices. By extension, the definition of equities also includes investments in private equity and equity funds. In the case of a prolonged fall in value, impairment provisions may have to be set aside for unrealised losses on certain equity portfolios, with an adverse effect on earnings.

Gains on equity portfolios are used to boost policyholder yields in periods when bond yields are too low. A fall in equity prices would deprive the Company of this flexibility and could even reduce our ability to pay guaranteed yields.

The private equity portfolio also exposes the Company to liquidity risk (see section C4). As well as the price risk, CNP Assurances is also exposed to equity market volatility risk, although this is not identified in the Solvency II standard formula.

Infrastructure investments correspond to financing for existing or planned projects in the transport, energy, environmental services, telecommunications and public buildings sectors, and shares in infrastructure companies.

The underlying risks concern the project's ability to deliver the expected return on investment and generate sufficient cash flow to service the debt. For investments in shares, there is a further risk associated with the potential absence of a liquid market.

1.3. Property

Property risk measures the sensitivity of property portfolio values to changes in real estate market prices. The risk concerns both investment property and owner-occupied property.

The rental income from a property portfolio is exposed to market risk (e.g., excess of supply over demand, increased vacancy rates and their impact on rental value) as well as to the risk of tenant default and declines in rent adjustment indices.

The value of property owned directly or through a fund is exposed to the risk of changes in rental income and in the investment market itself, as well as to the potential risk that certain buildings will be rendered obsolete by new regulations (on energy use, for example) resulting in losses in the event of sale or additional costs to bring the assets back into compliance.

1.4. Currency risk

Currency risk primarily concerns the value of dividends receivable from our Brazilian subsidiary after conversion from reals into euros.

The bulk of asset portfolios are invested in the securities of eurozone issuers. As a result, the portfolios' exposure to currency risks is very limited.

2. Changes during the period

Last year's net outflow of funds from traditional savings contracts led to a decrease in financial liabilities in CNP Assurances' balance sheet at 31 December 2017.

Interest rates recovered slightly in 2017 but nevertheless were still very low, with the European 10-year swap rate hovering between 0.6% and 1%. We responded to the resulting increase in the Company's exposure to persistently low rates by scaling back our investments in the bond market which we viewed as over-priced. This led to a small decrease in the proportion of insurance investments represented by fixed income securities and an increase in the amount held in cash.

In 2017, European and non-European stock markets performed very well. This performance was achieved in an environment shaped by low volatility, raising the question of whether it could be sustained. During the year, CNP Assurances continued to realign the asset portfolio, maintaining the same equity weighting while stepping up the related hedging programme. At 31 December 2017, we held a portfolio of puts on a notional amount of €7.8 billion, representing three times the end-2016 figure of €2.5 billion.

During the year, we also invested €1.4 billion in real estate and forestry assets, and €600 million in private equity (SMEs, mid-caps and start-ups).

The portfolio of infrastructure investments increased significantly in 2017, mainly following the roughly €1 billion invested alongside Caisse des Dépôts to acquire a joint 49.9% interest in RTE. At 30 September 2017, infrastructure investments represented 0.9% of total insurance investments (excluding unit-linked portfolios) versus 0.5% at 31 December 2016.

The property portfolio also increased during the year, through investments held in unit-linked funds.

Concerning currency risks, the euro strengthened considerably during 2017 as the economic situation improved and geopolitical tensions eased in the eurozone and the European Central Bank announced plans to reduce its bond-buying programme. At the same time, the US dollar was weakened by geopolitical risks and the Brazilian real lost 16% over the year against the euro as a result of the monetary policy pursued by the country's central bank. The real's weakness increased the Company's exposure to currency risk.

3. Investment policies, asset standards and monitoring processes

Our investment policy sets market risk exposure limits and applies the risk management policy (see section B3) to asset risks. The policy reiterates the main principles of the risk management policy as it applies to asset risks through:

- Investment rules that require application of the "prudent person" and "policyholder best interests" principles.
- Investment decision-making processes that require application of the four-eyes principle.
- Integration of economic capital measurements in investment decision-making processes.

The policy describes the overall organisation of the system for managing investment risk, which is based notably on:

- General asset allocation strategies developed and updated each year by the Strategic Asset Allocation Committee as part of the prospective ORSA process.
- Management of asset/liability matching organised by the ALM risks management policy.
- The investment policy, which forms part of a multi-tier risk delegation system overseen by the Group Investment Committee.
- The monitoring process organised by the Asset Risk Monitoring Committee.

Asset risk management is governed by a set of policies and standards that frame routine risk management and monitoring processes. They include:

- ALM risk management policy.
- Foreign exchange standard.
- Liquidity standard.
- Investment standards – Equities.
- Investment standards – Unlisted investments.
- Investment standards – UCITS.
- Derivatives standards.
- Credit standards (by issuer/group of issuers).
- Standards on exposure limits by rating band.
- A concentration standard.

3.1. ALM risk management policy

Asset-liability management (ALM) risks are risks that may affect the liquidity, performance and value of insurance portfolios in the event of an unfavourable change in financial market conditions and/or policyholder behaviour. They include financial risk and liquidity risk.

The ALM risk management policy describes ALM risks and the system for managing them in order to facilitate their measurement and mitigate their potential balance sheet impact.

The system is organised around the definition of strategic ALM priorities, ALM indicator monitoring and the ad hoc ALM analyses performed on a portfolio that is of particular interest or that represents a particular risk, or to support marketing decisions.

Strategic ALM priorities are defined:

- Annually and as part of the prospective ORSA process, through:
- General asset allocation strategies which determine overall investment strategies.
- ALM and financial risk hedging strategies determined annually.
- More regularly, during the periodic ALM Committee meetings.

The ALM Committee sets the levels at which the various ALM indicators start to raise warning flags. If these levels are exceeded, a special meeting of the ALM Committee is called to decide:

- To authorise a temporary override.
- To implement ALM risk mitigation measures, such as a change of asset allocation, the use of hedging instruments or an adjustment of the cover sold to policyholders.

3.2. Foreign exchange standard

The standard dealing with financial transactions that give rise to a currency risk defines authorised currencies for insurance assets. It also sets net foreign currency exposure limits (covering direct exposures on investments in securities, indirect exposures on investments in UCITS and cash exposures on bank accounts).

3.3. Investment standards – Equities

Standards concerning investments in equities mainly restrict authorised investments to equities included in stock market indices, for liquidity reasons.

3.4. Investment standards – Unlisted investments

We have developed standards covering most of our portfolio of unlisted assets – consisting primarily of private equity, property and infrastructure investments – that describe the principles underpinning the investment policy.

These standards promote diversification as a means of limiting risk by avoiding over dependence on certain types of assets, issuers or sectors. Investment monitoring processes must provide assurance that the objectives of security, quality and liquidity are met, and that the Company's commitments and technical reserves are covered.

Investments in unlisted assets must be submitted to the Investment Committee for approval, backed by detailed analyses.

The risk policy covers both new and existing investments in private equity. CNP Assurances' private equity investments focus primarily on funds with the following characteristics:

- A stable, experienced team with a good track record in the investment area and strategy, in terms of both the number of years of experience and the funds raised.
- A structure that is aligned with market practices and affords adequate investor protection.

For property investments, we give priority to:

- Assets offering a high intrinsic quality, as reflected in environmental and technical certifications, prime location, high level of fungibility and rentability.
- Stable cash flows, supported by a satisfactory level of tenant risk (vacancy rate, tenant turnover, tenant credit quality).
- Ease of access to cash flows and any guarantees.

In the case of infrastructure financing, the project must be able to generate sufficient cash flow to service the debt. For investments in the shares of infrastructure companies, we check the existence of a liquid market for the shares and seek assurance that the company generates recurring revenues and has a strong balance sheet.

3.5. Investment standards – UCITS

The UCITS investment standard describes the criteria that the funds are required to fulfil. The main criteria are as follows:

- The fund must be approved by France's securities regulator (AMF) or a European regulator.
- The fund or the manager must have a track record of at least three years.
- The management team must be stable.
- The fund and the manager must fulfil certain size criteria.

In addition, the fund must comply with maximum control ratios, determined by fund and by fund manager.

3.6. Derivatives standards

Derivative instruments are used to mitigate market risk. Their use is governed by:

- Standards covering the approval of counterparties (and their removal from the approved list), based in particular on their credit rating.
- Counterparty limits.
- Margin call standards.

3.7. Monitoring and reporting

Market and investment risk monitoring is organised around processes to verify compliance with asset standards and track ALM risks.

It requires the use of various reports, including:

- Monitoring Committee reports which track compliance with asset standards and the action taken to resolve any exposure limit overruns.

- ALM indicators, including asset/liability duration mismatch indicators, comparative yield analyses, etc.
- Quarterly risk reports, including reports on the implementation of annual strategic asset allocation and hedging policies, and market risk indicators.
  - Market monitoring reports: stock indices, P/E ratios, interest rates, inflation rates, volatility, exchange rates, qualitative analyses, etc.
  - Portfolio monitoring reports: bond portfolio average yield to maturity, unrealised gains, fixed rate bond sensitivity analyses, equity portfolio by country, etc.

4. Risk mitigation

Each year, a hedging programme is set up based on purchases of derivative instruments, as follows:

- Interest rate risk: hedges of interest rate fluctuations, particularly rate increases through purchases of caps.
- Equity risk: purchases of puts aligned with the hedging objectives (management of IFRS earnings volatility, CNP Assurances' solvency, policyholder participation, etc.). The equity risk hedging programme was considerably expanded in 2017. At the year-end, the Company held a portfolio of CAC 40 and Euro Stoxx 50 index options (puts) on a total notional amount of €7.8 billion (representing three times the end-2016 amount) with an average remaining life of 3.9 years and average strike prices of 2,939 pts (CAC 40) and 2,445 points (Euro Stoxx 50).
- Currency risk: hedging of the currency risk, in particular on dividends received from the Brazilian subsidiary.

In addition, part of the Company's profit for the year is transferred to the policyholders' surplus reserve in the French GAAP accounts. The purpose of this reserve is to smooth policyholders' yields over time by deferring payment of part of their share of annual underwriting profit and investment income. At 31 December 2017, the policyholders' surplus reserve totalled €10.9 billion, representing 4.7% of technical reserves.

5. Risk sensitivity

Numerous market risk sensitivity analyses are performed based on various metrics such as IFRS profit, MCEV© metrics, and Solvency II SCR coverage ratio. Special attention is paid to analysing sensitivity to changes in interest rates and equity prices.

Sensitivity is calculated at Group level only; however, as the majority of CNP Assurances' assets are held by the Company, they represent a relevant indicator of sensitivity on a solo basis.

The main sensitivities at 31 December 2017 are as follows:

Indicator	Value at 31 Dec. 2017	Sensitivity to a 50-bp increase in interest rates	Sensitivity to a 50-bp decrease in interest rates	Sensitivity to a 10% fall in equity prices	Sensitivity to a 25% fall in equity prices
IFRS profit	€1,285m	-€27m	+€28m	+€36m	*n/a*
MCEV©	€23,241m	+€1,248m	-€1,158m	*n/a*	-€2,763m
SCR coverage ratio	190%	+12 pts	-13 pts	*n/a*	-7 pts

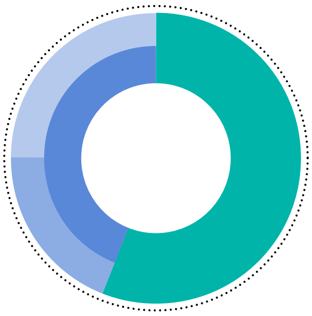
Combined stress tests are performed as part of the ORSA process.

C3. Credit risk

This section covers market spread and concentration risk, as well as counterparty default risk.

The Company's exposure to spread risk on the bond portfolio is presented below:

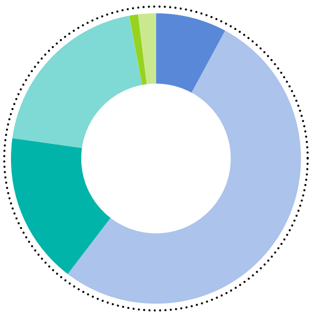
Bond portfolio by type of issuer (source: QRT S.06.02 List of assets) (at cost, in %)



	31 Dec. 2017	31 Dec. 2016
Government bonds	56%	53%
Corporate bonds	44%	47%
Financial services and insurance	17%	20%
Other sectors	26%	27%

The bond portfolio may be analysed by issuer rating as follows:

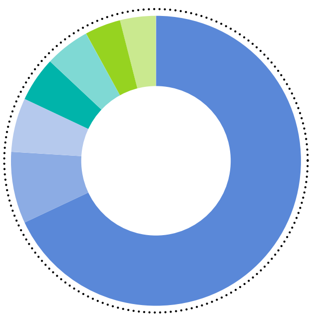
Bond portfolio by issuer rating (source: QRT S.06.02 List of assets) (at cost, in %)



	31 Dec. 2017	31 Dec. 2016
AAA	8%	8%
AA	53%	51%
A	17%	17%
BBB	20%	20%
Non-investment grade	1%	1%
Unrated	2%	2%

The government bond portfolio breaks down by country as follows:

Government bond portfolio by country (source: QRT S.06.02 List of assets) (at cost, in %)



	31 Dec. 2017	31 Dec. 2016
France	68%	67%
Spain	8%	7%
Belgium	6%	7%
Italy	5%	6%
Supranational	5%	5%
Austria	4%	4%
Other	4%	4%

1. Description

The credit (or counterparty) risk on a bond is the risk of issuer default. This depends on the issuer's financial condition and credit quality, as reflected in its credit rating.

Credit spreads vary according to investor perceptions of the counterparty default risk represented by the issuer. Changes in credit spreads therefore have a direct impact on the fair value of bonds held in the portfolio and consequently on the level of unrealised gains or losses.

The risk applies to both corporate and government bonds (sovereign risk).

Concentrating the bond portfolio on a limited number of issuers and types of issuer has the effect of increasing the risk.

The Company is also exposed to counterparty default risk on its purchases of hedging instruments (derivatives) from banks, on insurance liabilities ceded to reinsurance companies, and on securities lending activities with banks (repurchase agreements). Lastly, it may be exposed to counterparty default risk arising from relations with insurance partners that have debts towards the Company (in the case of earned premiums not yet written).

2. Changes during the period

Credit spreads widened in 2017 and volatility declined as geopolitical tensions eased.

In this environment, CNP Assurances pursued a prudent investment strategy, reducing our overall bond exposure as a proportion of total insurance investments and in absolute value, with increased investment in government bonds (mainly Spanish and French) more than offset by reductions in the bank and corporate bond portfolios.

3. Investment policies, asset standards and monitoring processes

The market risk policies and standards (see section C2) also apply to credit risk.

In particular:

- Investment targets (sovereign issuers, peripheral sovereign issuers, corporate issuers by rating band) are set each year in the annual strategic asset allocation.
- Annual hedging strategies may include hedges of widening credit spreads.
- Credit and concentration standards are applied. Reporting systems have been set up to monitor their application, including through indicators covering the breakdown by country, sector and credit rating and the top five exposures, for example.

Lastly, as regards counterparty default risk on hedging instruments, reinsurance transactions and securities lending transactions, our policies and standards set clear rules concerning the selection of counterparties and collateral requirements.

3.1. Credit standards (by issuer/group of issuers)

Credit standards set exposure limits by issuer.

If an event occurs that is likely to have a material adverse effect on an issuer's credit quality or if an issuer abruptly becomes on the verge of bankruptcy, a credit watch procedure is implemented.

Issuers requiring close monitoring are included on a multi-level watchlist, each level of which corresponds to a specific credit watch procedure.

Alongside the Investment Committee, the Monitoring Committee tracks emerging and growing asset risks, as well as possible breaches of credit standards and the measures taken to remedy them. The Monitoring Committee performs industry reviews based on recent developments in each industry and the portfolio's exposure.

In the case of a rating downgrade leading to a limit being exceeded, a review is performed to determine whether the positions should be held or sold.

3.2. Standard on exposure limits by rating band

In addition to exposure limits by issuer, limits are set at portfolio level by rating band. The limits are adapted to the type of portfolio (policyholder, own funds or cash).

3.3. Concentration standard

Standards address concentration risk by setting exposure limits by issuer group and by portfolio (except for the French sovereign debt portfolio).

An exposure limit is set for each issuer group by portfolio (excluding unit-linked portfolios). In the case of a rating downgrade leading to a limit being exceeded, the decision to hold or sell positions is made on a case-by-case basis during meetings of the Monitoring Committee.

4. Risk mitigation

In addition to the system of exposure limits described above, CNP Assurances may also mitigate the risk of losses on exposed investments by setting up hedging programmes to generate additional revenues if credit spreads widen beyond certain trigger points.

To protect the IFRS income statement against changes in credit spreads, a credit risk hedging programme was set up in 2017 along the same lines as the equity risk hedging programme.

Lastly, as regards counterparty default risk on hedging instruments, reinsurance transactions and securities lending transactions, our policies and standards set clear rules concerning collateral requirements.

5. Risk sensitivity

Sensitivity tests are performed for credit risk based on various metrics. In particular, the sensitivity of the Solvency II SCR ratio to a sharp increase in credit spreads (excluding sovereign spreads) is analysed each year.

Sensitivity is calculated at Group level only; however, as the majority of Group assets are held by the Company, it represents a relevant indicator of sensitivity on a solo basis.

The results of the sensitivity analysis are as follows:

Indicator	Value at 31 Dec. 2017	Sensitivity to a 50-bp increase in corporate bond spread[13]
SCR coverage ratio	190%	+2 pts

Combined stress tests are performed as part of the ORSA process.

C4. Liquidity risk

The capital required to cover liquidity risk is difficult to estimate and there is no specific liquidity risk module in the Solvency II standard formula.

1. Description

Liquidity risk is defined as the risk of the Company being unable to pay its creditors due to the practical impossibility of selling assets, particularly following a wave of surrenders or a very large volume of benefit claims.

The risk differs depending on the portfolio:

- For traditional savings, personal risk and term creditor insurance portfolios, the risk is that of being unable to deal with a wave of surrenders or a very large volume of benefit claims.
- For own funds portfolios, aside from extreme situations where own funds are used to pay benefits, the risk mainly concerns exceptional payments that could be due following the occurrence of operational risks.
- For unit-linked portfolios, the contract holders are given a guarantee that they will be able to cash in their units at any time. The risk in this case is that we may have to use own funds to purchase the units.
- For pensions portfolios, liquidity risk is considered to be very low because policyholder surrender options are limited.

2. Changes during the period

There were no material changes in liquidity risk in 2017. Loss ratios remained below the thresholds specified in the liquidity risk standards.

Last year saw a sharp rise in policyholder investment in unit-linked property funds. This led to an increase in liquidity risk because, in the event of a wave of surrenders, if the underlying properties could not be sold on the market, the Company could incur losses due to its inability to use the proceeds from the sale of the assets to finance the surrender value due to the policyholders.

[13] *After recalibration of the volatility adjustment.*

3. Investment policies, asset standards and monitoring processes

The market risk policies and standards (see section C2) also apply to liquidity risk. In particular:

- Liquidity standards have been developed (see below).
- Our ALM policy also provides for the monitoring of actual and forecast savings net new money and cash flow mismatches (timing differences between assets and liabilities).
- Liquidity indicators are produced and reported as part of the ALM and Group Risk reporting systems. The unit-linked funds offered to policyholders are selected in part on the basis of liquidity criteria.
- The value of unlisted assets held in unit-linked funds is restricted by a series of criteria and limits defined in the underwriting policy and by a blanket limit at Group level.

Liquidity standard

The standard sets a liquidity threshold by type of business and provides a definition of liquid assets.

- Liquidity of savings/term creditor insurance portfolios must be sufficient to cover stressed loss ratios or surrender rates.
- Liquidity of own funds portfolios must be sufficient to cover an exceptional loss.
- Pension portfolios are excluded.

4. Risk mitigation

The main identified courses of action following the occurrence of a liquidity risk are as follows:

- Initiate the sale of assets that are even less liquid (property and shares in non-trading property companies).
- Stop reinvesting portfolio cash flows (investments that reach maturity, interest, dividends and rent).
- Stop investing net new money.
- Sell the least liquid assets (units in equity and bond funds, government bonds maturing in more than one year and rated BBB+ or lower and corporate bonds maturing in more than one year).

5. Risk sensitivity

The standard liquidity indicator is in itself a measure of the Company's sensitivity to liquidity risk.

In 2017, liquidity indicators remained below the thresholds specified in the liquidity risk standards.

6. Expected profits included in future premiums

In accordance with Article 260 of the Solvency II Delegated Regulation, expected profits included in future premiums are defined as the difference between technical reserves without a risk margin and a calculation of technical reserves without a risk margin under the assumption that expected future premiums are not received.

The calculation is performed using the assumptions and methods presented in section D2.

The amount obtained is €0.8 billion.

C5. Operational risk

(In € millions)	Net SCR at 31 Dec. 2017
Operational risk	1,365

1. Description

Operational risk is the risk of loss from inadequate or failed internal processes, personnel or systems, or from external events.

We have prepared an operational risk taxonomy that represents the starting point of our operational risk management system. It presents an overview by risk category and is based on the Basel II and ORIC taxonomies.

The taxonomy is organised according to a four-level hierarchy, the first of which includes the following components:

- Products/policies and policyholder relations: all policyholder compliance risks, corresponding to the risks that could prevent the Company from fulfilling its regulatory obligations or complying with internal standards in its relations with policyholders.
- Information systems: risk of information system failures.
- Human resources management: employee-related risks and risks associated with human resources management.
- Safety and security: property damage and personal injury risks.
- Internal fraud.
- External fraud.
- Project management: risk of budget overspend, project management failures or failures in related change management processes.
- Process execution, delivery and management: business continuity risks, as well as regulatory or contractual processing times and processing failures or errors, and outsourcing risks.

2. Changes during the period

Changes during the period concern the Company's operational risk profile.

The Company’s operational risk profile was relatively stable in 2017 compared with the previous year. The main residual risks identified during the year are in the following categories:

- **Product, policy and policyholder relations compliance**: we operate in an increasingly heavily regulated environment, resulting from not only from the Solvency II directive, but also from new regulations in the areas of policyholder protection, money laundering, corruption and data protection.

  Regulatory changes are also being driven by the growing digitisation of policyholder relationships.
- **Outsourcing and delegated management**: the CNP Assurances business model is based on outsourcing solutions and extensive delegations of management powers to distribution partners. As a result, we remain heavily exposed to outsourcing risk.

- **Process execution, delivery and management**: process complexity due to our diverse range of markets, products and partner types exposes the Company to the risk of a failure.
- **Information systems and data processing**: the insurance business involves processing vast quantities of data, which may be lost, stolen or processed in a manner that breaches our regulatory or contractual obligations, exposing the Company to significant IT risks.

  As the incidence of cybercrime increases, intruder risk is also still a concern.
- **Internal and external fraud**: in an environment shaped by complex processes and information systems, many of our distribution and management procedures are exposed to the risk of fraudulent statements, misappropriations of funds, money laundering and bribery attempts. The risk for the Company is exacerbated by the very challenging economic environment.

3. Operational risk management policy

To identify, measure and manage these operational risks, we have issued a formal operational risk management policy organised around:

- A single risk taxonomy and process manual used throughout the organisation.
- **An operating incident reporting system** to ensure that we learn the lessons of past errors. The system's objectives are to:
- help us to take a step back and investigate material incidents in order to identify appropriate preventive measures. This is separate from routine incident management systems that are designed to resolve the problem without delay or limit its immediate consequences;
- build a historical database that can be used to perform quantitative operational risk analyses;
- improve the internal control system, when an incident is caused by control failures.
- **Key risk indicators** used to benchmark and monitor current risks. The indicators are defined and calculated at operating level and are aggregated in scorecards used to identify potential areas of weakness. One or more risk measurement indicators and one or more risk exposure indicators are defined for each risk category. The operating units responsible for the calculations are consulted concerning the definitions to ensure that the indicators are both relevant and easy to calculate.
- **Stress scenario simulations** in order to increase the organisation's preparedness for possible future situations.
- **Business continuity and crisis management plans**. We ensure that appropriate business continuity plans are in place, particularly in areas where the Company is most vulnerable. Plans are regularly tested and updated.
- **An insurance programme** covering operational risks, with a particular focus on liability risk.
- **Operational risk action plans**, including such measures as process and internal control improvements.

4. Risk mitigation

Product, policy and policyholder relations compliance

Monitoring of changes in the standards applicable to our products, policies and policyholder relations processes highlights the compliance risks facing CNP Assurances due to its diversified business base.

CNP Assurances has a robust product launch procedure that includes checks to ensure that the product and the marketing process are in full compliance with regulatory requirements. Particular attention is paid to compliance risks at the time of new product launches.

Outsourcing risks

See section B8.

Process execution, delivery and management

In addition to outsourcing risks dealt with above, CNP Assurances pays close attention to ensuring that systems are in place to enable operations to continue following an incident.

The Company has a business continuity plan and a disaster recovery plan.

A certain number of projects are also underway to improve execution quality, compliance with contractual undertakings and the alignment of insurance practices with non-regulatory standards.

Information systems and data processing

Information systems security is a priority and we have drawn up a systems security policy.

The disaster recovery plan may be specific to the Company or may be set up by another organisation to include systems managed on the Company's behalf.

Close attention is paid to the risk of cyber-attacks and insurance against this risk has been arranged.

Internal and external fraud

Fraud is a constant concern for the Company, which is exposed to these risks due to the nature of its business.

The Company's business model, in which many transactions are performed by partners, has shaped the related controls.

The risk may be aggravated by an economic crisis and CNP Assurances has therefore strengthened the system of delegations of powers and signature authority, as well as its controls over payments.

5. Risk sensitivity

We have chosen to use scenario analyses to measure our exposure to operational risk for ORSA purposes.

Scenario analysis consists of simulating operational shocks arising from the occurrence of the Company's main risks, using predefined inputs (timing, location, causes, consequences, etc.) that reflect the same occurrence probabilities as for financial and underwriting risk scenario analyses. The operational shock scenarios are selected based on their ability to encompass a variety of events with the same or similar direct consequences for the Company.

The operational risks included in the analysis are reviewed annually to obtain assurance that the scenarios effectively cover all of the Company's main residual risks and that all major residual risks are taken into account. Each existing scenario is challenged and reviewed. A scenario may be abandoned if the residual risk has been considerably reduced through the implementation of action plans or the trigger event has changed. The review concerns the scenarios' calibration (estimated impacts) and the impact of risk mitigation measures taken up to the review date. New scenarios are developed when a relevant new risk is identified.

C6. Other material risks

1. Emerging risks

Emerging risks are managed by the operational risk unit of the Group Risk department.

We define emerging risks as follows: *"Emerging risks are risks that are highly uncertain and very difficult to measure and that may have a significant impact in terms of losses. They include new unknown risks and known risks that have occurred in the past in other forms and have since changed. For these risks, it is the potential new form in which they may occur that is qualified as an emerging risk."*

The emerging risk monitoring process may be summarised as follows:

- Emerging risks are identified and monitored, at present primarily by the Group Risk department, which documents any observed changes.
- Identified emerging risks are recorded on a watchlist and rated by severity. They are presented periodically to the Group Risk department's Management Committee which decides on the action to be taken based on the probability of the risk occurring and on any measurement and exposure indicators that may have been developed internally. There are two possible courses of action:
  - Keep the emerging risk on the watchlist and continue to monitor and track it, or
  - Submit the risk to the Group Risk Committee or the Executive Committee to decide whether it should be classified and managed as a financial and/or underwriting and/or operational risk.

2. Reputational risk

Reputational risk is a cross-functional risk that is closely linked to underwriting, financial and operational (legal and employee-related) risks.

This is because an event that unfavourably affects stakeholders' perception of the Company may temporarily or durably damage its reputation.

Reputational risk is managed through a monitoring system, crisis management plans and remedial action plans.

Monitoring system

We have set up a system to monitor in real time all references to the Company's name and that of its subsidiaries in the press, forums, blogs and social networks.

The system has been expanded since 2015 to take into account the Company's presence on social networks (Twitter, Facebook, Linkedin, Viadeo and YouTube).

In addition to real-time alerts that enable us to detect even the weakest signals, monthly and half-yearly reporting systems have been developed to help define the action plans needed to manage the Company's reputation based on its mass media presence.

A dedicated unit has been set up in the Communications, Strategic Marketing and Sponsorship department, with a multi-disciplinary team supported by external consultants, to conduct reputation monitoring and analysis activities and determine any necessary action plans.

Crisis management plans

As soon as a crisis occurs, whatever its nature, a crisis management plan is triggered.

Each unit regularly tests the plan's effectiveness by simulating crises on specific topics or in specific areas.

Remedial action plans

The action plan launched or the commitments made following a crisis are closely monitored by the Executive Committee.

3. Model risk

Model risk concerns all modelling processes used to produce Solvency II pillar 1, ORSA, MCEV© and New Business Value metrics for the Company's insurance portfolio.

It includes risks concerning the quality of the metrics produced using the models (design errors, implementation errors, poor quality of the underlying data, etc.), the time taken to produce metrics using the models (underperforming modelling system, difficulty in setting the right inputs) and analysis of the metrics taking into account the model's limits (poor interpretation of the results, use of the results for purposes other than those for which the model was developed, failure to see the bigger picture).

It is identified as a specific risk that is managed according to the following principles:

- Use of a common system for the various metrics (Solvency II, pillar 1, ORSA, MCEV© and VNB), so that skills are shared among the various teams and each team can capitalise on the work of the others.
- A comprehensive governance system organised around committees, so that initial and revised model assumptions and laws are presented to and approved by decision-makers at the appropriate level in the organisation depending on the potential impact of the update.
- Extensive documentation of the model addressing the needs of the various user groups (users, decision-makers, modellers, etc.), to avoid any loss of modelling knowledge.
- Independent reviews of the models. In addition to the various external reviews, an internal model review and validation team performs independent reviews of the models and their successive updates.
- Mapping of the models and related inherent risks, used to measure model risk.
- A model development policy defining the requirements in terms of deliverables and processes for each model update and their communication to the various development teams.

4. Strategic risks

The Company's partnerships give rise to a strategic risk. These partnerships may simply be commercial arrangements, such as a distribution agreement, or involve the investment of capital in a joint subsidiary. The potential risk of the partnerships not being renewed is closely monitored by the Board of Directors and the Chief Executive Officer, assisted by the Executive Committee.

Other strategic risks include:

- Credit rating downgrade risk.
- Competition risk.
- Risks related to new regulations.
- Risks related to new tax rules.

5. Concentration risk

The Company is potentially exposed to concentration risk which could arise from:

- The sale of a large number of policies covering the same risk.
- The sale of policies covering different risks that are likely to result in claims arising from the same loss event or primary cause.

Identifying and containing concentration risk is part of the product development and approval procedure and the product portfolio management process, which includes managing the related reinsurance cover (see section C1 for more information about reinsurance).

Concentration risk may also arise with respect to a counterparty, through the purchase of various assets including reinsurance, derivative instruments, equities, property, private equity and bonds. Concentration standards mitigate this risk for bonds and derivative instruments.

Concentration risk is monitored through the production of Solvency II reports.

D. Valuation for solvency purposes

This section presents the approach used for the preparation of the Solvency II economic balance sheet. The difference between the value attributed to assets and the value attributed to liabilities (technical reserves and other liabilities) corresponds to the Company's own funds, which are presented in detail in section E.

The economic balance sheet is based to a large extent on the fair values of assets and liabilities used in the Company's IFRS balance sheet prepared for inclusion in the consolidated financial statements, as the measurement principles are the same in both cases. These fair values are subjected to the controls performed for the preparation of the IFRS consolidated balance sheet and they are audited by the Statutory Auditors. This approach guarantees the reliability of the economic balance sheet, through the application of an efficiently managed and audited process, and its alignment with the IFRS balance sheet.

The main adjustments to the data in the IFRS balance sheet concern:

- Elimination of intangible assets.
- Remeasurement of assets at fair value (held-to-maturity investments, loans and receivables and investments in subsidiaries and affiliates).
- Measurement of technical reserves (cancellation of IFRS technical reserves and recognition of the best estimate of liabilities plus a risk margin).
- Reclassification and remeasurement of subordinated debt.
- Adjustments due to the hard close.

D1. Assets

1. Valuation principles

1.1. Use of fair values determined for the IFRS balance sheet

The Group's consolidated financial statements have been prepared in accordance with IFRS since 2005 and fair values are already determined for many assets and liabilities (particularly financial instruments) for inclusion either directly in the IFRS balance sheet or in the notes to the balance sheet.

The value of certain items can be estimated using simplified methods (cost, for example), provided that they do not represent material exposures or the difference compared with the fair value in the IFRS balance sheet is not material.

1.2. Criteria for identifying active markets versus inactive markets

An active market is defined in the same way for the measurement of assets in the Solvency II economic balance sheet as in the IFRS balance sheet.

Fair value measurements in the Solvency II economic balance sheet and under IFRS 13 – Fair Value Measurement are generally based on quoted market prices in active markets for similar assets. For financial instruments, the fair value hierarchy defined in IFRS 13 is used, with instruments measured using level 1 inputs (see details below) in the notes to the IFRS financial statements considered in the economic balance sheet as being valued based on quoted market prices in active markets.

1.3. Specific asset valuation methods

1.3.1 Intangible assets

At this stage, for the preparation of the Solvency II economic balance sheet, all intangible assets are considered as being without value in the absence of detailed analyses of the underlying markets.

1.3.2 Property

Owner-occupied and investment property and shares in unlisted property companies are measured in the Solvency II economic balance sheet at their appraisal value (as determined based on five-yearly independent valuations performed by surveyors recognised by the insurance supervisor and updated annually) or an equivalent value for properties held by entities outside France.

Investment property held in unit-linked portfolios is included in the Solvency II economic balance sheet at the portfolio value.

1.3.3 Financial assets

In view of the quality of the financial assets in the portfolio (over 97% of which were rated BBB or over at 31 December 2017), no material uncertainties have been identified concerning the values attributed to financial assets. The majority of financial assets are traded on active markets and are valued using level 1 inputs in the IFRS financial statements (see below). The IFRS fair values are therefore also used in the Solvency II economic balance sheet.

The alternative valuation methods used to determine the estimated fair value of assets valued using level 2 or level 3 inputs (see below) in the IFRS balance sheet are also used for the economic balance sheet. For these assets, wherever possible we use values obtained from arrangers or external valuers.

We do not have any material exposures measured using valuation models. The only financial assets valued by the Company are certain structured products. The values obtained are reviewed by the Statutory Auditors during their audit of the IFRS financial statements.

The same valuation methods and controls are applied to financial instruments recorded in liabilities (particularly derivative instruments).

A financial instrument is considered as traded in an active market when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and these prices represent actual and regularly occurring market transactions conducted on an arm's length basis. The main criteria used in determining whether or not a market is active are the frequency of price quotations and the liquidity of the securities traded on the market. The market will be considered inactive if one or more of the following indicators is observed: a sharp fall in the number of transactions, a significant increase in settlement costs or volatility, or a rapid widening in Z-spreads.

For financial instruments whose price is not quoted in an active market (i.e., no price is quoted or a price is quoted but the market does not qualify as active, as is the case for certain structured products), fair value is estimated using valuation techniques. This includes:

- Prices not freely available that are provided on demand by arrangers or pricing services, or prices provided by an external agency that are freely available but where the market on which the assets are traded is not always active.
- Prices determined using internal models that maximise the use of observable inputs.

Financial instruments are classified in three categories based on the fair value hierarchy, as follows:

- Level 1: financial instruments measured using quoted prices in active markets. The fair value of most financial instruments held by the Company is determined based on the quoted market price, whenever quoted prices are readily and regularly available and represent actual and regularly occurring market transactions conducted on an arm's length basis. The active market for such transactions is the market in which the most recent prices were quoted and the largest trading volume was observed. The following financial assets are measured at their quoted market price:
  - equities, measured on the basis of quoted prices on their reference market;
  - mutual fund units, measured at their net asset value;
  - bonds, EMTNs and MTNs. For each instrument, the value is determined based on the most recent quoted prices available – on the stock exchange, from brokers, trading rooms or trading platforms, the ICMA Price Service (average prices) or BGN (average prices excluding highs and lows), taking into account liquidity factors in the choice of market;
  - BTAN treasury notes, at the prices quoted under the Banque de France's centralised quotation system;
  - derivatives traded on an organised market.

- Level 2: financial instruments measured by standard valuation techniques using mainly observable inputs. This category includes:
  - structured products valued by the Company, arrangers or external valuers;
  - OTC derivative contracts;
  - private equity;
  - money-market securities other than BTANs measured based on the zero coupon price curve plus a spread;
  - investment property measured using prices observed for similar recent transactions or the rental value of similar properties;
  - any other quoted financial instrument for which no active market exists.

  Structured products held by the Company consist of financial instruments for which income is indexed to indices, baskets of equities, hedge funds, interest rates and credits. They may also comprise embedded derivatives that can modify the structure of revenues or repayments.

  The Company negotiates with each arranger for prices to be quoted in principle every month. These prices correspond to the products' economic value. Their reliability is checked on a test basis and, in the case of a significant change, using valuation techniques (for example, discounted cash flow analysis) or by asking the arrangers for details of the methods used. To date, these checks have consistently confirmed the reliability of the prices quoted by the arrangers. We check the quality of the arrangers' valuation methods and of the ratings attributed to the products, and obtain assurance concerning the absence of any credit events.

The Company uses valuations of its complex products prepared internally, or by an external arranger or valuer. They include structured products and derivative instruments used for hedging purposes. Due to their complexity, the valuation process involves using sophisticated models and methods, generally based on a probabilistic approach.

Unlisted securities are valued:

- using generally accepted market practices, primarily by reference to the prices of similar, comparable market transactions; or
- by discounting the future cash flows expected to be generated by the investment.

- Level 3: financial instruments measured using inputs not based on observable market data (unobservable inputs). Unobservable inputs are defined as inputs based neither on observable market transactions involving the same instrument at the measurement date, nor on observable market data available at the same date. Very few financial instruments used by the Company fall into this category, but it would be used, for example, to classify asset-backed securities. For such instruments, assurance is obtained that any change in inputs used for measurement purposes based on reasonable alternative scenarios would not have any material impact on the financial statements.

(a) Remeasurement at fair value of financial assets initially measured at amortised cost

Financial assets are measured in the same way in the IFRS balance sheet prepared for inclusion in the consolidated financial statements and the Solvency II economic balance sheet, except for assets classified as "held-to-maturity".

To comply with Solvency II regulations, these assets measured at amortised cost in the IFRS balance sheet are remeasured at fair value in the economic balance sheet. The fair value in the Solvency II economic balance sheet is consistent with that presented in the notes to the IFRS balance sheet.

(b) Remeasurement of investments in subsidiaries and affiliates at best estimate

In the Solvency II economic balance sheet:

- Investments in insurance subsidiaries and affiliates are measured based on the companies' adjusted net asset value as determined using the rules in the Solvency II directive and the delegated regulation.
- Investments in other subsidiaries and affiliates are measured as follows:
  - Investments traded on an active market are measured at their quoted market price.
  - Investments in non-insurance subsidiaries that are consolidated in the Group's IFRS balance sheet are measured based on the companies' net worth.
  - Investments in insurance and non-insurance subsidiaries that are not consolidated in the Group's IFRS balance sheet or Solvency II economic balance sheet are measured at their fair value under IFRS.
  - Investments in related property companies are measured based on appraisal values determined by an independent expert because the assets are not traded on a stock market.

1.3.4 Other assets

(a) Treasury shares

The Company may hold its own shares under a liquidity agreement. These shares are classified as assets in the Solvency II economic balance sheet, under "Own shares", and measured at market value.

Own shares recorded as a deduction from equity in the IFRS balance sheet (under "Treasury shares") are reclassified as assets in the Solvency II economic balance sheet at market value.

(b) Other assets

The value of other assets in the Solvency II balance sheet generally corresponds to the value used in the IFRS balance sheet, as adjusted during the hard close process in line with expected cash flows.

We consider that the IFRS value of these assets is not materially different from their fair value. Fair value may be determined on a case-by-case basis if a material difference is expected to arise between the IFRS value and fair value, due to discounting adjustments for example.

Items included in other assets and valued for the purpose of best estimate calculations are eliminated from the Solvency II economic balance sheet as they are included in the best estimate. This concerns accrued income, which amounted to €13.9 million at 31 December 2017.

2. Differences compared to book value

2.1. Intangible assets

In the Company's French GAAP and IFRS balance sheets, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. In the Solvency II economic balance sheet, intangible assets are considered as being without value because they cannot be traded on a market.

2.2. Insurance investments

At 31 December 2017, insurance investments totalled €356.2 billion[14] under Solvency II versus €329.7 billion under French GAAP, representing a difference of €26.8 billion that was due mainly to the valuation methods described above.

- In the French GAAP balance sheet, insurance investments are measured at historical cost less transaction expenses and less any accumulated impairment losses, except for investments held in unit-linked portfolios.
- In the Solvency II economic balance sheet, insurance investments are measured at fair value.

Furthermore, the Solvency II economic balance sheet includes securities sold or loaned and does not take into account securities received as collateral under securities lending transactions (in accordance with the IFRS approach used as the basis of the Solvency II economic balance sheet).

[14] *This total includes the value of derivative instruments recorded in liabilities for €1.1 billion*

2.3. Other assets

At 31 December 2017, other assets amounted to €7.9 billion under Solvency II versus €7.8 billion under French GAAP, representing a difference of €0.1 billion.

They include own shares, cash deposits, owner-occupied property, receivables, cash and cash equivalents and any other assets.

The value of other assets in the Solvency II balance sheet generally corresponds to the value used in the IFRS balance sheet, as adjusted during the hard close process in line with expected cash flows.

D2. Technical reserves

Technical reserves (also known as technical provisions) are defined as the amount an insurance or reinsurance undertaking would have to pay if it transferred its contractual rights and obligations immediately to another undertaking.

The value of technical reserves is equal to the sum of a best estimate and a risk margin:

- The best estimate corresponds to the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure. It is calculated before reinsurance and comprises two parts, best estimate of premium reserves and best estimate of claims reserves.
- The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations over the lifetime thereof.

For best estimate calculations, insurance obligations are segmented into homogeneous risk groups, and as a minimum by lines of business.

1. Methods and assumptions

1.1. Main analyses

Several adjustments were made to insurance models in 2017. These mainly concerned savings and pensions business and were designed to better take into account the policy for adjusting policyholder yields in a low interest rate environment and to incorporate the new rules governing points-based pension plans.

The changes in partnership terms decided with the main partners were also duly taken into account in the calculations.

1.2. General principles and description of the models

All of the Company's obligations have been modelled. Simplified approaches may be adopted in some cases; however, the cases concerned represent only a small proportion of technical reserves (around 4%). When a detailed model cannot be used, a prudent approach is systematically adopted.

The best estimate calculation takes into account all future cash flows related to the insurance obligations observed at the period-end. Expected benefit payments and expenses are modelled, together with future premiums within the limits set by the regulations. The main accounting phenomena and mechanisms are taken into account, such as changes in the policyholder surplus reserve and statutory technical reserves.

The model used to measure insurance obligations related to traditional savings contracts is based on stochastic projections of assets and liabilities. The same model is used for group pension plan obligations, including points-based plans.

Death/disability and term creditor insurance obligations are modelled using deterministic models.

The cash flow projection period has been set at 50 years to better reflect the obligations' duration.

1.3. Best estimate economic assumptions

Solvency II calculations are based on observed market conditions at the period end and on assumptions prepared by the Group Investments department. The economic scenario generator is calibrated to take into account negative interest rates.

1.3.1 Reference interest rate curve

The reference interest rate curve corresponds to the EIOPA basic risk free interest rate term structure plus an adjustment for credit risk and volatility. The adjusted term structure is extrapolated using a mechanism to ensure a smooth convergence to the ultimate forward rate.

1.3.2 Matching adjustment

Best estimates do not take into account any matching adjustment.

1.3.3 Volatility adjustment

The volatility adjustment is applied to the basic risk free interest rate term structure for all insurance business modelled for the purpose of calculating best estimates of technical reserves.

The adjustment applied at 31 December 2017 was calculated based on the Solvency II Delegated Regulation and period-end market data.

Its impact on technical reserves may be summarised as follows:

Technical reserves at 31 December 2017 *(in € billions)*	Before volatility adjustment	**After volatility adjustment**	Change	Impact
Total	329.4	**329.1**	-0.08%	(0.3)

Impact of volatility adjustment on technical reserves

The volatility adjustment had the effect of reducing the best estimate of technical reserves by €253 million or 0.08%.

1.3.4 Transitional measures

The Solvency II directive includes transitional measures to allow insurance and reinsurance undertakings time to adapt to the new regulations before they become fully applicable and smooth the financial impacts over time. The transitional measures concerning risk free rates and technical reserves have not been used by the Company to calculate best estimates of technical reserves.

1.4. Assumptions used to calculate liabilities

The assumptions used to calculate liabilities, concerning such issues as mortality, temporary and permanent disability and surrender rates and loss experience, are determined based on actuarial analyses provided that adequate historical data is available for the portfolios concerned.

If this is not the case, experience-based modelling laws are determined using regulatory tables or external data, provided that the available data is adequate and its quality complies with regulatory standards.

1.4.1 Savings and pensions liabilities

Projected cash flows for savings and pensions business are determined by default according to a policy-by-policy approach. Policies may however be grouped together (model point approach) if the policy-by-policy calculation would be unreasonably burdensome. Due to the very large number of in-force policies, we have chosen to adopt the model point approach for savings and pensions liabilities.

Savings and pensions liabilities depend to a large extent on the market environment and stochastic simulations are performed to reliably assess these liabilities for the calculation of best estimates, taking into account future policy management decisions.

In the case of savings business, one of the key assumptions used in liability models concerns surrender rates:

- Structural surrender modelling: structural surrenders (total and partial) correspond to policyholders' propensity to surrender their policy, whatever the economic environment. Structural surrender rate modelling laws are developed using all available data and are reviewed annually.
- Economic surrender modelling: economic surrenders correspond to surrenders decided by policyholders when they receive a lower-than-expected yield on their policy.

1.4.2 Term creditor and death/disability insurance liabilities

Term creditor and death/disability insurance liability models are based on deterministic 'liability only' projections.

They consist of multi-state models that simulate the transition of insured populations from the initial healthy state to, for example, a state of temporary or permanent disability or death.

The main assumptions used for term creditor and personal risk insurance business concern the modelling laws used to reproduce these transitions, as determined based on all available data.

In the case of term creditor insurance, the “Bourquin amendment” adopted in February 2017 enables insureds to switch insurer every year for as long as the loan is in place, on the contract’s anniversary date, rather than only during the first year as was previously the case. Cancellation rate assumptions have been adjusted to reflect the potential increase in cancellations as a result of this amendment which came into effect on 1 January 2018.

1.5. Other pivotal assumptions

1.5.1 Future management actions

The methods and techniques applied to estimate future cash flows and thus to measure reserves for insurance liabilities take into account possible future management actions in such areas as:

- Financial strategy.
- Policies concerning the adjustment of technical reserves.
- Renewal of partnership agreements.
- Management of the distribution network.

In the most unusual situations, such as an extended period of negative long- and short-term interest rates, the investment strategy is realigned by adjusting the asset allocation between the various classes in order to reduce the portfolio's exposure to equity or interest rate risk. In this type of environment, the savings portfolio is also adjusted to reduce the capital charge. Future management decisions also take into account expected policyholder behaviours.

As required by the applicable regulations, the plan describing assumed future management actions is approved by Executive Management.

1.5.2 Overhead expenses

The expenses are allocated to each business line and individually projected taking into account their origin and accounting classification.

1.5.3 Commissions

Commission assumptions are based on the commission arrangements in force on the measurement date. Future commission arrangements are taken into account when they are certain (i.e., covered by a new commission agreement signed by the insurer).

1.6. Risk margin calculation

The Solvency II Delegated Regulation describes the recommended method of calculating the risk margin and three simplified methods. Our choice of method is based on three criteria: the reliability and robustness of the results, the method's ease of application and its degree of technical complexity.

The risk margin calculated by the chosen method corresponds to 6% of discounted future SCR. A more detailed approach is applied to determining projected SCR.

2. Uncertainties and simplifications

Solvency II is a principles-based directive and the use of models has certain inherent limitations. For these reasons, the appropriateness of the modelling methods is assessed based on the guidelines issued by EIOPA and France's insurance supervisor (ACPR).

The impact of model uncertainties on the economic balance sheet is either estimated and allocated to technical reserves in a way that maximises them (this is the case, for example, of the convergence gap or model leaks) or used to adjust the model in a way that favours policyholders.

Uncertainties concerning the metrics used in the models are addressed on a prudent basis, while data quality projects drive continuous improvement in the reliability of data used for best estimate calculations.

Uncertainties concerning assumptions are managed in a way that ensures technical reserves are not under-stated. For savings, the main sources of methodological uncertainty concern the modelling of economic surrenders. In the absence of any major economic surrender events, the form of the related modelling law, the choice of discriminating variables and the model's calibration are based in part on expert judgements that are approved by management.

A validation report has been prepared by CNP Assurances listing the assumptions and future management decisions that affect the determination of technical reserves. The report has been approved by Executive Management.

3. Main differences compared to the financial statements

Both the French GAAP balance sheet and the Solvency II economic balance sheet include in liabilities the technical reserves corresponding to the insurer's obligations towards insureds and third parties. Solvency II principles are very different to French GAAP principles, with the result that there are significant differences between the values reported for technical reserves under the two approaches.

The French GAAP balance sheet is presented in accordance with the overriding principle of prudence, which explains the conservative reasoning applied when it comes to choosing biometric tables, inputs and discount rates. The method to be used to calculate technical reserves in the French GAAP accounts is described in a regulation issued by France's accounting standards board (*Autorité des Normes Comptables*).

Gross technical reserve calculations under French GAAP are rules-based and involve applying static inputs and approaches that severely limit the possibilities of aligning the reserves with the insurer's risk profile. Unlike under Solvency II, the French GAAP method also does not allow the insurer to take unrealised gains into account in the measurement of obligations towards policyholders.

Conversely, technical reserve calculations under Solvency II are principles-based and as such allow insurers to identify for themselves the methods and inputs most suited to their risk profile. However, Solvency II calculations of technical reserve best estimates are complex and the various metrics can be very volatile, as they depend to a significant extent on the financial environment.

The difference in Solvency II technical reserves compared with technical reserve calculated under French GAAP is down to the methods and assumptions used by the Company to calculate best estimates under Solvency II, as described above.

4. Main results

The best estimate of the Company's technical reserves before reinsurance at 31 December 2017 amounted to €325 billion, corresponding for the most part to traditional savings and pension business and, to a lesser extent, unit-linked business. The best estimate of technical reserves for death/disability and term creditor insurance obligations is more limited because future premiums are taken into account but is nonetheless significant.

An analysis of Solvency II technical reserves by line of business shows that *With-profits life insurance* technical reserves declined significantly in 2017, due to the net outflow from traditional savings contracts. Part of the outflow consisted of transfers to unit-linked contracts, leading to an increase in technical reserves for *Index-linked and unit-linked insurance.*

The amounts for 2016 presented below have been restated to include the technical reserves of Préviposte and Investissement Trésor Vie (ITV), which were merged into CNP Assurances in 2017.

(In € millions)	**Gross Best Estimate – 2017**	**Gross Best Estimate – 2016**	**Year-on-year change**
Medical expense insurance	111	107	+4
Income protection insurance	879	1,019	-140
Workers' compensation insurance	285	298	-13
Proportional reinsurance – Medical expense insurance	390	338	+53
Proportional reinsurance – Income protection insurance	16	15	+1
Health similar to life insurance	4,324	4,977	-653
With-profits life insurance	279,311	289,337	-10,027
Index-linked and unit-linked insurance	31,665	29,072	+2,593
Other life insurance	74	(200)	+274
Health reinsurance	110	109	+1
Life reinsurance	7,870	3,081	+4,789
Total	**325,036**	**328,153**	**-3,117**

Best estimate by Solvency II line of business

CNP Assurances' risk margin at 31 December 2017 was estimated at €4.1 billion.

(In € millions)	**Risk margin 2017**	**Risk margin 2016**	**Year-on-year change**
Medical expense insurance	3	3	0
Income protection insurance	24	24	0
Workers' compensation insurance	9	7	+1
Proportional reinsurance – Medical expense insurance	21	18	+3
Proportional reinsurance – Income protection insurance	0	0	0
Health similar to life insurance	72	65	+7
With-profits life insurance	3,170	2,779	+391
Index-linked and unit-linked insurance	112	88	+25
Other life insurance	590	445	+145
Health reinsurance	0	0	0
Life reinsurance	75	31	+45
Total	**4,076**	**3,460**	**+616**

Risk margin by Solvency II line of business

D3. Other liabilities

1. Valuation principles

1.1. Deferred taxes

In the Solvency II economic balance sheet, deferred taxes (assets and liabilities) are calculated as the difference between the value of assets and liabilities in the economic balance sheet and their tax basis.

In order to use the work performed for consolidated reporting purposes, in practice they are calculated on the basis of deferred taxes in the IFRS balance sheet, adjusted for the tax impact of valuation differences between the IFRS balance sheet and the Solvency II economic balance sheet and for taxes on future cash flows. If deferred tax assets and liabilities represent a net asset, tests are performed to determine whether its recovery is probable.

The measurement of deferred tax assets and liabilities at 31 December 2017 takes into account the enacted reduction in the corporate income tax rate payable by the Company and the other French units from 33 1/3% (excluding the *contribution additionnelle* surtax) to 25% between 2019 and 2022 (as provided for in the 2018 Finance Act published in the French legal gazette *Journal Officiel* dated 30 December 2017).

1.2. Subordinated debt

1.2.1 Remeasurement of subordinated debt at best estimate

The subordinated notes issued by CNP Assurances are measured in the economic balance sheet at an amount corresponding to the best estimate, as adjusted for the effect of changes in the Company's credit risk (i.e., the value of cash flows discounted at a rate equal to the sum of the risk-free rate and the issue date credit spread paid to note holders).

1.2.2 Reclassification of subordinated notes as eligible own funds under Solvency II

After analysing the characteristics of each subordinated notes issue based on Solvency II own funds eligibility criteria, all of the subordinated notes issues classified as equity in the IFRS balance sheet have been classified in the Solvency II economic balance sheet as eligible own funds.

1.3. Other liabilities

The value of other liabilities is broadly aligned with their value in the IFRS balance sheet prepared for consolidation purposes and the French GAAP balance sheet prepared for statutory financial reporting purposes. We consider that this value is not materially different from the amount that would be obtained by applying a best estimate approach, given that the cash flows receivable and payable are of a short-term nature (less than one year), and that consequently remeasurement at best estimate is unnecessary.

The best estimate of these liabilities' value may be determined on a case-by-case basis if a material difference is expected to arise between the IFRS value and the Solvency II best estimate, due to discounting adjustments for example.

Items included in other liabilities that are taken into account in the best estimate calculation are eliminated from the economic balance sheet. This concerns accrued charges.

Employee benefit obligations

Employee benefit obligations are recognised in full in the balance sheet in accordance with IAS 19, except for share grants which are recognised and measured in accordance with IFRS 2.

2. Differences compared to book value

2.1. Subordinated debt

In the French GAAP balance sheet, subordinated notes are recognised in debt and measured at amortised cost.

In the Solvency II economic balance sheet, they are measured at fair value.

At 31 December 2017, subordinated debt amounted to €7.1 billion under French GAAP and €7.5 billion under Solvency II. The valuation difference therefore amounted to €0.4 billion.

2.2. Liabilities and provisions (excluding technical reserves)

At 31 December 2017, liabilities and provisions amounted to €29.0 billion under Solvency II versus €37.0 billion under French GAAP, representing a valuation difference of €8.0 billion. The difference corresponds mainly to securities received as collateral under securities lending transactions, which are recognised as a liability in the French GAAP balance sheet (for €9.0 billion at 31 December 2017) and not in the Solvency II economic balance sheet.

No specific adjustments are made to employee benefit obligations in the Solvency II economic balance sheet compared to the IFRS balance sheet. The total obligation recognised at 31 December 2017 amounted to €307.7 million. Details of the recognised amounts are provided in the Registration Document (see note 15.3 to the consolidated financial statements).

D4. Alternative valuation methods

In the Solvency II economic balance sheet, instruments measured using level 1 inputs in the notes to the IFRS financial statements are considered as being valued based on quoted market prices in active markets.

Assets measured using alternative methods based on level 2 or 3 inputs in the IFRS financial statements, are measured on the same basis in the Solvency II economic balance sheet in accordance with section D.1 Assets – 1. Valuation principles.

E. Capital management

E1. Own funds

1. Capital management objectives, policies and procedures

1.1. Principles

The CNP Assurances' capital management principles are designed to fulfil two objectives:

- Comply with the Company's current and five-year projected solvency capital requirement, as calculated in accordance with the principles set out in Article 45 (ORSA) of the Solvency II directive.
- Maintain a good quality credit rating.

Capital management is essential to guarantee the Company's solvency, alongside methods to reduce required capital (for example by adjusting business volumes or the asset allocation, redefining management actions or future management actions, purchasing reinsurance cover or hedging instruments, or securitising assets).

It is therefore part of the annual ORSA planning process and gives rise to the preparation each year of a medium-term capital management plan that is submitted to the Board of Directors.

1.2. Procedures

Capital management is part of the annual ORSA planning process and gives rise to the preparation each year of a medium-term capital management plan that is submitted to the Board of Directors. This plan takes into account:

- Solvency projections prepared based on the work conducted during the capital management planning process.
- Subordinated debt repayments and retirements, if any.

It describes possible corporate actions that may be carried out during the ORSA projection period:

- Concerning subordinated debt, it describes the broad objectives and how they are expected to be met. The information provided includes details of vested right protection clauses (see below for details).
- Concerning shares, it describes the assumptions used with respect to outstanding shares, dividend payments and purchases and sales of treasury shares.
- It also includes details of any assumptions concerning other components of capital.

2. List of own funds items

2.1. Basic own funds

The Company's basic own funds consist of the following items:

- Share capital, classified as Tier 1.
- Share premium account, classified as Tier 1.
- Subordinated notes are measured at best estimate[15], corresponding to the present value of future cash flows payable to note holders (as determined based on each issue's characteristics), discounted at the risk free rate plus the issue date credit spread.
- Subordinated notes issued before 2015 are classified as Tier 1, Tier 2 and Tier 3 in line with the principles of the vested rights protection clause.
  - Undated subordinated notes eligible for inclusion in solvency capital for 50% of their amount under the regulations in force on the issue date are classified as Tier 1 under the Solvency II transitional measures.
  - Dated subordinated notes eligible for inclusion in solvency capital for 25% of their amount under the regulations in force on the issue date are classified as Tier 2 under the Solvency II transitional measures.
- Subordinated notes issued since 2015 have been structured so as to be eligible for inclusion in Tier 2 or Tier 3, even if the transitional measures are not applied.
- The reconciliation reserve, corresponding to the sum of the following items:

(In € billions)	**31 Dec. 2017**
Excess of assets over liabilities	20.2
Treasury shares (held directly or indirectly)	-0.0
Foreseeable dividends, distributions and expenses	-0.6
Other components of basic own funds[16]	-2.4
Adjustment for restricted own funds items in respect of matching adjustment portfolios and ring fenced funds	-0.0
Reconciliation reserve	**17.2**

2.2. Ancillary own funds

The Company does not have any ancillary own funds.

[15] *Excluding changes in the Company's own credit risk*
[16] *Details of the other components of basic own funds are provided in QRT S.23.01.01 (see Appendix).*

3. Own funds structure, amount and quality

3.1. Description of own funds eligible for inclusion in the SCR coverage ratio

Own funds eligible of €27.1 billion for inclusion in CNP Assurances' SCR coverage ratio are as follows:

- €19.6 billion of unrestricted Tier 1 capital, comprising the reconciliation reserve, share capital (excluding any preference shares) and the share premium account.
- €7.5 billion of subordinated debt, breaking down as follows, with 2016 comparatives:

(In € billions)	**31 Dec. 2017**	**31 Dec. 2016**
Restricted Tier 1	2.6	2.7
Tier 2	3.9	4.0
Tier 3	1.0	1.0
Total	**7.5**	**7.8**

This analysis distinguishes between unrestricted Tier 1 capital, which is not subject to any cap, and restricted Tier 1 capital, which is capped under Solvency II. The components of Tier 2 and Tier 3 capital are also capped. At 31 December 2017, these quantitative caps on the components of eligible own funds for SCR calculations were not met.

3.2. Description of own funds eligible for inclusion in the MCR coverage ratio

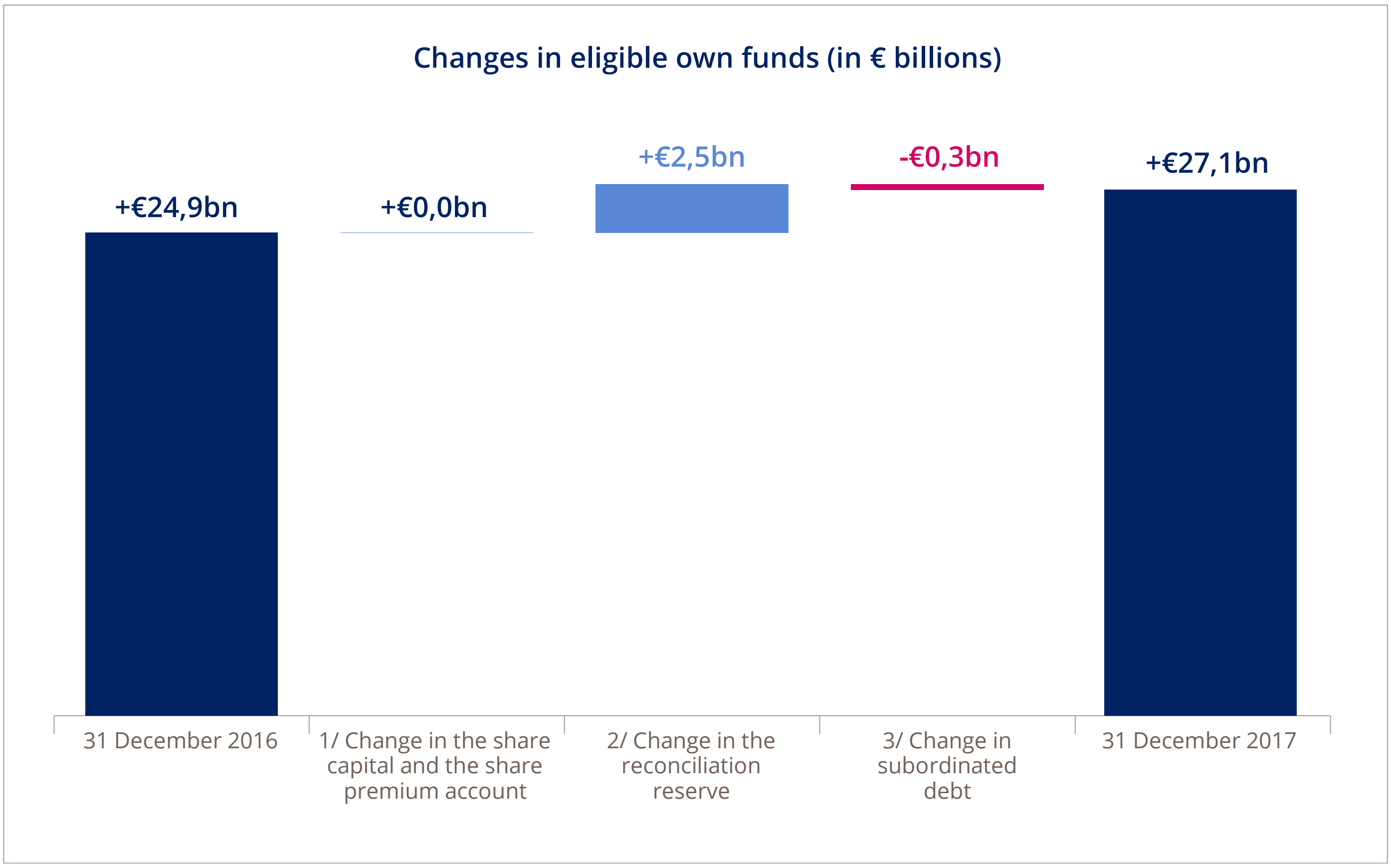
Own funds eligible of €23.4 billion for inclusion in CNP Assurances' MCR coverage ratio are as follows:

- €19.6 billion of unrestricted Tier 1 capital, comprising the reconciliation reserve, share capital (excluding any preference shares) and the share premium account;
- €3.8 billion of subordinated debt, breaking down as follows, with 2016 comparatives:

(In € billions)	**31 Dec. 2017**	**31 Dec. 2016**
Restricted Tier 1	2.6	2.7
Tier 2	1.2	1.2
Tier 3	0.0	0.0
Total	**3.8**	**3.9**

Article 82 of the Delegated Regulations limits the eligible amounts of Tier 2 items to 20% of the MCR. No components of Tier 3 capital are eligible for inclusion in the MCR coverage ratio.

3.3. Analysis of changes during the reference period



There were no changes in share capital or the share premium account during 2017.

The Company's eligible own funds increased by €2.2 billion between 31 December 2016 and 31 December 2017.

- The increase in the reconciliation reserve reflected:
    - resilient financial market conditions; and
    - the contribution of operations, including the positive effect of the shift in product mix towards unit-linked contracts.

  The increase was partly offset by the effect of experience-based adjustments to biometric and behavioural assumptions.
- The reduction in subordinated debt corresponds to negative fair value adjustments following changes in market interest rates and exchange rates during the year.

3.4. Comparative analysis of French GAAP equity and Solvency II own funds

The difference between French GAAP equity (€11.4 billion) and Solvency II own funds (€27.1 billion) can be explained as follows:

- Remeasurement of assets due to differences between French GAAP and Solvency II principles (including borrowings and derivatives): +€35.9 billion
- Remeasurement of liabilities (mainly technical reserves) due to differences between French GAAP and Solvency II principles: -€27.1 billion

- Inclusion of subordinated debt in Solvency II own funds: +€7.5 billion
- Deduction of forecast dividends from Solvency II own funds: -€0.6 billion

3.5. Description of own funds items to which transitional measures have been applied

The transitional measures provided for in the Omnibus II Directive (Directive 2014/51/EU) have been applied to subordinated notes issued before 2015. These notes are included in Tier 1 capital (undated notes) or Tier 2 capital (dated notes) for a period of ten years ending on 1 January 2026, although they would not fulfil all of the eligibility criteria for inclusion in basic own funds under Solvency II in the absence of transitional measures.

The 16 subordinated notes issues concerned together represent €5.3 billion out of a total of €7.5 billion worth of subordinated debt (at fair value) in the economic balance sheet at 31 December 2017. The terms and conditions applicable to these issues vary from one issue to another.

3.6. Plans to replace components of own funds to which transitional measures have been applied

Subordinated debt to which transitional measures have been applied will no longer be eligible for inclusion in solvency capital as from January 2026. A significant proportion of this debt can be replaced by then, by retiring the notes on the first possible early redemption date.

Issues that cannot be retired before 2026 can be either classified in a lower tier and kept or redeemed early at a date close to January 2026 by invoking the clause allowing early redemption due to regulatory disqualification.

All subordinated notes issued since 2015 have been structured to be compatible with the final Solvency II rules and the same will apply to all future issues.

E2. Solvency capital requirement (SCR) and minimum capital requirement (MCR)

1. SCR and MCR at 31 December 2017

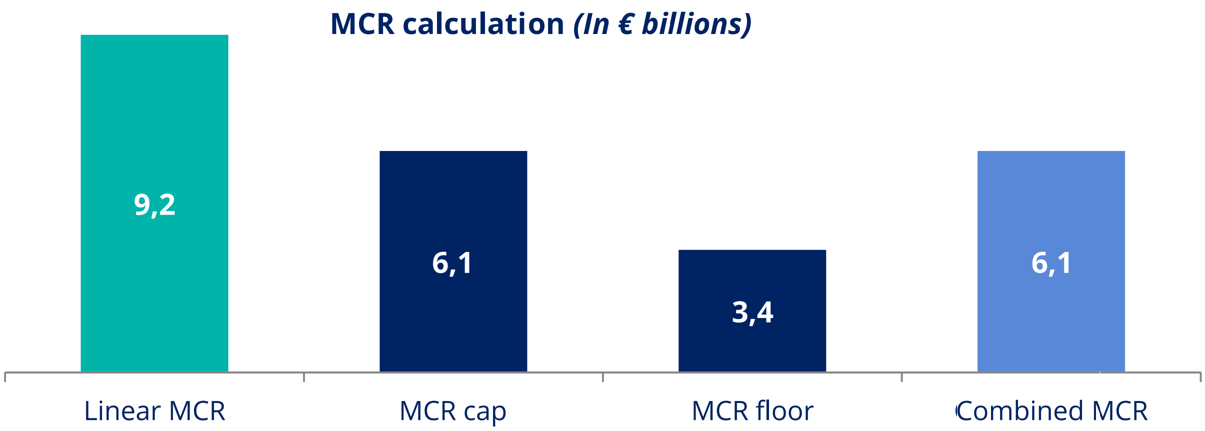
CNP Assurances' SCR at 31 December 2017 was €13.5 billion and the SCR coverage ratio at that date was 201%. The MCR was €6.1 billion and the MCR coverage ratio was 387%.

2. Minimum capital requirement (MCR)

- MCR is determined as follows:
- Calculation of linear MCR by combining technical reserves by line of business on a linear basis.
- Determination of the MCR floor and cap:
  - The MCR floor represents 25% of the SCR and may not be less than €3.3 billion.
  - The MCR cap represents 45% of the SCR.

The value of the combined MCR corresponds to that of the linear MCR unless the linear MCR falls outside the above range of values. If this is the case, the value of the MCR corresponds to either the cap or the floor.

The Company's MCR corresponds to the MCR cap, i.e., €6.1 billion.



3. Solvency capital requirement (SCR)

3.1. Quantitative SCR information by risk module

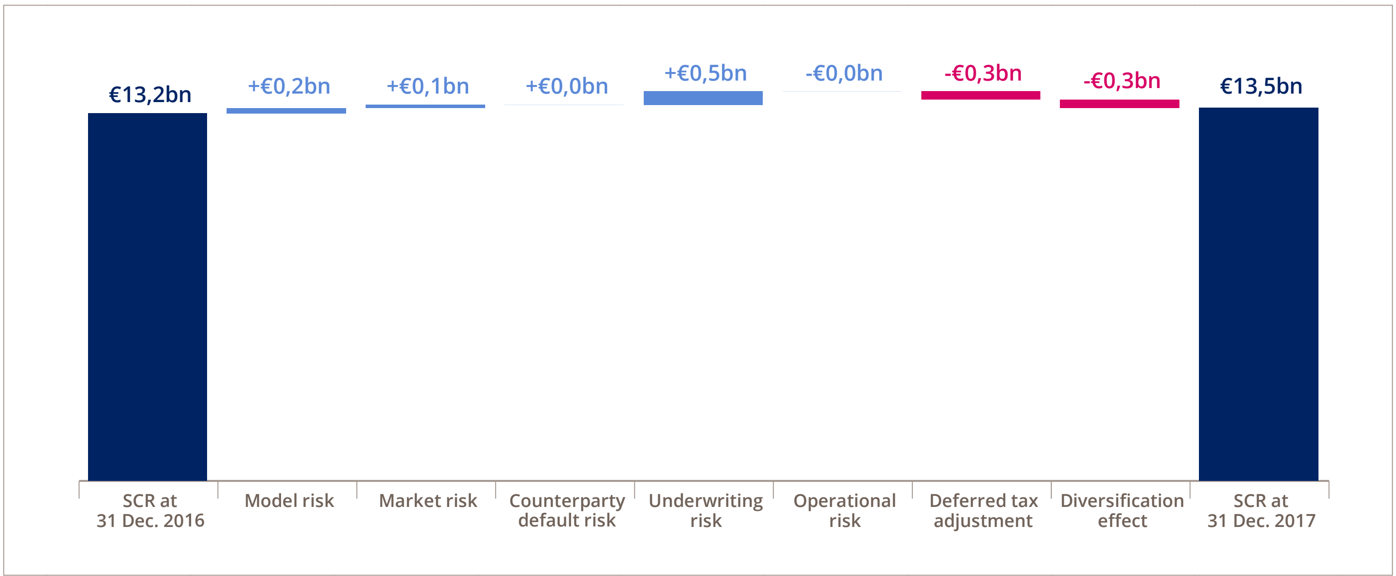
Breakdown of the Company's SCR by risk module, net of losses absorbed by future discretionary benefits:

(In € billions)	**31 Dec. 2017**
Market risk SCR	11.9
Counterparty default risk SCR	1.2
Life underwriting risk SCR	3.4
Health underwriting risk SCR	2.0
Non-life underwriting risk SCR	0.0
Diversification effect	(4.2)
Intangible asset risk SCR	0.0
Basic SCR	**14.3**
Operational risk SCR	1.4
Loss-absorbing capacity of deferred taxes	(2.2)
Other*	0.0
SCR	**13.5**

** Other items, including adjustment due to ring-fenced fund SCR aggregation.*

3.2. Significant changes during the period

Changes in the components of Company SCR *(in € billions)*:



At 31 December 2017, the Company's SCR was €13.5 billion, representing an increase of €0.3 billion from the previous year-end.

The increase can be explained as follows:

- Changes in model risk, including improved policyholder dividend projections for traditional savings contracts and the effect of regulatory changes concerning points-based pension plans, led to a €0.2 billion increase in SCR.
- Underwriting risk SCR rose by €0.5 billion due to experience-based adjustments to biometric and behavioural assumptions.
- The adjustment for deferred taxes reduced SCR by €0.3 billion, reflecting improved projected future margins on pensions/savings business, partly offset by the enacted future reduction in the French corporate income tax rate.
- The €0.3 billion diversification benefit was attributable to the higher proportion of non-financial risks compared with 2016.

4. Impact of volatility adjustment on solvency indicators

The impact of the volatility adjustment on solvency indicators is presented below:

Impact of volatility adjustment on solvency indicators *(In € billions)*	**After volatility adjustment**	Before volatility adjustment	Impact
Basic own funds	27.1	26.9	+0.2
Minimum capital requirement (MCR)	13.5	13.6	-0.1
Eligible own funds to cover the MCR	23.4	23.3	+0.1
Solvency II MCR coverage ratio	**387%**	**381%**	**+6 pts**
Eligible own funds to cover the SCR	27.1	26.9	+0.2
Solvency capital requirement (SCR)	6.1	6.1	0.0
Solvency II SCR coverage ratio	**201%**	**198%**	**+3 pts**

The impact of the volatility adjustment in 2017 was considerably less than the 11-point impact in 2016.

E3. Use of duration-based equity risk sub-module

CNP Assurances does not use the duration-based equity risk sub-module in the calculation of the solvency capital requirement.

E4. Differences between the standard formula and any internal model used

CNP Assurances does not use any internal models.

E5. Non-compliance with MCR and SCR

CNP Assurances has not breached its obligations in terms of MCR and SCR.

F. Appendix: Quantitative Reporting Templates (QRTS) for public disclosure

Presentation currency: € thousands
Legal name: CNP ASSURANCES
Year ended: 31 December 2017

S.02.01.02 – Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	163,724
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	322,698,470
Property (other than for own use)	R0080	832,051
Holdings in related undertakings, including participations	R0090	5,596,320
Equities	R0100	27,949,969
Equities - listed	R0110	18,060,572
Equities - unlisted	R0120	9,889,397
Bonds	R0130	218,472,398
Government Bonds	R0140	119,820,647
Corporate Bonds	R0150	85,339,157
Structured notes	R0160	12,801,498
Collateralised securities	R0170	511,096
Collective Investments Undertakings	R0180	68,973,014
Derivatives	R0190	797,390
Deposits other than cash equivalents	R0200	77,328
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	34,238,853
Loans and mortgages	R0230	389,571
Loans on policies	R0240	389,501
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	70
Reinsurance recoverables from:	R0270	23,851,713
Non-life and health similar to non-life	R0280	96,793
Non-life excluding health	R0290	
Health similar to non-life	R0300	96,793
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	21,852,475
Health similar to life	R0320	270,351
Life excluding health and index-linked and unit-linked	R0330	21,582,124
Life index-linked and unit-linked	R0340	1,902,445
Deposits to cedants	R0350	194,491
Insurance and intermediaries receivables	R0360	2,687,667
Reinsurance receivables	R0370	118,590
Receivables (trade, not insurance)	R0380	4,288,574
Own shares (held directly)	R0390	2,767
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	409,095
Any other assets, not elsewhere shown	R0420	26,931
Total assets	R0500	389,070,447

		Solvency II value
		C0010
Liabilities		
Technical provisions - non-life	R0510	1,738,601
Technical provisions - non-life (excluding health)	R0520	
TP calculated as a whole	R0530	
Best Estimate	R0540	
Risk margin	R0550	
Technical provisions - health (similar to non-life)	R0560	1,738,601
TP calculated as a whole	R0570	
Best Estimate	R0580	1,681,669
Risk margin	R0590	56,932
Technical provisions - life (excluding index-linked and unit-linked)	R0600	294,209,534
Technical provisions - health (similar to life)	R0610	4,506,418
TP calculated as a whole	R0620	
Best Estimate	R0630	4,434,690
Risk margin	R0640	71,729
Technical provisions - life (excluding health and index-linked and unit-linked)	R0650	289,703,115
TP calculated as a whole	R0660	
Best Estimate	R0670	285,872,069
Risk margin	R0680	3,831,046
Technical provisions - index-linked and unit-linked	R0690	33,164,353
TP calculated as a whole	R0700	
Best Estimate	R0710	33,047,660
Risk margin	R0720	116,693
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	120,442
Pension benefit obligations	R0760	338,345
Deposits from reinsurers	R0770	13,338,695
Deferred tax liabilities	R0780	2,243,378
Derivatives	R0790	1,097,119
Debts owed to credit institutions	R0800	462,850
Financial liabilities other than debts owed to credit institutions	R0810	10,310,172
Insurance & intermediaries payables	R0820	1,022,725
Reinsurance payables	R0830	610,348
Payables (trade, not insurance)	R0840	2,646,470
Subordinated liabilities	R0850	7,454,343
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	7,454,343
Any other liabilities, not elsewhere shown	R0880	112,302
Total liabilities	R0900	368,869,677
Excess of assets over liabilities	R1000	20,200,770

Solvency II economic balance sheet – Assets *(In € billions)*

Assets, Solvency II values *(in € billions)*	**31 Dec. 2017**	Corresponding section of the SFCR
Intangible assets	0	D1
Deferred tax assets	0	D3
Pension benefit surplus	0	D3
Property, plant and equipment held for own use	0.2	D1
Investments (other than assets held for index-linked and unit-linked contracts)[1]	322.7	D1
Asset held in unit-linked and index-linked contracts	34.2	D1
Loans and mortgages	0.4	D1
Reinsurance recoverables	23.9	D2
Other assets and miscellaneous receivables[2]	7.7	D1
Total	**389.1**	

[1] Not including derivative instruments with a negative fair value for €1.1 billion.
The €356.2 billion in insurance investments referred to in the narrative report comprises investments (including derivative instruments with a negative fair value), assets held in unit-linked and index-linked funds, loans and mortgages.

[2] Not including property, plant and equipment held for own use in the amount of €0.2 billion.
The €7.9 billion in other assets referred to in the narrative report comprises other assets and miscellaneous receivables and property, plant and equipment held for own use.

Liabilities, Solvency II values (in € billions)	**31 Dec. 2017**	Corresponding section of the SFCR
Non-life technical provisions	1.7	D2
Technical provisions – Life (excluding index-linked and unit-linked)	294.2	D2
Technical provisions – index-linked and unit-linked funds	33.2	D2
Subordinated liabilities	7.5	D3
Deferred tax liabilities	2.2	D3
Derivatives	1.1	D3
Other liabilities and miscellaneous payables	29.0	D3
Total liabilities	***368.9***	
Excess of assets over liabilities	*20.2*	

S.05.01.02 – Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	
		C0010	C0020	C0030	C0200
Premiums written					
Gross - Direct Business	R0110	49,833	350,101	123,066	523,000
Gross - Proportional reinsurance accepted	R0120	316,971	0	0	316,971
Reinsurers' share	R0140	77,900	3,391	0	81,292
Net	R0200	288,903	346,710	123,066	758,679
Premiums earned					
Gross - Direct Business	R0210	51,638	381,728	128,639	562,006
Gross - Proportional reinsurance accepted	R0220	459,460	0	0	459,460
Reinsurers' share	R0240	58,760	2,584	0	61,344
Net	R0300	452,338	379,144	128,639	960,121
Claims incurred					
Gross - Direct Business	R0310	36,818	325,568	115,915	478,301
Gross - Proportional reinsurance accepted	R0320	394,656	0	0	394,656
Reinsurers' share	R0340	45,982	684	0	46,666
Net	R0400	385,493	324,884	115,915	826,291
Changes in other technical provisions					
Gross - Direct Business	R0410	5,554	166	13,694	19,414
Gross - Proportional reinsurance accepted	R0420	(1,585)	0	0	(1,585)
Reinsurers'share	R0440	0	0	0	0
Net	R0500	3,969	166	13,694	17,829
Expenses incurred	R0550	61,931	47,104	18,602	127,637
Other expenses	R1200				
Total expenses	R1300				127,637

		Line of Business for: life insurance obligations				Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0270	C0280	C0300
Premiums written								
Gross	R1410	1,262,451	12,453,467	3,811,648	1,903,307	5,482	2,169,764	21,606,119
Reinsurers' share	R1420	351,960	643,138	177,580	165,712	0	16,449	1,354,841
Net	R1500	910,491	11,810,328	3,634,068	1,737,595	5,482	2,153,315	20,251,278
Premiums earned								
Gross	R1510	1,340,948	12,521,681	3,811,563	1,976,521	5,331	2,270,806	21,926,850
Reinsurers' share	R1520	344,581	635,088	177,950	145,185	0	12,710	1,315,515
Net	R1600	996,367	11,886,593	3,633,612	1,831,335	5,331	2,258,096	20,611,335
Claims incurred								
Gross	R1610	872,258	22,086,293	1,518,101	726,154	6,319	393,885	25,603,010
Reinsurers' share	R1620	227,429	1,353,764	73,128	50,153	0	8,896	1,713,370
Net	R1700	644,829	20,732,529	1,444,973	676,001	6,319	384,990	23,889,641
Changes in other technical provisions								
Gross	R1710	(82,369)	57,865	0	7,347	2,357	(31,705)	(46,504)
Reinsurers' share	R1720	(43,913)	0	0	(374)	0	2,694	(41,593)
Net	R1800	(38,456)	57,865	0	7,722	2,357	(34,399)	(4,910)
Expenses incurred	R1900	410,988	1,497,308	206,194	824,414	1,860	110,477	3,051,242
Other expenses	R2500							
Total expenses	R2600							3,051,242

S.12.01.02 – Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010																
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020																
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	R0030	279,310,921			31,664,731		74,244			7,869,834	318,919,729		4,324,299			110,391	4,434,690
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	21,572,603			1,703,475		(57,527)			266,018	23,484,569		270,351			0	270,351
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090	257,738,317			29,961,256		131,771			7,603,816	295,435,160		4,053,948			110,391	4,164,339
Risk Margin	R0100	3,169,990	112,352			590,149				75,248	3,947,739	71,729				0	71,729
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	R0110																
Best estimate	R0120																
Risk margin	R0130																
Technical provisions - total	R0200	282,480,911	31,777,083			664,393				7,945,081	322,867,468	4,396,027				110,391	4,506,418

S.17.01.02 – Non-life Technical Provisions

		Direct business and accepted proportional reinsurance			Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	
		C0020	C0030	C0040	C0180
Technical provisions calculated as a whole	R0010				
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050				
Technical provisions calculated as a sum of BE and RM					
Best estimate					
Premium provisions					
Gross	R0060	55,584	(388,226)	12,279	(320,363)
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	4,727	(3,947)	0	780
Net Best Estimate of Premium Provisions	R0150	50,857	(384,279)	12,279	(321,143)
Claims provisions					
Gross	R0160	445,766	1,283,535	272,731	2,002,032
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	51,616	44,397	0	96,013
Net Best Estimate of Claims Provisions	R0250	394,150	1,239,138	272,731	1,906,019
Total Best estimate - gross	R0260	501,350	895,309	285,010	1,681,669
Total Best estimate - net	R0270	445,007	854,859	285,010	1,584,876
Risk margin	R0280	24,218	23,991	8,723	56,932
Amount of the transitional on Technical Provisions					
Technical Provisions calculated as a whole	R0290				
Best estimate	R0300				
Risk margin	R0310				
Technical provisions - total					
Technical provisions - total	R0320	525,569	919,299	293,733	1,738,601
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	56,344	40,449	0	96,793
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	469,225	878,850	293,733	1,641,808

S.19.01.21 – Non-life Insurance Claims

Gross Claims Paid (non-cumulative)
(absolute amount)

Year		Development year 0	1	2	3	4	5	6	7	8	9	10 & +			In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110			C0170	C0180
Prior	R0100											0		R0100	0	0
Y-9	R0160	0	0	0	0	0	0	0	0	0	0			R0160	0	0
Y-8	R0170	0	0	0	0	0	0	0	0	0				R0170	0	0
Y-7	R0180	0	0	0	0	0	0	0	0					R0180	0	0
Y-6	R0190	211,386	415,702	82,667	31,684	24,341	11,916	5,353						R0190	5,353	783,050
Y-5	R0200	253,611	430,168	82,055	50,441	23,010	9,688							R0200	9,688	848,973
Y-4	R0210	220,427	397,271	107,616	49,973	18,410								R0210	18,410	793,698
Y-3	R0220	191,154	444,106	110,721	47,604									R0220	47,604	793,585
Y-2	R0230	201,739	407,858	113,479										R0230	113,479	723,075
Y-1	R0240	191,434	379,863											R0240	379,863	571,296
Y	R0250	187,973												R0250	187,973	187,973
													Total	R0260	762,371	4,701,651

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

Year		Development year 0	1	2	3	4	5	6	7	8	9	10 & +			Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300			C0360
Prior	R0100											0		R0100	0
Y-9	R0160	0	0	0	0	0	0	0	0	0	0			R0160	0
Y-8	R0170	0	0	0	0	0	0	0	0	0				R0170	0
Y-7	R0180	0	0	0	0	0	0	0	0					R0180	0
Y-6	R0190	0	0	0	0	0	40,998	13,133						R0190	0
Y-5	R0200	0	0	0	0	67,254	20,761							R0200	0
Y-4	R0210	0	0	0	107,161	53,937								R0210	0
Y-3	R0220	0	0	210,444	117,441									R0220	0
Y-2	R0230	0	435,960	233,690										R0230	0
Y-1	R0240	1,211,614	451,101											R0240	0
Y	R0250	1,114,682												R0250	0
													Total	R0260	0

S.22.01.22 – Impact of long term guarantees and transitional measures

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	329,112,487	0	0	253,222	0
Basic own funds	R0020	27,078,115	0	0	(173,043)	0
Eligible own funds to meet Solvency Capital Requirement	R0050	27,078,115	0	0	(173,043)	0
Solvency Capital Requirement	R0090	13,459,664	0	0	105,673	0
Eligible own funds to meet Minimum Capital Requirement	R0100	23,420,505	(0)	0	(163,532)	0
Minimum Capital Requirement	R0110	6,056,849	(0)	0	47,553	0

S.23.01.22 – Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sectors as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	686,618	686,618			
Share premium account related to ordinary share capital	R0030	1,716,846	1,716,846			
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	17,220,307	17,220,307			
Subordinated liabilities	R0140	7,454,343		2,585,364	3,877,926	991,054
An amount equal to the value of net deferred tax assets	R0160	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	27,078,115	19,623,772	2,585,364	3,877,926	991,054
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	27,078,115	19,623,772	2,585,364	3,877,926	991,054
Total available own funds to meet the MCR	R0510	26,087,061	19,623,772	2,585,364	3,877,926	
Total eligible own funds to meet the SCR	R0540	27,078,115	19,623,772	2,585,364	3,877,926	991,054
Total eligible own funds to meet the MCR	R0550	23,420,505	19,623,772	2,585,364	1,211,370	
SCR	R0580	13,459,664				
MCR	R0600	6,056,849				
Ratio of Eligible own funds to SCR	R0620	0				
Ratio of Eligible own funds to MCR	R0640	0				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	20,200,770
Own shares (held directly and indirectly)	R0710	2,767
Foreseeable dividends, distributions and charges	R0720	574,231
Other basic own fund items	R0730	2,403,465
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	17,220,307
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	826,909
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	826,909

S.25.01.22 – Solvency Capital Requirement (for undertakings on Standard Formula)

		Gross solvency capital requirement	Simplifications	USP
		C0110	C0120	C0090
Market risk	R0010	33,025,290		
Counterparty default risk	R0020	1,243,003		
Life underwriting risk	R0030	6,432,282		None
Health underwriting risk	R0040	3,123,422		None
Non-life underwriting risk	R0050	0		None
Diversification effect	R0060	(7,250,177)		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	36,573,820		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	1,365,107
Loss-absorbing capacity of technical provisions	R0140	(22,235,885)
Loss-absorbing capacity of deferred taxes	R0150	(2,243,378)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	13,459,664
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	13,459,664
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	13,276,108
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	183,556
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

S.28.02.01 – Minimum Capital Requirement (Both life and non-life insurance activity)

		Non-life activities	Life activities
		MCR(NL,NL) Result	MCR(NL,L) Result
		C0010	C0020
Linear formula component for non-life insurance and reinsurance obligations	R0010	198,321	

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
Medical expense insurance and proportional reinsurance	R0020	445,007	94,576		
Income protection insurance and proportional reinsurance	R0030	854,859	264,667		
Workers' compensation insurance and proportional reinsurance	R0040	285,010	106,422		
Motor vehicle liability insurance and proportional reinsurance	R0050	0	0		
Other motor insurance and proportional reinsurance	R0060	0	0		
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0		
Fire and other damage to property insurance and proportional reinsurance	R0080	0	0		
General liability insurance and proportional reinsurance	R0090	0	0		
Credit and suretyship insurance and proportional reinsurance	R0100	0	0		
Legal expenses insurance and proportional reinsurance	R0110	0	0		
Assistance and proportional reinsurance	R0120	0	0		
Miscellaneous financial loss insurance and proportional reinsurance	R0130	0	0		
Non-proportional health reinsurance	R0140	0	0		
Non-proportional casualty reinsurance	R0150	0	0		
Non-proportional marine, aviation and transport reinsurance	R0160	0	0		

		Non-life activities	Life activities
		MCR(L,NL) Result	MCR(L,L) Result
		C0070	C0080
Linear formula component for life insurance and reinsurance obligations	R0200		9,022,862

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0090	C0100	C0110	C0120
Obligations with profit participation - guaranteed benefits	R0210			223,254,038	
Obligations with profit participation - future discretionary benefits	R0220			34,484,279	
Index-linked and unit-linked insurance obligations	R0230			29,961,256	
Other life (re)insurance and health (re)insurance obligations	R0240			4,296,110	
Total capital at risk for all life (re)insurance obligations	R0250				3,222,425,039

Overall MCR calculation

		C0130
Linear MCR	R0300	9,221,183
SCR	R0310	13,459,664
MCR cap	R0320	6,056,849
MCR floor	R0330	3,364,916
Combined MCR	R0340	6,056,849
Absolute floor of the MCR	R0350	6,200
		C0130
Minimum Capital Requirement	R0400	6,056,849

Notional non-life and life MCR calculation

		Non-life activities	Life activities
		C0140	C0150
Notional linear MCR	R0500	198,321	9,022,862
Notional SCR excluding add-on (annual or latest calculation)	R0510	284,335	13,175,329
Notional MCR cap	R0520	127,951	5,928,898
Notional MCR floor	R0530	71,084	3,293,832
Notional Combined MCR	R0540	127,951	5,928,898
Absolute floor of the notional MCR	R0550	2,500	3,700
Notional MCR	R0560	127,951	5,928,898

G. Glossary

Administrative, management or supervisory body (AMSB): Based on the definition in Solvency II, in the case of CNP Assurances which has a single-tier board system, the administrative, management or supervisory body corresponds to the Board of Directors and Executive Management.

Annual premium equivalent (APE): One tenth of the sum of single premiums and flexible premiums plus the annualised amount of regular premiums written during the period, net of non-controlling interests and ceded premiums. APE is an indicator of underwriting volume.

APE margin (also referred to as new business margin): Value of new business (VNB) divided by the annual premium equivalent (APE). Measures estimated future profits from insurance policies written during the period.

***Autorité de Contrôle Prudentiel et de Résolution* (ACPR)**: France's banking and insurance supervisor.

Best estimate (BE): Corresponds to the best estimate of insurance liabilities as calculated in accordance with Solvency II principles.

Business units: Units responsible for business development and insurance contract administration processes.

Earnings before interest and taxes (EBIT): Corresponds to attributable net profit before finance costs, income tax expense, non-controlling and equity-accounted interests, fair value adjustments and net gains (losses), non-recurring items. This indicator includes non-controlling interests and is gross of income tax expense. Represents the margin generated after deducting administrative costs.

EIOPA: European Insurance and Occupational Pensions Authority.

Eligible own funds for MCR calculations: Sum of Tier 1 and Tier 2 own funds eligible for inclusion in the minimum capital requirement (MCR). For calculation purposes, restricted Tier 1 own funds are limited to 20% of total Tier 1 own funds and Tier 2 own funds are limited to 20% of the MCR. Tier 3 own-funds are not eligible for inclusion in MCR.

Eligible own funds for SCR calculations: Sum of Tier 1, Tier 2 and Tier 3 own funds eligible for inclusion in the solvency capital requirement (SCR). For calculation purposes, restricted Tier 1 own funds are limited to 20% of total Tier 1 own funds, Tier 2 and Tier 3 own funds are limited to 50% of the SCR and Tier 3 own funds are limited to 15% of SCR.

Key functions: There are four key functions defined in Solvency II – internal audit, actuarial, risk management and compliance. These functions are considered as playing a strategic role in the risk management process and the heads of these functions must comply with the directive's fit and proper requirements.

Market Consistent Embedded Value (MCEV©): A measure of the consolidated value of shareholders' interests in the covered business. It breaks down between adjusted net asset value (ANAV) and the value of In-Force business (VIF) – corresponding to the value of the insurance policies in force on the measurement date – and is calculated using a market-consistent method of valuing assets and liabilities. It is calculated net of non-controlling interests.

Market value: Value of an asset on the financial market.

MCR coverage ratio: Eligible own funds held to cover the MCR divided by the MCR. Indicator of the Company's risk-weighted solvency. The higher the ratio, the greater the insurer's ability to absorb potential losses.

Minimum capital requirement (MCR): Minimum eligible basic own funds, defined in Solvency II as the amount of eligible basic own funds below which policyholders and beneficiaries are exposed to an unacceptable level of risk. When the amount of eligible basic own funds falls below the MCR, the insurance undertaking's authorisation is withdrawn if it is unable to re-establish this amount at the level of the MCR within a short period of time.

Net insurance revenue (NIR): Sum of insurance loadings, underwriting results and reinsurance results, net of commissions paid to distribution partners. This indicator includes non-controlling interests and is net of reinsurance. It is the margin generated by the insurance contracts before deducting administrative costs.

Overall solvency needs: Required capital as estimated during the ORSA process, taking into account the reporting entity's specific risk profile, approved risk tolerance limits and business strategy.

Own risk and solvency assessment (ORSA): Refers to the processes and procedures for identifying, measuring, monitoring, managing and reporting all of an insurance undertaking's short- and long-term risks and determining the overall solvency needs to cover all of these risks. ORSA is a risk assessment tool used for strategic planning purposes. A key deliverable from the process is a comprehensive quantitative and qualitative assessment of the insurance undertaking's own risks. The ORSA report is submitted to the Board of Directors for approval.

Quantitative reporting templates (QRTs): Templates used for Solvency II regulatory reporting purposes. The reports are prepared quarterly, for submission to the insurance supervisor and/or for public disclosure.

Restricted Tier 1 own funds: Subordinated notes classified in Tier 1, including grandfathering of undated subordinated notes issued before Solvency II came into effect.

Risk margin (RM): Adjustment for explicit risks arising from uncertainty concerning the amount and timing of cash outflows. When measuring insurance liabilities, risk margin serves as a complementary amount to best estimate.

SCR coverage ratio: Eligible own funds held to cover the SCR divided by the SCR. Indicator of the Company's risk-weighted solvency. The higher the ratio, the greater the insurer's ability to absorb potential losses.

Solvency: An insurer's ability to fulfil its commitments to policyholders and to sustainably operate as a going concern.

Solvency II: Solvency rules applicable to European insurance undertakings. The aim of Solvency II is to ensure that insurance undertakings have sufficient capital to cover the financial and other risks to which they are exposed. It is based on a master directive adopted in 2009 (Directive 2009/138/EC) and delegated regulations for its application.

Solvency and Financial Condition Report (SFCR): Annual report prepared by insurance undertakings for public disclosure, in accordance with Solvency II.

Solvency capital requirement (SCR): Level of eligible own funds that enables an insurance undertaking to absorb significant losses and gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due. SCR is defined in Solvency II as the value-at-risk of basic own funds, subject to a confidence level of 99.5% over a one-year period. CNP Assurances has chosen to calculate its SCR using the standard formula without transitional measures, except for the grandfathering of subordinated notes issued before Solvency II came into effect.

Tier 2 own funds: Subordinated notes classified in Tier 2, including grandfathering of dated subordinated notes issued before Solvency II came into effect.

Tier 3 own funds: Subordinated notes classified in Tier 3 plus any net deferred tax assets also classified in Tier 3.

Tiering: Qualitative categorisation of own funds in three Tiers, based on their availability, duration and loss absorbency.

Unrestricted Tier 1 own funds: Own funds other than subordinated notes included in Tier 1 own funds, calculated as the sum of share capital, the share premium account and the reconciliation reserve less non-fungible own funds.

Value of In-Force business (VIF): Measures the value of insurance policies in force at the measurement date, calculated using a market-consistent method of valuing assets and liabilities. VIF corresponds to the discounted present value of estimated future profits from insurance policies in force at the measurement date, less the time value of financial options and guarantees, the frictional cost of capital and the cost of non-hedgeable risks. It is calculated net of non-controlling interests and income tax expense.

Value of new business (VNB): Measures the value of insurance policies sold during the period, calculated using a market-consistent method of valuing assets and liabilities. VNB corresponds to the discounted present value of estimated future profits from insurance policies sold during the period, less the time value of financial options and guarantees, the frictional cost of capital and the cost of non-hedgeable risks. It is calculated net of non-controlling interests and income tax expense.

Volatility: Measures the degree of variation over time in an indicator such as the price of a financial asset. Volatility is used for example to quantify the risk associated with changes in the price of a financial asset.

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