# Solvency and Financial Condition Report (SFCR)

# CNP Assurances SA, solo

# 2018

31 December 2018

CNP assurances

# Foreword

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 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 2018 to 31 December 2018.

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 2018 report was approved by CNP Assurances' Board of Directors at its meeting on 18 April 2019.
It has also been submitted to France's insurance supervisor (*Autorité de Contrôle Prudentiel et de Résolution* – ACPR).

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

# Contents

# 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, its solutions are distributed in France, Latin America and Europe by its many banking and social economy partners, both at points of sale and online.

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

## Key figures

| | **2018** | 2017 | % change |
|---|---|---|---|
| Premium income (French GAAP) | **€21,988m** | €22,948m | -4% |
| Net insurance revenue [2] | **€1,740m** | €1,669m | 4% |
| Value of New Business [3] | **€418m** | €500m | -16% |
| Investment income and expenses [4] | **€7,446.1m** | €8,069.5m | -8% |
| Technical reserves (gross of reinsurance) [5] | **€319.9bn** | €329.1bn | -3% |
| Eligible own funds covering the SCR | **€26.1bn** | €27.1bn | -4% |
| SCR | **€13.0bn** | €13.5bn | -4% |
| SCR coverage ratio | **201%** | 201% | 0 pt |
| Eligible own funds covering the MCR | **€22.4bn** | €23.4bn | -4% |
| MCR | **€5.8bn** | €6.1bn | -4% |
| MCR coverage ratio | **384%** | 387% | -3 pt |

## Business and performance

Antoine Lissowski, CNP Assurances' Chief Executive Officer, said: *"During 2018, we successfully implemented our strategy to refocus the product mix and bedded in the Group's digital transformation. The three pillars of our strategy concern customer service quality, development of our partnerships and investor returns."*

Net insurance revenue rose 4% to €1,740 million in 2018, led primarily by growth in unit-linked sales.

One of the highlights of the year was the signature, on 29 August 2018, of a binding framework agreement [6] with Caixa Seguridade providing for the establishment of a new long-term exclusive distribution agreement until 13 February 2041 in Brazil in the network of Caixa Econômica Federal (CEF), one of the leading Brazilian banks and one of the five largest in Latin America.

[1] *Source: FFA 2017 data, June 2018*

[2] *Based on the IFRS consolidated financial statements*

[3] *Based on MCEV© measurement principles*

[4] *Source: Registration document, Note 6.1 to the Company financial statements*

[5] *Based on Solvency II measurement principles*

[6] *In March 2019, Caixa Seguridade's new management team initiated discussions with CNP Assurances with a view to agreeing certain adjustments or possible additions to the framework agreement dated 29 August 2018*

## 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 two Deputy Chief Executive Officers and eight other senior executives.

On 15 November 2018, CNP Assurances' Board of Directors chaired by Jean-Paul Faugère approved Antoine Lissowski's appointment as Chief Executive Officer of CNP Assurances.

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 for 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

CNP Assurances' risk profile shows that the Company's primary exposure is to market risk, which accounts for 62% of the solvency capital requirement (SCR) per risk. However, the Company's broad and diverse range of products has a significant diversification effect. In all, diversification benefits are estimated at 24%.

2018 ended with a sharp downturn on the world's stock markets while interest rates remained low. The Company's exposure to the persistently low rates increased and interest levels therefore continued to represent one of the key issues taken into account when determining strategic asset allocations. In response to this environment, the Company shifted its exposure away from fixed income products and towards sovereign exposures (especially French and Spanish), while maintaining a fairly significant portfolio of diversified assets and continuing to expand its equity risk hedging programme.

The Company's Savings business continued to focus its portfolio on unit-linked *Croissance* products in 2018, attracting a high volume of investment in its wealth management products with a strong unit-linked weighting.

## Valuation of assets and liabilities

Assets and liabilities in CNP Assurances' Solvency II 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 Statutory Auditors.

Solvency II consolidated technical reserves gross of reinsurance amounted to €319.9 billion at 31 December 2018.

### Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) coverage ratios

Efficient capital management is essential to ensure that the CNP Assurances' capital requirements are met. It is therefore part of the annual ORSA strategic 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 inclusion in the SCR coverage ratio, based on the Solvency II balance sheet, amounted to €26.1 billion at 31 December 2018. The total included €18.5 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 billion at 31 December 2018.

CNP Assurances' Solvency II SCR coverage ratio at that date was therefore 201%, unchanged from the year-earlier ratio. SCR coverage ratio calculations take into account the volatility adjustment provided for in the Solvency II directive (Article 77 *quinquies*) which had a +23-point positive impact on the ratio at 31 December 2018.

CNP Assurances' Solvency II own funds eligible for inclusion in the MCR coverage ratio, based on the Solvency II balance sheet, amounted to €22.4 billion at 31 December 2018. The total included €18.5 billion in basic own funds, classified as unrestricted Tier 1 capital (i.e., the highest-quality component of capital), and €3.9 billion in subordinated liabilities.

CNP Assurances' minimum capital requirement was €5.8 billion at 31 December 2018.

CNP Assurances' MCR coverage ratio at that date was therefore 384%.

# 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, 4 Place de Budapest, 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**<br>63 rue de Villiers<br>92200 Neuilly-sur-Seine, France<br>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**<br>61 rue Henri Regnault – Tour Exaltis<br>92400 Courbevoie, France<br>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

31 December 2018
Number of shares: 686,618,477
Number of voting rights: 1,224,235,192

| Shareholders | Number of shares | % of capital | % of voting rights [7] |
|---|---|---|---|
| Caisse des Dépôts et Consignations (France) | 280,615,140 | 40.87% | 45.84% |
| Sopassure (La Banque Postale and BPCE holding company, France) | 248,926,986 | 36.25% | 40.67% |
| French State (France) | 7,645,754 | 1.11% | 1.25% |
| **TOTAL SHARES HELD IN CONCERT** [8] | **537,187,880** | **78.24%** | **87.76%** |
| Public, Company employees and other | 149,430,597 | 21.76% | 12.24% |
| of which: | of which: | of which: | of which: |
| CNP Assurances (treasury shares) | 598,643 | 0.09% | - |
| **TOTAL CNP ASSURANCES SHARES** | **686,618,477** | **100.00%** | **100.00%** |

Since the IPO in October 1998, the composition of CNP Assurances' Board of Directors has reflected its ownership structure and particularly the holdings of its four historical shareholders – Caisse des Dépôts, La Banque Postale and BPCE (whose interests are held through a joint holding company, Sopassure) and the French State – that are united by a shareholders' agreement. On 30 August 2018, the French State, Caisse des Dépôts, the La Poste group and La Banque Postale announced a project to create a large public financial unit serving territories involving Caisse des Dépôts and La Poste. The project would entail Caisse des Dépôts becoming the majority shareholder of La Poste and La Banque Postale becoming the majority shareholder of CNP Assurances. Its implementation is subject to various prior conditions and conditions precedent.

[7] *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*

[8] *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. Material subsidiaries and other related companies

CNP Assurances is the parent company of the CNP Assurances Group. The undertakings included in the CNP Assurances Group at 31 December 2018 are as follows:

| Name | Country | % of capital | % of voting rights |
|---|---|---|---|
| CNP Assurances | France | 100% | |
| CNP Caution | France | 100% | 100% |
| MFPrévoyance | France | 65% | 65% |
| 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 Assurances Brasil Holding LTDA | 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.

CNP Assurances' insurance branches are as follows:

| Branch | Country |
|---|---|
| CNP Denmark branch | Denmark |
| CNP Italy branch | Italy |
| CNP Spain branch | Spain |
| CNP Assurances Polynesia branch | France |
| CNP Assurances New Caledonia branch | France |

# 5. Significant events of the year

## 5.1. Economic and financial environment

### A violent market downturn, particularly accentuated at the end of the year…

Following an excellent 2017 in terms of growth and financial performance, 2018 began with a stock market rally, with prices gaining 8% in January, and record high leading indicators, with the PMI and ISM at close to the 60 mark. However, the outlook suddenly darkened in early February as US long-term rates came under pressure, leading to a surge in volatility and significant price corrections. The markets subsequently calmed down, experiencing a rebound that lasted until September. US stock markets reached dizzying heights before crashing in the fourth quarter. The reversal took everyone by surprise, not just its occurrence but also its magnitude, and the wave of pessimism deepened at the end of the year.

### A general – and in some cases spectacular – decline in risky-asset prices

Stock market indices ended the year in the red, after experiencing steep declines. The CAC 40 lost 11%, the Eurostoxx lost 15% and the S&P 500 was down 7%. In the credit market, widening spreads in both the United States and Europe led to falls ranging from -2% to -4%. The dollar's 5% appreciation and higher short-term dollar interest rates adversely affected emerging market stock and debt indices, which lost 16% and 8% respectively. Chinese assets were particularly badly hit by the combination of these developments and growing trade tension with the United States, which together led to a 25% drop in the Shanghai Index and a 6% fall in the yuan. Brazil was almost the only emerging market to buck the trend, with the Bovespa index gaining 12%. Lastly, commodity prices were volatile during the year. The Brent crude oil price climbed to $85 in early October but then collapsed to $50. Industrial metals prices also experienced a sharp correction – the copper price dropped 17% – and precious metals prices failed to live up to their reputation as a safe haven, with the gold price losing 2%.

### A robust macroeconomic environment despite a certain loss of momentum

The collapse in financial asset prices caught investors by surprise because the global economy was still robust. It grew by around 3.5% over the year thanks in particular to very resilient consumer spending that in turn was supported by widespread falls in jobless rates. Overall, faster economic growth in the US (at close to 3%), driven by tax cuts and other fiscal stimulus measures, offset slowdowns in other developed countries (with a return towards the 2% potential growth rate in Europe and 1% in Japan) and a loss of momentum in emerging markets such as China, Turkey and South Africa, etc. Healthy investment levels offset the global trade slowdown triggered by the credit restrictions announced by China at the beginning of the year and the introduction of new trade tariffs by the United States in the summer.

### Higher corporate earnings and a return to attractive multiples

The size of the correction cannot be explained either by corporate earnings performances. Aggregate global corporate earnings growth was a very healthy 19.4%, helped in no small measure by the 23% increase in the earnings reported by American companies. Corporate revenues also rose, with robust organic growth attenuating negative currency effects due to the depreciation of emerging currencies. Lastly, dividends also continued to rise along with share buybacks. The combination of higher earnings and lower share prices eroded P/E ratios which fell to below their historical averages.

### A market shock explained by unprecedented moves to restore interest rates to more normal levels

One of the reasons for this paradox lies with the central banks. The Federal Reserve's moves to restore interest rates to more normal levels (by raising short-term rates by 100 bp), and drive a reduction in total debt were encouraged by a surge in inflation to above 2%. The policy depressed bond prices and lifted the US 10-year treasury bond yield to 3.25% in October. The Fed's clear commitment to pursuing its strategy in 2019 caused concern among investors and explains why interest rates fell back (with the 10-year rate at 2.7% at the end of December) following the collapse in stock prices. The bond markets' reaction was muted, however. Long-term euro interest rates stayed more or less stable at low levels (the 10-year OAT rate hovered between 0.60% and 1% over the year) and the ECB remained cautious, announcing the end of the quantitative easing programme but ruling out a rate hike before the fourth quarter. The 10-year OAT rate ended the year at 0.70%, a decline of 10 bp. In Brazil too, long-term rates declined in the latter part of the year. The Central Bank cut its benchmark SELIC rate from 7% to 6.5% and the 10-year rate fell back to 9.3% at the end of the year after rising to 12.50% before the elections.

### Growing political tensions caused further volatility

The other reason why the markets derailed was the lack of political visibility. The US administration's constant threats to impose trade tariffs and renegotiate multilateral trade agreements were an important source of market volatility. At the same time, the environment in Europe remained unstable, due to persistent uncertainty about the outcome of Brexit negotiations and Italy's budget trajectory. This agitation led to higher risk premiums on European assets and a 100 bp increase in the spread on Italian debt.

### Questions about the sustainability of the current economic cycle

Since the financial crisis, the markets had outperformed the economy thanks to the central banks' liquidity injections. The climate of political uncertainty and moves by the Federal Reserve to reverse the fall in interest rates triggered a violent adjustment of valuations that was not fully justified by changes in fundamentals. The question now is whether this was just an allergic reaction by the markets or a point of no return presaging the end of the current economic cycle after ten years of growth.

## 5.2. Significant events for CNP Assurances

### Moody's assigned its A1 financial strength rating with stable outlook to CNP Assurances

In a constant effort to strengthen the long-standing relationship of trust with its policyholders, its distributing partners and its bond creditors, CNP Assurances has entrusted Moody's rating agency with rating its financial strength in addition to the rating assigned by S&P Global Ratings since 2006.

On 6 June 2018, Moody's assigned to CNP Assurances its A1 financial strength rating with stable outlook, which is one notch higher than the A rating with stable outlook currently assigned by S&P Global Ratings.

In its analysis, Moody's noted: "CNP's credit profile is supported by the Group's very strong market position in the French life insurance market, a low liability risk profile thanks to a low average guaranteed rate on traditional savings products, a very stable level of profitability, as well as very good financial flexibility owing to a strong shareholder, Caisse des Dépôts et Consignations (Aa2 positive), which owned 40.8% of CNP's shares as of 31 December 2017."

### Issuance of €500m subordinated Restricted Tier 1 perpetual notes

On 20 June 2018, CNP Assurances finalised a €500 million issue of undated subordinated notes with a first call date of 27 June 2028. The issue will be classified as equity under IFRS. The bonds will pay a 4.75% fixed rate of interest over the first ten years and the coupon will subsequently be adjusted every five years in line with future benchmark interest rates. Payment of the coupon is discretionary. The notes feature a principal write-down mechanism together with mandatory interest cancellation in the event of non-compliance with CNP Assurances' solvency requirements, in accordance with the Solvency II directive.

The issue proceeds will be eligible for inclusion in Solvency II Restricted Tier 1 regulatory capital. The notes have been rated BBB- by Standard & Poor's and Baa3 by Moody's.

### Conclusion of a binding framework agreement with Caixa Seguridade [9]

On 30 August 2018, CNP Assurances announced the conclusion of a binding framework agreement providing for the establishment of a new long-term exclusive distribution agreement until 13 February 2041 in Brazil in the network of Caixa Econômica Federal (CEF), one of the leading Brazilian banks and one of the five largest in Latin America.

This new agreement builds on the successful track-record of CNP Assurances and CEF's partnership since 2001, through their Caixa Seguros Holding (CSH) joint venture, which demonstrated an ability to combine strong growth, high profitability and regular cash flow generation.

The new exclusivity perimeter in CEF's network concerns life insurance, consumer credit life insurance and private pension plans. In line with the terms of the non-binding Memorandum of Understanding signed at the end of September 2017, the new distribution agreement will be implemented through a newly formed insurance joint venture between CNP Assurances and Caixa Seguridade, the holding company for CEF's insurance operations, with CNP Assurances and Caixa Seguridade owning respectively 51% and 49% of the voting rights and 40% and 60% of the economic rights.

On the closing date, CSH will transfer to the new joint venture the In-Force insurance portfolios for the products included in the scope of the agreement (life insurance, consumer finance term creditor insurance and private pension plans).

### Confirmation of the Company's insurer financial strength ratings in October 2018

Moody's assigned its A1 financial strength rating with stable outlook to CNP Assurances. As previously, this rating does not include any specific uplift linked to CNP Assurances' shareholding structure. In its analyses published on 3 September 2018 and 4 October 2018, Moody's highlights that the "new distribution agreement with Brazil's Caixa Econômica Federal is credit positive" and that the "expected change in shareholding structure has no credit impact. Caisse des Dépôts and the government of France would remain key indirect shareholders in CNP Assurances, allowing it to retain its strong financial flexibility. We do not currently factor shareholder support considerations into CNP Assurances' ratings, and do not plan to change our approach once the new structure takes effect".

Standard & Poor's assigned its A financial strength rating with stable outlook to CNP Assurances. This rating no longer includes any specific uplift linked to CNP Assurances' shareholding structure. In its analysis published on 30 October 2018, Standard & Poor's notes that "according to the French government, La Poste's banking subsidiary La Banque Postale may become the majority shareholder of insurer CNP Assurances by 2020. Prospectively, we view CNP Assurances as highly strategic to La Poste. Our view of CNP Assurances' stand-alone creditworthiness has improved thanks to its sustainably stronger capital position and the signing of a new long-term partnership in Brazil".

CNP Assurances' stand-alone rating has therefore been upgraded by 1 notch (from A- to A) to consider the improvement of the Group's solvency position according to Standard & Poor's capital model, whereas the 1-notch uplift linked to Caisse des Dépôts support has been withdrawn, leaving the final rating unchanged at A.

### Antoine Lissowski appointed as Chief Executive Officer of CNP Assurances

On 15 November 2018, CNP Assurances' Board of Directors approved Antoine Lissowski's appointment as Chief Executive Officer of CNP Assurances.

### CNP Assurances announces the establishment of a Euro Medium Term Notes programme

CNP Assurances announced that its new Euro Medium Term Notes (EMTN) programme (the "Programme") received visa from the French financial markets authority (*Autorité des marchés financiers* – AMF) on 21 December 2018.

The establishment of the Programme will strengthen CNP Assurances' financial flexibility allowing it to seize opportunities on the bond market more rapidly through issuances of subordinated or senior notes, by means of public or private placements and in different currencies. It is fully in line with the Group's financing strategy aiming

[9] *In March 2019, Caixa Seguridade's new management team initiated discussions with CNP Assurances with a view to agreeing certain adjustments or possible additions to the framework agreement dated 29 August 2018*

at constantly seeking to diversify its investor base, both in terms of geographies and currencies – as evidenced by the bonds it placed in EUR, USD and GBP – and to adapt its capital structure on a regular basis taking into account its growth prospects in Europe and Latin America, Solvency II own funds requirements and Moody's and Standard & Poor's rating agencies criteria.

The €7 billion amount of the Programme is consistent with the current nominal value of CNP Assurances' outstanding subordinated notes. As a reminder, the maximum amount of bonds issues currently authorized by the Board of Directors is €1.5 billion per year. The securities to be issued shall be admitted to trading on Euronext Paris.

**CNP Patrimoine is to acquire the Quality Insurance Services management platform to bolster its client relations**

On 27 December 2018, CNP Patrimoine – CNP Assurances' wealth management business for high-end clients – announced that it is to acquire the Quality Insurance Services management platform which manages its contracts in France and Luxembourg.

Since it was launched four years ago, the wealth management business conducted by CNP Patrimoine and CNP Luxembourg has been enjoying rapid growth, with €6 billion of outstandings as of 30 November 2018. To support this growth and improve the client experience, CNP Patrimoine is taking over Quality Insurance Services, a platform specialised in managing high-end contracts, which has been its partner since it was set up in 2014.

Merging Quality Insurance Services and CNP Patrimoine will improve the quality of the partner relationships with private banks, independent financial adviser platforms and family offices.

Through this acquisition, the CNP Assurances Group is confirming its position as a major player in wealth management.

## 6. Business review

The Company's total premium income under French GAAP breaks down as follows by business segment:

| *(In € millions)* | | **2018** |
|---|---|---|
| Life | With-profits life insurance | 11,816 |
| | Index-linked and unit-linked insurance | 3,886 |
| | Other life insurance | 2,010 |
| | Health insurance | 1,001 |
| | Life reinsurance | 2,455 |
| | Health reinsurance | 5 |
| Non-life | Workers' compensation insurance | 138 |
| | Medical expense insurance | 339 |
| | Income protection insurance | 338 |
| **TOTAL** | | **21,988** |

CNP Assurances has developed an original bancassurance model based on long-term partnerships. Combining insurance expertise with a local presence, it is a model that has proved its efficiency and agility over the years.

**Two bancassurance partners that are also shareholders**

Our products are distributed in France by two historical partners, La Banque Postale and the BPCE group (Banques Populaires and Caisses d'Epargne). Long-term agreements have been signed with each partner, specifying the product categories and networks concerned in accordance with their respective growth strategies. As CNP Assurances shareholders, both partners have a direct stake in the Group's performance and in its future.

### An open and evolutive model

We are inventing new partnership models to increase the pace of business growth. For example, we offer white label insurance products to selected partners, as well as deploying a multi-channel distribution model and a direct sales capabilities. In the wealth management market, we propose innovative offers to many different distribution partners, including private banking institutions, high street banks, family offices, wealth management firms, brokers and independent financial advisors. We also create eco-systems with service providers and start-ups to build offers from scratch to address today's needs.

### A bespoke model for the social protection market

CNP Assurances is the preferred partner of companies, local authorities, employee benefits institutions, mutual insurers, non-profits and brokers operating in the social protection market. We offer these partners many different types of personal insurance, supported by innovative customer relationship management, product marketing and risk management solutions as well as by a variety of assistance and support services.

### Proprietary distribution

Our in-house team of insurance advisors, which operates under the Amétis name, serves its own clients and also markets white label products to social protection partners such as Klésia and Malakoff Médéric Humanis. As experts in social protection solutions, Amétis insurance advisors partner private individuals, freelancers and sole traders, micro-enterprises and SMEs in both urban and rural areas, by offering them products and services covering the risks they face throughout their life.

# 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.

## 1. Premium income

Premium income (French GAAP) generated by the CNP Assurances reporting entity amounted to €22.0 billion in 2018, down €0.9 billion, or 4.2%, on 2017. The change compared with 2017 by business segment is presented below.

- Savings new money was stable at €16.8 billion, with the decline in new money generated by the La Banque Postale and BPCE networks partly offset by strong business growth at CNP Patrimoine, which reported premium income of €2.2 billion. Unit-linked new money rose 2% to represent 23.4% of total Savings premiums, an increase of 1.4 pt compared with 2017.
- The 27.1% year-on-year decline in Pensions premium income was mainly due to the sale of a group pensions contract in 2017, which created a high basis of comparison, and a decrease in individual pensions new money generated by the various networks.
- Premium income from Personal Risk insurance business amounted to €1.4 billion, a decrease of €0.3 billion compared with the prior year that was due a surge in new business written at the end of 2017.
- In Term Creditor Insurance, premium income fell 7.8% to €2.6 billion following the application of the new agreements with Crédit Agricole.

In the Savings/Pensions business, the Company reported a €2.7 billion net outflow of funds in 2018, with a net inflow to unit-linked contracts and a net outflow from traditional products.

| Net new money<br>*(In € billions)* | 2018 |
|---|---|
| Traditional contracts | -5.1 |
| Unit-linked contracts | 2.4 |
| **Total** | **-2.7** |

## 2. Net insurance revenue

Net insurance revenue totalled €1,740 million in 2018, representing an increase of €70 million or 4.2%.

Net insurance revenue from the Savings/Pensions segment rose by €60 million. Growth in net insurance revenue from the Savings business was mainly down to an improvement in the mix between traditional savings and unit-linked contracts, the effect of which was nonetheless eroded by the need to increase technical reserves in response to persistently low interest rates and the late-2018 fall in the CAC 40 index. The increase in Pensions net insurance revenue corresponded primarily to reversals from technical reserves.

Net insurance revenue generated by the Personal Risk/Protection Insurance business was more or less stable, rising by just 2.0%.

| Net insurance revenue by business segment *(In € millions)* | **2018** | 2017 | Change |
|---|---|---|---|
| Savings/Pensions | **1,210** | 1,150 | 60 |
| Personal Risk/Protection insurance | **529** | 519 | 10 |
| **Total** | **1,740** | **1,670** | **70** |

**Net insurance revenue for the period**

## 3. Value of New Business

The Value of New Business (VNB) written in 2018 was €418 million versus €500 million in 2017. The year-on-year decrease of 16.6% was due to several factors:

- Opening adjustments represented a positive amount, reflecting improved estimates of the tax effect and exclusion of future management decisions from certain adverse scenarios.
- The contribution of operations was negative, primarily due to lower Term Creditor Insurance volumes as a result of the contraction of the home loan market between 2017 and 2018, an adverse change in Personal Risk Insurance loss ratios and cost/income ratios and the improved mix between traditional savings contracts and unit-linked products in all networks.
- The favourable economic environment, leading to reduced market volatility which in turn drove a decrease in the cost of financial options and guarantees on Savings/Pensions contracts.

| Value of New Business (*In € millions*) | **2018** | 2017 | Change |
|---|---|---|---|
| **Total** | **418** | 500 | -16.6% |

# A3. Investment performance

## 1. Description of the asset portfolio

### Asset allocation

The following table shows the breakdown of the Company's asset portfolio at market value and on a French GAAP basis:

| Market value (in %) | 31 Dec. 2018 | 31 Dec. 2017 | Year-on-year change |
|---|---|---|---|
| **FIXED INCOME PORTFOLIOS** | **73%** | **73%** | **+1 pt** |
| o/w Money market instruments and Derivatives | 7% | 7% | -0 pt |
| **DIVERSIFIED PORTFOLIOS** | **17%** | **18%** | **-1 pt** |
| o/w Equities (*) | 10% | 11% | -1 pt |
| o/w Private equity | 7% | 6% | +0 pt |
| **UNIT-LINKED PORTFOLIOS** | **10%** | **10%** | **+0 pt** |
| **TOTAL** | **100%** | **100%** | **-** |

Investments in bonds in last year's very low interest rate environment represented a very significant €20.3 billion, with fixed rate bonds purchased at an average price of 1.2%.

The corporate bond portfolio was reduced and focused on investment-grade issues. Holdings in bond funds were also sold in line with the Company's vision of spread levels.

Stable technical reserves for traditional Savings contracts limited the need for new diversified investments and strategies focused more on profit-taking transactions, particularly where the property portfolio was concerned. The net decrease in the carrying amount of the equities portfolio was also down to profit-taking initiatives in the first half of the year and a prudent reinvestment strategy.

On this basis and in line with the decisions of the Strategic Asset Allocation Committee, changes in the various asset classes were as follows:

- Diversified investments continued to represent a high of around 15% of the total portfolio.
- The equities portfolio contracted slightly as a result of the prudent approach to investing in this asset class, and the preference for hedged equities was maintained.
- The private equity portfolio remained stable, leaving residual capacity for new infrastructure investments.
- The portfolio of money market instruments was reduced compared with 2017.
- The fixed income portfolio was refocused on sovereign debt and away from corporate debt due to the widening spreads in the credit market.

The asset-backed securities portfolio represented a carrying amount of €4.1 billion at market value. The portfolio consists mainly of securitisation funds, asset-backed securities (ABSs), commercial mortgage-backed securities (CMBSs) and residential mortgage-backed securities (RMBSs).

### Portfolio hedges

The Company uses forward financial instruments to hedge its asset portfolios. The purpose of the hedges is to reduce the risks associated with the underlying assets.

Hedged risks include the risk of an increase in interest rates, which is hedged using caps. Last year's good market conditions, with the decline in interest rates, provided an opportunity to acquire hedges on a notional amount of €24.7 billion.

To protect the IFRS income statement against widening credit spreads, hedges of credit indices were set up on a notional amount of €1.25 billion, on favourable terms and at a cost of €3.3 million in premiums.

Equity risk hedges were also set up, on a notional amount of €2.2 billion, to lock in unrealised capital gains, reduce sensitivity and limit the related capital requirement.

In addition to these hedging programmes designed to protect gains on policyholder portfolios, hedges were set up to cover the currency risk on cash payments in Brazilian reals due under the binding agreement signed with Caixa Seguridade (see section A1). These currency hedges are on a notional amount of R$2.4 billion.

### Unlisted asset classes (property, infrastructure and private equity)

During 2018, the Company committed to investing €491 million in 16 private equity funds in France, Europe and the United States. These funds invest mainly in SMEs and midcaps operating in various economic sectors. At 31 December 2018, the private equity portfolio represented a net commitment of €4.8 billion.

The strategy of investing in property and forestry assets was actively pursued in 2018, albeit at a slower rate than in the previous two years, to take advantage of the historically attractive risk premium offered by these assets in a low interest rate environment and the buoyant economy and rental market. New investments in this asset class approved in 2018 totalled close to €0.7 billion, corresponding mainly to commercial property and around 1,000 hectares of forests in Eastern France. The Company also pursued its geographical diversification strategy, focusing on property markets outside France (in Germany, Italy and the United States) as well as on the Paris market. Dynamic portfolio management strategies were applied to take advantage of last year's active market, shaped by restructuring operations, sales of obsolete assets, relocations, etc. As a general principle, the Company invests directly in property and forestry assets, rather than through funds.

Lastly, the Company's portfolio of infrastructure assets remained stable in 2018, with €135 million in commitments made to two diversified brownfield funds that invest mainly in Europe.

### Sustainable development commitments and indicators

During 2018, the Company continued to invest in socially responsible investment (SRI) funds and green transition funds, in line with the following objectives:

- To hold at least €3 billion worth of green investments [10] at 31 December 2018 ➔ objective exceeded.
- To invest €5 billion by 31 December 2021 in favour of energy and environmental transition [11] ➔ as of 31 December 2018, €3.1 billion had been invested, taking the total invested in this asset class at that date to over €10 billion.
- To reduce the listed equities portfolio's greenhouse gas emissions by 47% between 31 December 2014 and 31 December 2021 ➔ as of 31 December 2018, these emissions had been reduced by 43%.
- To no longer invest in companies that derive more than 10% of revenues from thermal coal or are developing new coal-fired power stations ➔ no investments were made in 2018 in any of the companies concerned by this ban.

[10] *Green bonds, infrastructure investments and private equity*

[11] *Green bonds, infrastructure investments, private equity, property and forestry assets, SRI funds*

## 2. Investment income and expenses

Note: in the prior years' reports, investment income and expenses corresponded to amounts based on the quantitative reporting template (QRT) S.09.01. To improve consistency between the various chapters of the document and facilitate reconciliations with the Group's other publications, this report uses the investment income and expenses disclosed in the Company financial statements.

| Net investment income [12]<br>*(In € millions)* | **2018** | 2017 | Year-on-year change |
|---|---|---|---|
| Net investment income | 7,884 | 7,898 | -14 |
| Net profits on disposal of investments | 162 | 750 | -588 |
| Investment expenses | (600) | (578) | -22 |
| **Net investment income** | **7,446** | **8,069** | **-623** |

Net investment income, determined on a French GAAP basis, amounted to €7.4 billion in 2018. The decline of €0.6 billion compared with the prior year was mainly due to:

- Reduced revenues from bond portfolios, as issues at historically higher rates reached maturity and the redemption proceeds were reinvested at lower market yields.
- A fall in stock market indices, which steepened at the end of the year, leading to an increase in realised losses over the period that was partly offset by reserve reversals.

## 3. Gains and losses recognised directly in equity in 2018

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

[12] *Source: Note 6.1 to the Company financial statements*

# A4. Other income and expenses

Other income and expenses include income tax expense, as presented in the Company's annual financial statements, and the finance costs disclosed in Note 20.1 to the consolidated financial statements.

# B. System of governance

This section presents the Group's 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 the Group's business environment and new identified risks.

As with any risk management and internal control system, the Group's 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 the Group's objectives are met in a satisfactory manner.

# 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, this Solvency and Financial Condition Report and the Regular Supervisory 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

Five Committees of the Board (the Audit and Risk Committee, the Strategy Committee, the Remuneration and Nominations Committee, the Follow-up Committee on the Implementation of the BPCE and LBP Partnerships and the Ad Hoc Committee [13]) 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 roles and responsibilities of the Chairman of the Board of Directors are clearly defined by the Board. His role does not exclusively concern the Board's organisation and practices. The Board's internal rules state that he may represent the Company in its public relations, notably with major partners or government authorities, at national or international level.

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 2018, the Board met eight times.

*[13] At this early stage, the Ad Hoc Committee's work has focused primarily on the importance of formalising governance rules in order to preserve the interests of all business partners, whether they are shareholders or not, as well as insureds in the event that La Banque Postale becomes a majority shareholder in a company with a multi-partner business model*

He 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.

The Chairman 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.

Prior to the Board Meetings at which these topics are discussed, the Chairman receives the briefing documents needed to ensure that he fully understands the Company's risk exposure. To this end, he receives advance briefing documents from the Group Risk Committee, allowing him to discuss the topic concerned with the Chief Executive Officer.

He receives the quarterly risk reports and monthly management reports, as well as summary information about operations with the main distribution partners.

## 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 [14]. 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.

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 effectively run CNP Assurances, and are in charge of partnerships and business development.

## 1.4. Executive Committee

The Executive Committee generally meets once a week. As well as acting in a strategic planning role, it coordinates and rolls out Group-level 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 Group's business. The Committee reviews budgets, long-term business projections, financial statements, financial investment strategies and profit forecasts by business segment. It also reviews proposed business acquisitions and the business plans of the main French and foreign subsidiaries.

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.

Summary minutes are kept of each Executive Committee meeting.

[14] *http://www.cnp.fr/en/The-Group/Governance/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.

## 2. Persons who hold the key functions at Group level

The holders of the four key functions at Group level (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 detects, identifies, assesses and prevents the occurrence of compliance risks, and provides advice and guidance in the following main areas: (i) governance (existence of appropriate committees, verification of independent advisors' professional qualifications); (ii) business ethics (professional secrecy and confidentiality, prevention of insider trading, anti-bribery and corruption measures); (iii) policyholder protection (know-your-client procedures, duty of advice, policyholder information, complaint processing procedures); (iv) marketing practices (advertising, sales and marketing documents, alignment of products with target clients, policy marketing rules); (v) procedures to combat money laundering and the financing of terrorism; (vi) procedures to combat insurance fraud and (vii) protection of personal data.

**The Actuarial function,** which is presented in section B7 below, is run by the Actuarial department. Its activities include calculating the Group's insurance indicators (embedded value and value of new business, technical reserves under French GAAP, IFRS and Solvency II) and forecasting underwriting results. It also establishes standards for the determination of technical reserves and the value of new business, leads actuarial research and development activities and prepares executive summaries and analysis reports.

**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 members of the Executive Committee and the heads of the four key functions (Risk Management, Compliance, Actuarial and Internal Audit). 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:

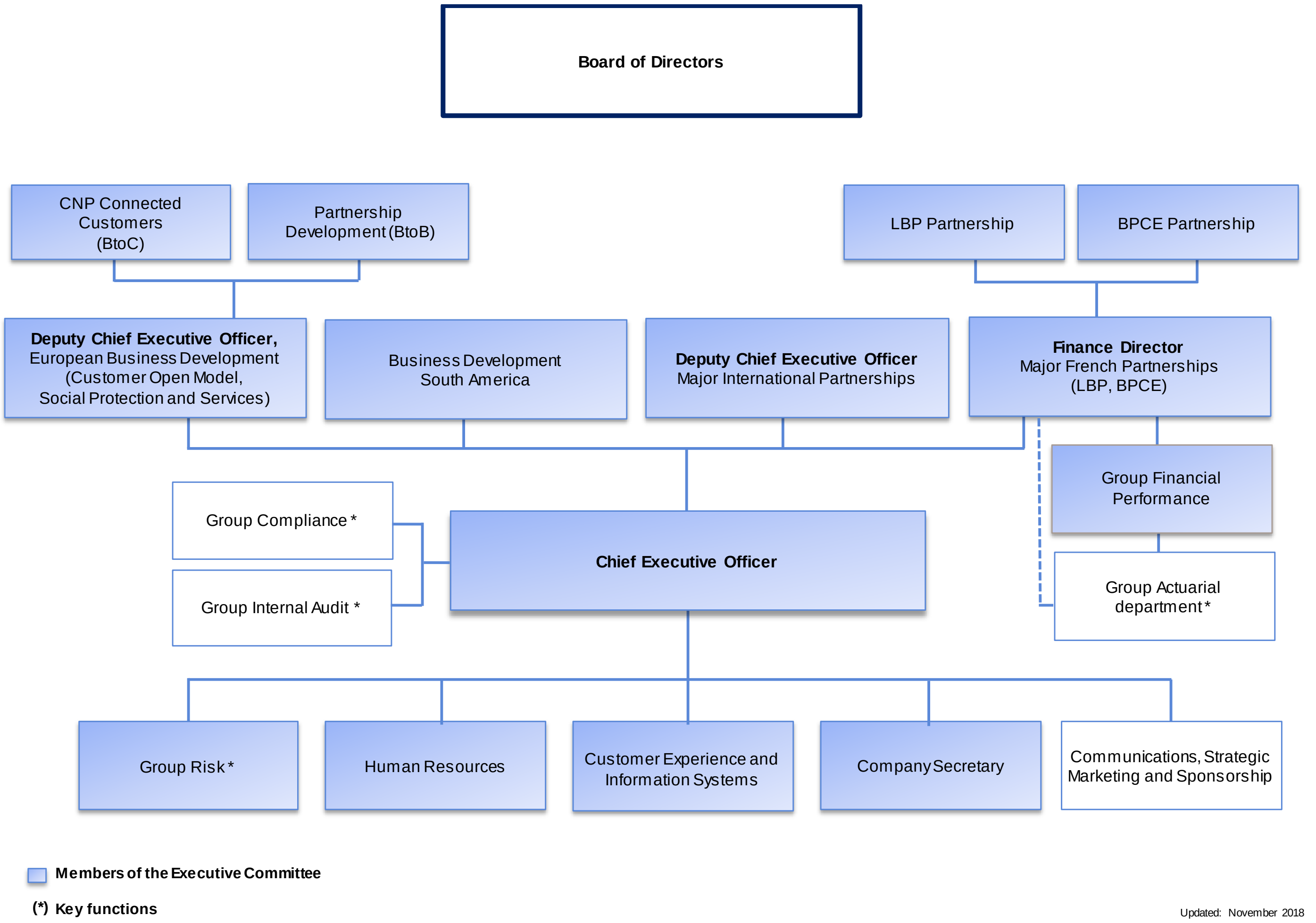
- Organisational imperatives, by reflecting the Company's organisation structure.
- Operational needs, by describing the powers and responsibilities concerned.
- Security requirements, by setting out in an appendix the limits applicable to the delegated authority in terms of budget decisions and business 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.

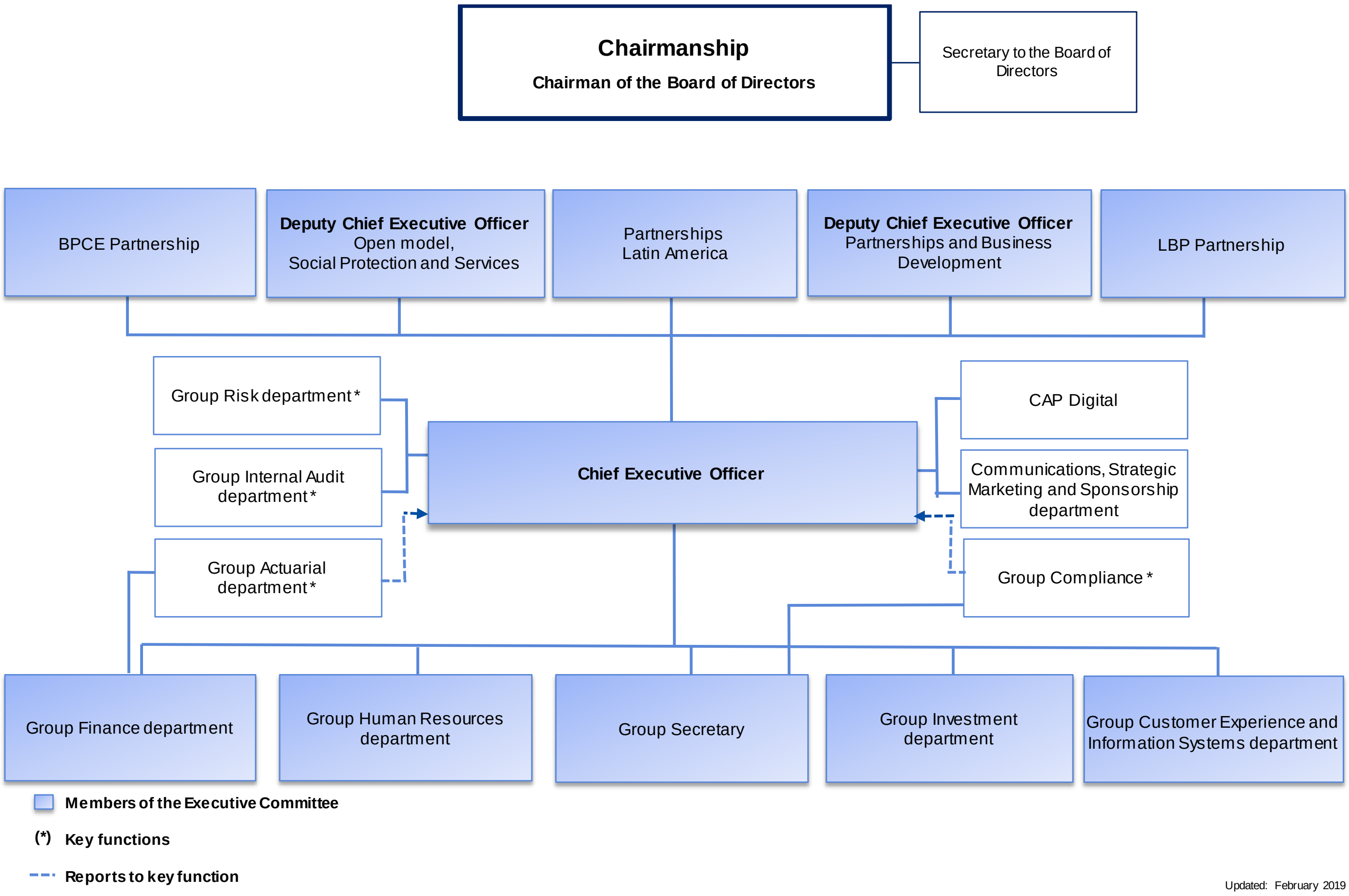
## 4. Group organisation

CNP Assurances is organised around business units and corporate functions, as shown below (based on the organisation at 31 December 2018):




Note 1: The subsidiaries not shown in the above chart are included in the business units.

Note 2: Following the organisational changes implemented at the beginning of 2019, the Company's organisation structure at 28 February 2019 was as follows:




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

On 15 November 2018, CNP Assurances' Board of Directors approved Antoine Lissowski's appointment as Chief Executive Officer of CNP Assurances.

## 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 corporate officers

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 2018.

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-decisionmaker.

#### 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 Group'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.

## 6.4. Directors' fees

The total directors' fees voted by shareholders in General Meeting – currently set at €830,000 – are allocated by the Board among its members.

The allocation is based exclusively on the directors' attendance rates at meetings of the Board of Directors and the Committees of the Board, as follows:

- The fee per Board meeting attended by the director is set at €3,800 and the fee per meeting of a Committee of the Board attended by the director at €3,050.

- The Chair of each Committee of the Board is entitled to double the fee awarded to the Committee members, for each meeting attended.

No directors' fees are paid by the Company to the Chairman of the Board of Directors or the Chief Executive Officer.

## 7. Agreements and commitments authorised during the year

Information about material transactions with shareholders in 2018, persons who exercise a significant influence over the Company, and members of the executive management is provided 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 18 April 2019:

- The new agreement in Brazil giving the Caixa Econômica Federal network exclusive rights to distribute life insurance (*vida*), consumer finance term creditor insurance (*prestamista*) and private pension plans (*previdência*).
- Agreements with Arial CNP Assurances (signed in connection with the transfer of a portfolio of company retirement savings plan contracts carried out in 2017).
- Death/disability and health insurance policy taken out by CNP Assurances for the benefit of the Chief Executive Officer, Antoine Lissowski.
- Agreements related to the proposed acquisition of an office complex in Issy-Les-Moulineaux, and transfer of the Company's headquarters to the new property.
- Agreements related to the proposed sale of offices in the Montparnasse district of Paris, corresponding to CNP Assurances' current headquarters.
- Death/disability and health insurance policy taken out by CNP Assurances for the benefit of Frédéric Lavenir, Chief Executive Officer until 31 August 2018.
- Death/disability and health insurance policy taken out by CNP Assurances for the benefit of the Chairman of the Board of Directors, Jean-Paul Faugère.

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

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.

### 1.2. Persons who effectively run the Company

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.

### 1.3. 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. System applicable to the directors and to the persons who effectively run CNP Assurances

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 and 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. Fit and proper assessments of the persons who hold the key functions

The fit and proper assessment process for the persons who hold the key functions in the Company 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 Group Compliance 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 and renewal, the members of the Fit and Proper Review Committee check that the Nomination and 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 included in the Nomination and Renewal file 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

A formal fit and proper policy has been drawn up, reviewed and distributed throughout CNP Assurances and the Group. The final version was approved by the Company's Board of Directors in September 2018.

# 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 Group's 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 Group's 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 sub-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
- 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 Group'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 both at Group and subsidiary level. It also approves delegated exposure limits. The Committee validates risk assessment guidelines and methodologies, i.e., high level investment 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, as well as on reviews of equivalent-type structures in Group subsidiaries.

### 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 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 based on the underwriting risk maps for each entity and the Group's overall risk management guidelines.

### 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 Group Investment Committee oversees the asset risk acceptance process and approves investment files. The Committee is responsible for making decisions concerning:

- The authorisation, modification or suspension of the exposure limit (amount and duration) for an individual issuer or counterparty that exceeds the amount that can be authorised at a lower level or between two Asset Risk Monitoring Committee meetings, and – if necessary – the liquidation of a position.
- Investments in assets, either directly or through a fund, in excess of the amount that can be authorised at a lower level.
- The addition of mutual funds to the list of authorised investments for unit-linked contracts (in accordance with the standards and procedures set out in the subsidiaries' underwriting policies and processes), where the decision cannot wait until the next meeting of the Commitments Committee.
- Securities lending transactions and purchases of forward contracts (counterparty limits, collateralisation rules, etc.).
- Major amendments to investment standards that cannot wait until the next meeting of the Group Risk Committee.

The Investment Committee uses the files received from the Investments department and the second-tier analysis performed by the Group Risk department teams.

The Asset Risk Monitoring Committee oversees all of the Group's asset risks. It may also validate the authorisation, modification or suspension of the exposure limit (amount and duration) for an individual issuer or counterparty, and – if necessary – the liquidation of a position. It tracks standards, risk policies, limits, delegations of authority and asset risk mitigation measures. If the limits are breached, it determines whether to authorise the overrun or require the sale of the portion of the investment that breaches the limit. In the case of a major breach of asset standards, it submits the matter to the Group Risk Committee or the Investment Committee as appropriate. In the case of a major amendment to asset standards, it submits the matter to the Group Risk Committee or the Investment Committee as appropriate. 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.

Each year, 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 Asset/Liability Management (ALM) Committee tracks the identification and measurement of ALM risks, and draws up annual ALM and financial risk hedging programmes. 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 Group 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 the Group's risk profile, such as acquisitions/divestments of businesses and the launch of new businesses or major new products.
- Ensure compliance with the Group's 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 Group's 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 the Group 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, the Group's 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 entity/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 risk tolerance limit.
- A system is set up 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 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 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. A process-led ORSA analysis and control plan is deployed to further improve the quality of the calculations.

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

The main protagonists in risk management and internal control are, at the highest level in the Company, the Board of Directors, the 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 cover the key Risk Management function (see section B3 Risk Management), key Compliance function (see section B5.2 Compliance) and key Actuarial function (see section B7 Actuarial Function) and the system of permanent controls (see below).
- Third-tier controls (periodic controls) are performed by the internal auditors (see section B6 Internal Audit Function).

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

### 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:

- Category 1 risks and controls identified by the businesses through a bottom-up approach, and that are taken into account for operational management purposes.
- Category 2 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 category 2 risks): 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 category 2 risks. 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.
- Residual risk rating: risks are rated based on their potential impact and probability of occurrence. The four ratings are: Critical (rating applied automatically to Category 2 controls, i.e., controls identified by Executive Management), 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. Structure, role and responsibilities

The Group’s Compliance function is organised in accordance with industry best practice and Solvency II guidelines.

Any breaches of compliance rules expose the Group to the risk of legal or administrative penalties, disciplinary measures, significant financial losses and reputational damage. Effectively managing compliance issues is key to earning the trust of policyholders and insureds as well as of distribution partners. Their trust is an essential driver of business growth for CNP Assurances, which shares the same values as its shareholders and partners.

### Compliance processes

The Company has set up a key Compliance function that contributes to managing risks by playing a coordination role and performing second-tier controls that complement the system of internal control. The Group Compliance department does not play any operational role to avoid the occurrence of any conflict of interests.

Based on the Group code of conduct, the Compliance 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 and advisory role, the Chief Compliance Officer reports regulatory to the Chief Executive Officer and may approach 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.

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.

The Compliance department’s team is supported by local compliance officers appointed in each business unit and corporate department. They prepare descriptions of their unit’s transaction processing procedures, and ensure that the procedures are communicated to employees and implemented in accordance with the applicable regulations and the Company’s internal principles. They also draw up action plans to achieve any necessary improvements.

The Group Compliance department maintains close ties with the Legal department, the Group Risk department and the Internal Audit department.

### The Compliance function's role and responsibilities

The Compliance function is responsible for ensuring that the insurance and reinsurance businesses comply with the applicable laws, regulations and standards, and with the Company's internal rules. It detects, identifies and assesses compliance risks, issues warnings about actual or potential breaches, and provides advice in the following main areas:

- Governance: existence of appropriate committees, verification of independent advisors' professional qualifications.
- Business ethics: professional secrecy and confidentiality, prevention of insider trading, anti-bribery and corruption measures, whistleblowing procedure.
- Client protection: know-your-client procedure, duty to provide impartial advice, client information obligations, complaint processing.
- Marketing practices: advertising, sales and marketing documents, alignment of products with target clients, policy marketing rules.
- Combating money laundering and the financing of terrorism: risk classification, consistency of transactions with client profiles, management of asset freezes and embargoes, opinion on the acceptance of complex new client relationships, monitoring of politically exposed persons, reporting of suspect transactions to Tracfin.
- Prevention of insurance fraud: prevention, detection and management of potential cases of fraud, organisation of fraud investigations.
- Protection of personal data: approval of data collection documents, analysis of data protection risks associated with new computer applications, determination of sensitive data volumes, rights of potential or existing clients to refuse to allow recording of their personal data, responses to requests to consult, rectify, delete or oppose personal data.

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 main responsibilities are to:

- Analyse the impact on the business units' organisation and procedures of new legal developments communicated by the Legal department, and organise the compliance process.
- Identify and assess compliance risks by preparing compliance risk maps and defining and assessing the related controls.
- Draft compliance policies, standards and procedures in order to clarify the standards applicable within the Company and ensure that they are fully incorporated into procedures.
- Control and verify compliance issues by performing second-tier controls on specific points in support of the controls performed by the internal control teams.
- Advise and inform senior management through regular presentations comprising activity reports and insights into future developments and their impact on the business model.

To effectively fulfil the above responsibilities, the Compliance function also:

- Leads three networks of specialised correspondents (compliance, prevention of money laundering and the financing of terrorism, and data protection), by organising regular meetings to share best compliance practices and procedures.
- Trains employees on key issues related specifically to the Company's businesses and skillsets, and conducts regular communication and awareness-raising initiatives.

These interlocking activities guarantee the compliance system's robustness. As the second line of defence, the Compliance function participates fully in the drive to strengthen the Company's risk management system.

## 2.2. 2018 highlights

Four major compliance projects were undertaken in 2018:

- Deployment of a system to prevent bribery and corruption in application of France's Sapin II Act (on transparency, the prevention of bribery and corruption and modernisation of the economy) which came into effect on 1 June 2017.
- Implementation of the General Data Protection Regulation (GDPR), with the appointment of a Data Protection Officer on 25 May 2018.
- Project to strengthen the system to prevent money laundering and the financing of terrorism; the project was launched in 2016 in response to comments by France's insurance supervisor, ACPR, and has been expanded to include the requirements set out in new directives.
- Project to prepare implementation of the European Insurance Distribution Directive (IDD), which came into effect on 1 October 2018.

# B6. Internal Audit function

## 1. Scope of the function's activities

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

Our internal audit processes are certified by the French chapter of the Institute of Internal Auditors (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.

## 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.
- 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).
- Archiving: once the final report has been issued, the documents and working papers are archived by the internal auditors.

# B7. Actuarial function

The Company has designated the person holding the key Actuarial function and defined his responsibilities, which are closely aligned with the requirements of the applicable regulations. These regulatory responsibilities are as follows:

- Coordinate the calculation of technical reserves.
- Express an opinion on the overall underwriting policy.
- Express an opinion on the adequacy of reinsurance arrangements.
- Participate in the risk management framework.

The regulations also stipulate that the Actuarial function must fulfil specific competence and independence criteria. The Actuarial function is required to be independent from the other functions and operating units.

Since the beginning of 2018, this key function has been held by the Group Chief Actuary who is a qualified actuary. The Group Chief Actuary works directly with the Company's decision-making bodies and reports to the Chief Executive Officer, allowing him to fulfil his whistle-blowing role. He expresses an opinion on:

- The process for determining technical reserves, during meetings of the Group Risk Committee and the Actuarial Strategy, Assumptions, Laws and Models Committee involving Executive Management. This opinion is based on the Actuarial department's report validating the underlying assumptions and laws, as approved by Executive Management.
- The underwriting policy, during meetings of the Commitments Committee (before the risks are accepted) and the Liability Management Committee (once the results for the insurance year are known).
- The reinsurance policy, during meetings of the Underwriting Risks Committee and the Audit 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 20 February 2019.

## 1. Coordinate the calculation of technical reserves

Technical reserve calculations are subject to the following controls:

- The first line of defence corresponds to 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.
- The second line of defence corresponds to the local Actuarial function's review of the underwriting team's technical reserve calculations.

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 Executive Management has 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. 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. Its contribution mainly concerns the following aspects:

- Coordinating technical reserve calculations and informing the Risk department of its conclusions.
- 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.
- Reviewing the classification of health insurance technical reserves, which affects the method of determining the corresponding capital charge.

# 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. It is aligned with the European General Data Protection Regulation, which requires contractors to fulfil a certain number of obligations.

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, 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.
- 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.

The Committee is chaired by the Company Secretary and its members include representatives of the Group Risk, Planning & Performance, Group Legal Affairs, Compliance, 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.

# 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 2018 – In € millions | In % [15] |
|---|---|---|---|
| **Market risk** | *Interest rate risk*<br>*Equity risk*<br>*Property risk*<br>*Currency risk*<br>*Spread risk*<br>*Concentration risk* | **10,644** | 58% |
| **Life underwriting risk** | *Mortality risk*<br>*Longevity risk*<br>*Disability-morbidity risk*<br>*Lapse (surrender) risk*<br>*Life expense risk*<br>*Life catastrophe risk*<br>*Revision risk* | **3,346** | 18% |
| **Health underwriting risk** | *SLT Health [16] underwriting risk*<br>*NSLT Health [17] underwriting risk*<br>*Health catastrophe risk* | **1,792** | 10% |
| **Non-life underwriting risk** | | **0** | 0% |
| **Counterparty default risk** | | **1,254** | 7% |
| **Intangible asset risk** | | **0** | 0% |
| **Operational risk** | | **1,324** | 7% |

As this risk profile shows, the Company's primary exposure is to market risk, which accounts for 58% 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 24% based on the following formula: (sum of net SCRs excluding operational risk SCR - net basic SCR)/sum of net SCRs excluding operational risk SCR.

[15] *Percentage of the sum of the SCRs by risk*

[16] *SLT Health = health obligations assigned to the lines of business for life insurance*

[17] *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:

| Risks identified for the application of the standard formula | | | Net SCR at 31 December 2017 In € millions | In % |
|---|---|---|---|---|
| **Life underwriting risk** | *Mortality risk*<br>*Longevity risk*<br>*Disability-morbidity risk*<br>*Lapse (surrender) risk*<br>*Life expense risk*<br>*Life catastrophe risk*<br>*Revision risk* | | **3,346** | 18% |
| **Health underwriting risk** | *SLT Health underwriting risk* | *SLT Health lapse (surrender) risk*<br>*Health expense risk*<br>*Health mortality risk*<br>*Health longevity risk*<br>*Health disability-morbidity risk*<br>*Health revision risk* | **1,792** | 10% |
| | *NSLT Health underwriting risk* | *NSLT Health lapse (surrender) risk*<br>*NSLT Health premium and reserve risk* | | |
| | *Health catastrophe risk* | | | |
| **Non-life underwriting risk** | *Non-life catastrophe risk*<br>*Non–life premium and reserve risk*<br>*Non–life lapse (surrender) risk* | | **0** | 0% |

## 1. Description of the main risks

### 1.1. Surrender or cancellation risk

Traditional savings contracts include an early surrender option for a contractually fixed amount. Surrender rates depend on how the financial markets perform, the yield offered by other competing financial products, our policyholders' behaviour and their confidence in our Company, and the tax rules applicable to investments in life insurance products. A wave of surrenders could 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 subscriber requesting the policy be transferred.

The Term Creditor Insurance business also exposes the Company to a surrender risk in connection with the early repayment or renegotiation of the insured loan (which is all the more likely during a period of low interest rates) or a policy cancellation risk (since the Hamon Act came into effect in 2014, insureds are free to cancel their policy during the first year of the loan and following the Bourquin amendment applicable from 1 January 2018, the cancellation right is now exercisable annually).

### 1.2. Morbidity risk (temporary and permanent disability, long-term care insurance)

Personal risk/protection and term creditor insurance contracts comprise various types of temporary or permanent disability and long-term care cover. These guarantees expose the Company to morbidity risks. Morbidity risk is the risk of an increase in the incidence or duration of sick leave or long-term care needs. It also includes the risk of an increase in healthcare costs.

### 1.3. Mortality risk

Mortality risk corresponds to the risk of higher-than-expected mortality rates among insureds.

The Company is exposed to mortality risk on the death cover included in most of its Personal Risk and Term Creditor Insurance policies.

In addition, an increase in the mortality rate would reduce future margins on Savings business and could have an adverse impact on the Company's financial position. Some unit-linked contracts also include death cover. The combination of less favourable financial market conditions and higher-than-expected mortality rates would erode margins on these contracts.

### 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 of the Company's 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. Non-life premium and reserve risk

Non-life premium and reserve risk is the risk arising from cover provided under non-life policies such as unemployment cover and health insurance cover.

Exposure to unemployment risk covered by term creditor insurance contracts in France is limited, due to the fairly small number of contracts that include unemployment cover, the application of a deductible and the time-limit on the payment of benefits.

### 1.8. 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

Since 1 January 2018, borrowers have been free to change insurance provider on each anniversary of their loan under the so-called Bourquin amendment.

Indicators have been developed to detect any increase in cancellation rates resulting from insureds taking advantage of this option. These indicators show that so far the Bourquin amendment has had no material impact on the risk profile of borrowers covered by the Company's term creditor insurance. However, the indicators continue to be closely monitored and refined.

### Improving product mix in France

In 2018, the Company continued to focus the Savings portfolio on unit-linked funds and *Croissance* growth funds, leading to:

- Further Forgous and *Croissance* transfers, with over €275 million invested in *Croissance* funds at the year-end.
- Continued strong sales of wealth management products, which have a greater unit-linked weighting than mass market products. Savings invested in premium products represented over €2 billion at the year-end.

At the same time, total technical reserves for traditional Savings products remained stable overall, while net new money was slightly negative after taking into account transfers between traditional and unit-linked/*Croissance* funds. All of these factors translated into an improved risk profile for the Savings business in the low interest environment that has prevailed for several years.

### "L441" pension plan reform

Following adoption of France's Sapin II Act, enabling legislation was published in the legal gazette *Journal Officiel* enacting a regulatory change to points-based supplementary pension plans (known as "L441" or "4 June" plans). The new regulations require these plans to be funded based on an economic vision (instead of an accounting vision as was previously the case), raise the cap on investment income loading to 15% and authorise a reduction in the value of the points in extreme circumstances (subject to the policyholder's agreement in the case of In-Force business).

Discussions and negotiations concerning the Company's L441 plans were launched at the end of 2017 and the various agreements have been updated. To date, the investment income loading has been raised to 15% for most plans, including Préfon.

# 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.

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 required by 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 reporting

### 3.3.1 Principles

Quarterly underwriting risk reports are prepared, covering the Company's most material risks. These include surrender, morbidity (analysed by type of cover: temporary and permanent disability, health and long-term care), mortality, longevity and unemployment risks and risks related to Savings/Pensions financial options and guarantees (capital guarantees, guaranteed yield and transaction options). Focus reports may also be prepared on emerging risks, newly introduced products and strategic growth priorities. The market's view of topical issues or recent publications is also included.

The underwriting risk reports are used to detect any deviations from the Company's risk profile to be submitted to the Underwriting Risk Committee and also to commission detailed analyses from the business units, 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 reporting system is organised by risk and includes:

- Risk measurement indicators
- 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 the employee benefits plan, long-term care insurance and group pensions segments.

## 4.2. Reinsurance mechanisms

CNP Assurances' reinsurance policy describes the governance of ceded risks. It sets out the roles and responsibilities of the departments involved in CNP Assurances' reinsurance activities, as well as specifying the decision-making bodies (i.e., mainly 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 CNP Assurances Group also calculates the sensitivity of MCEV© metrics – Value of New Business (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. 2018** *(In € millions)* | **Central value** | Surrenders -10% | Costs -10% | Loss ratio -5% (longevity risk) | Loss ratio -5% (mortality & disability risk) |
|---|---|---|---|---|---|
| MCEV© VIF France | **8,168** | 217 | 283 | (55) | 180 |
| VNB France | **414** | 19 | 35 | 0 | 50 |

# C2. Market risk

This section covers interest rate, equity, property and currency risks. 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. 2018 | 31 Dec. 2017 | Year-on-year change |
|---|---|---|---|
| Corporate and government bonds | 186 | 181 | +3% |
| Investment funds (UCITS) | 62 | 64 | -3% |
| *Money-market funds* | *20* | *23* | *-13%* |
| *Bond funds* | *15* | *16* | *-6%* |
| *Equity funds* | *12* | *12* | *0%* |
| *Other funds* | *14* | *14* | *0%* |
| Equities | 24 | 25 | -4% |
| *Shares in property companies* | *8* | *8* | *0%* |
| *Other equities* | *17* | *17* | *0%* |
| Structured products | 10 | 12 | -17% |
| Collateralised securities | 0 | 1 | |
| Property and equipment | 0 | 0 | 0% |
| **Total** | **283** | **283** | **0%** |

## 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 bond portfolio yields.

A prolonged fall in interest rates makes contractual loading more difficult to apply to savings and pension products and exposes the insurer to a risk of lower 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 the our investment portfolios may lag behind the market, generating a mismatch between the yields paid on our products and those available on competing 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 us 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 offered by other players, thus pushing the surrender rate even higher.

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

## 1.2. Equity risk

Equity risk measures the sensitivity of equities to changes in stock market prices. Volatility measures the extent of equity price changes and is used to quantify the yield and price risk. High volatility means high potential gains but also a higher risk of losses. High volatility means high potential gains but also a higher risk of losses.

In the case of a prolonged fall in value of certain equities held in the portfolio, impairment provisions may have to be set aside for unrealised losses on these investments, 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, the Group is also exposed to equity market volatility risk, although this is not identified in the Solvency II standard formula.

Infrastructure investments consist of providing financing for current or planned projects in the transport, energy, environmental services, telecommunications and public works sectors.

Infrastructure investments represent an important portfolio diversification opportunity for the Company. They include direct investments in infrastructure projects and units in infrastructure funds which provide an opportunity to invest in diversified portfolios of assets in this class. The portfolio is invested primarily in European infrastructure projects.

There are two types of risk inherent to private equity and infrastructure investments: the risk of a fall in the probability of the underlying companies or projects and the risk associated with the lack of a liquid market for these investments which require a medium or long-term perspective.

## 1.3. Property risk

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 properties owned directly by CNP Assurances Group 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. Although property companies are rarely exposed to leverage risks, they should also be taken into consideration given the current environment, in which interest rates could rise.

### 1.4. Currency risk

The Group's presentation currency is the euro. Most of its currency risk arises from the consolidation of the Brazilian subsidiary, Caixa Seguros Holding, which presents its financial statements in Brazilian reals. Caixa Seguros Holding's contribution to the Group's financial performance – in terms of both premium income and earnings – is already substantial, We purchase currency hedges to manage this risk; however, these are based on analyses and forecasts and may prove inadequate or ineffective.

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

A description of the economic environment and financial market conditions in 2018 is provided in section A1. In summary, in the latter part of 2018, prices fell significantly on the world's stock markets while interest rates remained low.

This had the effect of increasing the Group's exposure to the persistently low rates, and interest levels therefore continued to represent one of the key issues taken into account when determining strategic asset allocations.

It also led the Group to hold fairly significant portfolios of money market instruments and diversified investments, and to step up its equity risk hedging programme.

Concerning currency risk, the binding framework agreement with Caixa Seguridade [18] signed in 2018 provides for a payment to be made in Brazilian reals when the final agreement is signed, exposing the Group to the temporary risk of an increase in the value of the real against the euro. The currency hedging strategy was adjusted to take account of this risk. However, over the year, the Brazilian real lost 19% against the euro (based on average exchange rates).

Additionally, in preparation for the United Kingdom's forthcoming exit from the European Union, the Group has identified all of its exposures to sterling-denominated assets held directly or through funds. The review showed that less than 1% of total assets were exposed to a risk of changes in the euro/sterling exchange rate.

[18] *In March 2019, Caixa Seguridade's new management team initiated discussions with CNP Assurances with a view to agreeing certain adjustments or possible additions to the framework agreement dated 29 August 2018*

# 3. Investment policies, asset standards and monitoring processes

## 3.1. Standards and policies

Market risks are managed by implementing an investment policy. 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.

This policy applies to the Group and all of its subsidiaries. Where necessary, it may be adjusted to take into account local regulations, the subsidiary's growth objectives and any investment restrictions decided jointly with our local partners. Any such adjustments are approved locally.

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 (see section C4 Liquidity risk)
- Investment standards – Equities.
- Investment standards – Unlisted investments (Private Equity, Infrastructures, Property)
- Investment standards – UCITS.
- Standards dealing with derivatives transactions and counterparty limits.
- Credit standards by issuer/group of issuers (see section C3 Credit risk)
- Standards on exposure limits by rating band (see section C3 Credit risk)
- Concentration standard (see section C3 Credit risk)

## 3.2. 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 that 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, 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. At 31 December 2018, the Company held a portfolio of caps on a total notional amount of €71 billion with an average remaining life of four-and-a-half years and an average strike price equal to the 10-year euro swap [19] rate plus 320 bp.
- Equity risk: purchases of puts hedging the risk of a fall in certain stock indices, aligned with the hedging objectives (management of IFRS earnings volatility, Group solvency, policyholder participation, etc.). At the year-end, the Group held a portfolio of CAC 40 and Euro Stoxx 50 index options (puts) on a total notional amount of approximately €10 billion with an average remaining life of 3 years and average strike prices of 3,075 pt (CAC 40) and 2,653 points (Euro Stoxx 50 [20]).
- Currency risk: hedging of the currency risk, in particular on dividends received from the Brazilian subsidiary. In 2018, to manage the currency risk arising from the binding framework agreement with Caixa Seguridade [21], a specific hedge was set up against an increase in the Brazilian real against the euro.

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 profit participation. At 31 December 2018, the policyholders' surplus reserve totalled €11.9 billion, representing 5.3% 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 2018 are as follows:

| Indicator | Value at 31 Dec. 2018 | 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 | €1,367m | -€18m | +€19m | +9 | *n/a* |
| MCEV© | €21,862m | €1,338m | -€1,872m | *n/a* | -€2,644m |
| SCR coverage ratio | 187% | +8 pt | -16 pt | *n/a* | -11 pt |

[19] *Unaudited management reporting data*

[20] Unaudited management reporting data

[21] *In March 2019, Caixa Seguridade's new management team initiated discussions with CNP Assurances with a view to agreeing certain adjustments or possible additions to the framework agreement dated 29 August 2018*

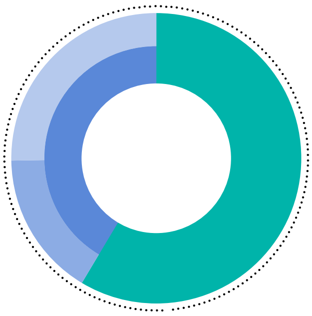
Combined stress tests are performed as part of the ORSA process.

# 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:

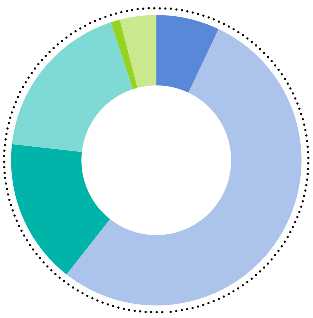
**Bond portfolio by type of issuer (source: QRT S.06.02 List of assets)** (at cost, in %)



| | 31 Dec. 2018 | 31 Dec. 2017 | Year-on-year change |
|---|---|---|---|
| Government bonds | 58% | 56% | +2 pt |
| Corporate bonds | 42% | 44% | -2 pt |
| Financial services and insurance | 16% | 17% | -1 pt |
| Other sectors | 25% | 26% | -1 pt |

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

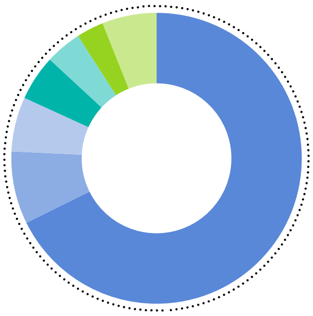
**Bond portfolio by issuer rating (source: QRT S.06.02 List of assets)** (at cost, in %)



| | 31 Dec. 2018 | 31 Dec. 2017 | Year-on-year change |
|---|---|---|---|
| AAA | 7% | 8% | -1 pt |
| AA | 53% | 53% | 0 pt |
| A | 16% | 17% | -1 pt |
| BBB | 18% | 20% | -2 pt |
| < BBB | 1% | 1% | -0 pt |
| Non noté | 4% | 2% | +2 pt |

### 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. 2018 | 31 Dec. 2017 | Year-on-year change |
|---|---|---|---|
| France | 67% | 68% | -1 pt |
| Spain | 8% | 8% | 0 pt |
| Belgium | 6% | 6% | 0 pt |
| Italy | 5% | 5% | 0 pt |
| Supranational | 4% | 5% | -1 pt |
| Austria | 3% | 4% | -1 pt |
| Other | 6% | 4% | +2 pt |

# 1. Description

## 1.1. Credit risk

The credit risk on a bond is the risk of partial or total issuer default. It concerns both corporate bonds and government bonds. This depends on the issuer's financial bill of health as generally reflected in agency financial ratings (which can range from AAA to D). The credit spread is the risk premium – in other words, the difference between the yield on a bond and that on a risk-free government bond with the same characteristics.

Credit spreads vary according to investor perceptions of the credit risk represented by the issuer.

Historically, spreads on corporate bonds tend to narrow in periods of growth and they widen during a recession when the number of issuer defaults tends to increase. In addition, spreads may widen or narrow for reasons specific to the issuer, whatever the economic conditions

## 1.2. Counterparty default risk

Counterparty default risk is the risk of default by a counterparty other than an issuer of bonds held in the Group's portfolio. It mainly concerns derivative products, reinsurance transactions and securities lending (repo) transactions. Lastly, a counterparty risk exists in respect of earned premiums not yet written corresponding to amounts receivable from group insurance clients.

# 2. Changes during the period

In 2018, credit spreads widened (by 44 bp for the ItraxxMain). The Group responded by rebalancing its exposure to fixed income products by increasing the weighting of government bonds (especially French and Spanish) in the portfolio and reducing the corporate bond weighting.

# 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.

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.

Credit standards set exposure limits by issuer.

In addition to exposure limits by issuer, limits are set at portfolio level by rating band. Standards address concentration risk by setting exposure limits by issuer group and by portfolio (except for the French sovereign debt portfolio).

## 4. Risk mitigation

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

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.

## 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. 2018 | Sensitivity to a 50-bp increase in corporate bond spread [22] | Sensitivity to a 50-bp increase in government bond spread |
|---|---|---|---|
| SCR coverage ratio | 187% | +1 pt | -5 pt |

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

[22] *After recalibration of the volatility adjustment*

# 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 2018. Liquidity indicators remained below the thresholds specified in the liquidity risk standards.

## 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.
- 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.

## 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 the least liquid (property and shares in non-trading property companies).
- Sell the units in equity and bond funds, the government bonds maturing in more than one year and rated BBB+ or lower and the corporate bonds maturing in more than one year.
- Stop reinvesting portfolio cash flows (investments that reach maturity, interest, dividends and rent).

- Stop investing net new money.

## 5. Risk sensitivity

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

In 2018, 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 €1.5 billion.

# C5. Operational risk

| | Group SCR at 31 Dec. 2018 *(In € millions)* |
|---|---|
| Operational risk | 1,324 |

## 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 2018 compared with the previous year. The main residual risks identified during the year are in the following categories:

- **Product, policy and policyholder relations compliance** The Company operates in an increasingly heavily regulated environment. New regulations introduced in 2018 included the European Insurance Distribution Directive (IDD) and the General Data Protection Regulation (GDPR). In addition, an extensive body of regulations exists covering the prevention of money laundering and the financing of terrorism, as well as the prevention of bribery and corruption. At the same time, the growing digitisation of policyholder relationships is also leading to changes in the regulatory environment.
- **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, CNP Assurances is 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. In particular, as the incidence of cybercrime increases, intruder risk is also still a concern.

  Nevertheless, in an environment shaped by large-scale cyber attacks in France and worldwide, the Company was subject to only a few IT security incidents in 2018 and their consequences were limited. GDPR compliance programmes led to the identification and implementation of new preventive and protective measures, on top of the Information Systems department's multi-year systems security programme.

- **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.

## 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. CNP Assurances must regularly review, test and update their business continuity plans.
- An insurance programme covering general liability, corporate and directors' liability, fraud, property damage (vehicle fleet, IT equipment, buildings), assistance (during business travel or expatriation) and cyber security.
- Operational risk action plans, including such measures as process and internal control improvements.

## 4. Risk mitigation

The system of permanent controls represents a key component of the system to manage operational risk and helps to mitigate this risk (see section B5.1).

### 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.

For more information about the Compliance function, see section B5.2.

### Outsourcing risks

The system for managing outsourcing risks described in section B8 helps to mitigate this risk.

### 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 therefore 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. We have therefore strengthened the system of delegations of powers and signature authority, as well as our 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
  - Examine 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.

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.

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.

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

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 Value of New Business (VNB) 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 parameters) 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

One of the Company's main strategic risks concerns its partnerships. 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 shares and bonds.

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

## 6. Climate risk

Climate risk falls into two categories:

- Physical risks, i.e. risks resulting from damage caused directly by meteorological and climate phenomena.

- Transition risks, i.e. risks resulting from the effects of deploying a low carbon business model. They include regulatory risks (resulting from policy changes), legal risks (increased incidence of claims and litigation), technological risks (linked to innovations and disruptive technologies that help to combat climate change), market risks (changes in supply and demand) and reputational risks (change in the way clients and other stakeholders view the Company).

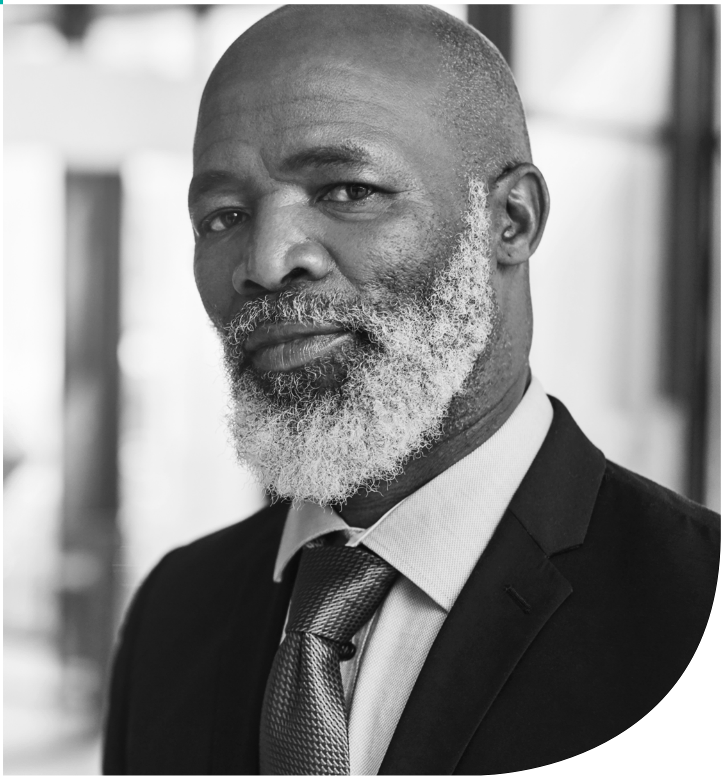
Climate risk is therefore treated as a cross-functional risk that may aggravate other identified risks.

The Company's business consists primarily of writing personal insurance and climate risk is therefore assessed and managed mainly in terms of its impact on asset portfolios. The principal risk management measures are as follows:

- Campaigns are organised among the teams responsible for investments to raise awareness of climate change issues.
- The investment policy specifically prohibits investment in coal stocks.
- The carbon footprint of the portfolio of directly held equities is measured.
- The equity portfolio is managed on a best-in-class basis.
- The investment strategy favours investments that contribute to the energy and environmental transition, such as green bonds, and uses an SRI index that takes into account climate risk for investments in equities.
- The physical risk related to the property portfolio is analysed based on scenarios developed by the UN's Intergovernmental Panel on Climate Change (IPCC).

Climate risk is also monitored during the quarterly meetings of the Socially Responsible Investment (SRI) Committee.

Concerning the impact of climate risk on liabilities, the Company hedges the risk of a spike in mortalities whatever the cause (pandemic, heatwave, etc.).



# D. Valuation for solvency purposes

This section presents the approach used for the preparation of the Solvency II 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 Solvency II 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 balance sheet and they are audited by the Statutory Auditors. This approach guarantees the reliability of the Solvency II 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 prepared for inclusion in the consolidated financial statements concern the:

- 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 value

Since 2005, the Group has used IFRSs as its primary basis of accounting. As a result, many assets and liabilities (especially financial instruments) are already measured at fair value for financial reporting purposes. The value of certain items may be estimated using simplified methods (cost, for example), provided that they do not represent material exposures or the difference compared with the fair value that would have been recognised in the account is not material.

### 1.2. Criteria for identifying active markets versus inactive markets

The extent to which an active market exists is assessed for the measurement of assets in the Solvency II balance sheet.

Fair value measurements in the Solvency II balance sheet 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. In the Solvency II balance sheet, instruments measured using level 1 inputs (see below for details) in the notes to the IFRS financial statements are considered 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 balance sheet, all intangible assets are considered as being without value in the absence of detailed analyses of the underlying markets.

#### 1.3.2 Investment flows

##### (a) Property

Owner-occupied and investment property (other than property held in unit-linked portfolios) and shares in unlisted property companies are measured in the Solvency II 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 balance sheet at fair value.

##### (b) Financial assets

In view of the quality of the financial assets in the portfolio (over 95% of which were rated BBB or over at 31 December 2018), 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 alternative valuation methods used to determine the estimated fair value of assets valued using level 2 or 3 inputs (see below) in the IFRS balance sheet are also used for the Solvency II balance sheet.

For these assets, wherever possible we use values obtained from arrangers or external valuers.

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.

In the case of 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 prices are 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.

### Structured product valuation principles

The aim of the valuation techniques is to obtain estimated values that approximate the economic value of a position using prices and rates corresponding to the underlying assets or benchmark interest rates. The prices quoted by the arrangers correspond to the estimated amount that a buyer would be willing to pay to purchase the asset. Actual prices could be significantly different from these estimates, due to various factors such as credit spreads, market liquidity, the size of the position, financing costs, and hedging costs and risks.

The valuation techniques used:

- Make maximum use of market inputs.
- Incorporate all factors that market participants would consider in setting a price.
- Are consistent with accepted economic methodologies for pricing financial instruments.

The prices established by the counterparties are obtained in principle every month, in particular following the signature of a liquidity letter. The valuations communicated by the counterparties correspond to an economic value of the securities.

The CNP Assurances Group verifies the reliability of these data from an evaluation whenever possible (estimated future cash flows for example) or questions counterparties as to the methodologies used if necessary. The values of the counterparties examined so far have been confirmed by the CNP Assurances Group, which ensures both the quality of the counterparty valuation methods and the quality of the ratings of the issues and the absence of a credit incident.

### Fair value hierarchies

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:
  - Certain structured products measured using an internal model and mainly market parameters.
  - Derivative instruments purchased over-the-counter that are measured using an internal model and mainly market parameters.
  - TCN money-market securities other than BTANs that are no longer listed and are 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 over-the-counter financial instruments.

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 uses valuations of its complex products prepared internally, or by an external 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.

Overall, these two product categories are valued using industry models and the market data required for each model at the calculation date (see below).

| Structured products | Models/Methods |
|---|---|
| Interest-rate linked structured notes | 4-Factor Libor Market Model (LMM)<br>Hybrid Equity Black-FX Model<br>Hull-White 1-Factor Model |
| Equity linked structured notes | Dupire model<br>Heston model<br>Dupire hybrid equation - Hull-White 1-Factor Model |
| Inflation-indexed complex structured products | Jarrow-Yildirim model |

| Asset class | Financial instruments | Models/Methods |
|---|---|---|
| Inflation derivatives | Inflation swaps | Future cash flows discounted using bi-curve model |
| | Swaps with an embedded option | Black model |
| | Caps/floors | SABR smile model |
| | | Hull-White One-Factor Model (stochastic volatility) |
| | | CMS replication |

| Asset class | Financial instruments | Models/Methods |
|---|---|---|
| Inflation derivatives | Swap inflation | Black model |
| | | SABR smile model |
| Credit derivatives | CDS options | Black-Scholes formula (Markit volatilities) |
| Equity derivatives | Floors | Heston model calibrated across the SX5E's entire implicit volatility surface and Black-Scholes using historical volatility for the EMTXGC and QW1M funds |
| | CAC and SX5E puts | Black-Scholes model with volatility surface developed based on option prices quoted on Bloomberg |
| Currency derivatives | JPY swaps (with currency option at each swaplet) | FX Basket (FXBA) model with Black-Scholes (Reuters volatilities) |
| Funds | Fund options (Quattro) | Black Basket model with historical volatility |

**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. This category includes the Company's investments in unlisted companies and certain asset-backed securities. Unlisted securities are measured using information not available on an active market. The main valuation techniques are the market multiples method, comparisons with recent market transactions and the discounted dividends method, corresponding to the techniques commonly used to manage these instruments, as well as certain complex structured products for which values are obtained from the counterparty.

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

Held-to-maturity investments and loans and receivables at amortised cost under IFRS are remeasured at fair value in the Solvency II balance sheet.

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

In the Solvency II 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 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.

### 1.3.3 Other assets and miscellaneous receivables

#### (a) Treasury shares

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

#### (b) Other assets and miscellaneous receivables

The value of other assets and other receivables in the Solvency II balance sheet generally corresponds to the value used in the IFRS balance sheet, as adjusted during the fast close process (fast-close adjustments) in line with expected cash flows.

Items included in other assets and valued for the purpose of best estimate calculations are eliminated from the Solvency II balance sheet as they are included in the best estimate. This concerns accrued income, which amounted to €3.9 million at 31 December 2018.

## 2. Differences compared to book value

### 2.1. Intangible assets

In the Solvency II balance sheet, intangible assets are considered as being without value because they cannot be traded on a market.

### 2.2. Investment flows

At 31 December 2018, investments totalled €347.7 billion [23] under Solvency II versus €329.9 billion under French GAAP, representing a difference of €17.8 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 balance sheet, insurance investments are measured at fair value.

Furthermore, the Solvency II 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 balance sheet).

### 2.3. Other assets and miscellaneous receivables

At 31 December 2018, other assets and miscellaneous receivables amounted to €8.2 billion under Solvency II versus €8.1 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.

[23] *This total includes the value of derivative instruments recorded in liabilities for €1.2 billion*

# 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 2018. These mainly concerned the Savings/Pensions business and consisted of improving commission models and models to simulate the share of profits or losses attributable to the insurer and the distributor under certain scenarios. In addition, work was pursued to comply with the new regulations governing points-based pension plans.

The Company also started work on simplifying and optimising operational processes for the use of personal risk insurance and term creditor insurance models.

### 1.2. General principles and description of the models

The best estimate calculation

takes into account all future cash flows related to the insurance obligations observed at 31 December 2018. Expected benefit payments and expenses are modelled, together with future premiums within the limits set by the regulations. The main accounting mechanisms are taken into account, such as future transfers from the policyholders' surplus reserve to policyholder dividends and changes in statutory technical reserves

The models used to measure insurance obligations related to savings/pensions contracts, including points-based pension plans, is based on stochastic projections of assets and liabilities.

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

For a small proportion of technical reserves (representing around 3.8% at 31 December 2018 versus 4% at the previous year-end), the Company does not have any cash flow projection model. For these reserves, the best estimate is determined by:

- Using the statutory value of obligations that are not similar to those for which a cash flow projection model exists.
- Assuming that the ratio between the technical reserve and the statutory reserve is the same, for similar obligations, to the ratio between reserves for which a projection model exists.

## 1.3. Best estimate economic assumptions

Solvency II calculations are based on market conditions observed at the year end. Financial market assumptions are determined by the Group's Investments department.

### 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. At the end of 2018, the ultimate forward rate used was 4.05%, compared to 4.2% in 2017, a decrease that will continue until 2021. Based on our analyses, the sensitivity of technical reserves and own funds to an increase or decrease fifty basis points in the ultimate forward rate is limited.

### 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 2018 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 2018 *(In € billions)* | Before volatility adjustment | **After volatility adjustment** | Change | Impact |
|---|---|---|---|---|
| Total | 321.6 | **319.9** | -0.5% | (1.7) |

**Impact of volatility adjustment on technical reserves**

The volatility adjustment had the effect of reducing the best estimate of technical reserves by €1.7 billion or -0.5%.

### 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 or market 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 for a sufficiently long period 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.

Surrender rate assumptions were revised following the adoption in 2017 of the Bourquin amendment giving borrowers an annual right to switch term creditor insurance provider. In 2018, quarterly indicators were set up to monitor the impact of this regulatory change. No material changes in surrender rates were observed in the second half of 2018. As a result, surrender laws were not updated in 2018. The rates will be tracked regularly in future periods.

## 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 must take into account possible future management actions in such areas as:

- Financial strategy.

- Policies concerning the adjustment of technical reserves.
- Renewal of partnership agreements.

In 2016, the work undertaken in response to the need to take into account negative interest rate environments led to the modelling of a dynamic financial strategy and inclusion in the models of future management actions aligned with the Company's current and past strategies.

These measures helped to deliver significantly more consistent results in pillar 1, pillar 2 and pillar 3 environments, and also contributed to better asset-liability management modelling. During its controls over the way in which negative interest rates had been taken into account in technical reserve and required capital calculations, the French insurance supervisor, ACPR, called for greater uniformity across the market in the modelling of future management actions concerning investment strategy. The ACPR considered that this uniformisation would lead to more conservative models, while recognising that they would no longer reflect each company's actual choices.

CNP Assurances responded to the ACPR's new position by adapting its models for the 2018 close. The adjustments led to more static investment simulations and the exclusion from the calculations of future management actions made in a negative interest rate environment.

#### 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 method was enhanced in 2016 with the adoption of the factor-based approach.

Risk margin is still calculated as 6% of the discounted solvency capital requirement, but capital requirement projections have been improved. The future capital charge for each risk sub-module is estimated using a specific method.

No changes were made to the risk margin calculation in 2018.

## 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 Solvency II 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 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 2018 amounted to €316 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 contracted significantly in 2018. The decline was due to the volume effect (net outflow from traditional savings contracts), a shift in the product mix towards products with more favourable technical characteristics and changes in financial market conditions (leading to an erosion of unrealised capital gains and reduced volatilities).

| *(In € millions)* | **Gross Best Estimate – 2018** | **Gross Best Estimate – 2017** | **Year-on-year change** |
|---|---|---|---|
| Medical expense insurance | +79 | 111 | -32 |
| Income protection insurance | 837 | 879 | -42 |
| Workers' compensation insurance | 300 | 285 | 15 |
| Proportional reinsurance – Medical expense insurance | 387 | 390 | -3 |
| Proportional reinsurance – Income protection insurance | 15 | 16 | 0 |
| Health similar to life insurance | 4,145 | 4,324 | -180 |
| With-profits life insurance | 268,505 | 279,311 | -10,806 |
| Index-linked and unit-linked insurance | 31,628 | 31,665 | -37 |
| Other life insurance | 40 | 74 | -35 |
| Health reinsurance | 111 | 110 | 1 |
| Life reinsurance | 9,865 | 7,870 | 1,995 |
| **Total** | **315,912** | **325,036** | **-9,124** |

**Best estimate by Solvency II line of business**

CNP Assurances' risk margin at 31 December 2018 was estimated at €3.9 billion.

| *(In € millions)* | **Risk margin 2018** | **Risk margin 2017** | **Year-on-year change** |
|---|---|---|---|
| Medical expense insurance | 3 | 3 | 0 |
| Income protection insurance | 17 | 23 | -6 |
| Workers' compensation insurance | 13 | 8 | 5 |
| Proportional reinsurance – Medical expense insurance | 10 | 21 | -11 |
| Proportional reinsurance – Income protection insurance | 0 | 0 | 0 |
| Health similar to life insurance | 77 | 69 | 8 |
| With-profits life insurance | 3,109 | 3,193 | -84 |
| Index-linked and unit-linked insurance | 113 | 115 | -2 |
| Other life insurance | 526 | 571 | -44 |
| Health reinsurance | 0 | 0 | 0 |
| Life reinsurance | 102 | 74 | 28 |
| **Total** | **3,970** | **4,076** | **-106** |

**Risk margin by Solvency II line of business**

# D3. Other liabilities

## 1. Valuation principles

### 1.1. Deferred tax assets and liabilities

#### 1.1.1 Deferred tax calculation base

Deferred tax assets and liabilities are recognised in the Solvency II balance sheet for differences between the tax basis of assets and liabilities and their value in the Solvency II balance sheet. There are several categories of differences:

- Differences between the tax basis and the statutory balance sheet, then
- Differences between the statutory balance sheet and the IFRS balance sheet, then
- Differences between the IFRS balance sheet and the Solvency II balance sheet.

They include:

- Timing differences between the recognition of expenses for financial reporting and tax purposes.
- Assets: mainly differences in the method used to measure financial assets between the statutory balance sheet (cost model) and the Solvency II balance sheet (fair value model).
- Liabilities: mainly differences in the measurement of technical reserves between the statutory balance sheet and the Solvency II balance sheet.

Deferred taxes are recognised on these timing differences and differences in the value of assets and liabilities between the two reporting models.

#### 1.1.2 Deferred tax calculation method

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

- All deferred tax liabilities are recognised in the Solvency II balance sheet. Deferred tax assets are recognised only if it is highly probable that sufficient future profits will be available to permit their recovery.
- Deferred tax assets and liabilities are offset at the level of each taxable entity or tax group.
- Deferred tax assets and liabilities are not discounted.
- Deferred taxes are adjusted for the effect of enacted future changes in tax rates based on estimates of the periods in which the assets are expected to be recovered or the liabilities are expected to be settled.

In order to use the work performed for consolidated reporting purposes, deferred taxes recorded in the Solvency II balance sheet correspond to the sum of (i) deferred taxes in the IFRS balance sheet and (ii) deferred taxes arising on differences between the IFRS balance sheet and the Solvency II balance sheet.

Deferred taxes in the Solvency II balance sheet also include deferred taxes on fast close adjustments, based on expected future cash flows.

The measurement of deferred tax assets and liabilities at 31 December 2018 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 *contributions additionnelles* surtaxes) 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 liabilities

#### 1.2.1 Remeasurement of subordinated debt at best estimate

The subordinated notes issued by CNP Assurances are measured in the Solvency II balance sheet at an amount corresponding to the best estimate, as adjusted for the effect of changes in credit risk on the Company's debt (i.e., the value of future 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 debt 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 Company's subordinated notes issues have been classified in the Solvency II balance sheet as eligible own funds.

### 1.3. Other liabilities and miscellaneous payables

The value of other liabilities and miscellaneous payables 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. The amounts reported in the Solvency II balance sheet also include fast close adjustments to other liabilities and miscellaneous payables, based on expected future cash flows.

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 Solvency II balance sheet. This concerns accrued charges.

The payment to Caixa Seguridade provided for in the August 2018 binding framework agreement concerning exclusive distribution rights in Brazil has been identified as a contingent liability. This liability has been deducted from own funds in CNP Assurances' solo Solvency II balance sheet. In view of the uncertainty concerning the payment's settlement date, the contingent liability has been conservatively estimated at a fixed undiscounted amount of R$4.65 billion (€0.96 billion at 31 August 2018 in the IFRS balance sheet), translated at the 31 December 2018 R$/€ spot rate. No account has been taken of any hedge of the currency risk on the payment.

**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.

No specific adjustments are made to employee benefit obligations in the Solvency II balance sheet compared to the IFRS balance sheet.

## 2. Differences compared to book value

### 2.1. Subordinated liabilities

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

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

At 31 December 2018, subordinated debt amounted to €7.2 billion under French GAAP and €7.5 billion under Solvency II. The valuation difference therefore amounted to €0.3 billion.

## 2.2. Other liabilities and miscellaneous payables

At 31 December 2018, other assets and miscellaneous payables amounted to €29.6 billion under Solvency II versus €37.4 billion under French GAAP, representing a difference of €7.8 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 €8.7 billion at 31 December 2018) and not in the Solvency II balance sheet.

The contingent liability corresponding to the payment provided for in the binding framework agreement with Caixa Seguridade is recognised in the Solvency II balance sheet for an amount of €1.05 billion.

Employee benefit obligations recognised at 31 December 2018 amount to €0.28 billion. Details of the recognised amounts are provided in the Registration Document (see note 13.3 to the consolidated financial statements).

# D4. Alternative valuation methods

In the Solvency II 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 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).

### 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 [24], 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.

[24] *Excluding changes in the Company's own credit risk.*

Subordinated notes issued before 2015 are classified as Restricted 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 Restricted 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 after 2015 have been structured so as to be eligible for inclusion in Restricted Tier 1, 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. 2018** |
|---|---|
| Excess of assets over liabilities | 19.1 |
| Treasury shares (held directly or indirectly) | (0.0) |
| Foreseeable dividends, distributions and expenses | (0.6) |
| Other components of basic own funds [25] | (2.4) |
| Adjustment for restricted own funds items in respect of matching adjustment portfolios and ring fenced funds | (0.0) |
| **Reconciliation reserve** | **16.1** |

### 2.2. Ancillary own funds

The Company does not have any ancillary own funds.

## 3. Own funds structure, amount and quality

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

Own funds eligible for inclusion in the Company's SCR coverage ratio amount to €26.1 billion, as follows:

- €18.5 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 2017 comparatives:

| ***(In € billions)*** | **31 Dec. 2018** | **31 Dec. 2017** |
|---|---|---|
| Restricted Tier 1 | 2.7 | 2.6 |
| *Tier 2* | 3.9 | 3.9 |
| *Tier 3* | 1.0 | 1.0 |
| **Total** | **7.5** | **7.5** |

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 2018, these quantitative caps on the components of eligible own funds for SCR calculations were not met.

[25] *Details of the other components of basic own funds are provided in QRT S.23.01.01 (see Appendix)*

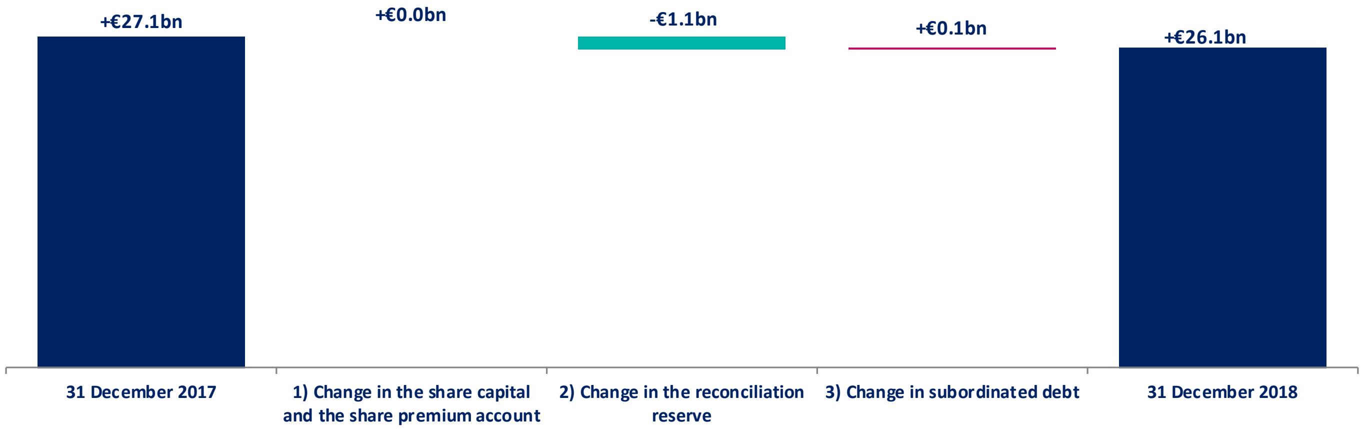
## 3.2. Description of own funds eligible for inclusion in the MCR coverage ratio

Own funds eligible of €22.4 billion for inclusion in CNP Assurances' MCR coverage ratio are as follows:

- €18.5 billion of unrestricted Tier 1 capital, comprising the reconciliation reserve, share capital (excluding any preference shares) and the share premium account.
- €3.9 billion of subordinated debt, breaking down as follows, with 2017 comparatives:

| ***(In € billions)*** | **31 Dec. 2018** | **31 Dec. 2017** |
|---|---|---|
| Restricted Tier 1 | 2.7 | 2.6 |
| *Tier 2* | 1.2 | 1.2 |
| *Tier 3* | 0.0 | 0.0 |
| **Total** | **3.9** | **3.8** |

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 2018.

The Company's eligible own funds decreased by €1.0 billion between 31 December 2017 and 31 December 2018, mainly as a result of:

- Advance recognition of the R$4.65 billion payment provided for in the framework agreement covering distribution in Brazil [26].
- The €0.5 billion Restricted Tier 1 subordinated notes issue carried out in June 2018 and repayment of US$0.5 billion worth of Restricted Tier 1 subordinated notes in October 2018.

[26] *Subject to renewal of the various conditions precedent associated with the new distribution agreement in Brazil.*

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

The difference between French GAAP equity (€12.1 billion) and Solvency II own funds (€26.1 billion) can be explained as follows:

- Remeasurement of assets due to differences between French GAAP and Solvency II principles (including borrowings and derivatives): +€26.6 billion
- Remeasurement of liabilities (mainly technical reserves) due to differences between French GAAP and Solvency II principles: -€19.5 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 restricted 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 15 subordinated notes issues concerned together represent €4.9 billion out of a total of €7.5 billion worth of subordinated debt (at fair value) in the Solvency II balance sheet at 31 December 2018. 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 2018

CNP Assurances' SCR at 31 December 2018 was €13.0 billion and the SCR coverage ratio at that date was 201%. The MCR was €5.8 billion and the MCR coverage ratio was 384%.

No simplification techniques or undertaking-specific parameters (USPs) were used for the SCR and MCR calculations.

## 2. Minimum capital requirement (MCR)

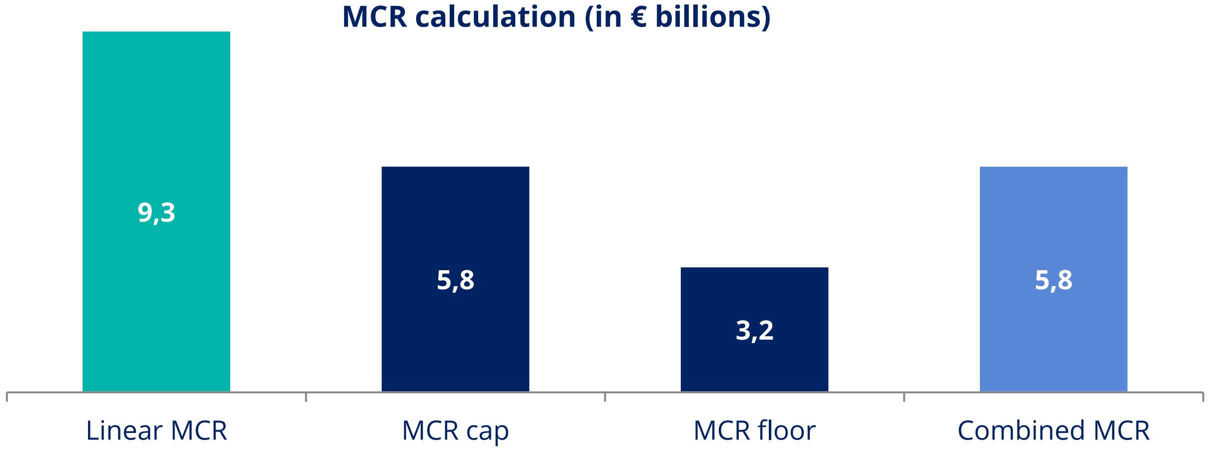
MCR is determined as follows:

- 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., €5.8 billion.

**MCR calculation (in € billions)**



# 3. Solvency capital requirement (SCR)

## 3.1. Quantitative SCR information by risk module

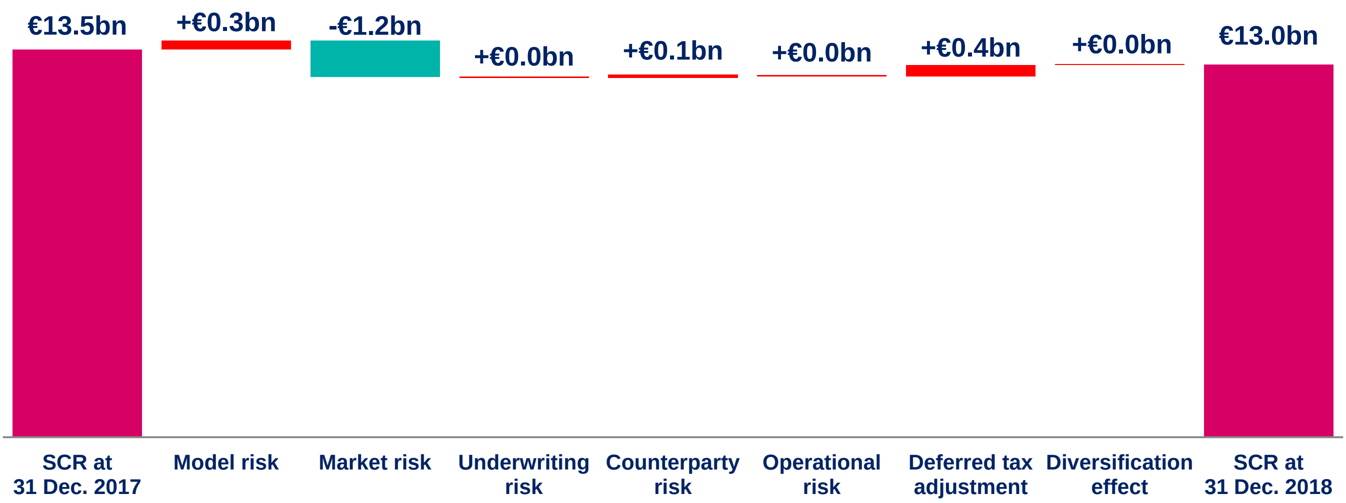
Breakdown of the Company's SCR by risk module, net of losses absorbed by future discretionary benefits:

| ***(In € billions)*** | **31 Dec. 2018** |
|---|---|
| Market risk SCR | 10.6 |
| Counterparty default risk SCR | 1.3 |
| Life underwriting risk SCR | 3.3 |
| Health underwriting risk SCR | 1.8 |
| Non-life underwriting risk SCR | 0.0 |
| Diversification effect | (4.0) |
| Intangible asset risk SCR | 0.0 |
| **Basic SCR** | **13.0** |
| Operational risk SCR | 1.3 |
| Loss-absorbing capacity of deferred taxes | (1.5) |
| Other* | 0.0 |
| **SCR** | **13.0** |

** 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 2018, the Company's SCR was €13.0 billion, representing a decrease of €0.5 billion from the previous year-end.

The increase can be explained as follows:

- Model changes, consisting primarily of improvements to the traditional savings contract models, led to a €0.3 billion increase in SCR.

- Changes in market risk led to a €1.2 billion reduction in SCR, reflecting a reduction in the coverage of the SCR by the equities portfolio following a fall in stock prices.
- The other factors leading to a change in SCR had only a limited impact in 2018.
- The change in the loss-absorbing capacity of deferred taxes was a negative €0.4 billion (negative impact on the ratio), reflecting the effect of (i) adjustments to deferred taxes to take into account the gradual reduction in the French tax rate to 25% in 2022 and (ii) lower future margins.

## 4. Impact of volatility adjustment on solvency indicators

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

| ***(In € billions)*** | **Before volatility adjustment** | After volatility adjustment | Impact |
|---|---|---|---|
| Minimum capital requirement (MCR) | 6.3 | 5.8 | -0.4 |
| Solvency capital requirement (SCR) | 13.9 | 13.0 | -1.0 |
| Basic own funds | 24.8 | 26.1 | 1.3 |
| Eligible own funds to cover the MCR | 21.2 | 22.4 | 1.2 |
| Eligible own funds to cover the SCR | 24.8 | 26.1 | 1.3 |
| **Solvency II coverage ratio** | **178%** | **201%** | **23%** |

The increased impact was due to the wider spreads observed during the year (23-point impact in 2018 versus 3-point impact in 2017).

# 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 2018

# 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 | 169,948 |
| Investments (other than assets held for index-linked and unit-linked contracts) | R0070 | 314,524,630 |
| Property (other than for own use) | R0080 | 832,902 |
| Holdings in related undertakings, including participations | R0090 | 6,012,247 |
| Equities | R0100 | 25,324,040 |
| Equities - listed | R0110 | 15,179,063 |
| Equities - unlisted | R0120 | 10,144,977 |
| Bonds | R0130 | 217,024,954 |
| Government Bonds | R0140 | 124,684,167 |
| Corporate Bonds | R0150 | 80,895,925 |
| Structured notes | R0160 | 11,037,426 |
| Collateralised securities | R0170 | 407,436 |
| Collective Investments Undertakings | R0180 | 63,962,389 |
| Derivatives | R0190 | 1,287,556 |
| Deposits other than cash equivalents | R0200 | 80,543 |
| Other investments | R0210 | |
| Assets held for index-linked and unit-linked contracts | R0220 | 33,996,087 |
| Loans and mortgages | R0230 | 342,406 |
| Loans on policies | R0240 | 342,336 |
| Loans and mortgages to individuals | R0250 | |
| Other loans and mortgages | R0260 | 70 |
| Reinsurance recoverables from: | R0270 | 22,833,492 |
| Non-life and health similar to non-life | R0280 | 74,535 |
| Non-life excluding health | R0290 | |
| Health similar to non-life | R0300 | 74,535 |
| Life and health similar to life, excluding health and index-linked and unit-linked | R0310 | 20,891,538 |
| Health similar to life | R0320 | 199,451 |
| Life excluding health and index-linked and unit-linked | R0330 | 20,692,087 |
| Life index-linked and unit-linked | R0340 | 1,867,419 |
| Deposits to cedants | R0350 | 228,494 |
| Insurance and intermediaries receivables | R0360 | 2,175,946 |
| Reinsurance receivables | R0370 | 406,773 |
| Receivables (trade, not insurance) | R0380 | 4,665,806 |
| Own shares (held directly) | R0390 | 11,087 |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | R0400 | |
| Cash and cash equivalents | R0410 | 542,231 |
| Any other assets, not elsewhere shown | R0420 | 19,487 |
| **Total assets** | R0500 | 379,916,387 |

| **Liabilities** | | |
|---|---|---|
| Technical provisions - non-life | R0510 | 1,663,509 |
| 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 | 1,663,509 |
| TP calculated as a whole | R0570 | |
| Best Estimate | R0580 | 1,619,070 |
| Risk margin | R0590 | 44,439 |
| Technical provisions - life (excluding index-linked and unit-linked) | R0600 | 285,064,847 |
| Technical provisions - health (similar to life) | R0610 | 4,335,688 |
| TP calculated as a whole | R0620 | |
| Best Estimate | R0630 | 4,255,880 |
| Risk margin | R0640 | 79,808 |
| Technical provisions - life (excluding health and index-linked and unit-linked) | R0650 | 280,729,159 |
| TP calculated as a whole | R0660 | |
| Best Estimate | R0670 | 276,997,953 |
| Risk margin | R0680 | 3,731,206 |
| Technical provisions - index-linked and unit-linked | R0690 | 33,154,221 |
| TP calculated as a whole | R0700 | |
| Best Estimate | R0710 | 33,039,394 |
| Risk margin | R0720 | 114,827 |
| Contingent liabilities | R0740 | 1,046,355 |
| Provisions other than technical provisions | R0750 | 54,634 |
| Pension benefit obligations | R0760 | 312,610 |
| Deposits from reinsurers | R0770 | 12,856,757 |
| Deferred tax liabilities | R0780 | 1,501,035 |
| Derivatives | R0790 | 1,183,393 |
| Debts owed to credit institutions | R0800 | 181,660 |
| Financial liabilities other than debts owed to credit institutions | R0810 | 11,409,046 |
| Insurance & intermediaries payables | R0820 | 1,254,815 |
| Reinsurance payables | R0830 | 641,853 |
| Payables (trade, not insurance) | R0840 | 2,669,558 |
| Subordinated liabilities | R0850 | 7,548,073 |
| Subordinated liabilities not in BOF | R0860 | |
| Subordinated liabilities in BOF | R0870 | 7,548,073 |
| Any other liabilities, not elsewhere shown | R0880 | 246,014 |
| **Total liabilities** | R0900 | 360,788,379 |
| **Excess of assets over liabilities** | R1000 | 19,128,009 |

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

| Assets, Solvency II values (in € billions) | **31 Dec. 2018** | Correspondin g section of the SFCR |
|---|---|---|
| Intangible assets | 0.0 | D1 |
| Deferred tax assets | 0.0 | D3 |
| Pension benefit surplus | 0.0 | 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] | 314.5 | D1 |
| Asset held in unit-linked and index-linked contracts | 34.0 | D1 |
| Loans and mortgages | 0.3 | D1 |
| Reinsurance recoverables | 22.8 | D2 |
| Other assets and miscellaneous receivables [2] | 8.0 | D1 |
| ***Total*** | ***379.9*** | |

Notes:

- The €347.7 billion portfolio of investments and derivative instruments referred to in section D1 corresponds to the sum of investments other than assets held for index-linked and unit-linked contracts (€314.5 billion), assets held for index-linked and unit-linked contracts (€34 billion), loans and mortgages (€0.3 billion) less derivative instruments with a negative fair value (€1.2 billion).
- The €8.2 billion portfolio of other assets referred to in section D1 corresponds to the sum of other assets and miscellaneous receivables (€8.0 billion) and owner-occupied property (€0.2 billion).

| Liabilities, Solvency II values *(in € billions)* | **31 Dec. 2018** | Correspondin g section of the SFCR |
|---|---|---|
| Own funds | 19.1 | |
| Technical reserves | 319.9 | D2 |
| Subordinated liabilities | 7.5 | D3 |
| Deferred tax liabilities | 1.5 | |
| Derivative instruments | 1.2 | |
| Contingent liability | 1.0 | D3 |
| Other liabilities and miscellaneous payables | 29.6 | D3 |
| ***Total*** | ***379.9*** | |

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

Non-life insurance and reinsurance obligations

| | | 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 | 50,485 | 356,976 | 136,537 | 543,998 |
| Gross - Proportional reinsurance accepted | R0120 | 382,888 | 20 | 0 | 382,908 |
| Gross - Non-proportional reinsurance accepted | R0130 | | | | |
| Reinsurers' share | R0140 | 52,451 | 2,175 | 0 | 54,625 |
| Net | R0200 | 380,923 | 354,821 | 136,537 | 872,281 |
| **Premiums earned** | | | | | |
| Gross - Direct Business | R0210 | 52,631 | 337,501 | 138,021 | 528,153 |
| Gross - Proportional reinsurance accepted | R0220 | 286,667 | 33 | 0 | 286,700 |
| Gross - Non-proportional reinsurance accepted | R0230 | | | | |
| Reinsurers' share | R0240 | 27,650 | 1,558 | 0 | 29,208 |
| Net | R0300 | 311,648 | 335,976 | 138,021 | 785,645 |
| **Claims incurred** | | | | | |
| Gross - Direct Business | R0310 | 38,099 | 266,139 | 124,001 | 428,238 |
| Gross - Proportional reinsurance accepted | R0320 | 256,873 | 12,041 | 0 | 268,914 |
| Gross - Non-proportional reinsurance accepted | R0330 | | | | |
| Reinsurers' share | R0340 | 25,132 | 818 | 0 | 25,951 |
| Net | R0400 | 269,839 | 277,362 | 124,001 | 671,202 |
| **Changes in other technical provisions** | | | | | |
| Gross - Direct Business | R0410 | (28,608) | (335) | 14,889 | (14,054) |
| Gross - Proportional reinsurance accepted | R0420 | (275) | 0 | 0 | (275) |
| Gross - Non- proportional reinsurance accepted | R0430 | | | | |
| Reinsurers'share | R0440 | 0 | 0 | 0 | 0 |
| Net | R0500 | (28,883) | (335) | 14,889 | (14,329) |
| **Expenses incurred** | R0550 | 49,672 | 57,907 | 19,219 | 126,798 |
| **Other expenses** | R1200 | | | | |
| **Total expenses** | R1300 | | | | 126,798 |

## Life insurance and reinsurance obligations

| | | 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 | 1,191,823 | 11,902,447 | 3,886,371 | 2,148,083 | 5,340 | 2,475,617 | 21,609,681 |
| Reinsurers' share | R1420 | 89,217 | 547,123 | 143,364 | 36,381 | 0 | 10,175 | 826,260 |
| Net | R1500 | 1,102,606 | 11,355,324 | 3,743,007 | 2,111,702 | 5,340 | 2,465,442 | 20,783,421 |
| **Premiums earned** | | | | | | | | |
| Gross | R1510 | 1,000,705 | 11,816,382 | 3,886,343 | 2,009,783 | 5,320 | 2,454,806 | 21,173,340 |
| Reinsurers' share | R1520 | 71,640 | 531,358 | 143,731 | 128,826 | 0 | 10,320 | 885,875 |
| Net | R1600 | 929,065 | 11,285,023 | 3,742,613 | 1,880,957 | 5,320 | 2,444,486 | 20,287,464 |
| **Claims incurred** | | | | | | | | |
| Gross | R1610 | 772,608 | 19,211,088 | 1,453,255 | 759,773 | (9,477) | 611,818 | 22,799,066 |
| Reinsurers' share | R1620 | 89,725 | 1,148,780 | 67,786 | 45,269 | 0 | 7,623 | 1,359,183 |
| Net | R1700 | 682,883 | 18,062,308 | 1,385,469 | 714,504 | (9,477) | 604,195 | 21,439,882 |
| **Changes in other technical provisions** | | | | | | | | |
| Gross | R1710 | (110,955) | 71,998 | 0 | (10,188) | 3,424 | (7,350) | (53,071) |
| Reinsurers' share | R1720 | (188,600) | 0 | 0 | (793) | 0 | 515 | (188,878) |
| Net | R1800 | 77,645 | 71,998 | 0 | (9,395) | 3,424 | (7,865) | 135,807 |
| **Expenses incurred** | R1900 | 417,643 | 1,513,341 | 241,891 | 868,443 | 273 | 80,254 | 3,121,845 |
| **Other expenses** | R2500 | | | | | | | |
| **Total expenses** | R2600 | | | | | | | 3,121,845 |

# S.12.01.02 – Life and Health SLT Technical Provisions

| | | Insurance with profit participation | Index-linked and unit-linked insurance | | | Other life insurance | | | Accepted reinsurance | Total (Life other than health insurance, incl. Unit-Linked) | Health insurance (direct business) | | | 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 | C0100 | C0150 | C0160 | C0170 | C0180 | 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 | 268,505,365 | | | 31,627,510 | | 39,651 | | 9,864,822 | 310,037,348 | | 4,144,638 | | 111,242 | 4,255,880 |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0080 | 20,699,866 | | | 1,666,737 | | (65,592) | | 258,495 | 22,559,506 | | 199,449 | | 2 | 199,451 |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | R0090 | 247,805,498 | | | 29,960,773 | | 105,243 | | 9,606,327 | 287,477,842 | | 3,945,188 | | 111,241 | 4,056,429 |
| **Risk Margin** | R0100 | 3,086,950 | 110,623 | | | 544,119 | | | 104,341 | 3,846,033 | 79,808 | | | 0 | 79,808 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | |
| Technical Provisions calculated as a whole | R0110 | | | | | | | | | | | | | | |
| Best estimate | R0120 | | | | | | | | | | | | | | |
| Risk margin | R0130 | | | | | | | | | | | | | | |
| **Technical provisions - total** | R0200 | 271,592,315 | 31,738,133 | | | 583,769 | | | 9,969,163 | 313,883,380 | 4,224,445 | | | 111,242 | 4,335,688 |

# 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 | 77,815 | (70,806) | 14,976 | 21,985 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0140 | 7,494 | (2,645) | 0 | 4,849 |
| Net Best Estimate of Premium Provisions | R0150 | 70,322 | (68,161) | 14,976 | 17,137 |
| *Claims provisions* | | | | | |
| Gross | R0160 | 388,357 | 923,505 | 285,223 | 1,597,085 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0240 | 33,669 | 36,017 | 0 | 69,686 |
| Net Best Estimate of Claims Provisions | R0250 | 354,688 | 887,488 | 285,223 | 1,527,399 |
| **Total Best estimate - gross** | R0260 | 466,172 | 852,700 | 300,198 | 1,619,070 |
| **Total Best estimate - net** | R0270 | 425,010 | 819,327 | 300,198 | 1,544,535 |
| **Risk margin** | R0280 | 13,153 | 17,490 | 13,796 | 44,439 |
| **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 | 479,325 | 870,189 | 313,994 | 1,663,509 |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | R0330 | 41,162 | 33,372 | 0 | 74,535 |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | R0340 | 438,163 | 836,817 | 313,994 | 1,588,974 |

# S.19.01.21 – Non-life Insurance Claims

| Accident year / Underwriting year | Z0020 | 1 |
|---|---|---|

**Gross Claims Paid (non-cumulative)**

| Year | | Development year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + |
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 |
| Prior | R0100 | | | | | | | | | | | 0 |
| N-9 | R0160 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| N-8 | R0170 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| N-7 | R0180 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| N-6 | R0190 | 253,611 | 430,168 | 82,055 | 50,441 | 23,010 | 9,688 | 4,101 | | | | |
| N-5 | R0200 | 220,427 | 397,271 | 107,616 | 49,973 | 18,410 | 11,307 | | | | | |
| N-4 | R0210 | 191,154 | 444,106 | 110,721 | 47,604 | 31,097 | | | | | | |
| N-3 | R0220 | 201,739 | 407,858 | 113,479 | 41,893 | | | | | | | |
| N-2 | R0230 | 191,434 | 379,863 | 138,525 | | | | | | | | |
| N-1 | R0240 | 187,973 | 428,203 | | | | | | | | | |
| N | R0250 | 196,986 | | | | | | | | | | |

| | | In Current year | Sum of years (cumulative) |
|---|---|---|---|
| | | C0170 | C0180 |
| | R0100 | 0 | 0 |
| | R0160 | 0 | 0 |
| | R0170 | 0 | 0 |
| | R0180 | 0 | 0 |
| | R0190 | 4,101 | 853,074 |
| | R0200 | 11,307 | 805,005 |
| | R0210 | 31,097 | 824,683 |
| | R0220 | 41,893 | 764,968 |
| | R0230 | 138,525 | 709,821 |
| | R0240 | 428,203 | 616,176 |
| | R0250 | 196,986 | 196,986 |
| Total | R0260 | 852,111 | 4,770,712 |

**Gross undiscounted Best Estimate Claims Provisions**

| Year | | Development year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + |
| | | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300 |
| Prior | R0100 | | | | | | | | | | | 0 |
| N-9 | R0160 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| N-8 | R0170 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| N-7 | R0180 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| N-6 | R0190 | 0 | 0 | 0 | 0 | 67,254 | 20,761 | 85,433 | | | | |
| N-5 | R0200 | 0 | 0 | 0 | 107,161 | 53,937 | 87,190 | | | | | |
| N-4 | R0210 | 0 | 0 | 210,444 | 117,441 | 99,385 | | | | | | |
| N-3 | R0220 | 0 | 435,960 | 233,690 | 123,715 | | | | | | | |
| N-2 | R0230 | 1,211,614 | 451,101 | 165,689 | | | | | | | | |
| N-1 | R0240 | 1,114,682 | 291,938 | | | | | | | | | |
| N | R0250 | 695,554 | | | | | | | | | | |

| | | Year end (discounted data) |
|---|---|---|
| | | C0360 |
| | R0100 | 0 |
| | R0160 | 0 |
| | R0170 | 0 |
| | R0180 | 0 |
| | R0190 | 0 |
| | R0200 | 0 |
| | R0210 | 0 |
| | R0220 | 0 |
| | R0230 | 0 |
| | R0240 | 0 |
| | R0250 | 0 |
| Total | R0260 | 0 |

# S.22.01.21 — 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 | 319,882,577 | 0 | 0 | 1,668,776 | 0 |
| Basic own funds | R0020 | 26,071,093 | 0 | 0 | (1,250,762) | 0 |
| Eligible own funds to meet Solvency Capital Requirement | R0050 | 26,071,093 | 0 | 0 | (1,250,762) | 0 |
| Solvency Capital Requirement | R0090 | 12,951,908 | 0 | 0 | 995,167 | 0 |
| Eligible own funds to meet Minimum Capital Requirement | R0100 | 22,384,478 | 0 | 0 | (1,161,197) | 0 |
| Minimum Capital Requirement | R0110 | 5,828,358 | 0 | 0 | 447,825 | 0 |

# S.23.01.01 — 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 sector 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 | 16,119,555 | 16,119,555 | | | |
| Subordinated liabilities | R0140 | 7,548,073 | | 2,695,787 | 3,850,449 | 1,001,837 |
| An amount equal to the value of net deferred tax assets | R0160 | | | | | |
| 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 | 26,071,093 | 18,523,020 | 2,695,787 | 3,850,449 | 1,001,837 |
| **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 | 26,071,093 | 18,523,020 | 2,695,787 | 3,850,449 | 1,001,837 |
| Total available own funds to meet the MCR | R0510 | 25,069,255 | 18,523,020 | 2,695,787 | 3,850,449 | |
| Total eligible own funds to meet the SCR | R0540 | 26,071,093 | 18,523,020 | 2,695,787 | 3,850,449 | 1,001,837 |
| Total eligible own funds to meet the MCR | R0550 | 22,384,478 | 18,523,020 | 2,695,787 | 1,165,672 | |
| **SCR** | R0580 | 12,951,908 | | | | |
| **MCR** | R0600 | 5,828,358 | | | | |
| **Ratio of Eligible own funds to SCR** | R0620 | 2.01 | | | | |
| **Ratio of Eligible own funds to MCR** | R0640 | 3.84 | | | | |

| | | C0060 |
|---|---|---|
| **Reconciliation reserve** | | |
| Excess of assets over liabilities | R0700 | 19,128,009 |
| Own shares (held directly and indirectly) | R0710 | 11,087 |
| Foreseeable dividends, distributions and charges | R0720 | 593,902 |
| 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 | 16,119,555 |
| **Expected profits** | | |
| Expected profits included in future premiums (EPIFP) - Life business | R0770 | 1,461,161 |
| Expected profits included in future premiums (EPIFP) - Non- life business | R0780 | 25,438 |
| **Total Expected profits included in future premiums (EPIFP)** | R0790 | 1,486,599 |

# S.25.01.21 — Solvency Capital Requirement (for undertakings on Standard Formula)

| | | Gross solvency capital requirement | Simplifications | USP |
|---|---|---|---|---|
| | | C0110 | C0120 | C0090 |
| Market risk | R0010 | 26,947,200 | | |
| Counterparty default risk | R0020 | 1,281,169 | | |
| Life underwriting risk | R0030 | 6,707,716 | | None |
| Health underwriting risk | R0040 | 2,805,143 | | None |
| Non-life underwriting risk | R0050 | 0 | | None |
| Diversification | R0060 | (7,055,865) | | |
| Intangible asset risk | R0070 | 0 | | |
| **Basic Solvency Capital Requirement** | R0100 | 30,685,364 | | |

| **Calculation of Solvency Capital Requirement** | | C0100 |
|---|---|---|
| Operational risk | R0130 | 1,324,093 |
| Loss-absorbing capacity of technical provisions | R0140 | (17,556,515) |
| Loss-absorbing capacity of deferred taxes | R0150 | (1,501,035) |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | R0160 | |
| **Solvency capital requirement excluding capital add-on** | R0200 | 12,951,908 |
| Capital add-on already set | R0210 | 0 |
| Solvency capital requirement | R0220 | 12,951,908 |
| **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 | 12,783,861 |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | 168,047 |
| 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 | 194,352 | |

| | | 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 | 425,010 | 94,576 | | |
| Income protection insurance and proportional reinsurance | R0030 | 819,327 | 264,667 | | |
| Workers' compensation insurance and proportional reinsurance | R0040 | 300,198 | 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-proportional property reinsurance | R0170 | 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 | | 9,109,212 |

| | | 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 | | | 224,383,035 | |
| Obligations with profit participation - future discretionary benefits | R0220 | | | 31,219,522 | |
| Index-linked and unit-linked insurance obligations | R0230 | | | 31,171,975 | |
| Other life (re)insurance and health (re)insurance obligations | R0240 | | | 4,759,739 | |
| Total capital at risk for all life (re)insurance obligations | R0250 | | | | 3,017,566,629 |

**Overall MCR calculation**

| | | C0130 |
|---|---|---|
| Linear MCR | R0300 | 9,303,564 |
| SCR | R0310 | 12,951,908 |
| MCR cap | R0320 | 5,828,358 |
| MCR floor | R0330 | 3,237,977 |
| Combined MCR | R0340 | 5,828,358 |
| Absolute floor of the MCR | R0350 | 6,200 |
| | | C0130 |
| Minimum Capital Requirement | R0400 | 5,828,358 |

**Notional non-life and life MCR calculation**

| | | Non-life activities | Life activities |
|---|---|---|---|
| | | C0140 | C0150 |
| Notional linear MCR | R0500 | 194,352 | 9,109,212 |
| Notional SCR excluding add-on (annual or latest calculation) | R0510 | 270,566 | 12,681,342 |
| Notional MCR cap | R0520 | 121,755 | 5,706,604 |
| Notional MCR floor | R0530 | 67,642 | 3,170,335 |
| Notional Combined MCR | R0540 | 121,755 | 5,706,604 |
| Absolute floor of the notional MCR | R0550 | 2,500 | 3,700 |
| Notional MCR | R0560 | 121,755 | 5,706,604 |

# 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.

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

**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.

**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.

**EIOPA**: European Insurance and Occupational Pensions Authority.

**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.

**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.

**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.

**Restricted Tier 1 own funds**: Subordinated notes classified in Tier 1, including grandfathering of undated 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.

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**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.

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

**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.

**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.

**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.

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

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

**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.

**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.

**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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